

# Governing Value Chains for Inclusive and Sustainable Development

**Value chains** – a set of activities that conceptualise, produce and bring a product to consumers – have been an integral part of the global economic system for over 20 years. Despite their active participation in international trade and rise in foreign direct investments, low- and middle-income countries (LMICs) have achieved limited social or economic benefits. While powerful chain actors such as multi-national corporations have benefited from actively expanding global value chains, weaker chain actors – often poor households, firms and farms in LMICs – have been left behind and further marginalised. This has increased inequality across the world in terms of employment opportunities, wages, labour rights and gender equality. In the complex, interconnected world we live in today, what mechanisms determine the losers and winners along global as well as regional and local value chains? What incentives are needed to develop value chains that contribute to equal and prosperous societies?

## What do we know?

There are [five types of value chains](#) with distinct governance and upgrading characteristics: market, modular, relational, captive and hierarchy. Many traditional markets in LMICs are associated with market governance where delivering a particular product – for example grains – does not require special skillsets and costly technology. On the other hand, when a product requires sophisticated production technology, specialised knowledge among producers and infrastructure to communicate product characteristics, for example when producing organic rice or maize, powerful actors demand coordination, resulting in captive or hierarchy governance types.

Participation in value chains by marginalised people can, in theory, contribute to improving their livelihoods. However, there are [losers and winners](#) from international trade and outcomes crucially depend on how, rather than whether, individuals and firms participate in global value chains. Multi-national companies that dominate much of international trade face fierce competition in high-income countries (HICs) where high-quality goods must be supplied while reducing production costs. Often, this pressure is passed onto producers

and suppliers in LMICs. Producing sophisticated products that meet quality standards in HICs requires close monitoring of quality and production. With [increasing costs](#) for small- and medium-scale enterprises in LMICs, the situation leads producers in LMICs to be tightly controlled by multi-national companies and they have [limited possibilities to move into more profitable segments](#) of the value chains.

While global value chains are a dominant force in many sectors of developing countries, other arrangements including *short* value chains, [south-south trade](#) or value chains supported by [public-private partnerships](#) may offer or be supported to deliver more development benefits. Combining the [analytical features of value chain and innovation system approaches](#) enhances understanding of the introduction and diffusion of innovations to benefit marginalised communities such as smallholders. For a value chain to achieve economic and social upgrading, coordination of actions and negotiation between participants of the value chains, national and international governments and civil societies are critical.

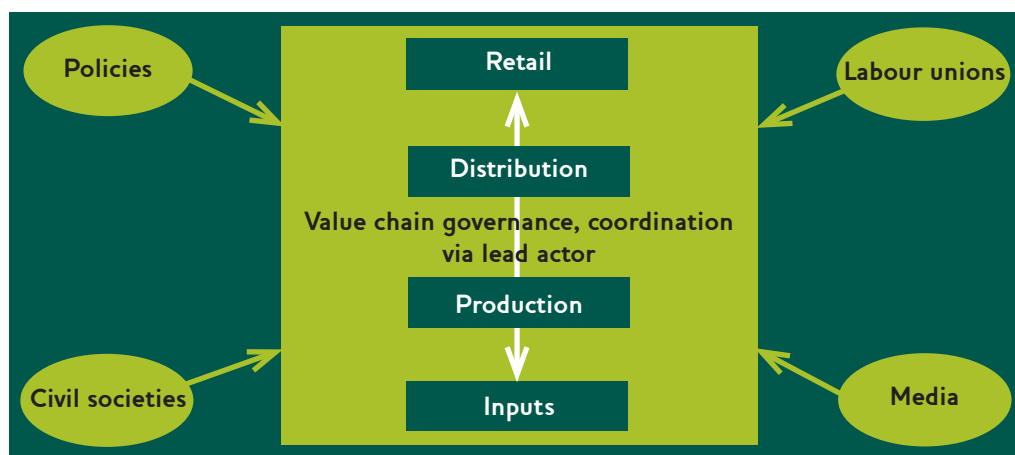


Figure 1. Value chains and factors that influence their behaviours

Source: Authors' own

Within global value chains, [standards are set by international lead firms](#) and other actors have little influence on their decisions. However, [national government policies influence](#) how local firms achieve economic upgrading and civil society organisations and consumers influence how these policies are implemented through putting pressures on value chain actors (see Figure 1). A market system perspective builds from value chain analysis, but emphasises [that wider market conditions and constraints prevent poor people from benefiting](#) from value chain involvement. These findings highlight the importance of not only focusing on business but also mobilising governments and civil societies to build inclusive and equal economies.

## How we work with others toward sustainable development

For over 15 years, the value chain concepts and frameworks developed by IDS and our partners have been used [by donors and governments](#) to target poor people and support them to participate more effectively in markets. Practical tools include [the widely used Handbook for Value Chain Research](#), guiding practitioners and civil society

organisations to identify who might be at risk of exploitation and how these challenges can be overcome. Moreover, our collaboration with the [BEAM Exchange](#), supported practitioners and academics to [bring together insights from market systems](#) and feminist political economy with implications for [changes in markets and unpaid care work](#).

There is still much work to be done to understand how value chain development can contribute to the wellbeing of people who do not play a direct role along value chains. In recent years, our work has expanded to understand the implications of value chain development on [public health, nutrition](#) and the environment. We investigated how working together with both public and private actors can enhance [nutrition among vulnerable consumers](#). Also, our [value chain analysis assessed energy as an enabler for women's access to paid work](#). [Through working with biologists and veterinary scientists](#), our value chain research aims to generate knowledge and evidence to help governments and civil societies identify and co-create ways to build equal and inclusive societies.



The Business, Markets and the State cluster investigates how businesses enable or constrain pathways that deliver development and curb inequalities, and how the relationships between business and the state influence these processes. Our interdisciplinary research builds on IDS' well-established track record working on value chains and market systems, complemented by political economy and participatory perspectives.

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## Further reading

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## Credits

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