



## Livelihoods sector

### Value Chain Interventions – Guidance note

#### Objective

Having a harmonized definition and understanding of value chains and related interventions was highlighted as a priority by the Livelihoods sector partners during the sector's reflection sessions in November 2021. This guidance note aims to not only define value chains but also to provide guidance on possible interventions and necessary steps to identify them.

This guidance note was developed by a task force formed by members of the Livelihoods sector Core Group.<sup>1</sup>

#### Value Chains in Lebanon

The Ministry of Economy and Trade and the Ministry of Industry identified priority value chains that hold high potential for growth and for creation of employment opportunities. These are<sup>2</sup>:

- Agriculture and agro-food: agritech, aquaculture, post-harvest infrastructure, wine production, olive oil, dried food and nuts, chocolate and other sweet products and dairy products, freekeh, honey...
- Manufacturing and construction: mechanical/electrical machinery glass production...
- Pharmaceutical and medical equipment: pharmaceutical industry, natural cosmetics, chemical industry...
- Renewable and green energy: solar energy, wind energy, solar panels, solar batteries...
- Creative and cultural industries: printing industry...
- Textile and furniture: furniture and wood industry...

In addition, the following sectors were identified by ILO: ICT sector (software companies, digital/start-up economy, business process services, telecom solutions, data centers and ICT manufacturing), Media (animated videos for learning purposes, marketing, and advertising channels), Tourism (linked with media, arts and entertainment, marketing of products, education sector), Animal production and veterinary services (animal shelters, animal food processing and animal breeding).

#### What is Value Chain

Development practitioners seeking to design most impactful market-based economic development interventions usually refer to value chains as “the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production and delivery to final consumers, and final disposal after use.”<sup>3</sup> Activities constituting a value chain are often divided among several businesses, though they may sometimes be contained within a single, large business.

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<sup>1</sup> Led by Lebanon Reforestation Initiative (LRI) and supported by Fair Trade Lebanon (FTL), OXFAM and UN Women

<sup>2</sup> The sub-sectors, where available, have been identified by ILO “Synthesis of the crisis impact on the Lebanese labour market and potential business, employment and training opportunities” [https://www.ilo.org/beirut/publications/WCMS\\_848390/lang--en/index.htm](https://www.ilo.org/beirut/publications/WCMS_848390/lang--en/index.htm)

<sup>3</sup> Spreading the gains from globalization: what can be learnt from value-chain analysis, Problems of economic transition, Vol. 47 (Kaplinsky 2004)

## Purpose of Value Chain Interventions

Value chain interventions aim at one or more of the following objectives<sup>4</sup>:

- Greater value chain integration: increasing the performance of the value chain by facilitating more effective work between the different market actors (vertical and/or horizontal integration).
- Greater market access: developing linkages to new markets (local, national and/or international)
- Better performing supporting functions: improving the role of market actors outside the value chain. These are the players whose underperformance, mismatched performance or absenteeism would affect the value chain development (such as market research services, roads and infrastructure services...)
- Improved rules of the game: Improving rules and their application to enhance the performance of value chains as well as incentivize integration and innovation. This includes simplifying relevant regulations and procedures to reduce obstacles to growth.

On a more micro-level, value chain interventions also aim to:

- Increasing income (at different levels depending on the type of the target group)
- Increase of economic activity: business volume and turnover, business gross profit, or business net profit
- Improved resilience of economic activity: business volume and turnover
- Job creation: at the level of individual businesses, at the level of sector including increased employment of women, persons with disabilities and youth.
- Improvement of decent working conditions
- Increase in number of businesses owned/led by women and businesses owned/led by persons with disabilities.
- Promoting and protecting startups, etc.

## Entry points for Value Chain interventions

Value chain functions can be divided into primary and secondary activities which can be targeted by the partners interventions/support to achieve the value chain development objective:

### Primary activities

These are activities that contribute to the product or service's physical creation. They include:

Activity	Possible intervention/support
Inbound operations: internal handling of resources coming from outside (inputs) -- such as external vendors and other supply chain sources.	Linking the businesses to external vendors where they can find the needed raw material at the best price and best quality. (Greater value chain integration-vertical and/or horizontal)
Operations: activities and processes that transforms "inputs" into "outputs" - the product or service being sold by the business	Decreasing operational cost, provision of renewable energy solutions, enhancing production processes, updating production lines/equipment, digitalization...

<sup>4</sup> [https://www.ilo.org/wcmsp5/groups/public/--ed\\_emp/--emp\\_ent/--ifp\\_seed/documents/instructionalmaterial/wcms\\_434363.pdf](https://www.ilo.org/wcmsp5/groups/public/--ed_emp/--emp_ent/--ifp_seed/documents/instructionalmaterial/wcms_434363.pdf)

Outbound logistics: The delivery of outputs to customers. Processes involve systems for storage, collection, and distribution to customers.	Local /community/business level storage services (for example cold storage rooms for fruits), automated delivery systems...
Marketing and sales: Activities which seek to increase visibility, reach a marketing audience, and communicate why a consumer should purchase a product or service.	Advertising and brand-building, packaging, marketing, e-commerce
Service: customer service and product support, which reinforce a long-term relationship with the customers who have purchased a product or service.	Introducing after-sale services, training and building staff capacities...

## Secondary activities

These are activities that support the various primary activities:

Activity	Possible intervention/support
Procurement and purchasing which supports the inbound operations primary activity	Linking the businesses to external vendors where they can find the needed raw material at the best price and best quality. (Greater value chain integration-vertical and/or horizontal)
Human resources management	Training and building the capacities of the human capital
Technology development	Research and development support, IT, digitalization...
Company infrastructure	Support with material and equipment, legal support (to formalize the business), capacity building in business and financial management, public relations, quality assurance...

## Value Chain Selection criteria

Selection should be prioritized based on several criteria that shortlists the products and services and determines what has a higher economic impact; these are:

### Potential of Competitiveness

Competitiveness is defined as the ability to deliver better value to customers than competitors in terms of quality of products and services and price through efficiency, product distinction and access to new markets.

The Lebanese economy relies on service provision and mostly relies on importing foreign products since the industrial sector is not as developed. However, there are some local products that have the potential of competitiveness and have the potential to increase income and create employment opportunities especially in the current economic crisis that impacted the access to imported products.

## Potential of Impact

Selection of a target value chain should be based on the desired impact on SME's and on vulnerable groups. Under the sector, the sought impact is sustainability and increased revenues of businesses and creation of employment opportunities. All of which will lead to local economic growth reducing poverty.

## Target group

It is important to specify if the intervention targets individuals, groups of individuals, formal businesses, informal businesses, clusters of in/formal businesses, social enterprises, cooperatives, etc. or a combination of all.

Additional selection considerations: After defining the target group/s and objectives, it is necessary to decide on sector/s that have the biggest potential for realization of the objectives. It is recommended to align with the government development strategy plans (if available and relevant), review what are the priority sectors for international and national development banks and agencies, review recent available market analyses and research documents, understand the capital investment flow, and obtain a good picture of other actors' priorities and investments. This will allow for informed selection and potentially creation of leverage.

## Value Chain analysis process

After determining target groups, defining the objectives, and selecting the sector/s, it is time to carry out value chain analyses which is key to the success of the intervention. There are several approaches and models available and used and all of them aim to capture actors, activities, relations, processes, formal and informal environments in which a value chain is taking place. The following are two examples of such tools:

Porter Five Forces Analyses<sup>5</sup>: A Five Forces analysis assesses the profitability of a value chain: threat of substitutes, threat of new entrants, bargaining power of buyers, bargaining power of suppliers, and rivalry among existing competitors.

Participatory Market System Development Roadmap (PMSD)<sup>6</sup> – developed by Practical Action and includes all the elements that most value chain analyses use. It relies on the principles of systems thinking, facilitation, participation, and gender

## Value Chain and Climate Resilience

Over the last decade, the obvious detrimental impact of climate change has created momentum for change. In development work inclusion, understanding, mitigation and adaptation of climate change impact is not matter of choice but a matter of necessity. Bearing in mind diversity of areas and sectors, this paper will not provide recommendations for frameworks to be used as they need to be relevant for specific environments and circumstances of the project. However, it strongly recommends addressing climate change impact in every step of the project cycle<sup>7</sup>.

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<sup>5</sup> <https://www.marketlinks.org/good-practice-center/value-chain-wiki/porters-five-forces>

<sup>6</sup> <https://practicalaction.org/pmsd-toolkit/>

<sup>7</sup> Recommended reading: Value Chain Climate Resilience - a guide to managing climate impacts in companies and communities (Oxfam America) - <https://s3.amazonaws.com/oxfam-us/static/oa4/valuechainclimateresilience.pdf>

## Value chain and gender

As in any development project, attention must be given to the possible implications of the planned intervention on women and men and how the intervention will address constraints specific to women or men's empowerment, whenever one of these is more particularly vulnerable. Regardless of whether women are explicitly specified as the target group, the gender dimension should be considered in all cases. If one of the project objectives is to benefit a specific number of women, then selecting a sector that contains a high presence of women is essential.