

Global Food Security Strategy Technical Guidance Market Systems and Value Chain Programming

This is one of 18 technical guidance documents for implementing the U.S. Government's Global Food Security Strategy. The entire set of documents can be found at www.feedthefuture.gov and www.agrilinks.org.

The U.S. Government's Global Food Security Strategy (GFSS) calls on the U.S. Government and its implementing partners to facilitate agricultural transformation by helping market systems and value chains generate sustainable growth opportunities for small-scale producers, small and medium-sized enterprises, and poor households. This guide clarifies concepts and definitions, describes how market systems programming can advance the GFSS, reviews lessons, and suggests resources to support activity design and implementation.

Terminology and Context

Market systems are spaces in which private and public actors collaborate, coordinate, participate, and compete for the production, distribution, and consumption of goods and services, at local, regional, and international levels.¹ Small-scale market-oriented producers seek improved inputs and buyers with a market systems context to make their production profitable. Small and medium-sized enterprises (SMEs) explore how to provide marketable goods and services. Workers labor across farms and other rural enterprises. Households purchase foods and other necessities. A critical market system actor is the consumer, whose demand largely helps ensure the sustainability of markets.

Value chains are one way actors organize themselves within market systems. Value chains refer to the actors and functions connected by a series of value-addition transactions from production to consumption for provision of particular goods and services. A value chain for dairy, for instance, may include input suppliers, farmers, processors, traders, wholesalers, and national retailers selling into end markets. Value chains, in turn, depend on “cross-market functions,” such as veterinary, cold chain, and financial services and the broader enabling environment, including policies regulating safety standards and social and cultural norms that affect access to resources.

Value chain programming recognizes the importance of market systems and value chains in creating sustainable opportunities for small-scale producers, SMEs, and others. Market systems changes that affect value chains can catalyze new market opportunities that result from gains in primary productivity on farm, value preservation and addition, and new relationships formed in the marketplace where private investment meets opportunity. It refers to efforts to strengthen the relationships across actors in ways that make value chains more competitive, resilient, and inclusive. Value chain programming — where it achieves inclusion or generates employment opportunities for low-income people — should facilitate reductions in poverty while fostering private sector investment and trade.² Past experience has generated several lessons:

- First, practitioners need to understand the incentives and disincentives that drive system behavior in order to develop programs that help stakeholders advance competitiveness, scale technology adoption, and avoid destructive competition (where there are so many producers of a product that prices are driven down to the point where no one makes a profit, hampering poverty reduction).
- Second, the performance of value chains — including how much value they generate and for whom — can depend on factors beyond individual value chains and their enabling environment,

including the performance of interrelated value chains and the occurrence of natural disasters.

- Third, for programming to be catalytic, it should focus on facilitating solutions to challenges that affect interconnected value chains. Consider countries with high prevalence of aflatoxin in maize which affects animal feed, which in turn contaminates dairy and meats. Addressing aflatoxin in one part of the system (maize) can generate impacts that extend beyond that value chain.

These lessons led practitioners to adopt an **inclusive market systems approach**. Using value chain principles, this approach relies on facilitation of local systems³ — the interconnected sets of actors, including governments, civil society, the private sector, universities, individual citizens, and others. In a market systems approach, programming focuses on “light touch” efforts that facilitate sustainable market development and leverage relationships across market actors instead of directly intervening in particular value chains. Programming thus strives to sustainably develop the capacity of local actors to take advantage of opportunities, respond effectively to shocks and stresses, and solve their own problems. Programming also addresses systemic constraints that can unlock growth in multiple value chains by intervening in, for example, cross-market input supply systems, information services, financial services, logistics, and the enabling environment.

Possible Pathways

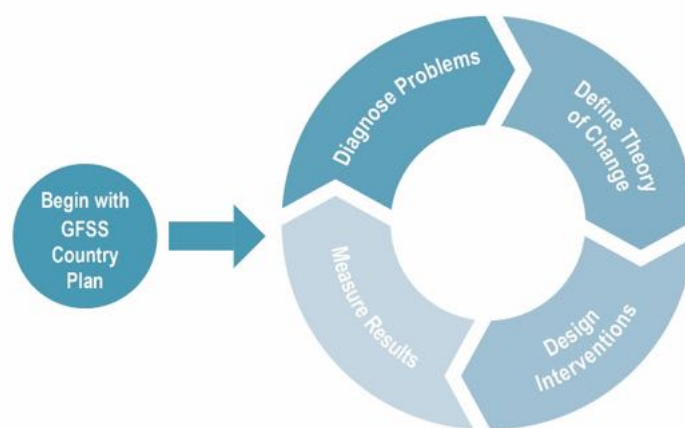
Agricultural transformation is underway across Africa and other developing regions in Asia and Central America.⁴ In this context, applying a market systems approach builds on catalyzing market development efforts that are already underway and is a platform through which to deliver on many of the intermediate results (IRs) of the GFSS, including:

| To advance... | Market systems and value chains programming can... | Example ⁵ |
|---------------------------------------|--|---|
| Productivity and profitability (IR 1) | Facilitate relationships, build trust, and align incentives between market actors and small-scale producers to strengthen value chains, boosting productivity and efficiency. | In Bangladesh, the Agricultural Value Chain activity encouraged input suppliers to market integrated pest management to small-scale producers, covering a range of horticultural commodities. Small-scale producers adopted new technologies which lowered the use of pesticides while increasing production. ⁶ |
| Market access (IR 2) | Improve relationships, rules, and information flows that allow small-scale producers to take better advantage of market opportunities. | In Ghana, the Agricultural Development and Value Chain Enhancement (ADVANCE) II activity strengthened outgrower models that expanded smallholder access to credit, extension, and tractor services, enabling them to become commercial farmers, better connected to end markets. |
| Employment (IR 3) | Facilitate relationships among market actors in ways that generate opportunities for investments in agriculture benefiting women and youth, including in off-farm services. ⁷ | In Nepal, the Feed the Future Integrated Pest Management (IPM) Innovation Lab program facilitated relationships between input suppliers and youth who served as sales agents to disseminate technologies to rural areas. The input suppliers provided the youth with seeds and other inputs on credit, serving as guarantors for youth who often lack capital and assets. Youth earned at least 20–30 percent in commission and input suppliers nearly quadrupled sales. ⁸ |
| Increased | Support market relationships that boost the | In Zambia, the Production, Finance, and |

| | | |
|---------------------------------|---|---|
| sustainable productivity (IR 4) | development and adoption of technologies and practices that can reduce the impacts of natural hazards. | Improved Technology Plus (PROFIT+) project facilitated the clustering of small producers and their connections to input suppliers in ways that increased the adoption of conservation tillage. |
| Resilience (IR 6) | Expand economic opportunities that allow households to diversify their livelihoods on and off farms, including in places with nascent markets. ⁹ | In Ethiopia, the Pastoralist Areas Resilience Improvement through Market Expansion (PRIME) project used facilitative approaches, including connecting local firms and providing smart subsidies, that enabled pastoralists and other households to better maintain their food security during the historic drought of 2016, whereas other households experienced a substantial decline. ¹⁰ |
| Nutrition (IR 7) | Improve nutrition by empowering women to have greater access and control over household resources. ¹¹ | In Uganda, Community Connectors has been working through village savings and loan associations to raise awareness on nutrition; gender equality; child spacing; and water, sanitation, and hygiene. ¹² |

Designing Interventions¹³

There is no single way to approach market systems programming as pathways and markets, actors and challenges vary by country and context. There are, however, well-established steps and feedback loops to use when designing market systems activities.



1. Begin with the Interagency Country Plan

Feed the Future, guided by the GFSS, will continue using value chains as our point of entry to drive broader market system changes that benefit target populations. Based on a high-level theory of change that advances the objectives of the GFSS, Country Teams will identify a limited number of value chains to focus on, as well as cross-market functions, including local, regional, and international consumer demand; input supply systems; financial services; information systems; the enabling environment; and private sector investment and partnership interest from domestic and foreign companies, including, as appropriate, U.S. agri-businesses. Important distinctions from the first phase of Feed the Future include: (1) a greater emphasis on facilitation, especially in working in partnerships with private sector interests to leverage business strategies for long-term investments, (2) flexibility in the number of value chains as well as the criteria used to select them, (3) increased

emphasis on addressing cross-market constraints, and (4) explicit acknowledgment that some of the off-farm parts of the value chains we engage with may compel us to engage in activities that are outside our geographic zones of influence.

2. Diagnose problems

While the Country Plan identifies strategic value chains and cross-market functions, designing activities requires an in-depth understanding of the constraints and opportunities in the markets in which we are working. Our diagnoses should be iterative, informing the initial program design and adjustments in implementation. See¹⁴ the Springfield Center's [The Operational Guide for Making Markets Work for the Poor \(M4P\) Approach](#) (Chapter 2 on Diagnosis) for helpful tips, including:

- **Target underlying causes of constraints, not symptoms.** Technical fixes may work in the short run — producers may get access to inputs or training, for instance — but won't necessarily address underlying constraints of why they can't get those inputs or training through the market in the first place. Therefore, after identifying market failures and other constraints preventing the market system from being as competitive, inclusive, and/or resilient as it could be, we need to understand what's *behind* these constraints. Why haven't market actors had the incentives to resolve these constraints on their own? Why haven't youth and women participated? What is the nature of the disadvantages they face? Why hasn't the government invested in a particular region or market system? If the constraints can be addressed in programming, how can we ensure programming contributes to the development of sustainable market systems instead of generating dependency on development assistance?
- **Prioritize constraints based on potential for greatest impact.** Taking a market systems approach doesn't mean we seek to nudge behaviors in every part of the system. Instead, we make our programming manageable by being clear about the development outcome we're aiming for and which programming will have the greatest impact toward that outcome.¹⁵

3. Define the evidence-based theory of change

Given the many possible pathways through which a market systems approach can sustainably contribute to reductions in poverty and hunger, we need to provide an evidence-based rationale for how our proposed interventions are expected to contribute to the GFSS Results Framework. Which IR(s) are we advancing? Who are we trying to benefit and through which pathways (including entrepreneurship, employment, and/or agricultural production)? Which systemic change can we help drive through facilitation that contributes to sustainable impacts? This theory of change may evolve over time as the operating environment changes and as our partners learn more about the market systems in which they are working.

4. Define programming

Market systems interventions “should leave behind more efficient, resilient, and inclusive systems that function and adapt without external support and deliver to large numbers of poor people in the future.”¹⁶ Good practices include:

- **Facilitate.** Through facilitation, implementing partners catalyze lasting changes in incentives and behaviors within value chains or market systems, leading to market efficiencies. They do this by strengthening relationships between market actors, including by realigning incentives and introducing new models of engagement. Implementers minimize their presence in the system, drawing in local actors to more fully engage in development efforts themselves, making our efforts more sustainable and scalable. Implementers may still use strategically timed direct

interventions to motivate change or inclusion of target populations but with an explicit end-goal and exit strategy. See [The Facilitation Approach at USAID: A Discussion Paper](#).

- **Be flexible in facilitating support services.** Strengthening value chains, from improving productivity to connections with markets, often depends on efforts that extend beyond the value chain itself. We may, for instance, have opportunities to strengthen value chains by improving their access to improved business practices, finance, mechanization, post-harvest technology, storage, and transportation. Improving access to some of these support services may, in turn, depend on broader policy reforms¹⁷ and enabling environment changes that create incentives for increased investments in these cross-market functions.¹⁸
- **Strategically partner.** Recognizing aid funding can have a powerful yet temporary influence, market systems approaches aim to ensure that desired behavior changes reflect the genuine incentives and capabilities of market actors to succeed in the long-term. A key tenet of this approach is that we should seek out market actors who are respected in their communities and sectors and who are entrepreneurial, willing to try something new, and capable of reaching scale. We can partner directly with the private sector as the implementer, as commercial firms expand into new markets and provide services or products that benefit poor households with access to improved inputs, value added markets to sell into, or improved nutritional products as consumers. See USAID's [A Guide to Optimizing Partnerships with the Private Sector for Smallholder Impact](#).
- **Adopt “push/pull” approaches.**¹⁹ A common misconception of market systems development is that it is relevant only for small-scale producers and firms with existing assets. Yet market systems approaches can also benefit vulnerable populations, building capacities for market engagement (“push”) and expanding economic opportunities (“pull”). See the GFSS Guidance on Livelihoods and Pathways Out of Poverty.
- **Deliberately explore opportunities for women, youth, and marginalized groups.**²⁰ Programming is more likely to benefit women, youth, and other marginalized groups when it deliberately searches for ways to better link them to markets. Efforts such as policies to improve land tenure, facilitation to promote market-based skills development, support to create savings groups, aggregate production, and other evidence-based collective arrangements can help women, youth, and other marginalized groups overcome impediments to engaging with and benefiting from markets.

5. Measure results

Facilitation presents particular challenges for monitoring and evaluation: there's the additional unpredictability of outcomes in relying on others to change their behavior, and interventions tend be slower than direct delivery, may work at different levels (households, firms, value chains, and enabling environments), and may evolve over time. Measuring results in this context may involve efforts to:

- **Use adaptive learning and management.** While facilitation is strategic for the kind of transformative change we want to promote, by their very design facilitative approaches require adaptive management — where the activity responds to and supports emerging changes towards making the system more resilient, inclusive, and sustainable. See USAID's [Collaboration, Learning, and Adapting \(CLA\) Toolkit](#).
- **Measure systemic change.** In using a market systems approach, implementing partners still need to use output or outcome indicators, important for keeping our efforts accountable to measurable

results. However, to learn how our interventions are supporting transformative changes, we also need to use monitoring approaches that capture systemic changes; that is, changes in economic behavior, relationships, and other measures of local stakeholders' ability to be more competitive and resilient and benefit from market participation. Possible approaches include the use of results chains, custom systems indicators, and non-indicator based approaches such as network analysis and outcome mapping.²¹ See the GFSS guidance on monitoring and evaluation.

Programming in Practice: Market Systems Development in Bangladesh²²

Access to agricultural inputs can be a lifeline for farmers, enabling them to protect their crops from pests and diseases to increase and stabilize their incomes. Donors have often responded by handing out products to producers or running demonstration plots. The real challenge for driving transformation, however, is not just getting a particular technology in place but catalyzing markets to deliver these much-needed technologies on their own and over time.

In Bangladesh, USAID's Agricultural Value Chains (AVC) activity is taking a market systems approach, working with large, reputable agricultural firms to provide inputs and services for small-scale producers, a group they had previously undervalued as potential clients. One such firm is Ispahani, which, like other firms, had no incentive to service smallholder farmers. Ispahani lacked awareness of the potential market, and there were no marketing companies to generate awareness among farmers nor connections between Ispahani and agricultural inputs stores.

USAID started by encouraging Ispahani to understand the importance of strengthening its relationships with local distributors and retailers to reach small-scale producers in rural areas. It then helped Ispahani learn more about specific technologies particularly suitable for small-scale producers, such as IPM biological control approaches, regular product and business training for their distributors and retailers, and marketing campaigns and promotional events in stores and communities.

Farmer adoption of IPM and other such technologies soared. In less than a year, producers reported lower inputs costs, less crop loss, and greater incomes. In many cases, IPM cut spraying by over 60 percent. Some eggplant producers reduced spraying from 80 times a season to 20 or less. And the number of producers using pest management products continues to spread as farmers hear endorsements from others.

Resources

In addition to the sources cited in this guidance, the following sites and documents offer helpful tools for designing market systems programming:

- USAID [Leveraging Economic Opportunities](#) (LEO) briefs, as cited throughout this guidance.
- USAID's [Value Chain Development wiki on Microlinks](#) that "codifies good practice in value chain development and emerging learning in inclusive market systems development, drawing from research conducted under the leadership of the USAID/E3 team, by ACDI/VOCA's AMAP BDS and LEO consortia and many other contributing organizations, academics and institutions."
- Springfield Centre (2015), *The Operational Guide for the Making Markets Work for the Poor (M4P) Approach*, 2nd edition funded by Swiss Agency for Development and Cooperation (SDC) and the UK Department for International Development (DFID). Provides clear steps for funders and implementers, including suggested questions and tools for choosing value chains, partners, and prioritizing interventions; steps for conducting pilot interventions; and operational tips.
- The *Feed the Future Enabling Environment for Food Security* project supports integration of enabling environment reform strategies into market systems and value chain programming

through promoting exchange of good practices, expanding the evidence base, and providing technical analysis, advisory services, and capacity building across program life cycles, at regional, national, and sub-national levels.

- The [BEAM Exchange](#), the UK’s equivalent to Microlinks, described as “A space to share knowledge and learning about the role of market systems in reducing poverty. Understand how and why market systems approaches work, read practical guidance on how to put the approach into practice, and share your insights with other practitioners.”
- USAID’s (2014), [A Guide to Optimizing Partnerships with the Private Sector for Smallholder Impact](#), which explains the rationale for private sector partnerships, provides practical suggestions and tools for analyzing business models and managing their risks, and offers insights on select business models to improve access to inputs and technology, improve market access and distribution, improve access to finance, and enhance productivity.

GFSS has experts on market systems and value chains ready to support your next design. Contact ftfguidance@usaid.gov to find the support you may need.

References

¹ See USAID’s LEO (2014), [A Framework for Inclusive Market System Development](#).

² The [Feed the Future Learning Agenda Literature Review: Expanded Markets, Value Chains, and Increased Investment](#) (Feed the Future FEEDBACK, USAID, 2013) synthesizes evaluation findings on the outcomes of value chain activities.

³ See LEO Brief [Local Systems and Market Systems](#).

⁴ Reardon, Thomas, Christopher Barrett, Julio Berdegue, and Johan Swinnen (2009). “Agrifood Industry Transformation and Small Farmers in Developing Countries.” *World Development* 37(11):1717-1727.

⁵ Unless otherwise noted, the examples are from USAID LEO (2016) [Case Studies on Facilitating Systemic Change](#).

⁶ See Margie Brand’s (forthcoming), “Adaptive Management to Support Market Facilitation: A Case Study of the Agricultural Value Chains Project in Bangladesh.”

⁷ USAID LEO (2016), [Including Wage Labor in Value Chain Analysis](#).

⁸ See USAID LEO (2016), [Youth Engagement in Agricultural Value Chains Across Feed the Future: A Synthesis Report](#).

⁹ See the GFSS Guidance on Strengthening Resilience and USAID (2015), [Market Systems for Resilience](#). LEO

¹⁰ See USAID and Mercy Corps [PRIME: Facilitative Approaches for Nascent Markets](#) and USAID (2017) [Resilience in the Face of Drought in Ethiopia: New Evidence](#).

¹¹ See the GFSS Guidance on Nutrition (Objective 3) and [USAID’s Multi-Sectoral Nutrition Strategy, 2014-2025: Convergence and Tension in Nutrition-Sensitive Agricultural Market Activities](#).

¹² See Feed the Future and SPRING (2014), [Understanding the Women’s Empowerment Pathway](#), Improving Nutrition through Agriculture Technical Brief Series

¹³ Unless otherwise noted, the steps in this section draw from USAID’s [Designing a Value Chain Project](#) (LEO), while the lessons are from the [Feed the Future Global Performance Evaluation](#) (2016). Most of these steps are also part of the M4P Approach, as described in the Springfield Centre’s (2015), [The Operational Guide for the Making Markets Work for the Poor Approach](#), 2nd edition funded by Swiss Agency for Development and Cooperation (SDC) and the UK Department for International Development (DFID).

¹⁴ See also GFSS Capacity Development for Agricultural Innovation Systems Guidance.

¹⁵ USAID’s (2016), [The 5Rs Framework in the Program Cycle](#), provides an intuitive approach to setting system boundaries.

¹⁶ As described by the Springfield Center’s 2015 Operational Guide.

¹⁷ See the GFSS Policy Implementation Guidance.

¹⁸ See the GFSS Agricultural Trade Guidance.

¹⁹ See USAID LEO (2015), [A Framework for a Push/Pull Approach to Market System Development](#).

²⁰ See, in particular, USAID's LEO (2014), [Women's Economic Empowerment: Pushing the Frontiers of Inclusive Market Development](#), and (2016), [Youth Engagement in Agricultural Value Chains across Feed the Future: A Synthesis Report](#).

²¹ See USAID's [Guidelines for Monitoring, Evaluation, and Learning in Market Systems Development](#).

²² USAID/PPL (forthcoming 2017), "Adaptive Management and CLA Approaches to Support the Facilitation of Market Systems Development Projects: Case Study on USAID's Agricultural Value Chain Activity in Bangladesh."