TECHNICAL INTERVENTION NOTE 3.2: IMPLEMENTATION

ECONOMIC STRENGTHENING FOR VULNERABLE POPULATIONS

Promotion: Value Chains

KEY POINTS

- A value chain (VC) includes all of the players, services and activities involved in bringing a product from an initial idea or raw material to its final customer.
- Vertical and horizontal interventions facilitate relationships and bring organizations together to identify and solve common problems, so that all businesses in that industry can grow.
- Smart subsidies enable commercial relationships and linkages, creating a "tipping point" to move producers up to a point where they can begin making a profit.
- Before implementing a VC program, it is helpful to conduct a market analysis and a livelihood assessment to learn about viable enterprises and household income levels.
- VC interventions are most appropriate for households that are ready to grow, are stable enough to tolerate moderate risk, and have moderate to high physical and tangible assets.

INTRODUCTION

A value chain (VC) is a market or industry—it includes all the businesses that operate as they buy and sell to one other to get a product or service from raw materials to the final consumer. VCs can apply a broad lens, including a whole sector such as "handicrafts" or more specific channels like "turquoise jewelry." Engagement in VCs helps household enterprises access stable, growing and/or high value markets that can offer opportunities to benefit from globalization. VC programs do not provide services to target enterprises; rather they work indirectly to build capacity and facilitate linkages to provide sustainable services and to develop and strengthen the whole system.

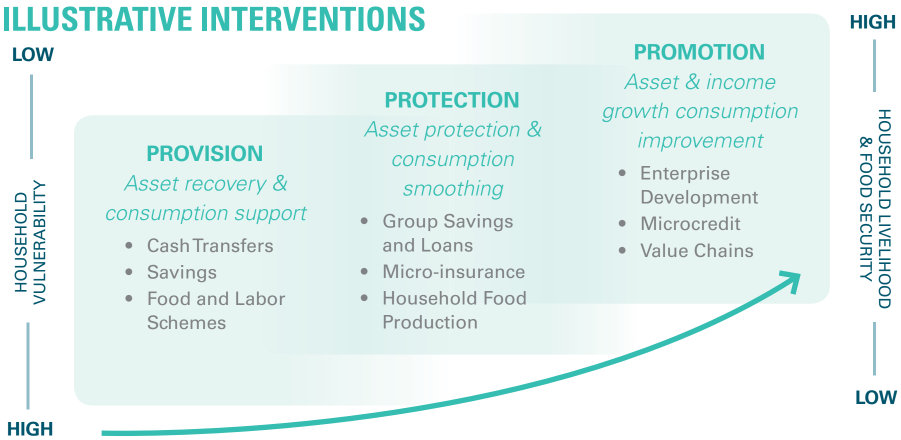
Key to this is that VC programs facilitate relationships, bringing businesses, service providers, government agencies, and community organizations together to identify and solve common problems so that all businesses in that market or industry can grow. Often smart subsidies are critical mechanisms to facilitate commercial linkages, encouraging the market system to provide products and services to low-income and vulnerable households and serving as a leverage point to move these producers up to a point where they can begin making a profit.

Pro-poor VC programs aim to significantly increase and diversify the income of vulnerable household enterprises by engaging in higher return activities that exploit untapped and new market opportunities, which might otherwise be seen as risky. These may include investing in improved agriculture inputs or new types of crops, engaging in food processing, and selling goods to larger, distant and more sophisticated markets that offer higher margins. The goal is to provide household enterprises with access to new skills, technology and market linkages to sustain their progress and the availability of these services to others in the community.

VCs encompass a wide range of vertically linked services, from technology and training to market access and advocacy for policy reform that enables business development, as well as horizontally linked services, such as cooperative development, sorting and packing services, and financial services. VC programs are defined by the outcomes and overarching strategy used to achieve them. Programs that seek to integrate low-income and vulnerable populations into VCs do so in three ways:

1. **Geographically** by targeting the poor based on where they live.
2. **Sectorally** by focusing on those markets and industries where most of the poor earn their living, like agriculture or tourism.
3. **Social targeting** by working with specific groups of poor and vulnerable people, for example women in handicrafts or girls in poultry.

LIVELIHOOD STRATEGIES & ILLUSTRATIVE INTERVENTIONS



This product is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of FHI 360 and do not necessarily reflect the views of USAID or the US Government.

LIFT II is a PEPFAR-funded Associate Award under the FIELD-Support LWA, a cooperative agreement between USAID's Microenterprise and Private Enterprise Promotion Office and FHI 360 and its consortium of 24 development partners. Learn more about FIELD at: www.microlinks.org/field-support.

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IS YOUR ORGANIZATION READY TO IMPLEMENT A VALUE CHAIN PROGRAM?

Before you decide to start a VCprogram, complete the following organizational assessment to rate your organization's (O) and partners' (P) readiness to implement a program. *(Use a scale of 1 to 3 where 1 = we/they cannot do this; 2 = we/they can do this; and 3 = we/they already do this well.)*

Rate organizational readiness	O	P
Local policies allow for commercial strategies such as charging fees for business development services or private sector support programs		
Personnel who are experienced in VC, with strong private sector networks and access to market actors		
Sufficient resources and staff to design and manage a VC program		
The right set of experience, skills, and incentives for an effective working relationship		

EXIT STRATEGY AND SUSTAINABILITY

Designing VC programs that adequately integrate low income households and vulnerable populations is a difficult undertaking. To most effectively facilitate sustainable commercial relationships and linkages, practitioners need to start with a clear exit strategy as they design programs and facilitate interventions between producers, suppliers and market actors so that the system does not become dependent on the project's subsidies and support.

UNDERSTANDING THE CONTEXT FOR VALUE CHAINS

Conducting a **market analysis** can help you learn more about the feasibility of VC activities. Through a market analysis, you can learn:

- The industries in which large numbers of vulnerable household enterprises operate and earn a living;
- Whether the physical environment is safe, paying attention to agro-ecological conditions and historical shocks and stresses;
- What types of formal and informal social networks are in place;
- Which sectors of the economy are stable or growing as well as the strength of the local economy;
- Whether the markets and marketplaces are functional and operating predictably;
- Whether there are a sufficient number of stakeholders with the expertise and resources to complement your work;
- Where the market opportunities, constraints, and leverage points exist; and
- What upgrading is needed and who will benefit from it.

Before implementing a VC program, it is also helpful to conduct a **livelihood assessment** to learn about a household's enterprise and income earning level:

- **Stability:** Are their immediate, basic needs met? Does the household/community have a basic livelihood, such as farming, animal husbandry, crafts, or casual labor?
- **Physical and financial assets:** Do they have some tangible assets to use and invest (e.g., land, savings, remittances, pensions, animals, physical strength and cognitive ability)?
- **Intangible assets:** Do they have time, interest, motivation, mental and physical health, skills/ experience, financial literacy, social networks, confidence and power to make decisions?
- **Human capital:** What skills, knowledge, capacity of labor exists within the household?

Based on your assessment you can determine if a VC is appropriate. VC interventions are best for households that are ready to grow, are stable enough to tolerate moderate risk and that have moderate to high physical and tangible assets.

MANAGING RISK

Central to the VC approach are the linkages that highlight how goods and services are produced through a sequenced set of activities. Poor producers–especially those that are most vulnerable–struggle to gain market access, either because they lack knowledge of market requirements or the ability to meet them. Bottlenecks within supply chains either prevent entrance into new markets or reduce the benefits derived from participation. VC initiatives need to be careful not to encourage people to take undue risks, especially if they have limited assets. Thus, a critical decision point at the program design stage is for implementing agencies to clearly define how they will overcome some of these constraints to improve the opportunities and benefits of market entry for the poor without increasing their vulnerability during times of shock. Notable risks and threats associated with VC programs, and illustrative mitigation methods, include the following:

LEVEL	RISKS AND THREATS	INTERVENTION
Client	Personal or family crisis that interrupts income	Social and financial support
Enterprise	Competition, weak management and marketing, poor access to inputs and finance	Full package of market information and capacity building
Market	Fluctuations in prices and demand, inconsistent availability of supplies	Market development beyond enterprise, contingency planning, diversification
Program	Slow growth in client demand, inadequate expertise or resources, little buy-in from stakeholders	Clear incentives for clients and stakeholders, understanding the current market, nontraditional partnerships, capacity building
Economic Environment	Physical, security or economic crisis, changes in monetary, fiscal and tax policy	Contingency planning to shift from commercial to household-oriented protection mode

This publication is part of a practitioner oriented technical note series featuring economic strengthening interventions. It provides an overview of monitoring & evaluation of value chain programs savings groups for promotion of livelihoods in the household vulnerability continuum of provision-protection-promotion. Additional value chain development briefs address overarching program elements and M&E. LIFT II matches beneficiaries with appropriate household economic strengthening (HES) activities based on three categories of vulnerability.