




# A SUMMARY OF EVIDENCE: WORLD VISION'S LOCAL VALUE CHAIN DEVELOPMENT PROJECT MODEL

A SUMMARY OF EVIDENCE FOR THE LVCD PROJECT MODEL, COLLATED FROM WORLD VISION EVALUATIONS AND ACADEMIC LITERATURE




## WHY USE A VALUE CHAIN DEVELOPMENT APPROACH?

Most producers who are poor are not linked to markets for a variety of reasons: remoteness, low production, poor quality, and lack of information. Together, these factors mean that producers often suffer low incomes, high risk and poverty. "Small-scale producers have limited access to inputs, technical advice, insurance, credit and other financial services, and to output markets. Improving their access is a major challenge for smallholder agricultural development" (Wiggins, 2013, p. viii).




World Vision's (WV) Local Value Chain Development (LVCD) project model aims to address these challenges by helping producers to work together in groups to better understand and connect to markets, increasing their profitability and income. The LVCD model draws on approaches used by many, diverse organisations<sup>1</sup> who have implemented some or all of these components in their value chain projects. Key components of LVCD are:

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1. **Participatory Market Analysis:** World Vision works with the community to scope the local economy and identify high-potential products through participatory value chain and market system analysis.
  2. **Producers work collectively:** World Vision mobilises and strengthens producer groups to work collectively to purchase inputs, and to process and market their products.
  3. **Producers are empowered with market knowledge and skills:** World Vision links producer groups to technical and business training and coaching to ensure they have the required knowledge, skills and behaviours to respond to market requirements.
  4. **Producers are linked to market actors and service providers:** World Vision supports producer groups to access savings and finance, extension and business services and new and existing markets by linking them to market actors and service providers, ensuring long-term self-sufficiency.



This paper will look at each of the four components described above and provide evidence for why each approach is used.



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<sup>1</sup> CARE, Catholic Relief Services, SNV Netherlands Development Organisation, Overseas Development Institute, United States Agency for International Development, Swedish International Development Cooperation Agency, World Bank, the Donor Committee for Enterprise Development and United Nations Agencies

## WHAT IS THE EVIDENCE FOR PARTICIPATORY MARKET ANALYSIS?

World Vision's LVCD project model introduces producers to potential opportunities in local markets (be that local village, district or provincial) through the facilitated process of participatory value chain and market systems research and analysis. Involving producers and other actors such as local traders, processors, government in researching and analysing the value chains of products that they grow, trade or regulate, allows them to 'explore' market opportunities by visiting markets to interview and collect data from the market actors, and mapping and analysing the market systems.

A study of a value chain project in the Philippines found that helping farmers, intermediaries and processors understand the entire supply chain, rather than focusing on only their part of the chain, helped to align their perceptions of quality, which influenced the way benefits (and risks) were shared among players (Boquiren and Idrovo, 2008). Evaluations of LVCD projects have revealed that participating in market system analysis gave the producers insight into buyers' requirements for product quality, quantity and delivery timeframes (Mulenga, 2012): *In relation to market intelligence, farmers now know what buyers are looking for and they can ensure their product meets the buyers' preferences* – World Vision LVCD project staff, Flotim, Indonesia.

Participatory market analysis also has benefits for buyers, as when producers are more knowledgeable about the market, the risk of group leaders engaging in fraudulent behaviour, such as defaulting on contracts or side-selling, is considerably lower (Bloom et al., 2008). Mulenga (2012) found that producers were more knowledgeable about how to price their products and what influences pricing:

*One positive thing that I learned from this program is that farmers have market information and know about the price. Previously farmers would display their products in front of their house, the buyers would come and they would set the price. But today the farmers know the price from the Local Market Facilitator<sup>2</sup> and community awareness is much better about the market* - Producer working as a Local Market Facilitator in an LVCD project in, Flotim, Indonesia

Producers who participated in the market system analysis have found that their network of buyers is increased and their relationship with the buyers also improves:

*It's about the insight that we didn't have, we would just go around in the vehicle looking for the buyers but now we actually know the buyers and we can contact them before we go to them; and we have a better way to communicate with them [buyer], that's why we get a better price because there is a better relationship and we know where we will get the highest prices* - Producer group member participating in an LVCD project in Flotim, Indonesia.

*My involvement in LVCD has ... broadened my way of thinking ... I have come to know many buyers in my course of work and have a good relationship with them* – Producer working as Local Market Facilitator in an LVCD project in Flotim, Indonesia.

By participating in the value chain analysis, producers had more confidence in themselves to be able to speak in front of others and be leaders. A Social Return On Investment (SROI) analysis of LVCD in

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<sup>2</sup> A 'Local Market Facilitator' is a farmer group member who works (paid or unpaid) on behalf of other farmers to represent the group(s) and to negotiate bulk sales of product with buyers.

Indonesia showed that of the total value created by the project, 20% was experienced by producers as increased knowledge and skills in project management. Further, an increased sense of empowerment amongst producers accounted for 33% of the total value created by the LVCD project (Mulenga, 2014). Participating in value chain analysis contributes to these outcomes.

*Now, I can facilitate a meeting and teach. I went to Surabaya [city in Indonesia] and got to know about the value chain in Makkassar. Because of LVCD, I was also invited to Jakarta and met the Minister of Social Welfare. I can facilitate meetings even outside of NTT province. This has been with the support of [the Market Facilitator] ... I was invited to facilitate in Sulawesi, Tona for 5 days – Producer working as Local Market Facilitator participating in an LVCD project in Flotim, Indonesia.*

## WHAT IS THE EVIDENCE FOR PRODUCERS WORKING COLLECTIVELY?

With the LVCD project model, World Vision facilitates the formation of producer groups (or strengthens existing groups) for collective action. Many producers are blocked from entrance into the market or from participation in a larger market system by their inability to provide a product in the quantity needed to cover transport or other transactions costs. Mitchell, Keane, and Coles (2009) identify horizontal coordination, principally the formation of producer groups, as a common prerequisite for other forms of value chain upgrading. For farmers, there are high costs of dealing with processors and traders, which means that small-scale farmers usually need to be grouped for them to be profitable.

*Selling in a group is actually better than individually, because the highest price they could previously get for cocoa when they sold individually was only Rp. 10,000 [US\$1], but after they joined together one time we sold for Rp. 25,000 [US\$2.5] at Comextra [buyer]. The lowest is Rp. 19,000 [US\$1.9] at Comextra; if you have a good price the farmer is very happy. Previously before this project [LVCD] the highest was Rp. 10,000 [US\$1] and the lowest was Rp. 8,000 [US\$0.8] – Headman from village that participated in LVCD, Sikka, Indonesia.*

Evidence from case studies on using value chain approaches to reach the poor show that strengthening market linkages and improved horizontal linkages (farmer-to-farmer through groups) leads to increased social capital and economies of scale (Creevey, Dunn and Farmer, 2011). By working in groups to sell their product, thus meeting buyer demands for larger quantities, producers are often able to attract new buyers. This is evidenced by an independent evaluation of an LVCD project working with the mango value chain in Homosha-Asossa, Ethiopia where prices and producers' profit from their fruit sales improved. Improved prices were attributed to increased competition for fruit between private traders and the main large-scale buyer, Tewhid fruit and vegetable union, with whom producers had informal contracts (Development Studies Associate PLC, 2013).

Working together in producer groups also enables small producers to negotiate better prices with input providers. Bbalo (2014) argues that producers in a WV LVCD project in Nzega, Tanzania experienced a drop in transport costs through collective selling between the beginning of the project in 2012 and 2014.

For processors, traders and input suppliers (other actors in the supply chain), the "high costs of transacting with atomised producers" can be dissuasive, making it unviable to work with un-grouped smallholders farmers. Evaluations of an LVCD project show that the input suppliers and buyers also benefit from the collective action of the producers (Mulenga, 2012).

*I am so thankful because last year my business was very successful to the extent that I did not expect it. Before this [LVCD] project intervention I used to sell 1.5 to 2 tons only per season [per year]. For last year I managed to sell 7 to 9 tons of farm input to small holder farmers. That was an achievement for me - Input supplier, Flotim, Indonesia.*

*At least this product is already collected and brought to one place so we don't get tired of going around to collect from each household. My income is also better. My profit has increased by about 40% as a result of buying from collective selling – Buyer of various products (cashews, coconut, cocoa, tamarind and coffee), Flotim, Indonesia.*

Working in groups tends to increase the connections and sense of unity and trust within the communities in which producers live which is, in some projects, demonstrated by producers working together on other initiatives such as savings groups (Development Studies Associate PLC, 2013).

*At present we have CPGs [Commercial Producer Groups]. We sell our produce in wholesale and not to individual customers. We are certain of reaping substantial benefits. We also formed Saving Groups which enabled us to access credit facilities to buy seed and other agricultural materials... for our farms and pay the loans later – Producer participating in an LVCD project in Nzega, Tanzania*

*I think using this approach [working together] is good ... we are more united, confident and hence, makes the cooperative stronger. We used to sell products individually. But now with the cooperative, we can all sell them together - Woman in a producer group participating in an LVCD project, Flotim, Indonesia.*

## WHAT IS THE EVIDENCE FOR EMPOWERING PRODUCERS WITH KNOWLEDGE AND SKILLS?

It is worth acknowledging, that, while essential, cooperation and collective action is not cost-free for producers. According to Wiggins and Keats (p36, 2013) “the ability of farmers — at least initially — to organise and manage collective efforts are usually limited”. Skills development is essential for producers to work collectively and for them to be “market ready”. According to research and analysis by Catholic Relief Service and RII-CIAT (Rural Innovations Institute within the Centro Internacional de Agricultura Tropical), these skills fall into five categories: group management, financial skills, marketing, experimentation and innovation, and sustainable production and natural resources management (Aldana et al. 2007).

To address the need for cooperation and collective action by farmers, World Vision provides training and coaching to support group formation and management, allowing the producers to choose an organisational structure (membership, size, leadership) that works for them so as to promote ownership. Mitchell and Coles (2009) suggest that the least successful types of organization are those that were imposed from outside and based upon donor-driven criteria. LVCD producer groups are self-selecting, formed usually around the geographical location of the producers.

In order to address problems associated with production such as low productivity, poor quality and inappropriate variety selection, World Vision, through the LVCD project model, facilitates access to training and coaching for farmers, usually through connections with local training providers. In an independent evaluation of a WV livelihood improvement project in Timor Leste, the evaluator, Watkins (2014) stated that, farmers learnt new skills, which increased their productivity and vegetable sales, and consequently, their incomes also increased.

Campbell, (2013) points out that “literature indicates that small, low-risk investments to increase quality and yields are the most effective path for generating behaviours that promote value chain competitiveness among the poor”. World Vision encourages low-risk and gradual change for producers, introducing incremental improvements in agricultural production and processing, usually focussing on local products that producers have existing experience in and require little additional investment.

*The LVCD has educated us on how to preserve the harvest well and add value to our products. For example, we learn the process of storing food. So the produce will still be in good state until it's sold to customers* – Getruda Shabaan, Producer participating in an LVCD project in Nzega, Tanzania.

The LVCD model addresses issues of sustainability by ensuring that producers have the skills required to access market information and negotiate with buyers in the long term.

*For me I am more informed. I have become a source of information in the community. I am more appreciated by the community* – Farmer working as a Local Market Facilitator in an LVCD project in Flotim, Indonesia.

## WHAT IS THE EVIDENCE FOR LINKING PRODUCERS TO MARKET ACTORS AND SERVICE PROVIDERS?

World Vision has chosen to facilitate the strengthening of linkages between market actors, with a focus on helping producers who are poor, rather than ones better-off: *WV also linked us to salesmen of rice, groundnuts, peanut, green gram, chicken peas and many other types of produce so we know well the exact market prices* –Producer participating in an LVCD Project in Nzega, Tanzania.

Case studies on using value chain approaches to reach the poor undertaken by Creevey, Dunn and Farmer (2011), show that new or transformed vertical linkages (farmer to other value chain actors) led to more effective flows of products and services, information and benefits. According to Humphrey and Navas-Alemán (2010) who reviewed 30 value chain projects, market linkage approaches like LVCD, in contrast to lead firm approaches, were found to be able to establish or strengthen value chain linkages with specific target groups such as the socially excluded, the geographically remote, or those working in value chains that included large numbers of the poor. World Vision’s experience in Nzega, Tanzania suggests that facilitating links can lead to a substantial reduction in the number of households that are not accessing markets: in this case, from 70% of households in 2012 to only 14% of households in 2014 (Bbalo, 2014)

An evaluation of WV’s LVCD project in Flotim, Indonesia found that through links facilitated by WV, producers had more buyers to interact with and that the relationships between producers and the buyers had improved (Mulenga, 2012):

*My involvement in LVCD has ... broadened my way of thinking ... I have come to know many buyers in my course of work and have a good relationship with them. This is good for my business* – Farmer working as a Local Market Facilitator in an LVCD project in Flotim, Indonesia.

## WHAT IS THE EVIDENCE THAT VALUE CHAIN APPROACHES RAISE INCOMES AND IMPROVE CHILD WELL-BEING?

Impact evaluations of value chain projects conducted between 2008 and 2011 by USAID show significant results in terms of increased yields, incomes and employment, which suggest value chain approaches

result in reductions in poverty; however, there are few studies that quantify the impacts on poverty (Kidoido and Child, 2014).

## WHAT WORLD VISION HAS FOUND

WV has conducted end of project evaluations of three LVCD projects and mid-term reviews of another three LVCD projects since the inception of the LVCD project model in 2009. Data collected strongly suggests that the LVCD project model leads to increased incomes and improved child well-being.

A Social Return on Investment analysis undertaken by World Vision on a LVCD project in Flotim, Indonesia found that, for every US\$1 invested in the project, there was US\$4.41 return of value for key stakeholder-producers, local market facilitators, buyers and the programme team (Mulenga, 2014). Mulenga (2014) points out that 70 percent of this return was experienced by the producer families as improvement in their social and economic status, which included improvements in their housing, health, and education status, as well as an increased sense of empowerment

## INCREASED INCOMES

World Vision evaluations show that there has been increase in the price of products, when producers have improved the quality of their products and worked collectively, suggesting that the overall income of producers has increased.

For every kilogram of cocoa that producers participating in the Sikka LVCD project in Indonesia sold in 2011 and 2012, they made a profit of US\$0.50 and US\$1.89 respectively; and for every kilogram of copra<sup>3</sup> that they sold, producers made a profit of US\$3.81 in 2010 and US\$6.41 in 2011 (Mulenga, 2012). In the Flotim LVCD project, producers made a profit on all the products they sold by the use of LVCD strategies; and their profit between 2010 and 2011 on cocoa and copra increased by 120% and 80% respectively (Mulenga, 2012).

In Homosha-Asossa, Ethiopia, the average price of mango fruit increased from birr<sup>4</sup> 5.70/kg in 2011 to birr 6.60/kg in 2013 as a result of employing the LVCD strategies, which resulted in a household in the area receiving birr 6642.21 on average in 2011 and 7039.59 on average in 2013 to its overall income (Development Studies Associate PLC., 2013).

## HEALTH AND NUTRITION

Mulenga (2012) states that 71 percent of producers in Flotim LVCD project area had 'food for the whole family' as the highest priority area of expenditure for the extra profits earned as a result of the LVCD.

*Before LVCD the menu of food was just vegetables and rice. With LVCD, especially on Friday, we can buy fish and vegetables from the market. And we can have chicken. For me now every day we can have fish, but it also depends on the availability of the fish – Woman whose family participated in the LVCD project, Flotim, Indonesia*

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<sup>3</sup> Copra is processed coconut

<sup>4</sup> Birr is the Ethiopian currency

Children and women whose families participated in the LVCD project in Homosha - Asossa region, Ethiopia, stated that the increase in income from mango sales was used to buy more food to improve the nutritional status of children, and that the income from mango sales was really important, especially to cover the food gap (Development Studies Associate PLC., 2013).

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## EDUCATION

Spending their profits on children, with a particular focus on meeting their educational needs was a high (second) priority for forty-two percent of respondents in the WV Evaluation of the Flotim LVCD Project (Mulenga 2012).

*The community also realises how effective it is to have savings so they don't spend this extra income on parties, which is good. Over the last 3 or 4 years only 1 person in the village was able to go to college, but now there are at least 10 people that go to college – Headman in Flotim, Indonesia*

*But I am happy that people in Tilang now compete to send their children to school because there are savings and loans – Girl in Sikka, Indonesia*

The same is true of the LVCD project in Homosha - Asossa region of Ethiopia where parents and caregivers ranked children's education as the second highest priority area of expenditure, stating that the income from the mango sales benefited children by covering their education expenses (Development Studies Associate PLC., 2013).

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## HOUSING

Mulenga (2012) argues that improved housing is another benefit that arises from implementing and participating in the LVCD project.

*My house was so simple before LVCD. It was with Bamboo wall and windows with no floor and palm leaves for the roof. But now it is made of permanent materials. There are glass windows and a zinc roof and a cemented floor. We didn't have the foundation of our house before LVCD, but we now have - Child whose parents who participated in LVCD producer group, Flotim, Indonesia.*

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## SAVING AND DEBT SERVICING

Some farmers participating in the LVCD project in Flotim, Indonesia were able to save and used some of the extra income they generated to pay back debt accumulated through the Ijon system, a traditional debt system in which the farmer committed their products (at a lender-determined price, before harvest time) to a lender so that they could access goods and services like soap, sugar and rice for their daily upkeep (Mulenga 2012).

*Some people are saving ... those who are members of the collective marketing group. Those who are saving have an improved ability to buy things or pay their expenses. I have a small shop so I can see that the community have more money and they are no longer reliant on the Ijon system. I can see that people are saving more money –Producer working as a Local Market Facilitator in an LVCD project, Flotim, Indonesia*

*Well, the Ijon system started from the inability of the farmers to meet their daily needs, there was no producers' group, so they depended on the Ijon system. With the collective marketing system [LVCD] in place we have had success in reducing the dependence on the Ijon system, although in the first 2 years it was very difficult, but now it's going very well and only about 3 households, out of 123 households [in my village], still have a dependency on the Ijon system - Village headman from a village that participated in an LVCD project, Flotim, Indonesia*



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