# IMPLEMENTATION BEST PRACTICES FOR VALUE CHAIN DEVELOPMENT PROJECTS

**microREPORT #167**

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# I. INTRODUCTION

USAID and other donors have recognized that "in this era of globalization, generating economic growth in developing countries while reducing poverty is a fundamental development challenge…. Strengthening economic opportunities for poorer households is essential if they are to build assets, cope with the risks and vulnerability that accompany poverty, plan for better futures for their children, and contribute to key sectors of local, national and regional economies."[1] Similarly, USAID has committed to "taking a comprehensive approach to food security across the whole value chain—from farm to table."[2] Achieving economic growth and poverty reduction and addressing food security require approaches to enterprise and value chain development that can be taken to scale. This in turn necessitates the identification of best practices and lessons learned.

Yet, in contrast to the complementary practice area of microfinance, enterprise and value chain development do not have a clearly articulated set of best practices. The Donor Committee for Enterprise Development's "Blue Book,"[3] which identified good practice in the delivery of business development services (BDS), was published in early 2001 and has not been updated since. In the intervening years, the BDS approach to enterprise development has been largely augmented by alternative approaches and frameworks such as the value chain approach and Making Markets Work for the Poor. Donors and project implementing agencies use a variety of terms, concepts and graphical representations that suggest a lack of consensus concerning how such projects should be designed, implemented and evaluated. Even among implementers of USAID-funded value chain development projects, different emphases and conflicting terminology hinder the articulation of and learning around best practice.

Despite these differences, however, there is consensus on many areas of best (or at least better) practice in the implementation of value chain development projects. USAID's Poverty Reduction Office therefore initiated a process through the AMAP contract[4] to identify and articulate these areas of convergence. In 2008, after a period of consultation with various value chain specialists, ACDI/VOCA developed an AMAP briefing paper outlining eight key features of the value chain approach (see text box).

"The value chain approach has distinctive features in terms of both i) the scope used in analyzing an industry, and ii) the tangible and non-tangible considerations used in designing and implementing interventions:

- A focus on end markets
- Understanding the role of value chain governance
- Recognition of the importance of relationships
- Facilitating changes in firm behavior
- Transforming relationships
- Targeting leverage points
- Empowering the private sector."

- *Key Elements of the Value Chain Approach Briefing Paper*, ACDI/VOCA, 2008.

Ten leading implementers of value chain projects were then asked to develop short papers either supporting or challenging these key features with illustrations drawn from their own project experience.[5]

1 "USAID and Microenterprise Development." USAID. 2006

2 Speech by USAID Administrator Shah at Food Security Symposium, Washington, DC, May 20, 2010.

3 Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention. The Committee of Donor Agencies for Small Enterprise Development. February 2001.

4 Accelerated Microenterprise Development Project, implemented by a consortium of for- and nonprofit organizations led by ACDI/VOCA.

5 The Best Practices in Implementation series of short papers can be found at http://apps.develebridge.net/amap/index.php/Resources:_Design_and_Implementation

From these papers, several themes were distilled, and a practitioners' roundtable was held in Washington, D.C. in February 2010 to further discuss them. The themes were presented in the form of the following questions:

1. What does it mean to be market-driven?
2. How can projects be designed to respond to dynamic market systems?
3. What does facilitation really mean during implementation?
4. How can projects facilitate behavior change?
5. How can facilitation approaches be taken to scale?

**Roundtable Participants**

- Ruth Campbell, ACDI/VOCA
- Giuliana Canessa Walker, Chemonics International
- Joe Dougherty, Cardno Emerging Markets
- Jeanne Downing, USAID
- Emiliano Duch, Cluster Competitiveness Group
- Mike Ducker, JE Austin and Associates
- Bill Grant, DAI
- Rob Henning, OTF
- Frank Lusby, AFE
- Luis Osorio Cortes, Practical Action
- Bob Rabatsky, Fintrac
- Simon Winter, TechnoServe

The intention of the practitioners' roundtable was to further the process of reaching consensus on what constitutes best practice in the implementation of value chain development projects. This discussion paper draws on the various documents contracted by USAID under AMAP mentioned above and the proceedings of the practitioners' roundtable to present these proposed best practices, refined through a process of peer review. These proposed best practices—which are by no means exhaustive—are as follows:

1. **Interventions must be market driven.**
    - Use proven market research tools to conduct in-depth end-market analysis.
    - Use quantitative and qualitative information to understand opportunities in various market channels as well as the constraints to exploiting those challenges.
    - Segment the market: Analyze each of the potential end markets to understand the requirements, risks and expected benefits of competing in each of them.
    - Include value chain stakeholders in the analytical process to the extent possible.
    - Help value chain stakeholders to respond to and anticipate market trends.
    - Communicate the results of the analysis to industry stakeholders to help them select multiple potentially profitable markets.
    - Base the project's design and interventions on up-to-date market analysis.
    - Use an incremental approach where there is resistance to change and/or low levels of capacity.
    - Understand that value chain actors are not *only* market driven.
2. **Implementers need flexibility to be able to respond to dynamic markets and contexts.**
    - Use value chain analysis to co-develop with industry stakeholders a vision (or multiple visions) of a more competitive industry.
    - Work with firms and groups of firms to develop roadmaps for achieving competitiveness.
    - Continually monitor responses to project interventions and adjust interventions accordingly.
    - From donors, implementers need flexibility to change course during value chain development projects.
    - Donors and implementers need to be willing to take risk and acknowledge failure.
3. **Implementers should facilitate—rather than drive or replace—the actions of stakeholders.**
    - Facilitate the delivery of goods and services by market actors rather than directly providing them, whenever possible.
    - Design interventions to create a permanent shift in the behavior of a large number of firms.

- Build local capacity to respond to dynamic markets.
- Use incentives to catalyze broader change without negatively distorting markets.
- Maintain a low profile to avoid creating dependency on project support.
- Sacrifice short-term results for long-term sustainable results.

4. **Implementers should catalyze behavior change.**
    - Identify models of competitive behavior to stimulate stakeholder interest.
    - Use participatory tools to allow stakeholders to identify the incentives that drive observed behavior.
    - Design interventions that leverage incentives for behaviors that support value chain competitiveness.
    - Identify and engage change agents.
    - Consider using a self-selection process for project partners.

5. **Facilitation must be taken to scale.**
    - Help stakeholders make behavior that increases competitiveness the industry norm.
    - Help stakeholders understand that competitive behaviors are essential to their success.
    - Start small and create momentum.
    - Leverage and protect early adopters.
    - Do not rely exclusively on replication as a scaling-up strategy.

# II. PRINCIPLES, PRACTICES AND CHALLENGES

## A. INTERVENTIONS MUST BE MARKET DRIVEN

In general, practitioners agree that value chain development projects must be *market driven*. Clearly, producing something for which there is no demand will not lead to sustainable increases in income. Nevertheless, different implementing agencies interpret what it means to be market driven in various ways. For example, some implementers advocate a thorough, quantitative market analysis prior to project design that looks at the potential growth of multiple market segments. Others suggest that qualitative information provided by key informants can be more helpful. Some look for buyers to quickly achieve sales, and others aim toward optimal markets over a five- or even ten-year horizon.

### PROPOSED BEST PRACTICES

**Use proven market research tools to conduct in-depth end-market analysis.**

Tools such as Porter's Five Forces, the Boston Consulting Group matrix and SWOT analysis have been the staple of management consulting firms for many years. Combined with standard qualitative data collection methods such as focus group discussions, key informant interviews and participatory mapping techniques, such tools are useful for analyzing data to allow value chain stakeholders to make informed decisions.[6]

> "An in-depth end market analysis looks at markets as dynamic systems constantly undergoing transformation and seeks to understand the key drivers of demand which are likely to affect the market in 5 to 10 years. It analyzes trends in key markets and discusses the most promising market segments. It describes how channels operate and how best to access them... In addition to identifying the country's products' strengths and weaknesses in export markets, an in-depth end market analysis benchmarks these strengths and weaknesses against competitor countries."
>
> - *In-Depth End Market Analysis and Bottom-Up Business Environment Reform*, DAI, 2008.

**Use quantitative and qualitative information to understand opportunities in various market channels as well as the constraints to exploiting those challenges.**

Quantitative and qualitative analyses are complementary. Both are needed to understand the potential scale of economic benefits from the development of a particular value chain, as well as the potential for a sustainable, pro-poor distribution of these benefits. The amount of quantitative and qualitative analysis needed and the balance between these two aspects depend on contextual factors and the type of information sought. For example, a stronger emphasis on qualitative analysis may be appropriate when updated statistics are unavailable or unreliable, markets are nontransparent or the industry is new or rapidly changing.

> "We define strategy as informed choice and timely action. Talk to different actors about what they need in terms of data. It depends on the products and the outputs needed to mobilize people and get them excited."
>
> - *Rob Henning, OTF Group*

**Segment the market: Analyze each of the potential end markets to understand the requirements, risks and expected benefits of competing in each of them.**

Generally there are multiple actual and potential market channels, each with different demand characteristics and re-

[6] For a portfolio of quantitative market analysis tools, grounded through case studies, see http://www.microlinks.org/ev_en.php?ID=39116_201&ID2=DO_TOPIC

turns. It is therefore important to *segment* the market: List each of the potential market channels, what is required to compete in them (key factors of success and level of investment), and what benefits and risks can be expected by selling into them. Different market segments may be appropriate for different groups of value chain stakeholders. Since end markets are dynamic, it is also important to assess the structure of the market and how it is evolving and changing. By *benchmarking* key attributes (e.g., quality, price, reliability of supply, flexibility, time from order to delivery) against competitors and if possible looking at trends in these respective attributes, industry stakeholders can see where they have a competitive advantage and where they need to upgrade in order to compete.

> "Competitive strategy starts with a detailed understanding of the needs and requirements of specific customer segments and the way in which competitor value chains configure and position themselves to win in these segments. This knowledge should be the cornerstone of all value chain upgrading initiatives."
>
> -*Butterflies, Elephants and Icebergs: Using Language and Data to Mobilize Value Chains*, OTF Group, 2008.

**Include value chain stakeholders in the analytical process to the extent possible.**
This detailed analysis should involve local stakeholders to the extent possible. This will i) ensure that current on-the-ground information is captured, ii) build local analytical capacity and iii) support the development of direct relationships between value chain actors and end market buyers. In addition, participatory end market analysis is more likely to be credible to and acted upon by value chain stakeholders. Communicating the results of end market analysis to industry stakeholders may require

- the use of stories to make the findings accessible and relevant
- helping end-market buyers communicate directly with other stakeholders through in-person meetings or recorded interviews
- meeting with representatives from all parts of the value chain together to vet information and create understanding of the need to work together to exploit market opportunities
- meeting smaller groups of stakeholders to facilitate understanding of the implications of the analysis for particular functions in the chain

> "A stakeholders' workshop early on is a good way to vet findings and get some agreement with stakeholders; it is important to have government people there to *hear* it as well."
>
> *-Bob Rabatsky, Fintrac*

**Help value chain stakeholders to respond to and anticipate market trends.**
Particularly in industries with constantly changing market demand (e.g., home accessories) or where supply outstrips demand, it is important to stay ahead of the competition, rather than just keeping up with it. While stakeholders generally consider neighboring firms to be their main competitors, competition is often primarily at the value chain level: a value chain in one country competing with similar industries based in other countries. A core challenge for value chain stakeholders is to determine and reach consensus on where they can and should work together and where they appropriately compete. Having defined the competition, stakeholders need to benchmark their own performance against that of their competitors. The information needed for benchmarking can often be obtained through simple interviews with end-market buyers; secondary information alone is generally insufficient. As markets are dynamic, value chain stakeholders need to be constantly engaging with end-market buyers and other well-informed actors to learn about how and where to im-

> "When talking to buyers and other value chain stakeholders, three things are important:
> 1. Do your homework: Don't go in and ask stakeholders questions you could answer before you get there by reading a report.
> 2. Watch your sources: All stakeholders have vested interests and may be resistant to change.
> 3. Keep doing the analysis because markets are dynamic."
>
> - *Joe Dougherty, Cardno*

prove performance. Donor-funded projects should help value chain stakeholders develop this critical business capacity.

**Communicate the results of the analysis to industry stakeholders to help them select multiple potentially profitable markets.**

Market analysis is not an end in itself, and alone will not generate a market-driven industry. Market analysis must be internalized by stakeholders and lead to upgrading in response to market opportunities. Generally, stakeholders should be encouraged to select multiple market segments to reduce risk and optimize returns: for example, selecting markets for various grades or types of product. Take into consideration risk and other non-economic factors associated with various market segments, and their *potential* returns on investment in addition to current returns.

> "It is very important to consider where the passions of farmers are in terms of the different possibilities. What are farmers excited about? Sometimes practitioners focus too much on technicalities."
>
> *- Luis Osorio Cortes, Practical Action*

**Base the project's design and interventions on up-to-date market analysis.**

Market analysis is not a one-time exercise. Donors should conduct basic market analysis when designing programs so that implementers are not forced to work in sectors that lack potential. Detailed market analysis should be carried out once value chains have been selected. The analysis should be updated periodically and in response to significant changes in market demand, the rise or decline of competitors, changes in value chain capacity, or shifts in enabling or disenabling elements of the business environment. Since the need for market analysis is ongoing, local capacity (of value chain actors or support service providers) in this area must be built.

> "Markets change after the analysis is done… Too often we look at past market analysis when we need to be looking at the current situation and future trends."
>
> *-Mike Ducker, J.E. Austin and Associates*

**Use an incremental approach where there is resistance to change and/or low levels of capacity.**

Such an incremental approach could include supporting stakeholder strategies to target local markets, which are generally easier to penetrate than more distant markets. As stakeholders' capacity and confidence are built through successful sales into local markets, encourage stakeholders to venture into more distant or higher-paying markets. In this way, short-term goals serve as steps along the way to a longer-term market strategy. Short-term successes ("quick wins") build commitment to the upgrading process needed for long-term competitiveness.

> "When value chain actors are given opportunities to develop the skills they need to make changes, they develop an increased sense of confidence. After hope, confidence is one of the most important factors that enable players, especially microenterprises, to cope with change and to negotiate with people that are perceived to be able to wield greater power."
>
> - *Facilitating Behavior Change and Transforming Relationships*, SDCAsia, 2008

**Understand that value chain actors are not *only* market driven.**

People invariably have multiple competing considerations that influence their decisions. The desire to increase economic returns is likely to be balanced against other concerns such as reducing risk and enhancing social capital. Take the time and use participatory tools to understand what motivates value chain actors before designing interventions. Pilot activities on a small scale and monitor value chain actors' responses carefully to ensure local relevance before scaling up.

> "Sometimes we present a market opportunity to beneficiaries and expect them to automatically agree with our assessment. But most people we work with have many sources of income. And every investment represents a trade off."
>
> *-Ruth Campbell, ACDI/VOCA*

## B. IMPLEMENTERS NEED FLEXIBILITY TO RESPOND TO DYNAMIC MARKETS AND CONTEXTS

While a high-level strategy to translate market analysis into action may always be needed, many implementers also recognize that market systems are dynamic and that projects need to be able to respond to changes in the often unstable environments in which we work. Meanwhile donors often require detailed upfront project designs with pre-established activities and targets. Some value chain development projects call for the development of an industry vision at the outset of a project followed by the elaboration of a strategy to achieve that vision. Other implementers maintain that in many contexts a single industry vision is unrealistic. Further, because so much of project implementation is experimental and focuses on behavior change, which is unpredictable, multiple interventions should be tested and tracked to see what is most effective. This divergence can significantly impact a project's staffing, budgets, work planning process and monitoring and evaluation system. The dissonance that forms the focus for this theme relates to how to achieve the flexibility needed in unstable and dynamic contexts whilst also meeting the demands of donors for results that can be predicted in advance of an award.

> "Project implementers need flexibility to respond to dynamic market systems. And change is dynamic. You can't change an industry overnight. But as donors, we have to be able to say we can generate certain specific results with the money that is allocated."
>
> - *Jeanne Downing, USAID*

### PROPOSED BEST PRACTICES

**Use value chain analysis to co-develop with industry stakeholders a vision (or multiple visions) of a more competitive industry.**

The results of market and chain analysis should be presented to industry stakeholders in such a way that they are able to envision a different, more competitive way of operating. This understanding may be shared by a broad cross-section of value chain stakeholders, or may only be recognized by a few individual firms. For value chains with a single market channel and competition primarily from another country, a single industry vision may be important. For value chains with multiple market channels and domestic-based competition, multiple visions and strategies are likely to be needed. Understanding the competitive landscape is an important component of value chain analysis that should translate into intervention design.

> "Hard data helps convince businesspeople that there is more money to be made if they approach their business in a different way."
>
> - *Combining Strategic Analysis and Change Management,* The Cluster Competitiveness Group, 2009

When a vision is widely shared, it may serve as a rallying point for stakeholders and implementers, and as an overarching guide to upgrading initiatives. However, the importance of a single, clearly articulated industry vision should not be overemphasized: Even when a single industry vision seems preferable, it is not uncommon for only a few firms to be initially receptive to the idea of change.

> "Most industries have developed through the innovations of individual firms. Supporting leaders and innovators that others can follow is something we should look more at."
>
> - *Frank Lusby, Action for Enterprise*

**Work with firms and groups of firms to develop roadmaps for achieving competitiveness.**

Using the market and chain analysis, facilitators should help stakeholders—individually and in groups—to understand that unless they develop and implement competitiveness strategies, they risk losing market share to competing countries or substitute products. Case studies and

> "Identify key 'anchor' or lead firms with visionary management and an orientation towards cooperation, and make them central in value-chain enhancement efforts."
>
> - *Value Chains and the Cluster Approach,* Chemonics International, 2008

country benchmarks, the support of industry leaders and careful use of the media can all help to create urgency in the process. Firms and groups of firms need to develop clear roadmaps or action plans to lay out how they will achieve increased competitiveness. Project interventions should be designed to support these stakeholder-owned roadmaps, and to leverage them to i) stimulate change among other stakeholders and ii) increase the flow of benefits to the poor. The ability of stakeholders to develop strategies and action plans depends on many factors, including the maturity of the value chain and the existence of industry leaders.

**Continually monitor responses to project interventions and adjust interventions accordingly.**
Since project interventions are designed to support stakeholder-driven roadmaps, and given the dynamic environments in which most projects operate, it is not possible during the initial project design phase to describe and schedule the details of all value chain development activities that will be required over the life of the project. Since value chains are part of complex market systems, the full repercussions throughout these systems of project activities also cannot always be predicted. The emphasis on facilitating behavior change (see section II D) further adds to the uncertainty concerning the precise activities that will be carried out by the project. Flexibility in implementation is therefore needed. There are a number of ways to build flexibility into project design, such as a central pool of funding to be used to respond to emerging opportunities or constraints, and knowledge management systems to track project interventions against expected and actual outcomes.

> "Systemic constraints and opportunities within a market system are constantly shifting, and have a direct influence on the upgrading strategy. It is critical that dynamic facilitation is applied to not only capture and read these signals, but to actively respond with new interventions to ensure the necessary outcome is achieved."
>
> - *Striving Toward a Competitive Industry*, Emerging Markets Group, 2008

**From donors, implementers need flexibility to change course during value chain development projects.**
Goal-focused, less prescriptive solicitations and projects are helpful in allowing implementers to maintain the flexibility to change course when needed to achieve desired results. Performance needs to be redefined in terms of not only achieving set targets within the project timeframe, but of also facilitating the emergence of a market system that is able to compete and continue growing beyond the life of the project. Value chain projects should also be based on realistic timeframes (more than three years) because some of the issues they include—e.g., infrastructure upgrades, policy barriers, human resource capacity—can take many years to resolve. Donors should therefore structure sequential projects to address such issues and build on the gains of previous projects.

> "Donors and implementers need to commit to learning: to discuss what is good and not so good in scopes of work; to gather information about best practices and to make sure they are reflected in future project design."
>
> - *Giuliana Canessa Walker*, Chemonics International

**Donors and implementers need to be willing to take risk and acknowledge failure.**
Given the experimental nature of many value chain development interventions and the strong emphasis on stakeholder ownership of the upgrading process, donors and implementers need to be willing to risk failure and to withdraw from value chain activities that are not proving successful. Projects that select multiple value chains and/or have a staggered selection process over a protracted period of time are more able to drop those chains that are not producing the desired results. Having a portfolio of value chains, each with a range of activities, may also encourage donors and implementing agencies to share with the development community lessons learned from less successful initiatives. Currently the low tolerance for failure means that these lessons are lost as projects seek to gloss over implementation challenges.

> "We need to be brave enough to fail… Entrepreneurs have to believe the future will be fantastic. It is our responsibility to temper that with a risk-weighted set of expectations."
>
> - *Simon Winter, TechnoServe*

## C. IMPLEMENTERS SHOULD FACILITATE—RATHER THAN DRIVE OR REPLACE—THE ACTIONS OF STAKEHOLDERS

An increasing number of practitioners agree that projects should *facilitate* upgrading by industry stakeholders, using market actors to ensure the provision of goods and services to enable this upgrading, rather than directly providing such goods and services. Facilitation generally translates into a role for projects that minimizes and hides subsidy, ensures local ownership, and strengthens inter-firm relationships that advance value chain competitiveness. Some implementing agencies believe that providing goods and services to lead firms, at least initially, is compatible with the facilitation approach because of the multiplier effect that this produces. Others believe that any firm-level assistance is only justifiable if it can be expected to produce a demonstration effect. Similarly, some practitioners state that identifying and linking buyers and suppliers is essential to value chain development. Others maintain that it is more important to develop the capacity of industry stakeholders to independently identify and develop relationships with buyers and suppliers.

### PROPOSED BEST PRACTICES

**Facilitate the delivery of goods and services by market actors rather than directly providing them, whenever possible.**

Value chains at different stages of development may require varying degrees of direct service provision. For example, in post-conflict or post-disaster situations, assets may have been lost and support markets disrupted or destroyed. Direct intervention in the value chain may be needed temporarily in some such cases. Less obviously, attitudes such as donor dependency, extreme risk-aversion or short time horizons may limit the supply of and demand for private sector services. However, even in less-developed value chains that require direct provision of certain products or services as an initial step, implementers should seek to build local capacity or introduce new commercial actors to meet this need as soon as possible to increase sustainable impact.

> "If you don't have a well-developed market, there may be a case for direct provision of the service, but you always have to have an eye toward how you will extricate yourself in exchange for a commercial provider... You need to take your hands off and find the right service providers to bring in."
>
> *- Bill Grant, DAI*

**Design interventions to create a permanent shift in the behavior of a large number of firms.**

Traditional "direct delivery" programming seeks to provide services (e.g., training, input supply, credit, brokerage services) directly to value chain actors to enable them to operate more effectively. In contrast, a facilitation approach seeks to shift the way firms behave and relate to each other to bring about change in a market system such that the system itself delivers the goods and services necessary for upgrading. In order to impact large numbers of firms in a value chain, interventions often include stimulating changes in the enabling environment, strengthening relationships and skills that enable upgrading, and increasing competitive pressure among firms (helping certain firms upgrade in ways that force other firms to also upgrade or face a loss of market share).

> "What makes companies change and enter a new industry is envy. That's where the cluster comes in. It is important to develop clusters so stakeholders know each other as rivals: Competition is the best driver. That's the only use of clusters, but it's very important because it is a way to reach scale."
>
> *- Emiliano Duch, The Cluster Competitiveness Group*

**Build local capacity to respond to dynamic markets.**

Facilitation still requires working with and through specific firms. Activities of facilitation projects continue to include training, technical assistance and other services,

> "Organizational development focused primarily on identifying and solving problems had a disempowering effect, reinforcing smallholders' view of themselves as overwhelmed by problems and requiring the help of outsiders to overcome them."
>
> *- Facilitating Behavior Change and Transforming Relationships*, SDCAsia, 2008

and the use of subsidies. However, the way these activities are designed and implemented will be different. To achieve lasting change that is owned and driven by value chain actors, the focus of interventions should be on building the capacity of multiple local actors to respond to dynamic markets through changes in relationships and behavior, rather than on fixing specific technical production and marketing problems.

**Use incentives to catalyze broader change without negatively distorting markets.**

Projects using a facilitation approach should limit their use of subsidies to temporary cost-sharing, as a means to foster a process of industry upgrading that is owned and driven by the value chain actors themselves. Implementers should select firms to receive temporary subsidies based on their ability to positively impact market behavior, commitment to inclusive long-term competitiveness, and willingness to dedicate their own resources to the activity. Providing firm-level assistance or linking buyers and suppliers may be consistent with a facilitation approach, but only if such activities are expected to stimulate lasting change in the way the industry operates.

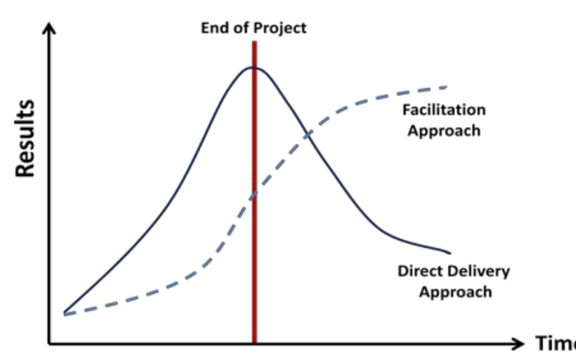
> "Subsidies are generally acceptable to build the capacity of lead firms to undertake new initiatives, to offset the cost of pilot activities, to link lead firms to new buyers and input suppliers, for feasibility assessments, and for research and development. However, subsidies are more difficult to justify when they cover all or part of a lead firm's recurring operational costs, personnel or physical assets. These types of subsidies greatly increase the risk of creating dependency, distorting markets and slowing ownership of the process."
>
> - *Working with Lead Firms within the Value Chain Approach*, Action for Enterprise, 2008

**Maintain a low profile to avoid creating dependency on project support.**

While many interventions will be designed and implemented in collaboration with industry leaders (where such leadership exists), build these relationships behind the scenes to the extent possible and avoid acting as an intermediary in value chain transactions. Maintaining a low profile for the project can be effective in increasing local stakeholder ownership and building their advocacy capability, but such a strategy may be at odds with the donor's desire for positive publicity regarding the project's involvement and influence.

**Sacrifice short-term results for long-term sustainable results.**

Typically, fewer value chain actors will be readily interested in a program using a facilitation approach than one that directly provides goods and services. Those that are interested are likely to have a different profile than the beneficiaries of more traditional programs: They are likely to be more entrepreneurial and to have a longer-term view of the industry. Over time, other value chain actors can be expected to see the benefits of this approach and begin participating, but generally the numerical results of programs adopting a facilitation approach will be lower than direct delivery programs in the short-term. This can create tension with the donor or within a project team in response to the pressure to produce measurable short-term results in terms of sales or income gains.




Adapted from "A Synthesis of the Making Markets Work for the Poor (M4P) Approach" DFID/SDC

# D. IMPLEMENTERS SHOULD CATALYZE BEHAVIOR CHANGE

There are various methods used by practitioners to promote new behavior by firms that leads to increased value chain competitiveness. Some practitioners advocate a "therapy" approach that allows stakeholders to discover solutions for themselves while others promote driving change through lead-firm interventions. Some implementers seek to shift rural communities toward commercially oriented behavior by creating relationships with input suppliers or buyers. Still others seek to empower stakeholders through participatory value chain analysis or to demonstrate competitiveness by building business models or arranging study tours.

## PROPOSED BEST PRACTICES

**Identify models of competitive behavior to stimulate stakeholder interest.**

Identifying at the outset successful examples of behavior that leads to increased competitiveness and disseminating these examples through business and community networks, exchange visits and via the media can be an effective way of helping value chains stakeholders realize that the *status quo* can be challenged. Stakeholders need to understand that performance upgrading is both possible and beneficial before they are likely to engage in the strategy development and implementation processes.

> "Often, value chain analysis leads to the identification of *business models* that are feasible to replicate many times throughout the sector, offering the opportunity to maximize the developmental impact and outreach of donor programs. When these opportunities are identified, it is advisable to promote enough replication to demonstrate the financial viability of the business model, thus reducing the risk for others to continue replicating them. The basic model can be improved upon by the individual beneficiaries."
>
> - *Successful Practices in Value Chain Development*, J.E. Austin Associates, 2008

Similarly, during implementation, facilitate broader behavior change by identifying and working with early adopters of new behavior, "packaging" their successes in order to provide a demonstration effect. This packaging may include creating replicable business models or developing stories to communicate the upgrading process, clearly revealing the incentives for others to adopt these same behaviors.

**Use participatory tools to allow stakeholders to identify the incentives that drive observed behavior.**

Identifying incentives that influence the behavior of value chain actors in ways that advance or constrain competitiveness is essential to the design of effective interventions. Identifying these incentives is not always straightforward, however. Behavior is often driven by a complex mix of economic and social incentives. Even behavior that reduces (or appears to reduce) value chain competitiveness may serve an important function in the broader livelihood strategies of specific stakeholders.

> "Incentives are both economic and social. You can't ignore social incentives. People have a social safety net, which is a very important part of their life."
>
> - *Bill Grant, DAI*

Participatory methods are often useful in uncovering the underlying incentives of value chain actors that may not be obvious to implementers based on observation alone. Taking adequate time to observe behaviors and investigate incentives may pose a challenge for donors and implementing agencies working with short project timeframes and under pressure to produce quick results.

> "Participatory workshops can promote dialogue and improve understanding between actors. The process needs careful facilitation... These workshops aim to lead to actions and ultimately to transformations in the market system."
>
> - *Participatory Market System Development*, Practical Action, 2008

**Design interventions that leverage incentives for behaviors that support value chain competitiveness.** When project interventions are being designed, their expected impact on economic and social incentives and behavior should be considered. Similarly, during implementation, the intended and unintended impacts of project activities on value chain stakeholders' behavior should be tracked and interventions adjusted to correct for unexpected responses.

> "The Program Design Cycle is not a linear process. While initial "informed" interventions can stimulate a market response, it is the duty of a value-chain facilitator to read market behavior, observe divergences from intended results, and respond as necessary."
>
> \- *Striving Toward a Competitive Industry*, Emerging Market Group, 2008

**Identify and engage change agents.**
Not all stakeholders will have the same incentives or be equally responsive to incentives. Moreover, the ideal participants in initiatives aimed at catalyzing behavior change are usually not the first volunteers to seek participation in donor-funded projects. Facilitating behavior change therefore necessitates the careful selection and recruitment of industry leaders, successful supply chains, committed communities and other change agents with the profile to stimulate and model shifts in the industry.

> "In filtering catalysts, an important aspect to take into consideration—aside from having resources and skills—is the presence of a clear business purpose rather than philanthropy-driven initiatives, to ensure a medium- to long-term commitment."
>
> \- *Facilitating Behavior Change and Transforming Relationships*, SDCAsia, 2008

**Consider using a self-selection process for project partners.**
In some cases, it is appropriate to create the conditions for these change agents to self-select. Self-selection generally requires stakeholders to invest their own time or resources before receiving project assistance in order to indicate commitment to the change process and a capacity to move beyond project support. Self-selection requires transparent communication concerning the respective roles and responsibilities of the stakeholder and the project, active monitoring of this agreement on the part of the project, and a willingness to withdraw support from actors who do not perform. An unwillingness of value chain actors to self-select into the project may indicate that project assistance is not valued or that there are more heavily subsidized sources of assistance available.

> "The issue of self-selection comes up frequently. It is important to create conditions for different market players to self-select. The opportunity has to be clear and then they have to take the first step. You need to start with people who are already at the tipping point of change and are willing to take the first step."
>
> \- *Luis Osorio Cortes, Practical Action*

## E. FACILITATION MUST BE TAKEN TO SCALE

Facilitation approaches rely on working through existing market actors, convincing them to take risks and enter into new markets, new roles or new inter-firm relationships. This often requires that implementers take a slow pace, leading stakeholders through a series of relatively low-risk steps to upgrading. Interventions may focus first on more entrepreneurial stakeholders or a small number of key lead firms. Meanwhile, project timeframes are often short and donors and implementers are often under pressure to achieve quick and broad impact.

> "Taking a systemic perspective has influenced the decision-making processes of program teams, particularly in the vision for market change and the scale and impact that can be achieved."
>
> - *Participatory Market System Development,* Practical Action, 2008

### PROPOSED BEST PRACTICES

**Help stakeholders make behavior that increases competitiveness the industry norm.**

Scale and sustainability are closely related. Sustainability is achieved when the private sector takes ownership of the upgrading process and is able to respond to dynamic market trends. Scale is reached when the industry as a whole shares in and benefits from this increased capacity. Scaling up has two dimensions: the proportion of stakeholders embracing behavior that increases competitiveness and the depth of their commitment. Enhancing the commitment to the new behaviors of multiple functions in a value chain—and enabling them to act on this commitment—will allow these behaviors to become entrenched. As new behaviors shift from being the exception to becoming the industry norm, they create competitive pressure, requiring other stakeholders to likewise innovate and upgrade. The number of firms and people benefiting from this process will depend on the industry, and potential scale of impact should be a criterion considered during value chain selection.

> "When the project is handed over to the private sector, or when a private investor comes in and takes over, that's when you know you've hit a scale that's sustainable. It could be small, but as long as conditions are right, it should continue to grow."
>
> - *Bob Rabatsky, Fintrac*

**Help stakeholders understand that competitive behaviors are essential to their success.**

Ways to achieve this may include facilitating peer-to-peer learning, organizing study tours and/or developing buyer-supplier models to help stakeholders realize that there are options beyond "business as usual." Once stakeholders begin to value more competitive behaviors, it can be beneficial to help them formalize the behaviors by establishing industry standards and/or certifications, or by promoting model contracts.

> "It really comes down to people. How can you get people to change?... You bring these people through the process of analysis and strategy development. You also need to bring people outside their environment and show them that things can be done differently."
>
> - *Mike Ducker, J.E. Austin Associates*

**Start small and create momentum.**

Low-risk changes which produce results in the near term can encourage stakeholders to invest more heavily in upgrading or engage to a greater extent in new relationships and/or new markets. Projects can build momentum in the early stages of this scaling up process by communicating and celebrating success and providing positive feedback via respected community or industry leaders or government representatives, or by promoting media attention.

> "Trust can be more effectively built by creating a crescendo of small, successful activities that lead to more significant transactions."
>
> - *Value Chains and the Cluster Approach,* Chemonics International, 2008

**Leverage and protect early adopters.**

> "An influential core group can be leveraged to involve their peers and make that one small shift that produces widespread change."
>
> - *Facilitating Behavior Change and Transforming Relationships*, SDCAsia, 2008

Early adopters of more competitive behaviors need to be successful if they are to provide a demonstration effect for others in the chain, and often require support to reduce the financial risks they face as a result of innovation and upgrading. In some communities, early adopters may experience negative social reactions as a result of operating in "non-traditional" ways or for trying to "get ahead." Working through community events and with local media can sometimes be helpful in showing how more competitive behavior benefits the wider community.

**Do not rely exclusively on replication as a scaling-up strategy.**

> "Although a soft skill, the ability to effectively communicate and mobilize value chain clients can push entire industries over the tipping point where they begin to actively pursue and invest in business strategies that can upgrade the competitiveness of their firms, the industry, and even the entire nation."
>
> -*Butterflies, Elephants and Icebergs: Using Language and Data to Mobilize Value Chains*, OTF Group, 2008.

Scale can be created partly by replicating successful interventions with other sets of market actors and in other value chains. However, relying too heavily on replication as a scale-up strategy may signal to value chain stakeholders that change is only possible with project support. At the same time, there may be key constraints that stakeholders cannot address without project assistance—especially higher-level constraints such as barriers in the enabling environment. Additional ways to scale up success include the dissemination of successful business models, partnerships with private sector firms, collaboration and cross-learning with other projects and communication of lessons learned.