

# IDS RESEARCH SUMMARY

Research findings at a glance from the  
Institute of Development Studies

IDS RESEARCH REPORT 63  
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## Multinational Value Chains, Small and Medium Enterprises, and 'Pro-Poor' Policies: A Review of Donor Practice

Many donors, governments and private companies now use value chain approaches in their efforts to promote market-oriented growth and poverty reduction. An IDS report examines a range of donor initiatives that use value chain approaches and explores the links between the interventions and poverty reduction.

The report presents the analysis and conclusions of an IDS research project commissioned by the Ford Foundation to examine donor-led initiatives that have used the value chain approach to promote the growth of micro, small and medium enterprises. The report reviews 30 such initiatives led by donors working with a variety of contexts, industries and actors in Africa, Asia and Latin America. It asks how and to what extent the impacts of these interventions have been systematically assessed. To answer this question, the research draws on the analyses and reflections of the donor agencies themselves.

### Value chain interventions

The idea of connectedness lies at the heart of value chain analysis. Most goods and services are produced and delivered by a complex and sequenced set of activities. These activities are carried out by a number of economic agents: people, enterprises, cooperatives and so on. The value chain approach focuses on how these different agents interact.

In developing countries, small firms and poor producers often struggle to gain market access, either lacking knowledge of market requirements or the skills to meet them. Donor-led value chain interventions are designed to overcome barriers to market access, with a focus on business cooperation. They often overlap with other approaches to private sector development such as Making Markets Work for the Poor (M4P).

### Lead firm and chain linkage projects

The report distinguishes between two main types of value chain interventions: those where donors work with lead firms to funnel assistance and bring about change in other parts of the value chain and those where local suppliers within chains are supported without involving the lead firm.

Twelve interventions involving lead firms are examined. These initiatives focus on large – usually multinational – firms and the development of their supply chains and, in some cases, their distribution chains. The goal of such initiatives is to

use the link to a large customer to promote upgrading and knowledge transfer among small firms.

The report also examines eighteen chain linkage projects. Rather than working with a specific lead firm, these initiatives target inefficient or missing linkages between producers and their actual or potential markets.

### Evidencing the links to poverty reduction

Value chain interventions have the potential to contribute to poverty reduction by enabling small producers and marginalised communities to benefit from globalisation as well as opportunities in domestic markets.

The report finds there is a widespread view among donors that value chain interventions are beneficial for poverty reduction. However, most of the interventions studied did not carry out a rigorous impact assessment.

“ Donor-led value chain interventions are designed to overcome barriers to market access faced by small firms and poor producers ”

## “Donors or independent bodies should introduce programmes of impact assessment covering multiple projects”

A thorough impact assessment needs to address three key questions: Did the expected improvements for the beneficiaries actually occur? Were these improvements attributable to the project? Are the interventions cost-effective and better than alternative policies?

### Key findings of the report include:

- Monitoring and evaluation of projects was common among the interventions studied.
- The donor evaluations provide a lot of anecdotal evidence for the positive outcomes and impacts of value chain interventions.
- Value chain projects that connect geographically or socially isolated groups to markets (including in conflict and post-conflict situations) appear to have positive outcomes.
- The scope for this kind of targeting is greater in chain linkage projects than in lead firm projects.
- The evaluations did not answer the question of whether value chain interventions are better than alternative approaches at reaching poor people, particularly the poorest.

### Recommendations

More rigorous impact assessments are needed in order to understand how effective value chain interventions are as well as which types of interventions work best under different country conditions.

However, rigorous assessments are complex and expensive and, the report argues, not needed for every project. Instead, donors or independent bodies should introduce programmes of impact assessment covering multiple projects.

The report also shows that improving the effectiveness of value chain interventions does not need to wait for an impact assessment programme. The report provides clear guidelines for designing and managing value chain interventions:

- Make more explicit connections between project activities and outputs, outcomes and broader project impacts.
- Clarify the extent to which the targeting of interventions is effective and which groups of poor people are benefitting.
- Consider the scale of impact; this should include measuring the indirect impacts for poor people who are not direct project beneficiaries (spillover effects).
- Review the cost-benefit elements of the interventions.
- Identify more clearly the motivations and capabilities of lead firms and intermediaries.
- Identify the potential for post-project sustainability.
- Make a clear distinction between reducing poverty (if this is the goal) and targeting interventions on the types of activities undertaken by poor people.

### Credits

**John Humphrey and Lizbeth Navas-Alemán, 'Multinational Value Chains, Small and Medium Enterprises, and 'Pro-Poor' Policies: A Review of Donor Practice, Research Summary of IDS Research Report 63**

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