Strengthening Country Systems:
An Experience Summit
Washington, DC | November 27-28, 2012

FACILITATING SYSTEMIC CHANGE IN VALUE CHAINS: LESSONS LEARNED FOR STRENGTHENING COUNTRY SYSTEMS

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EXECUTIVE SUMMARY[1]

This paper reviews USAID experience with inclusive value chain development and discusses lessons learned about facilitating systemic change in markets. Beginning in the mid-1990s, USAID has followed an inclusive value chain approach for strengthening market systems. The dual objectives of the value chain approach are economic growth and poverty reduction.

A value chain brings a product or service from inception to the final consumer. It can be analyzed as a system (or network) with three elements: 1) firms, NGOs, public officials and other decision-making agents, 2) relationships between these agents/decision-makers, and 3) the business enabling environment. The business enabling environment consists of all the formal and informal rules that define the context within which firms and other agents make their decisions. Examples of factors in the business enabling environment that influence behavior in the value chain range from international food safety standards to national labor laws, inflation rates, municipal regulations, and social norms. Business enabling environments can be defined at the local, regional, national, and global levels.

The value chain approach uses systemic thinking at every phase of the project cycle. In project design, a full analysis of the system's structural and dynamic features helps to identify leverage points for catalyzing change. To be sustainable, new behaviors must continue to be promoted by the existing incentives that drive the system. An understanding of the system as a whole is also needed to avoid causing harm to the system (e.g., price subsidies). In project evaluation, the multi-leveled and dynamic nature of value chain interventions has led to the development of degrees of evidence principles for evaluating value chain projects.

The intervention strategy in a value chain project should follow a facilitation approach whenever possible. The role of the facilitator is to identify actors or groups of actors that have self-interest (usually a commercial interest) to champion the changes needed to close competitiveness gaps. The facilitation approach is preferred to direct delivery of program services, because it leads to more sustainable solutions that will continue after the project is over.

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[1] This summary is taken from a background paper prepared for the USAID Strengthening Country Systems Experience Summit. To access the full paper, please visit http://kdid.org/library/facilitating-systemic-change-value-chains-lessons-learned-strengthening-country-systems.

The value chain approach emphasizes the role of relationships between firms that are linked or should be linked to improve development outcomes. Project implementers seek to identify opportunities to facilitate win-win relationships that build trust and reward cooperation in vertical and horizontal linkages. The quality of relationships between firms plays an important role in facilitating the flow of information, learning, and incentives for upgrading.

These three programming strategies in the value chain approach—systemic thinking, facilitation approach, and emphasis on relationships—along with lessons learned about the design, implementation, and evaluation of market system strengthening projects have general relevance for projects to strengthen country systems.