Editorial: Towards leaner and more effective value chain development

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Value chain development (VCD) is a common term in today's development lexicon[1], where its use tends to conjure passionate ideas about how development programming can support smallholder participation in growing markets in the interest of economic growth, job creation, gender empowerment, and sustainable use of natural resources, among other goals. Since the early 2000s, *Enterprise Development and Microfinance* (*EDM*) has featured considerable debate on how to design market-oriented development interventions with smallholders, often based on positive experiences by a given NGO or project in a particular context. Early articles helped to put VCD on the development agenda, while advancing innovation in market-based project design and implementation. However, after more than a decade of it being firmly placed on the agenda, we still know relatively little about VCD. Apart from isolated case studies, the question of whether VCD has lived up to the expectations of smallholders, of the private sector, and of development agencies remains an open one. This double edition of *EDM* addresses the design, implementation, and impact of VCD support to smallholders and to small and medium enterprises (SMEs) as an important, yet under-researched dimension of VCD. The eight articles look into the needs and opportunities for increasing the effectiveness of VCD support services, with discussions on: the role of NGOs or governments in VCD; how large-scale buyers and certification programs shape VCD; and the role of finance and impact bonds in VCD. Advancing ideas on how to get the right mix of services, at the right time, to the right people, taking into account variations in the context in which livelihoods and business activities are embedded, will help stakeholders to effectively deliver on poverty and broader development goals.

The edition begins with a debate between John Belt from the Royal Tropical Institute (KIT) and Jonathan Hellin from the International Maize and Wheat Improvement Center (CIMMYT) on the role of the private sector in VCD. This debate underscores a tension inherent in certain contexts: achieving impact at scale through VCD usually requires sustained engagement by the private sector, while the latter's incentives and resources for engaging with resource-poor smallholders and SMEs may be limited. Belt argues that development agencies have for too long over-protected smallholders

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http://dx.doi.org/10.3362/1755-1986.2017.28-1ED, ISSN: 1755-1978 (print) 1755-1986 (online)

and their businesses, often with a focus on a few prioritized chains, and have missed the point that value chains, at their core, are about good business. Development agencies, Belt adds, need to learn more from the private sector and how it interacts with poor farmers, and find ways that support the private sector to grow their business options through engagement with smallholders. Another key point he makes is that most businesses in developing economies are informal and focused on local markets, and that more attention should be given to other actors who have often been at the margins of our debates, including farm laborers and consumers. Hellin counters by pointing out the limitations of the private sector in being able to provide the type of longer-term support that smallholders often need to successfully engage in value chains. He points at evidence that private sector VCD agents tend to work with larger farmers and better-off smallholders, or when starting programs with large numbers of resource-constrained smallholders, they rapidly shift their attention to few larger suppliers. In Hellin's view, development agencies have an important role in stimulating innovation and risk taking – roles that the private sector would be hard pressed to lead. Some important questions emerge from the exchange for future editions of *EDM* to address, including (1) what conditions must prevail for private sector-driven VCD to effectively support sound environmental and social performance along the chain, and (2) how can NGOs or government-driven VCD move beyond subsidized interventions to ensure greater viability of chain engagement by both resource-poor and better-off value chain actors?

The first three articles of this edition explore how development agencies design and implement services to support VCD with smallholders. The first, by Donovan, Stoian, and Poe, examines four cases of VCD in Nicaragua, with each case based on extensive interviews with NGOs, major buyers, and cooperatives engaged in the respective VCD initiative. Despite the complexity of VCD, interventions were based on a single tool, activities were limited to technical assistance and training – rather than addressing diverse livelihoods, business, and financial needs of smallholders – and the development agencies tended to engage on a limited basis with other chain actors, services providers, and researchers. In the second article, Even and Donovan find similar results with VCD design and implementation in Vietnam. Both studies provide a clear case for a broader approach when VCD engages the rural poor, based on a combination of tools to account for multiple, context-specific needs of diverse stakeholders and deeper collaboration between actors. The third article by Norell and colleagues looks at the options for NGOs to engage effectively with 'extremely poor' households in VCD processes. They call for multi-sector, holistic programming with attention being given to nutrition, gender, and food security concerns. While the authors are conscious that such programming will increase the complexity of design and implementation of services for VCD, they argue that the results are likely to be more sustainable. Looking across these three articles, readers will find a clear case for greater investment in evidence-based learning for advancing on a set of dos and don'ts in VCD in particular contexts.

The next two articles provide a fairly broad perspective on two important issues in VCD: the role of large-scale businesses in value chains where smallholders represent a major source of global supply, and the impact of certification programs on smallholders. The first article, by Millard, describes three approaches used by large-scale businesses engaged in value chains for cocoa, oil palm, and coffee to support smallholders and their communities: (1) a product approach, where the company implements a buying policy that incorporates social and environmental criteria; (2) an enterprise-enabling approach, where the company seeks to support local organizations to provide services that build the capacities of smallholders, and (3) a community-development approach, where buyers invest in basic services in the communities where famers live. The success of an approach will depend on its ability to adapt to the context in which smallholders operate, to provide meaningful incentives for smallholders to improve the quality and reliability of their production, and to invest in innovation in technology that generates value for smallholders and SMEs, among other factors. The following article by Ruben reviews some of the extensive research on the impact of certification standards on value chains for export crops, such as coffee, tea, banana, cocoa, and cotton. His review recounts the disappointing results documented by these assessments in terms of income generation among farmers and workers. However, important biases are identified that probably influenced the studies; for example, the potential to overestimate any one standard due to multi-certification, and the tendency to ignore the positive effects from reduced risk in business relations. The paper concludes with suggestions for future research, such as how certification influences risk behavior, investment patterns, and trust in business relationships.

This edition finishes off with three articles that address gender in value chains, finance for value chains, and the role of impact bonds in facilitating VCD. Looking at the dairy value chain in Nicaragua, Flores and Bastiaensen shed light on the under-recognized role of women as primary producers and processors in value chains. They also highlight issues around gender conflicts and cooperation that emerge within households as families engage in value chains. The article makes a strong case for VCD facilitators to pay more attention to gender differentiation within households and associated dynamics when designing and implementing VCD. Middleberg examines three cases in Zambia, two of which ultimately failed, where commercial banks provided credit to smallholders. The lessons highlight the need for more effective communication and coordination between banks and their potential clients. The final article, by Belt, Kuleshov, and Minneboo, brings us back to Latin America to assess the role of impact bonds in value chains for cocoa and coffee. Impact bond schemes bring third-party investors into the development arena, and imply new rules for the design, implementation, and assessment of VCD interventions. Early indications from Peru are that bonds can work, but these new instruments often imply high up-front costs and significant investments in monitoring and verification.

The articles in this edition are distinguished from much of the writing on value chains as they go beyond typical analyses to address the broader issues of VCD related to design, implementation, and assessment. In some cases, the findings may not fit our preconceptions of how VCD works, and may add additional layers of complexity for understanding how smallholders, businesses, and development agencies engage with each other to advance private and public goals and what options exist to achieve more impact at scale. This special edition also points at the need for further research to deepen our understanding on what is required to increase the effectiveness and efficiency of VCD services provided to resource-poor and other vulnerable actors in value chains, particularly as regards:

- **chain selection**: exploration of the key factors and outcome parameters for smallholders and SMEs across different types of value chains, such as tree crops for export, high-value horticulture, staple crops sold into informal markets;
- **client-specific needs**: evidence-based debate on tools and methods needed to understand the needs of resource-poor actors, namely farmers, labourers, and SMEs, in specific types of value chains and in specific contexts; in addition to variation in terms of household-level resource endowments, client-specific approaches to VCD need to better account for variation within smallholder households in terms of gender, age, and other factors of social differentiation;
- **metrics**: more consistent indicators and protocols that will enable the research and development community to measure levels of vulnerability and adaptive capacity for vulnerable actors at different nodes within targeted value chains;
- **meta-analysis and systematic reviews**: based on harmonized metric systems, carry out cross-cutting analysis beyond individual case studies to detect commonalities and differences that will allow the development of replicable approaches to VCD with appropriate degrees of context specificity;
- **cost and benefits**: methods to assess costs and benefits of different approaches to VCD, across formal and informal markets, and across actors investing in different crop/product groups and contexts;
- **setting expectations**: challenge preconceived notions about outcome levels achieved through VCD on livelihood gains and business viability, timeframes for achieving outcomes, and the potential scale of anticipated gains;
- **political/legal and regulatory frameworks**: identify critical elements enabling or disabling the development of inclusive and sustainable value chains in public policies, and their interplay with private policies including voluntary sustainability standards;
- **investments**: identify the gaps and biases in our R&D approaches to VCD and options for taking corrective action to guide investment decisions and define more inclusive investment strategies.

The more general contribution of this special edition is to question our assumptions about how resource-poor smallholders and businesses participate in markets and the role of technical, business, and financial services in addressing the needs of smallholders and strengthening their capacities. Inputs from researchers, donors, businesses, and practitioners alike are needed to advance more effective and efficient solutions to the challenges facing VCD. It is both an opportunity and a need to embrace the complexity underlying VCD while ensuring the viability of approaches and interventions that need to be realized within the constraints of human and financial resources and against expectations of significant impact over short periods of time. *EDM* stands to support such processes and improved practical action and learning, based on rich insight from VCD-focused research over more than 15 years, and has a commitment to expand the focus on these aforementioned topics in upcoming editions. The enthusiastic response by practitioners and researchers to the call for contributions to this special edition underscores the scope and opportunity for more in-depth discussion on VCD. A sincere thanks to all the authors who participated in this call, and we look forward to future interactions with authors and readers interested in options for achieving greater development impacts at scale through value chains.

Note

1. Over the past 10–15 years, NGOs, donors, government agencies, and private sector and research institutions have used various terms to describe market-oriented approaches to development. These include 'market systems development', 'inclusive business', 'making markets work for the poor', 'value chain development', and other, similar terms. While differences exist between some of the approaches, they are basically variations on the same theme: supporting resource-poor smallholders and businesses in taking advantage of opportunities in modernizing markets and new business relationships with regard to agricultural and forest products. The term 'value chain development' has stood the test of time and has been used extensively in *EDM* – good reason for its continued use here.