

# WHAT is Value Chain Development?

This Action Guide seeks to guide DanChurchAid (DCA) staff and partners on how to work with Value Chains and market-based development. DCA has worked within this field for numerous years and strong experience has been built, both at Country Offices and NGO partner level. The guide conveys an overall understanding of how to work with Value Chain Development. While the focus of this Action Guide lies on agricultural value chains, the principles of promoting market-based solutions also apply to our work within other sectors.

DCA's overall definition of Value Chain Development is the following:

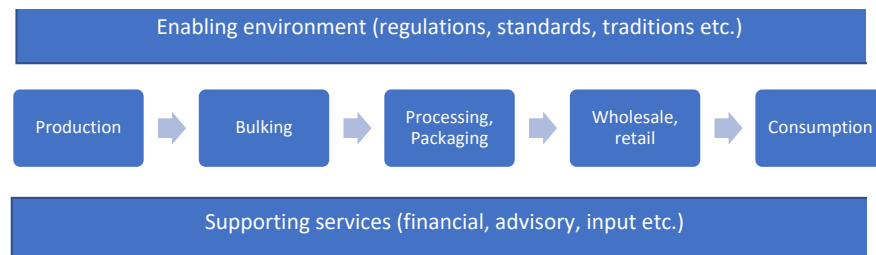
**Value Chains encompass the full range of activities and services of market actors required to bring a product (or a service) from its conception to its end use.**

Internationally, many denominations exist to designate the field of Value Chain Development. For example, it is also known as 'market systems development' or 'market-based approaches'. A number of development actors have developed useful tools and approaches for working with agricultural value chains as a method for stimulating income generation and empowering marginalized communities (see the Reference section).

**Key stakeholders** may include: producers, processors, input suppliers, wholesale buyers, retailers, service providers etc.

Below is a simple generic illustration of a value chain, showing how the value chain covers numerous steps in the process from production over processing to sales and marketing, before the final product ends up in the hands of the consumer. A number of key stakeholders, i.e. 'market actors' take part in or influence the processes around a given value chain. The market actors are bound together by both vertical and horizontal linkages. The below illustration is split into three horizontal bands, with each band representing a layer of market actors, undertaking each their roles in the value chain.

### Value Chain illustration – generic



- The main **market actors** (middle band) are those who are directly involved in the value chain process of bringing a product (or a service) from conception to end sales, i.e. those who 'own' the product at some point in the process.
- To support this process, a number of **service providers** (bottom band) assist the value chain process. They provide, for example, inputs, trainings, financial products etc. This is also where NGOs like DCA and partners belong when supporting Value Chain Development.
- Furthermore, the process is affected and conditioned by **'the enabling environment'** (top band) which covers, for example, national laws, product standards, values and tastes etc.

#### Key Characteristics of Value Chain Development in DCA and link to the SDGs:

- **Enables market inclusion for producers in marginalised communities in order to generate profits at their level.** The term 'producer' designates our target group, notably the rights holders of smallholder farmers and landless people. Apart from production they may also engage in other steps of the value chain.
- **Focus is mainly on local and national value chains - without excluding exports.** We facilitate multi-stakeholder processes to ensure that some of the value added to a product – as much as possible – on its journey from production over processing to marketing and final sale to the consumer, stays in the hands of the producers and their organisations.
- **Implies commercialising agricultural produce to the benefit of producers' income generation and employment.** However, it does not imply neglecting community food security or discarding principles of agroecology and crop diversification which are other DCA priorities. As such, Value Chain Development complements these other strategies for building sustainable livelihoods and resilient communities.

The main SDGs concerned by our work with Value Chain Development include:



# WHY

do DCA and NGO partners engage in this work?

In the countries where DCA works to 'Build Resilient Communities' (DCA global goal), small-scale agriculture is the key source of income generation and employment. Producers – women and youth in particular – constitute our main target group. A general obstacle to economic development in rural communities is the limited access to markets for producers and their products. The constraints to producers' access to markets are many and include, among other things:

- Limited access to financial services and technology.
- Poor quality of advisory services and input (such as seed and technology).
- Limited knowledge and application of quality standards.
- Poor business management and organisation, both at individual and group level.

To women, these constraints may be further exacerbated by socio-cultural norms and the division of roles within the household.

Another factor limiting producers' market inclusion can be dysfunctional value chain links, i.e. links between producers and other market actors, including buyers and service providers but also to governments and extension services. Trust and transparency are key elements to ensuring well-functioning value chains, as are producers' ability to communicate and negotiate with other market actors.

#### **The reasons for DCA and partners to engage in Value Chain Development include:**

- It is a way to reduce poverty through improved opportunities for income generation and employment in marginalised and poor communities
- It implies addressing bottlenecks to producers' income generation
- It ensures a focus on profitable sectors, with relevance to our target groups
- Sustainability is key: 'making things work on market terms'
- It bridges 'traditional' development work and market-oriented private sector driven approaches

### The link to DCA strategy and policies

DCA's Value Chain Development work is carried out in alignment with the overall goal of 'Building Resilient Communities' as well as with the 'Right to Food' policy and the PANEL principles. The organisational strategy for 2019-2022 includes the objective of 'implementing market-based projects which combine multiple strategies targeted to a range of stakeholders in the value chain'. Two strategic intervention areas are particularly relevant to Value Chain Development:

- Expanding small-scale producers' opportunities for inclusion into value chains and markets, enabling them to benefit from agri-business and inclusive business models with relevant private sector stakeholders
- Scaling up inclusive and responsible private sector engagement and functioning markets e.g. in agri-business and value chain development, innovative use of technology, as well as specific skills development.

# HOW

do we work with Value Chain Development?

The main role of DCA and our NGO partners in Value Chain Development is to strengthen producers and their organisations in various ways and to facilitate linkages and build trust between producers and other market actors.

A rule of thumb to NGOs engaging in Value Chain Development is, that we should make sure to develop not distort markets - thus our role is to:

- Avoid interfering as actual value chain actors ourselves as this would distort markets.
- Take the facilitating role of an outside entity, thus becoming part of the 'supporting

services' (see value chain illustration), linking the market actors through the creation of multi-stakeholder platforms which foster transparency in transactions.

- Advocate for gender-sensitive and pro-poor concerns in relation to value chains.
- Engage in dialogue with governments to argue for the creation of an enabling business environment

#### **Specific examples of DCA and NGO partners' role and work in Value Chain Development interventions**

- Assist producers and producer groups to carry out **market analysis** to identify value chains with potential for poor and marginalised producers.
- **Create linkages** – between producers and other market actors – via, for example, joint workshops or through the establishment of platforms and network groups.
- Assist producers' organisations to access services and **negotiate contracts** with for example buyers, MFIs, landowners, transporters, input suppliers etc.
- Strengthen the **organisation of producers into groups and networks** and reinforce their capacity in terms of organisation, advocacy and management.
- **Provide training** to alleviate bottlenecks to producers' market inclusion, for example on production and processing techniques, product standards or on basic business management, marketing and entrepreneurship.
- Ensure **concerns in relation to gender, youth, environment** e.g. via involvement of community leaders, women's groups, youth organisations and peer-to-peer dialogue.
- Introduce **mobile technology/ICT** solutions to facilitate producers' inclusion in value chains, e.g. mobile apps for creating online market places or links between producers and transporters.
- Undertake **dialogue with companies** on aspects of Responsible Business Conduct (RBC)
- **Advocate** towards governments at both local and national level for a supportive business environment for producers, e.g. for easing access to agricultural extension services or reducing cost and time in relation to business formalisation procedures.

Further guidance on the design and implementation of Value Chain interventions may be found in the references section

### **Value Chain Development and Private Sector Engagement**

Market actors mostly comprise of private sector entities. Value Chain interventions thus imply for DCA and NGO partners to engage with private sector entities such as for example wholesale buyers, processors, financial service providers or even international companies looking for new markets, raw materials or labour. These market actors all play important roles in value chains, alongside the producers.

Overall, the private sector is becoming an increasingly central actor in development work and with the formulation of the SDGs, a platform for multisectoral collaboration between NGOs and companies, together with research institutions and governments, has been established.

DCA sees a potential for enhancing our agendas by actively engaging in business partnerships which build on shared values and dialogue on the basis of the 'UN Guiding Principles on Business and Human Rights'. However, dilemmas may arise as we work with, or sometimes even formally partner with, private sector entities in relation to Value Chain interventions. As NGOs we may at some point ask ourselves; who are we actually working for - the companies (buyers, large-scale processors etc) or the producers? The answer is that producers and marginalised communities remain our primary target group and that our Value Chain Development work allows for creating win-win scenarios, to the benefit of all the involved market actors, including the producers.

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Contact PAL advisor, **Karin Wied Thomsen**, at [kwth@dca.dk](mailto:kwth@dca.dk) for technical assistance on any of the issues, tools and methods relating to Value Chain Development

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### Resources:

For more on approaches and cases in relation to Value Chain Development by NGO's, please consult:

The 'Participatory Market Systems Development' (PMSD) approach of Practical Action: <https://policy.practicalaction.org/policy-themes/markets/participatory-market-systems-development>

The 'Making Markets work for the Poor' (M4P) approach developed by SDC and DFID, updated version of the operational guide: <https://beamexchange.org/resources/167/>

The 'Engaging Markets as Part of Development Strategies', guidance document developed by the Danish Forum for Microfinance: [http://mikrofinans.dk/component/docman/cat\\_view/24-publikationer-fra-dansk-forum-for-mikrofinans?Itemid=33](http://mikrofinans.dk/component/docman/cat_view/24-publikationer-fra-dansk-forum-for-mikrofinans?Itemid=33)

Design and implementation of Value Chain interventions: 'The 'HOW' in detail – an annex for operationalising Value Chain Interventions'.