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# Value Chain Development for Decent Work

## A guide for development practitioners, government and private sector initiatives

Matthias L. Herr
Tapera J. Muzira
International Labour Office

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# Foreword

This is a very comprehensive guide for value chain practitioners. With its focus on decent work, it is distinct from other existing manuals. It is well written and easy to understand, provides numerous practical examples and a number of very illustrative charts.

**Tilman Altenburg,**
**German Development Institute**
**(Peer reviewer)**

This guide has been prepared in the context of the Paris Declaration for AID Effectiveness, which calls for efforts to harmonize aid and increase its effectiveness as well as to achieve development goals on the basis of on national priorities, systems, structures and procedures. Further to this, joint assistance frameworks are strengthening national ownership and government leadership of the development process with cooperating partners aligned in accordance with national priority sectors for broad based job creation and economic growth.

The guide is mindful of the vision and strategy adopted by member states in the 2008 ILO Declaration on Social Justice for a Fair Globalization, reflecting the wide consensus on the need for a strong social dimension to globalization in order to "achieve an improved and fair outcome for all".

It has been prepared at a time of profound global economic turbulence where governments, employers and workers are particularly concerned about the effects of the crisis on people, on enterprises and employment, on social cohesion and on stability. Promoting employment, social protection, and fundamental principles and rights at work as well as social dialogue through the ILO's Decent Work Agenda constitutes an effective policy package in response to the current economic crisis.

The "Value Chain Development for Decent Work" guide has been prepared for use in facilitating and promoting growth in priority sectors already agreed in Decent Work Country Programmes that are based on national priorities owned and led by the constituents (Government and its social partners Employers/Business and Workers). Decent Work Country Programmes are part of national development frameworks focusing on national priorities; they are not ILO programmes. The Guide can thus be tailored to specific situations and used by both public and private sector entrepreneurs to facilitate and promote broad based growth in selected sectors. While there may be some good arguments for understanding trade-offs between profitability and social inclusion, this guide highlights the fact that in view of rapid contemporary technological advancements strategic human resources

management is the only true source of sustainable competitive advantage today. It is unique and based on the principle that a workforce that is objectively motivated by better working conditions or Decent Work is simply good business and pivotal to sustaining competitiveness and productivity in any given sector as well as bringing other benefits such as pro-poor or inclusive socio-economic development.

The guide provides a systemic perspective, addressing not only value chain issues in the narrow sense but also important framework conditions, such as the relevance of the duration and cost of customs clearance, tariffs etc. Likewise, it addresses all relevant aspects that donors and other value chain facilitators need to take into account, including the need for institutional reform and its underlying incentive systems; issues of sustainability; the need to upscale project experiences; gender issues; etc. The chapters addressing these issues show that the authors have an excellent overview of good practices in private sector development.
It is worth noting that the focus on markets, e.g. for the provision of business development services, reflects the state of the art in PSD; for example, the authors show the relevance of different sources of service provision (other than public agencies) including private consultants, business associations, NGOs, and embedded services. The guide rightly highlights the need to address *underlying causes* (failure in the performance of market systems) rather than *symptoms* in individual chains. Likewise, the notion of grids of intersecting value chains is closer to reality than common "linear" chain concepts.

The guide also focuses on action research, whereby value chain mapping and research can already contribute to mobilizing stakeholders and seeking solutions on a participatory basis. It provides many helpful details of how to organize stakeholder processes in practice, how to set up a monitoring system, and so forth.

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The authors are especially grateful to Nikolai Rogovsky and David Lamotte for their assistance and guidance, thier valuable feedback and comments on drafts, and their help in coordinating and bringing together relevant resource persons. A word of thanks also goes to Dr. Tilman Altenburg and Merten Sievers, whose reviews and comments have been much appreciated, as well as Julius Mutio for his support in bringing the guide to publication. And then there are of course all the others who have contributed in the background, provided useful information and, through this support, made this guide possible.

This guide on Value Chain Development for Decent Work was written by Matthias Herr and Tapera Muzira, consultants and specialists in value chain development and business development services. It has been published with the financial support of the Swedish International Development Cooperation Agency (Sida).

The views in this guide express the personal opinions of the authors, which are not necessarily those of the ILO, and all references used are accurately reported.

# Prologue: It's the stupid cows!

**Example: the Columbian leather industry value chain**

The following story[1] is told by a monitoring company that worked for the government and private sector leaders in Colombia to study and provide recommendations on how the leather producers of that Andean nation could become more prosperous by exporting to the United States, and how the leather industry could thus create employment and income opportunities for many people in both urban and rural areas of the country:

**Retailers and consumers: quality bad, price too high!**

We began in New York City to find the buyers of leather handbags from around the world, and we interviewed the representatives of 2,000 retail establishments across the United States. The data were complex but boiled down to one clear message: the prices of Colombian handbags were too high and the quality was too low.

**Manufacturers: "No es nuestra culpa!"**

We returned to Colombia to ask the manufacturers what lowered their quality and forced them to charge high prices. They told us, "*No es nuestra culpa.*" It is not our fault. They said it was the fault of the local tanneries that supplied them with the hides. The tanneries enjoyed a 15-percent protective tariff levied by the Colombian government, which made the price of competing hides from Argentina too expensive.

**Tanneries: it's the mataderos!**

We travelled to the rural areas to find the tannery owners. The tanneries pollute the nearby ground and water with harsh chemicals. The owners were happy to answer our questions. "It's not our fault," they explained, "It's the fault of the mataderos, the slaughterhouses. They provide low-quality hide to the tanneries because they can sell the meat from the cow for more money with less effort. They don't care about damaging the hides."

**Slaughterhouses: the ranchers don't care!**

We went to the camp and found slaughterhouses with cowhands, butchers, and managers wielding stopwatches. We asked them the same questions and they explained that it was not their fault; it was the ranchers' fault. "You see," they said, "the ranchers overbrand their cows to keep the guerrillas? some of whom protect the drug lords from stealing them." The numerous brands destroy the hides.

**Ranches: it's the stupid cows!**

We finally got to the ranches, far away from the regional capital. We had come to the end of our search because there was no one left to interview. The ranchers spoke rapidly in a local accent. They told us that the problems were not their fault. "*No es nuestra culpa*," they said. "*Es la culpa de la vaca.*" It's the cows' fault. The cows are stupid, they explained. They rub their hides against the barbed wire to scratch themselves and fend off the flies that bite them.

**Are stupid cows the reason why Colombia cannot access the US market?**

We had come a long way, banging our laptop computers over washboard-surfaced roads and getting our shoes destroyed with the chemicals in the tanneries and the mud. We had learned that Colombian handbag makers cannot compete for the attractive US market because their cows are dumb.

[1] Quoted from: Michael Fairbanks and Stacey Lindsay (1997): Plowing the Sea: Nurturing the Hidden Sources of Growth in the Developing World, Boston, Harvard Business School Press.

**The need to understand underlying systemic constraints**

The example above provides us with a very useful lesson: in order to understand why the Columbian leather industry is not competitive and does not realize its full potential in terms of job and income creation, we need to look beyond the mere chain of business transactions. Business stakeholders in the value chain will point fingers at each other all too easily: it's always someone else's fault! This has been the experience of many value chain initiatives, and it often leads to deadlock ('If the problem isn't my fault, why should I do anything about it?').

Value chain research and analysis thus needs to go beyond mere finger-pointing and understanding of core transactions within the chain: it needs to identify the underlying systemic causes of bottlenecks in the chain; it needs to understand the nature of relationships between businesses in the chain and other relevant market players; it needs to understand the role of specific market functions and (formal and informal) rules that govern the value chain; and it needs to identify incentives and capacities of market players.

**So what should the team have asked instead?**

Of course stupid cows are not the reason why the Columbian leather industry is unable to compete on the US market! The team of the monitoring company has spoken to various businesses in the value chain, but so far it has only identified *symptoms* (i.e. lack of quality, high price, lack of awareness, stupid cows, etc.). Consequently, it now needs to understand the *underlying causes* that are preventing the industry from realizing its full potential. Key questions would, for example, be:

- How is knowledge and information passed through the value chain – from retailers to ranchers?
- Who is responsible for providing information?
- Are there any industry mechanisms and organizations that facilitate better coordination between businesses?
- Why do the tanneries need a 15-percent protective tariff from the government?
- In general: which market functions and rules are currently underperforming, thus making the Colombian leather industry unable to compete on the US market?
- And which market player is responsible for performing these market functions? And what prevents this market player from performing better?
- Who else has the incentive to perform a certain market function?

**Moving from symptoms to underlying systemic constraints**

By asking ourselves these questions, we are moving quickly from symptoms to underlying systemic constraints. Only when these underlying constraints can be solved will the industry find a pathway to sustainable competitiveness.

The approach described in this guide moves away from a mono-dimensional view of value chains, towards a multi-dimensional vision in which a sector a) consists of a grid of multiple value chains – a value chain system, and b) is embedded into a market system consisting of various functions and rules and influenced by various private and public market players. It does so by reflecting in

particular on Decent Work issues within the value chains. Poor and disadvantaged groups are always part of value chains, whether as producers, workers or consumers[2]. The essential question is thus: ***how can we achieve competitiveness while creating new jobs and income opportunities for men and women and promoting better working standards in value chains?***

**Decent Work**

The authors hope that this guide will give you some ideas on how to address this crucial issue.

[2] Value Chain Development and Pro-poor Growth: www.itcilo.org/enterpriseacademy or www.itcilo.org/marketdev and on Value Chain Finance www.itcilo.org/mmw and www.Microlinks.org

# Introduction:

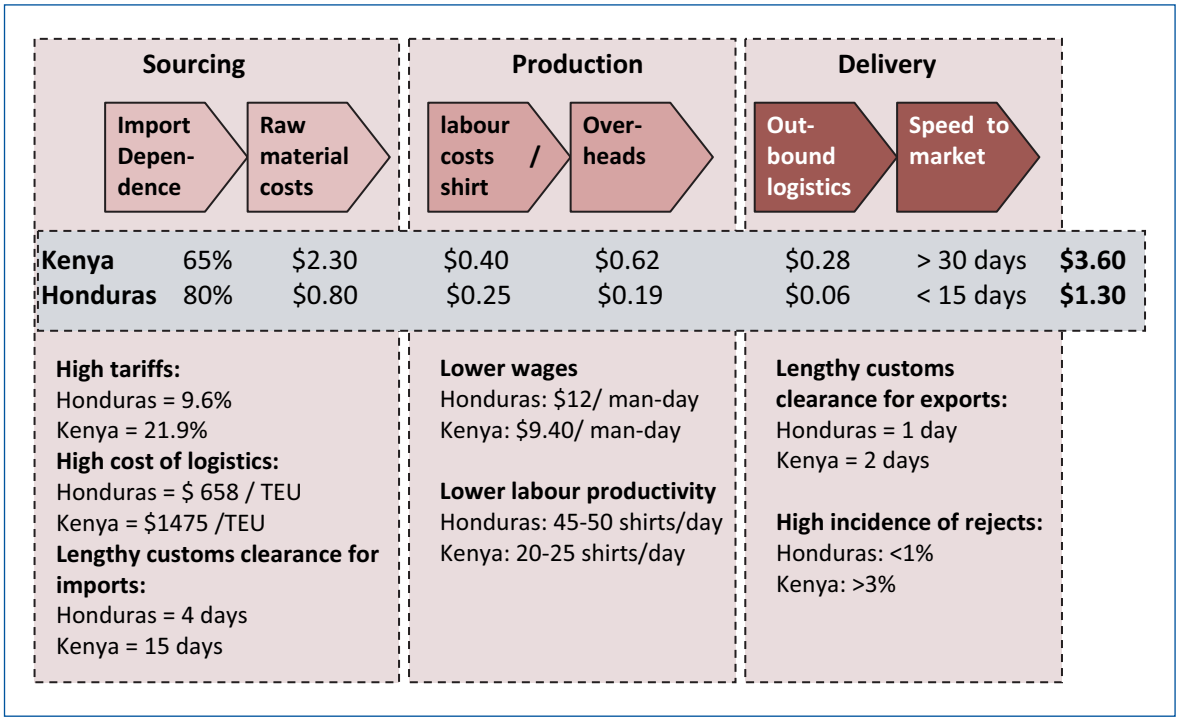
## What it's all about

## Growing competitive pressure and need for better integration

Enterprises of various sizes – ranging from multinational companies to medium, small and micro enterprises – are not only increasingly interconnected, but are also interdependent. Large companies rely on small enterprises either as suppliers of various inputs and preliminary products, or as service providers catering for various needs of production units – such as food and beverages, or as part of their marketing and distribution network for reaching markets, especially in rural areas. If enterprises are increasingly interdependent, so are the jobs and incomes they generate.

At the same time, sectors in emerging markets[3] are increasingly finding themselves competing against companies from other countries operating in the same sector – not only for export market shares, but also increasingly for shares on their own domestic markets. Where competition is about price and reducing costs of production, small enterprises and workers/employees are often at the losing end. Small producers find it difficult to meet market requirements because they do not possess the necessary technology and skills – or they do not have access to sufficient market information in the first place.

*Box 0.1: Competing T-shirt value chains*




*Source: Presentation by Uma Subramanian, FIAS, Vienna, to Donor Committee Working Group on Linkages and Value Chains, 2006*

[3] This guide uses Emerging Markets as a substitute for the term *"developing countries"*, thus no longer regarding developing countries as the recipients of aid and development programmes, but acknowledging that they are serious players in the market – both as suppliers to global markets, and also as consumers, workers/employees and providers of services.

# Introduction: What it's all about

## Disconnect between formal and informal economy

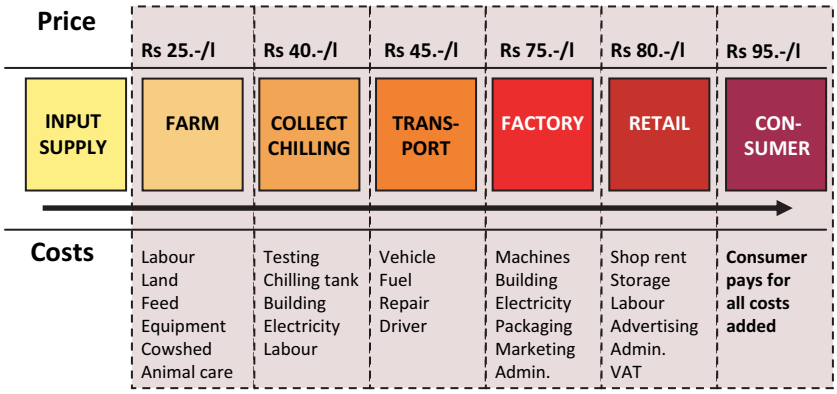
The informal nature of many economies in emerging markets poses additional challenges: relations between large companies and small enterprises remain unstable (e.g. due to the lack of contracts and legal enforcement) – leading to high production costs and problems in quality consistency; small enterprises are unable to access many business services such as credits, training and research facilities, government support, etc.; in quality-sensitive sectors such as the food industry, buyers are unable to trace products to their origins; workers and employees in informal enterprises are deprived of their rights for social protection and labour standards. There are many more challenges which indicate the imminent disconnect between formal and informal economy in emerging markets – these are but a few examples.

*The **value chain approach** helps multinational companies, governments and their development partners to understand and address these challenges within a market-oriented framework.*

*Box 0.2: Definition of value chains*

**What is a value chain?** *A value chain* "describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use." [4]

This includes activities such as design, production, marketing, distribution and support services up to the final consumer (and often beyond, when recycling processes are taken into account).




The activities constituting a value chain can be contained within a single firm or divided among different firms, as well as within a single geographical location or spread over wider areas.

The term 'value chain' refers to the fact that value is added to preliminary products through combination with other resources (for example tools, manpower, knowledge and skills, other raw materials or preliminary products). As the product passes through several stages of the value chain, the value of the product increases.

*Figure: Herr, Matthias (2008): Local Value Chain Development for Decent Work, International Labour Organization, Enterprise for Pro-Poor Growth project, Sri Lanka.*

[4] Kaplinsky (2004): Spreading the gains from globalization: what can be learnt from value-chain analysis, Problems of economic transition, Vol. 47, No. 2: 74-115.

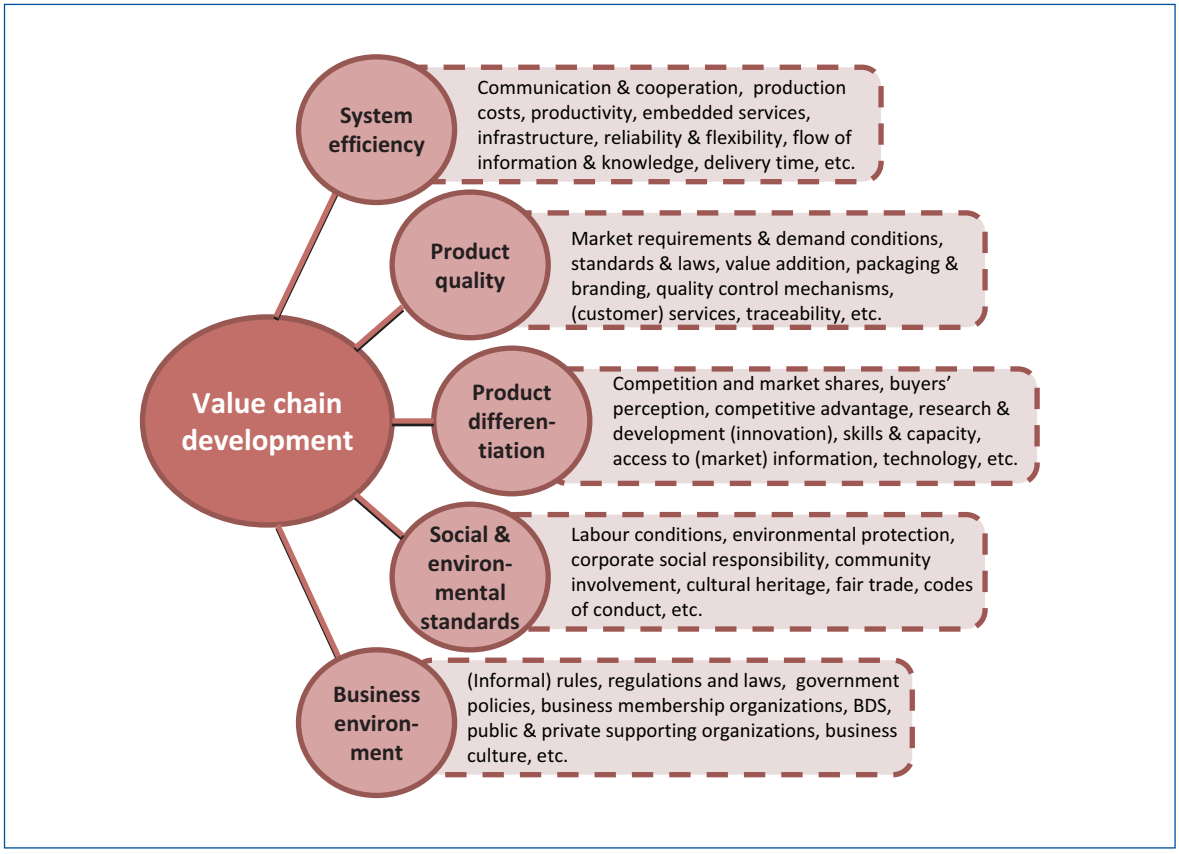
## Drivers of change that prompt value chain development

Having established what value chains are, what exactly is value chain ***development?*** For definition purposes it is useful to make a distinction between five drivers of change that could prompt value chain development: [5]

### 1. System efficiency

*There are opportunities for reducing costs and increasing efficiencies on the market if value chain stakeholders – large and small – work together.* Buyers want to buy products the highest possible quality at the lowest possible price; they want quick and flexible responses to their orders and short delivery times. In order to achieve these market requirements all opportunities for increasing ***system efficiency*** need to be explored – and this requires cooperation and coordination of activities amongst value chain stakeholders.

*Figure 0.3: Five drivers of change for value chain development*




[5] Taken from Value Chain Initiative (2004): Value chain guidebook – a process for value chain development, Agriculture and Food Council of Alberta, Nisku (Canada). Available from www.agfoodcouncil.com. The Value Chain initiative focuses mainly on product quality, differentiation and system efficiency as drivers of value chain development. These have been taken up and further developed in this guide.

# Introduction: What it's all about

**2. Product quality**

Markets today are changing fast and competition is becoming increasingly fierce. If enterprises want to stay in the market, they need to make sure that their products and services meet continuously changing market requirements and demand conditions. *What counts, is the end product that the consumer receives, and the level of satisfaction that it creates.* Value chains can compete against each other in terms of production cost and/or ***product quality.***[6]

**3. Product differentiation**

The better stakeholders cooperate along the value chain and coordinate their activities, the harder it will become for competitors to copy the product and the production process – because it is not just the product they need to copy, but the entire system. It is therefore important to understand what competitors are doing, and how they are doing it, and then to find ways of achieving a competitive advantage over them. This is mainly a matter of continuous *innovation and learning* within in the value chain – i.e. ***how do I make my products different from those of my competitors?*** Large companies also need to understand that it is important to share knowledge and information also with small enterprises in their supply or retail chains. This is purely in their commercial interests and has nothing to do with Corporate Social Responsibility (CSR). Innovation and learning has to take place throughout the entire value chain if sectors want to remain competitive on world markets.

**4. Social & environmental standards**

Consumers are becoming increasingly aware of ***social and environmental standards*** and are increasingly demanding products that fulfil these requirements. Retail and multinational companies are feeling pressure from consumer organizations, media, governments and NGOs to improve social standards in their supply/retail chains and to minimize environmental impact. The ILO's *International Labour Standards* are playing an increasingly important role and are being included in codes of conduct of private sector CSR initiatives – such as the global Ethical Tea Partnership[7]. Here again, it is more than a matter of doing business in a socially responsible way: it is in the commercial interests of companies to react to this consumer demand. Ensuring good social and environmental standards also means being able to trace products and services all the way back to their origin. This requires that businesses along the value chain cooperate.

**5. Enabling business environment**

Value chains do not exist in isolation but they are embedded into a highly complex social, economic, political and cultural environment, which determines the nature and success of business transactions within the chain (e.g. investments or business start-ups). As *Box 0.4* illustrates, the business environment can be seen as consisting of an *immediate environment* in which enterprises are part of markets in which they use various resources and markets in order to produce

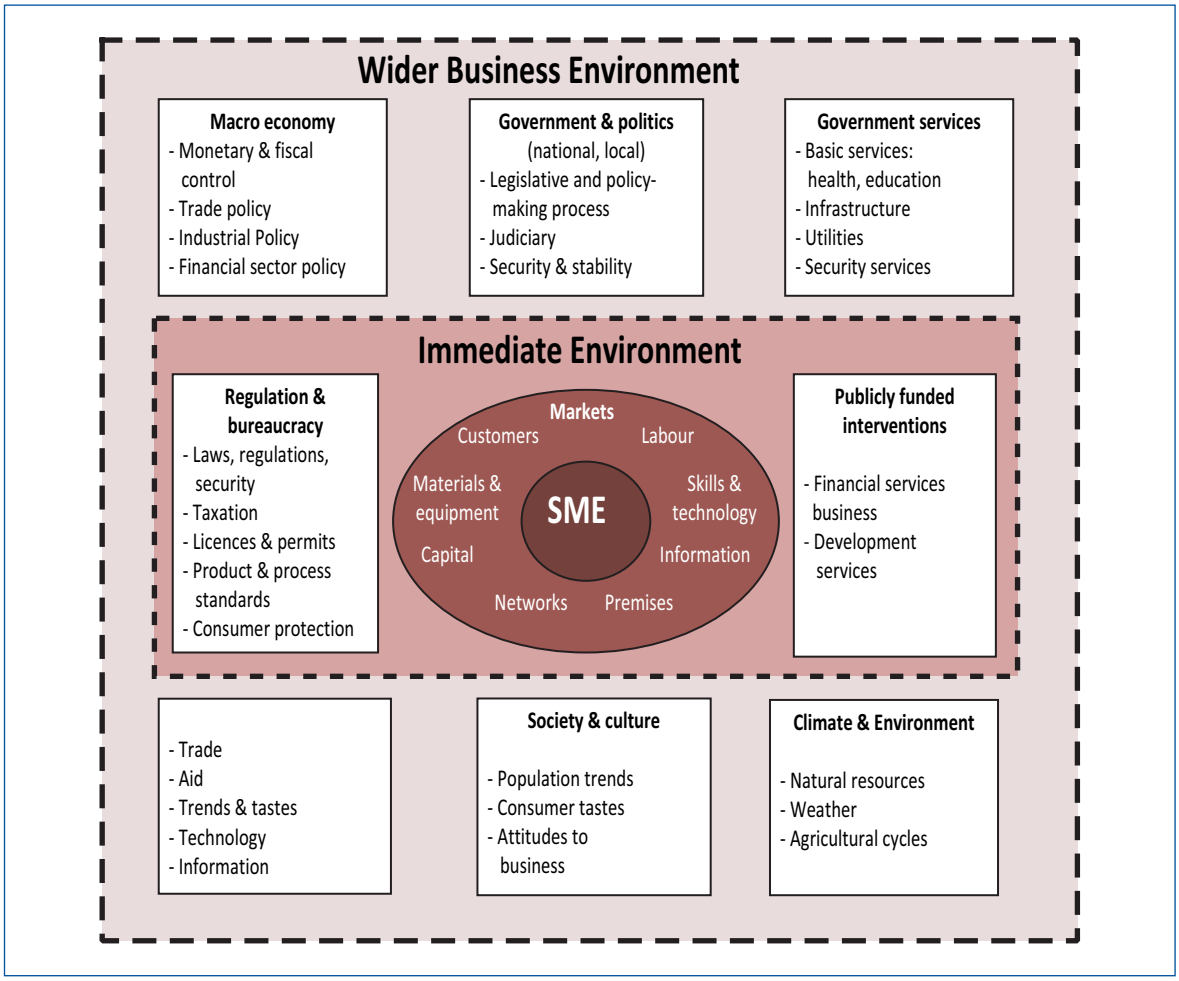
[6] Porter Michael, (2004): Competitive advantage: creating and sustaining superior performance

[7] See www.ethicalteapartnership.com

products and services. The market in turn is influenced by regulations, institutions and interventions that immediately affect a particular sector (such as health safety regulations for the dairy industry).

Apart from the immediate and sector-specific environment, there is also a wider business environment, consisting of broader government policies, macro-economic stability, public services, international and bilateral trade agreements, but also cultural and social factors (such as attitudes to doing business and demographic trends) and climatic and environmental conditions.

*Box 0.4: Business environment*



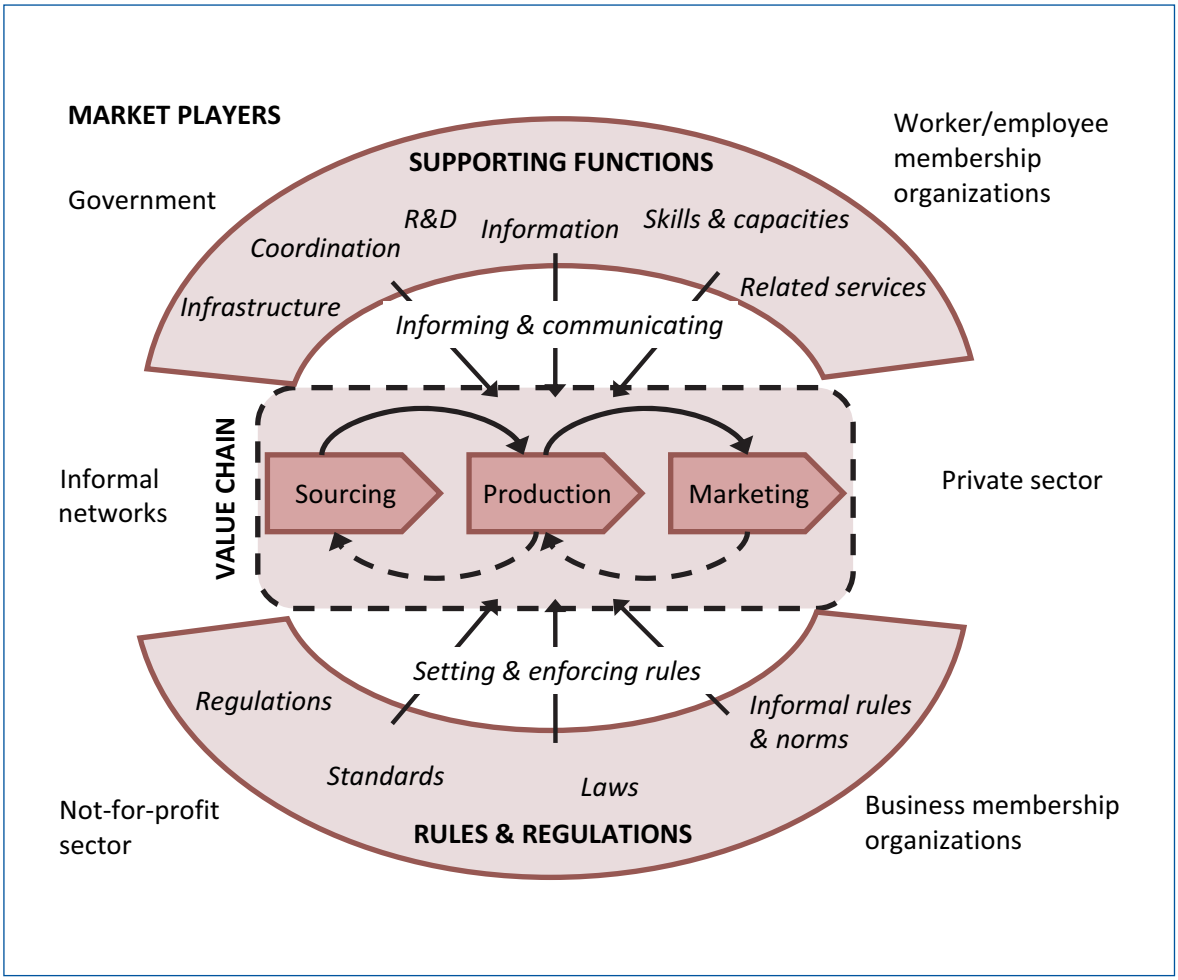

*Source: The Springfield Centre, www.springfieldcentre.com*

# Introduction: What it's all about

## Putting value chains and drivers into a systemic and operational market system framework

The value chain as described above consists of transactions from one business to another. The line of transactions from producer to consumer constitutes the value chain. However, we have also learned that the value chain of a particular sector is always embedded into a ***market system*** consisting of various **supporting functions** and **rules**. Within this market system different **market players** are either directly engaged in business transactions or part of supporting organizations such as BDS providers, government institutions or NGOs. The knowledge of how market systems work is of particular importance to governments and development organizations for developing upgrading strategies that target systemic root causes for competitive constraints.

*Box 0.5: Value chains as part of market system framework*




*Source: DFID/SDC (2008): The M4P operational guide, available from www.m4pnetwork.org. See also http://www.meyer-stamer.de/systematic.html*

## Value chain transactions

A few terms mentioned above require clarification:

1. The value chain is at the centre of the market system. Within this chain, businesses are engaged in ***transactions*** through which products and services are traded against payment and/or other products and services. The first four drivers of value chain development mentioned above also show that transactions not only consist of goods/services in return for money, but that crucial information is also exchanged in the course of the transaction (e.g. information concerning market requirements and demand conditions. Many services are also embedded within transactions: loans, maintenance, training and information, etc. – thus contributing to system efficiency and product quality or enhancing product differentiation (i.e. five drivers of value chain development).

## Supporting functions

2. In order to make transactions within the value chain work, ***supporting functions*** are a crucial part of the market system. Examples of supporting functions are:

- *Coordination*: mechanisms such as associations that ensure the integration of SMEs into value chains and lobbying policy-makers;
- *Information*: institutions and mechanisms that ensure that up-to-date information and knowledge is always available to the sector;
- *Research and development*: institutions and mechanisms that ensure continuous innovation in the value chain;
- *Related services* : BDS, financial institutions, extension services, etc.;
- *Infrastructure*: physical infrastructure such as access to roads, railways, airports, ICT etc.;
- *Skills and capacity*: institutions and mechanisms that ensure a continuous supply of skilled labour and up-to-date knowledge.

When analysing value chains, we need to understand *which* of the market players is fulfilling these supporting functions and *how well* they are doing so.

## Rules and regulations

3. Value chains are influenced by various **formal and informal rules and regulations.** These can be private or commercial voluntary standards such as ISO 9000, HACCP, GAP or sectoral policy, regulatory and legal frameworks established by governments or informal rules such as religion, social norms and culture, or informal networks.

   Understanding which rules govern a value chain, who is responsible for setting them up, how they are enforced and by whom, how they affect businesses and their transactions, and whether small enterprises are aware of them is crucial information for value chain development.

# Introduction: What it's all about

## Market players

4. Private sector businesses – ranging from micro enterprises to large companies – are engaged in business transactions within the value chain (sometimes also government-owned companies and organizations). These transactions are at the centre of the market system. The private sector, however, is involved not only in business transactions, but also in many other supporting functions – e.g. in the form of business associations (business membership organizations), BDS providers, research and development facilities, training institutions etc. Other ***market players*** include governments (responsible for creating a conducive business environment by setting up rules and enforcing them, ensuring stable macro-economic policies, building the required infrastructure, setting up internationally competitive education systems, etc.), NGOs and other development partners.

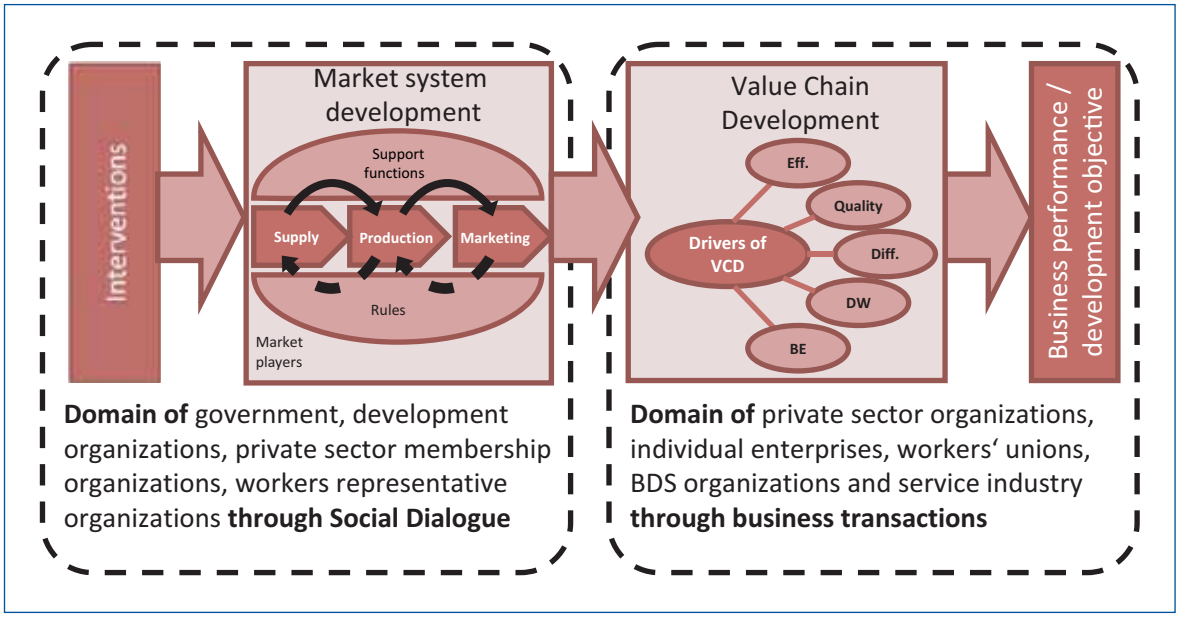
## Developing a strategy for sustainable change

***Value chains are developed by developing the systems into which they are embedded***. Solutions for sustainable sector competitiveness and inclusive growth can be found by analysing the system in which enterprises of a particular value chain operate. In other words: ***the goal is to ensure that institutions and mechanisms are found and developed that will help value chain stakeholders to solve their problems on their own in the future using locally available resources.***

In order to conceptualize value chains in the broader framework, it is crucial to recognize the importance (and complexity) of macro, market and micro level conditions that impact on value chains. A wide variety of techniques and tools are available such as PESTLEG, SWOT Analysis, Grant's Model and Porter's 5 Forces for identifying and assessing the potential impacts of macro, market and micro environments on value chains.

This guide analyses how markets function, recognizing that they often comprise highly complex 'business eco-systems', which can comprise many types of enterprises and their inter-linkages (backward, forward, vertical and horizontal linkages) and can be deeply embedded in a set of non-market framework conditions. The distinction between *drivers of value chain development and for market system development* may be confusing and seem unnecessary to begin with, but a much clearer picture is obtained when both concepts are placed in a ***strategic framework*** for sustainable change, and areas where market players can make the most difference are explored:

*Box 0.6: Strategic framework value chain development through market system development*




*Taken from: The Springfield Centre, www.springfieldcentre.com*

## Facilitating inclusive markets in value chain development

The 'Value Chain Guide for Decent Work' reinforces the inclusive market development approach, which recognizes that conventional policies for market restructuring and reform, such as liberalization and privatization cannot simply be assumed to reduce poverty. On the contrary, an inclusive market development approach accepts that explicit methods must be considered in order to encourage and promote participation by the poor. At the international level, for example, it recognizes that carefully targeted support may be needed to help poor countries to diversify their economies and increase the competitiveness of sectors that are especially important to the poor for food and livelihood security.

Market system development ensures that transactions within the value chain can be done smoothly, ensuring international competitiveness and avoiding negative external effects such as exploitation of labour and environment. ***Market system development thus leads to value chain development.*** It creates the right environment in which enterprises can do business. This should be the focus of any private sector development project conducted by government or international development organizations. The way to achieve market system development is through *Social Dialogue*, through which all main public and private market players are involved in formulating solutions for constraints in the selected value chain. As a tripartite membership organization, with governments and employers' and workers' organizations as constituents, the ***International Labour Organization*** can play a useful role as facilitator here.

# Introduction: What it's all about

## Enhancing VC co-operation through inter-firm linkages, networking and stakeholder dialogue

*Value chain development* is the prerogative of private sector organizations that are directly involved in business transactions. The four drivers of change that shape the functioning of value chains (system efficiency, product quality, product differentiation and – increasingly – social and environmental standards) can only be achieved if businesses of various sizes improve cooperation along the chain and start coordinating their activities, gearing them to market requirements. In doing so, they are supported by various business support service providers. Workers' unions also play a crucial role in ensuring that workers participate in the decision-making processes and that labour productivity and costs meet the needs of competitive markets as well as those of workers and their families. Value chain development thus aims at better business performance – ultimately leading to win-win situations for all stakeholders involved in the transactions. The ***principle of subsidiarity*** (who does what best) is important, meaning that each stakeholder has an important and clearly defined role to play in development of the value chain. The role of organizations such as the ILO as a convenor of stakeholders is relevant and useful in this regard.

## Being clear on who does what for sustainable development

It is observed only too often that government and development organizations intervene directly in value chains and markets by subsidizing business ventures directly in the hope of stimulating growth in jobs and incomes. These approaches are rarely sustainable and more often result in market player dependence on foreign funds and solutions.

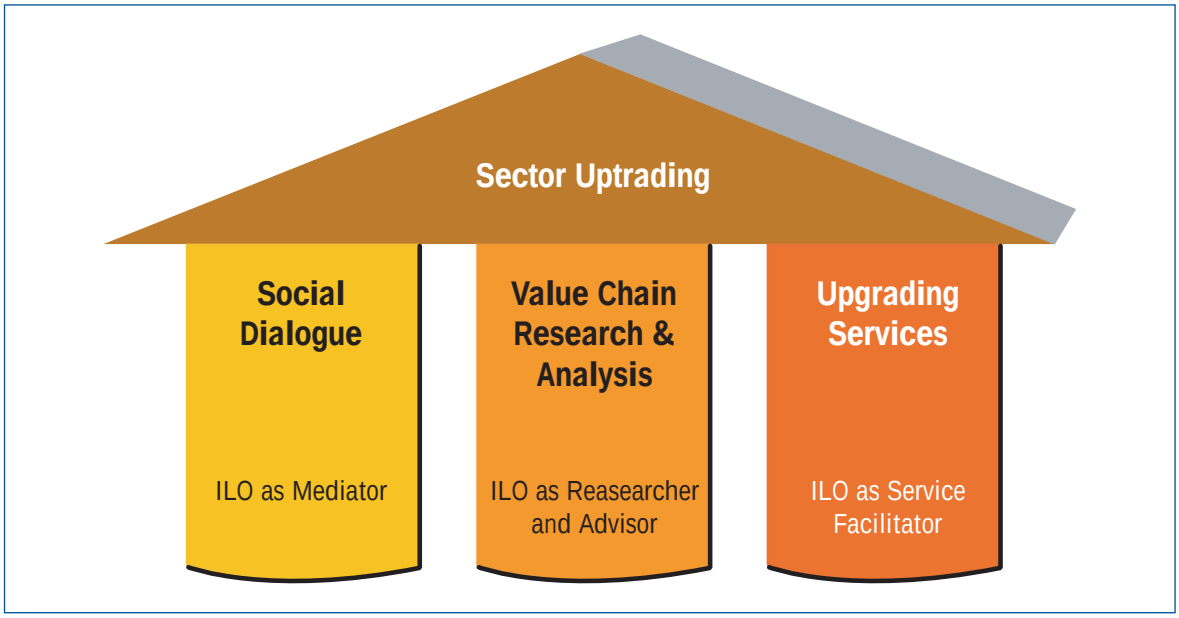
Governments and employers' and workers' organizations could focus, for example, on macro (enabling business environment) issues. These are the political, economic, social, technological, legal, environmental and geographical (PESTLEG) factors that shape the sector.

More often than not, the Market (industry) and Micro (organizational) environment in a value chain is governed mainly by the private sector firms and their socio-economic relationships in the value chain. It reflects the strengths, weaknesses, opportunities and threats for each player in the chain, which may be defined by each player's vision, mission and goals, organizational structure and systems, resources and capabilities amongst other factors determining its position within the industry sector.

Promoting and facilitating stakeholder dialogue can prove vital in articulating the various roles of stakeholders in avoiding problems such as market distortions and duplication of effort. The strategic framework as illustrated in *Box 0.6* above shows that the achievement of development objectives (e.g. more jobs and higher incomes, gender equity, better working conditions, livelihood development, poverty reduction, etc.) can only be achieved sustainably if taking ***a systemic view is taken of the market***, and of the workforce.

### Fine. But how can all this be made to work?

You may be getting a bit nervous by now, wondering whether this guide will continue to bombard you with theoretical concepts, strategic frameworks, etc. Perhaps you are thinking: 'All this is fine and sounds familiar, but how do I put these concepts and frameworks into practice?" Try the exercise below to better understand the roles of external facilitators and internal stakeholders in the value chain.



# Introduction: What it's all about

## An exercise: Facilitation

*Exercise: Discuss what role institutions such as the ILO and others such as the Ethical Trading Initiative (ETI) can play in both industrial competitiveness and inclusive value chain development - as convenors of stakeholders (tripartism and social dialogue), advocates of international norms and standards, providers of advisory services and technical expertise on decent work with a view to motivating employers and employees to achieve operational effectiveness and increase opportunities for improved productivity and, in the case of the ETI, access to markets.*

Example: a possible facilitator role of the ILO

1. **Mediator:** The tripartite structure consisting of governments and employers' and workers' organizations gives the ILO a competitive advantage in identifying the main stakeholders in a sector and initiating a *Social Dialogue* amongst them. Upgrading activities aiming at sectors and global value chains can only be socially sustainable and successfully implemented if *all* major stakeholders are involved. It must be borne in mind, however, that mediation through an external and temporary facilitator must not become a permanent fixture in the market; rather, systemic solutions must be sought that will perform this role after project exit.

2. **Researcher and Advisor:** high quality research on and analysis of value chains, the sector and its specific business environment, constitute the basis for the ILO as advisor in upgrading processes. ILO experts can take on a facilitative role, not only bringing stakeholders together, but also providing them with the information they need in order to find upgrading solutions in the specific local context. As part of an international network, ILO experts will also be able to provide information on best practices from other countries and regions.

3. **Service Facilitator:** the ILO has a range of programmes that can be used to address specific needs at different levels of the business environment (see above). Stakeholders can draw from years of experience and a continuously updated pool of programmes and tools. International experts could be bought in to implement these programmes. Programmes that have operated only in loose connection with each other in the past can now be combined and focused on upgrading sectors in global value chains.

## "Internal facilitators": an example

It is important to note that apart from the modest role of external facilitators such as the ILO, internal facilitators such as lead firms can also shape value chains.

One example is Maldeco Fisheries Limited, a fisheries (Aquaculture) project of Press Corporation Malawi, one of Malawi's largest corporations listed on both the London and the Malawi Stock Exchange.

According to the Maldeco environmental impact, feasibility and demand studies, the fish industry accounts for about 4% of Malawi GDP and employs about 1.6 million people, whose livelihoods depend directly and indirectly on fishing resources and their exploitation (FAO), and who consume about 90% of the total annual catch locally. Given the poverty (low purchasing power) in the country, any project that can significantly increase domestic food production, especially protein, would have important socio-economic benefits for Malawi.

Maldeco developed a business plan to respond to niche and inclusive market opportunities for producing whole and filleted chambo fish with long-term development prospects involving the active economic participation of small fishermen (commercial, semi-commercial and subsistence fishermen) who accounted for 90% of the catch on Lake Malawi, in some cases contravening government bans for restoring stocks and catch levels in certain parts of the Lake.

In addition to establishing aquaculture facilities, protecting existing value and creating new value through product differentiation in the aquaculture sub-sector (fish farming), Maldeco invested in foreign technical training assistance for building internal capacities and disseminating knowledge on good fishing practices for the sustainable development of the fish farming sector in Malawi.[8]

There are many examples where lead firms can shape value chains:

- Illovo Sugar (www.illovo.co.za), a subsidiary of Associated British Foods plc, and a global, low-cost sugar producer and ,significant manufacturer of high-value downstream sugar products in South Africa, Malawi, Zambia, Swaziland, Tanzania and Mozambique.
- Dunavant (www.dunavant.com) Enterprises, Inc. is the largest privately owned cotton merchandiser in the world and owns various real estate development companies, a truck brokerage company, cotton warehouses in the United States and Australia, ginning operations in Zambia, Uganda, Mozambique, and Australia, as well as a commodities trading company with locations in New York and Memphis, Tennessee.

[8] Muzira et al EDS Group 03050A, 2007. An executive project management assessment of the Maldeco Aquaculture Project in Lake Malawi. *University of South Africa (UNISA) School of Business Leadership (SBL).*

# Introduction: What it's all about

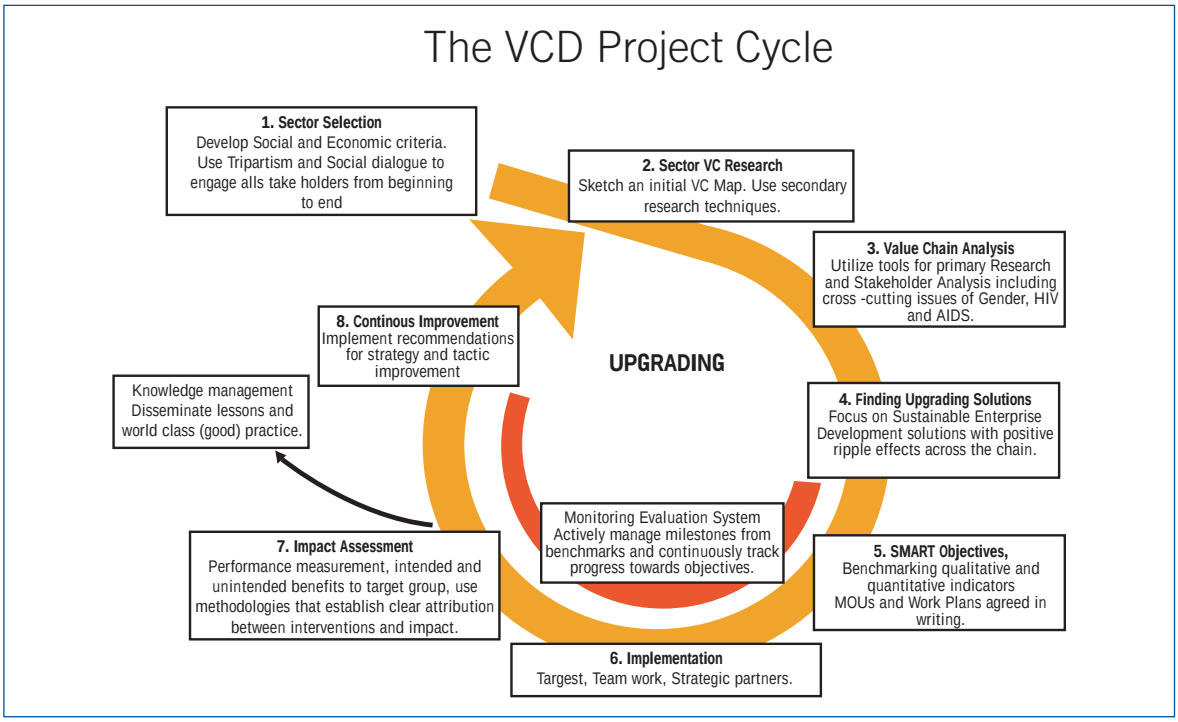
## Introducing the VCD project cycle

The approach suggested by this guide consists of seven main steps for organizing a value chain initiative. These steps can be seen as constituting a project cycle – underlining the fact that innovation is never final, but that continuous learning processes are necessary to keep sectors and their value chains competitive in the market and to improve the situation of disadvantaged groups within the value chain. For this reason, a value chain initiative should not be conceived as a one-off sector study, with a report and recommendations at the end, but rather as an ongoing process, in which strategies and interventions are further refined. In recent years the ILO has gained experience in organizing value chain initiatives around the world and has developed the following structure as a result.

Please note that the following diagram represents a flow of actions that may occur simultaneously in practice whereas the guide is structured around the key stages or the critical path of a VCD project.

However, the flow of actions highlights that monitoring and evaluation is not necessarily a stage but a process that begins immediately after benchmarking agreed upgrading solutions. Further, impact assessment is an evaluation stage which starts out from the benchmarks, receives input from the monitoring and evaluation system and yields (1) project closure and knowledge management outputs such as publications, dissemination seminars and so on or (2) providing input for a strategy and review of tactics regarding sustainability and continuous improvement in terms of consolidating sector upgrading interventions.

*Box 0.7: Organizing a VCD initiative*



### Sector selection

1. ***Selecting sectors*** (*Chapter 1*) is not always necessary – for example when sectors are already defined by local constituents in national development frameworks or when the initiating organization is acting upon the request of local sector stakeholders. However, which sectors should be promoted and which should not is very often a question that governments and their social and cooperation partners need to answer. A crucial decision that requires justification.

### Getting started

2. What needs to be done to ***get started*** with a value chain initiative? *Chapter 2* will describe the initial steps of a value chain initiative – including setting up the project. Initial research at this stage will focus on understanding the target group (e.g. the poor) and its specific context. Participatory approaches to local economic development are one way of broaching the issue, for example. Understanding the poor and their context and measuring these factors against the objectives and capacity of the project is an important step in assessing the feasibility of further interventions.

### Value chain mapping

3. Although implicitly part of the initial research, ***value chain mapping*** has been given a separate chapter (3), since it provides a useful tool, an aid for illustrating (and possibly simplifying) the complexities of sectors and their value chains and for forming the basis for value chain analysis and research – although its importance is also often overestimated. The chapter will focus on two types of map: a) a simple value flow chart, and b) a value grid chart. The latter acknowledges the fact that value chains are never simple linear constructs, but always consist of a horizontal and vertical network of market players (we thus refer to a value chain *system*).

### VC research[9]: Interviews and focus group discussions

4. *Chapter 4*. Once the project infrastructure has been set up, the relevant market players have been identified and initial research has been conducted on the sector (including value chain mapping), the actual field work begins: the objective of ***interviews and focus group discussions*** with market players is to understand the opportunities and constraints for each value chain level and its relationship to other levels (i.e. buyers and suppliers). Using the market system model (*Box 0.5* above) it is also necessary to understand the role of other market players, such as government, BDS providers, business membership organizations, workers' unions, NGOs etc. and their incentives to provide sustainable market solutions.

### Finding sustainable market solutions for value chain development

5. **Finding solutions** for remedying bottlenecks in the value chain or the needs of disadvantaged groups is not easy since we acknowledge that the firms in a cluster or value chain do not face the same constraints and the underlying causes for lack of competitiveness may be difficult to pin-

[9] http://www.meda.org/WhatWeDo/ProductionMarketingLinkages/Resources/Publications.html

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point with precision. Evidence from recent research[10] shows that in addition to broader issues relating to macroeconomic stability and general business enabling environments, sector-specific issues affecting product market competition are collectively the most important impediments to faster economic growth and poverty reduction. The majority of such impediments concern sector-specific policy and enforcement issues and bottlenecks that prevent the forming and integration of inclusive product and service value chains, limiting the access of poor local producers to value chain finance[11] and markets and stifling the creation of new opportunities for wage employment. It is therefore essential to understand these constraints and bottlenecks and to respond to them effectively in order to ensure that cross-cutting inclusive market development policies and related institutional strengthening measures are incorporated into PRSPs and other national planning frameworks. Emerging best practices and a rapidly growing body of advisory literature[12] confirm that there are no 'one-size-fits-all approaches to successful pro-poor market facilitation; tailor-made packages 'packages' of interventions need to be built around local market realities. *Chapter 5* is about value chain analysis and provides guidance and ideas for finding upgrading strategies.

## Implementation: facilitating value chain development

6. ***Implementation of solutions.*** The various roles of players in the market system need to be considered here (*Chapter 6*). How far does facilitation of systemic change go for government and development organizations? And where does it interfere with business interests? This chapter will provide examples from a range of public and private value chain initiatives in which value chain development has been successfully implemented.

## M & E: enabling continuous learning and innovation

7. Value chain and market system framework development is a continuous process that never ends – an endless cycle of learning and innovation that aims to increase/maintain the competitiveness of a sector or to further improve the situation of disadvantaged groups in the value chain. A good ***monitoring and evaluation system*** (*Chapter 7*) can therefore help to measure the success of implemented interventions and provides useful conclusions on what needs to be done further.

[10] See UNDP Private Sector Strategy. Promoting inclusive market development. Final version, September 2007. See also Industry Level Analysis – The Way to Identify the Binding Constraints to Economic Growth Palmade V, Small Enterprise Development Vol. 16 No 4. 12.05.

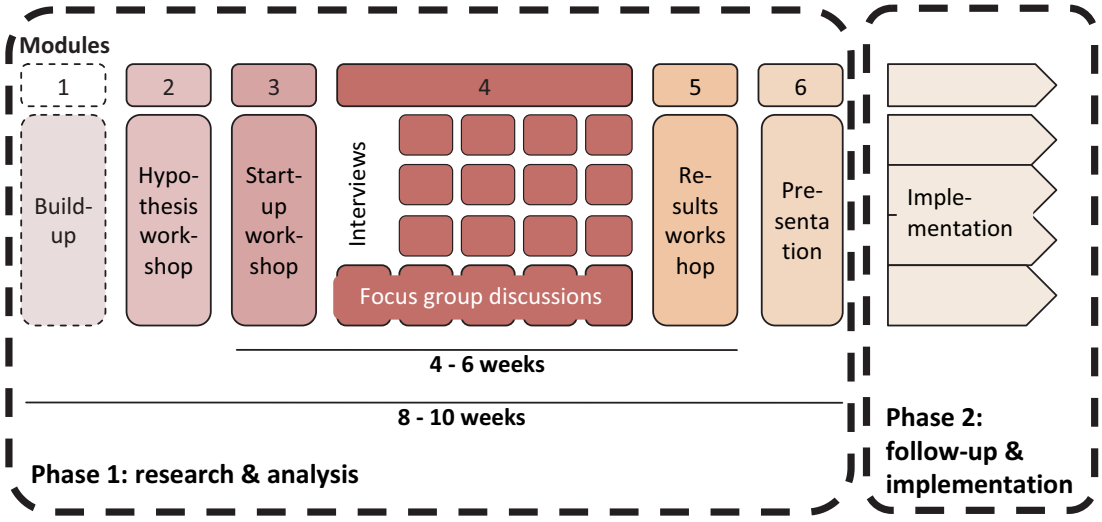
[11] See other resources on Value Chain Finance including cases studies on www.Microlinks.org

[12] See DFID/SDC (2008): The M4P operational guide, available from www.m4pnetwork.org

*Box 0.8: Examples from Madagascar and Sri Lanka: implementing the project cycle*

The ILO CEPP project in Madagascar and the ILO Enterprise for Pro-Poor Growth in Sri Lanka both implemented the value chain approach in the context of Local Economic Development (LED) – i.e. their geographic focus was on sectors at district or provincial level, not at country level. The objective was to understand how these local sectors were integrated into national/global value chains, and how their situation could be improved.

They used a participatory method known as PACA (Participatory Appraisal of Competitive Advantage)[12] for that purpose, a simple tool for assessing opportunities and constraints in a local economy by empowering local ownership. It is not sector-specific, however, and therefore needed to be adapted to the value chain approach. So the Enter-Growth project developed a guide for *Local Value Chain Development* (Local-VCD), which was based on its own experiences and was also subsequently used by CEPP in Madagascar. The framework in which the Local-VCD were organized, however, were similar to PACA:[13]




The Local-VCDs were carried out on different scale, ranging from small district initiatives to larger provincial ones (in some cases two provinces were combined). The requirements in terms of resources therefore varied: under the leadership of the local Enter-Growth/CEPP manager, 4 to 8 trained local VCD facilitators were hired to support the implementation of the initiatives (i.e. to carry out interviews and focus group discussions, provide documentation, support efforts to find solutions, etc.). The time frame indicated above is for Local-VCD initiatives that require less research and documentation – in the case of provincial level initiatives the time frame ranged from 10 to 12 weeks.

***Further information:*** *a) Enter-Growth (2008): Guide for Local-Value Chain Development, by Matthias Herr, Colombo, Sri Lanka; b) Brochures summarizing findings and proposals for selected sectors (dairy, coir, floriculture and packaging), c) Intervention Reports on various PACA and Local-VCD initiatives conducted in Sri Lanka. All three available from www.entergrowth.com (go to "project library").*

[12] PACA was developed by Mesopartner. Further information on the methodology and services offered by Mesopartner can be found at www.mesopartner.com.

[13] In fact the PACA methodology has proved to be a very useful tool for sector selection: the methodology helped to identify potential sectors for Local-VCD projects. An additional advantage was that PACA-trained facilitators could also be used for Local-VCD after receiving further training in the value chain approach.

# Introduction: What it's all about

This value chain guide is based on the collective experiences of ILO Enter-Growth and CEPP Project in Sri Lanka and Madagascar and the Phase 2 BDS Zambia Project in Zambia. These three projects contributed to the ILO's learning experience and specific approach to value chain development ***practically tested and applied.*** Each of the six modules described above will therefore give the user of this guide practical advice on how to facilitate the development of integrated value chains in market sectors where significant productivity gains are possible, potential linkages to the wider economy exist and the poor are strongly represented as entrepreneurs or employees for pro-poor growth.

## Characteristics of this value chain approach

Admittedly, there are already a number of value chain guides from different international organizations and research institutions. So what makes this one different from the others? The following summarizes some of the distinctive characteristics of the ILO approach to value chain development:

## Value chain development for Decent Work

1. First and foremost, value chain development in this guide reflects a sectoral response to the national priorities listed in national development frameworks such as Decent Work Country Programmes. This guide is about creating employment and income opportunities in retail and supply chains; it is about good labour conditions according to the ILO's International Labour Standards; it is about the efficient and effective integration of small and medium-sized enterprises and disadvantaged groups (such as women) into markets; it is about strengthening the positions and recognition of these groups in value chains; it is about *Decent Work*. The Decent Work Agenda aims to achieve decent work for all by promoting social dialogue, social protection and employment creation, as well as respect for International Labour Standards.[14]

## Going beyond research towards value chain development

2. The approach to value chain development as described in this guide, is conceived as an ***action-oriented approach***. The aim is not to produce a scientific study report on a particular value chain (though the guide may also provide researchers with inspiration), but to come up with solutions for identified challenges and an action plan for implementing them. Most of the existing value chain guides focus on value chain *research and analysis* (most notably: value chain mapping); this guide, however, is intended to go beyond research and analysis and to give users an idea of what value chain ***development*** actually means and how it can be facilitated.

## A participatory approach for local ownership

3. The guide seeks to combine action-oriented research and analysis with a high degree of ***stakeholder participation***. It therefore does not claim scientific relevance; rather, its primary target is to mobilize market players and local resources to find solutions to bottlenecks in the value chain. By adopting a participatory approach, the value chain initiative is already contributing to value

[14]ILO (2005): The Rules of the Game – A brief Introduction to International Labour Standards, Geneva.

chain development through *Social Dialogue* and the sharing of information amongst stakeholders. Strong stakeholder participation also creates a sense of ownership and will mobilize support from the outset, thus guaranteeing the successful implementation of solutions.

## Looking at market and supply

4. The value chain approach itself is a comprehensive and ***simultaneous "market/demand" and "supply/production" approach***, which aims to facilitate access to changing market opportunities and demands and to match those demands and opportunities with appropriate action. It also acknowledges the fact that emerging markets are not only part of supply chains (e.g. small producers supplying global buyers), but that multinational companies are increasingly discovering them as consumer markets for their products – thus seeking opportunities to link up with local small businesses and offering employment opportunities in their retail chains and product development and market research units.

## Value chains as an integral part of the market system framework

5. Value chains are not regarded as a stand-alone phenomenon, but are seen as an ***integral part of market systems,*** which consist of a large number of supporting functions, rules and various market players. The way market systems function has implications for the people working in them – as producers, workers or consumers (i.e. *Decent Work*). This again provides important implications for policy interventions by governments as well as action by development organizations. Seeing value chains as part of market systems offers governments and development organizations the opportunity to focus on systemic change rather than adopting traditional subsidization approaches.

## Who can use the guide?

This guide was written for governments and public organizations, private sector organizations and other social partners such as workers' and employers' organizations or development programmes. It can therefore be used:

### Private sector initiatives

- ***By private sector initiatives*** which are planning to upgrade their supply or retails chains – in order to integrate small enterprises more effectively, for example, or to upgrade labour conditions in their small and medium-sized suppliers. The Ethical Tea Partnership[15] provides an example of a collective private initiative. The guide can also be used by multinationals for developing codes of conduct and implementation strategies for CSR initiatives.

### Business membership organizations and unions

- ***By special representative organizations*** – such as unions, employers' associations or other business membership organizations – that are seeking to identify the needs of their members at the various VC levels and to contribute to a public-private partnership with the government with a view to facilitating sustainable market system development in prospective sectors.

[15]See www.ethicalteapartnership.org

# Introduction: What it's all about

**Government**

- ***By government departments and ministries*** whose function is to promote economic sectors and enhance their competitiveness on the world market or to help SMEs and/or other disadvantaged groups to improve their market integration. The guide will also help governments to focus on issues where they can achieve the highest positive impact.

**Business support organizations**

- ***By all members of the value chain including business support organizations*** seeking new opportunities for marketing their services and for developing new and needs-oriented services in specific sectors, which will help the target group to overcome bottlenecks identified in the value chain.

**Development organizations**

- And finally, ***by development organizations and projects*** in the context of private sector development programmes (such as the *ILO Decent Work Country Programmes*). The value chain approach can either be used as a single component in projects, as the GTZ's experiences in Sri Lanka have shown, or as one of several components of integrated LED projects. The ILO Enter-Growth (Sri Lanka) and CEPP (Madagascar) projects provide an example of the latter.

*Box 0.9: Essential publications and websites for further reading*

- **Altenburg, Tilman (2006):** Donor approaches to supporting pro-poor value chains, prepared for the Donor Committee for Enterprise Development, German Institute for Development Studies, Bonn (Germany).
- **Mayoux, Linda and Mackie, Grania (2008):** Making the strongest link – a practical guide to mainstreaming gender analysis in value chain development, International Labour Organization, Sub-Regional Office Addis Ababa.
- **Roduner, Daniel (2007):** Donor interventions in value chain development, Swiss Agency for Development and Cooperation, Bern (Switzerland).
- **Schmitz, Hubert (2005):** Guide for policy makers and practitioners, International Labour Office, Geneva.
- **DFID/SDC (2008):** three documents on the "Making Markets Work for Poor " (M4P) approach (all available from www.m4pnetwork.org):

  A synthesis of the M4P approach.

  Perspectives on the M4P approach

  The M4P operational guide.

**Websites:**

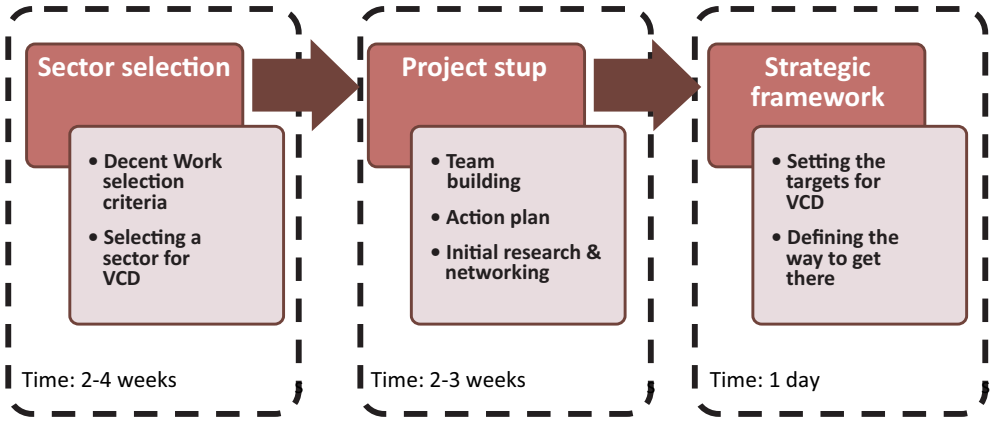
- M4P network: www.m4pnetwork.org
- Making value chains work better for the poor: www.valuechains4poor.org
- Global Value Chain Initiative: www.globalvaluechains.org
- GTZ ValueLinks manual: www.value-links.de/manual
- Value Chain Initiative: www.agfoodcouncil.com
- ILO Enterprise for Pro-Poor Growth, Sri Lanka: www.entergrowth.com
- The Springfield Centre: www.springfieldcentre.com
- ILOs International Training Centre in Turin: www.itcilo.org/marketdev

Chapter 1

# Sector selection for Decent Work

## Summary sheet: sector selection

***Timeline and proposed actions:***




**Summary**

Sector selection is important and sectors are often already defined in national development frameworks in accordance with national priorities. The "Value Chain Development for Decent Work" guide has been prepared for use in facilitating and promoting growth in priority sectors already agreed in Decent Work Country Programmes based on national priorities owned and led by the national constituents (Government and its social partners, Employers/Business and Workers). In this case monitoring and evaluation frameworks are in place, as would be steering committees and working groups for planning and implementation.

You may therefore want to skip this section if you are part of a priority sector yourself or if this topic is not relevant to you for this and other reasons.

Where there are no country strategies for private sector development and there is some scope for demonstrating the potential impact of sectoral strategies such as value chain development, this section can be used to identify sectors that have the potential for Value Chain Development for Decent Work. In doing so, sector selection uses not only financial or **economic criteria** such as a) good return on investment b) sustainable competitive advantage c) potential for growth, innovation and value creation but also **social** criteria such as (a) partner country priorities, ownership and participation (b) technological and environmental factors (c) potential for inclusive development - pro-poor economic growth, job creation and poverty reduction amongst other criteria for achieving Decent Work.

***Outcomes:***

- A sector with potential for profitability, growth and Decent Work
- Socio-economic indicators for monitoring and evaluation

**Sector selection requires justification**

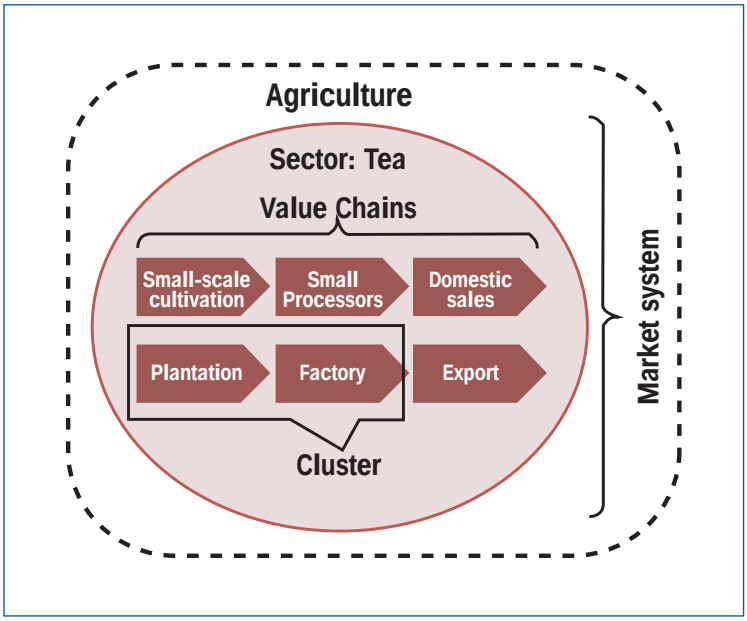
Sector selection is a delicate issue: why do we select the garment industry and not fruit and vegetable processing? Or spices rather than paddy/rice cultivation? Such a decision requires careful consideration of the social and economic factors which shape the sector.

## 1.1 Defining sectors as socio-economic system frameworks

### Definition of sectors

***By "sectors" in the first place, we refer to socio-economic activities in which a) core transactions are similar in production and processing, b) businesses share certain supporting functions with one another, c) specific rules and regulations govern the way firms do business, and d) market players can be attributed to specific businesses, functions and rules.*** Within sectors we will often find several value chains and clusters (which are generally part of value chains themselves). Many would speak of three economic "sectors": agriculture, industry and services. However, we adopt a narrower definition here, such as the *tea sector*, the *coconut coir industry*, the *embroidery sector*, the *dairy sector*, or the *Jatropha bio-diesel industry*. These are often also called "sub-sectors" of the three main economic sectors. However, let's not dwell on terms.

*Box 1.1: Definition of sectors*



### Defining sectors as socio-economic market system frameworks

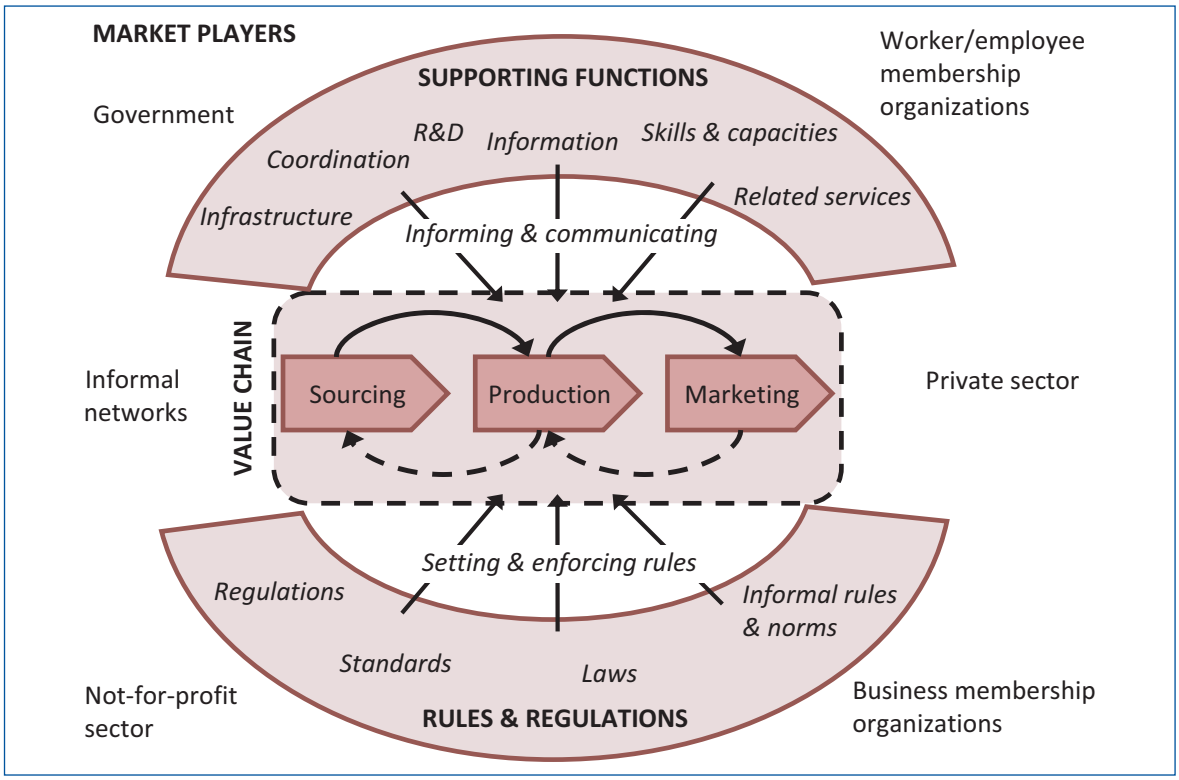
The definition of the above sectors has been taken from the definition of ***market systems*** as defined in the introduction to this guide and reflects the complexity of structures within the sector and the different roles of market players (businesses, service providers, government, associations, unions, etc.). Bearing this in mind, market systems consist of the following components:

**Recalling components of a socio-economic market system framework (see introduction)**

1. ***Core transactions*** (value chain), in which businesses trade products and services against (monetary) payment or other products and (real) services.
2. ***Supporting functions*** that ensure smooth business transactions, such as coordination mechanisms, information channels, knowledge, skills and capacities, research and development facilities, etc.
3. Formal and informal ***rules and regulations*** that govern the way in which businesses carry out transactions, such as market standards and requirements, government laws, certifications, etc.
4. ***Market players***, such as businesses, government, service providers (BDS), business membership organizations, unions, development organizations, etc.

The figure in *Box 1.1* can therefore be further developed into a market system framework or model:

*Box 1.2: Sectors as market system frameworks*




*Source: The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK). See www.springfieldcentre.com*

### The value chain approach is a sector-specific approach

In order to carry out a value chain initiative you either work in national priority sectors with national planning, implementation and monitoring frameworks (for example Decent Work Country Programmes) or you need to engage national stakeholders to select a sector as an external facilitator organization. ***The value chain approach is a sector-specific approach***, which cannot be applied to general economic categories such as the *agricultural sector*.

## 1.2 Why is sector selection an important decision?

### Why is careful sector selection so important?

Economic processes are changing fast in a world where businesses are becoming increasingly interconnected and interdependent. Innovations, the entry of new competitors into the market, rapidly changing consumer demand, the establishment of trade regulations and policies, the fall of trade barriers, subsidies received by competitors, currency fluctuations – all these factors and many, many more, require that businesses react rapidly in changing world markets in order to remain competitive. *Restructuring* business operations to achieve this target often means changing the way a company operates, involving changes in the company's strategy and structure and even relocating operations.[16]

### Changing market realities have strong implications for jobs and incomes

***Changing market realities not only have implications for individual businesses, but also for entire sectors.*** Take, for example, the *Multi-Fibre Agreement* (MFA) in the global textile industry: with the dismantling of trade barriers, Chinese manufacturers – who enjoy a competitive advantage through cheap labour combined with modern technology and economies of scale – are massively entering markets worldwide, causing many manufacturers in other countries to close down their factories. The changing textile market realities are putting enormous competitive pressure on other countries, which need to find innovative strategies to either remain on the market, or find other market opportunities. The restructuring of entire sectors often goes hand in hand with the reduction of the workforce (*downsizing* strategies), but has much more far-reaching implications than merely the decrease in workforce size.[17] However, the pressure on the labour market alone is enormous, forcing government and public and private sector development partners to look for employment alternatives[18].

### Restructuring sectors often means looking for alternatives

This is where sector selection comes in. Imagine that you have to look for alternative employment and income opportunities for workers who have been laid off by garment factories. Where do you accommodate them? The issue described above places sector selection in a new context and illustrates its importance: ***we might not only have to select sectors that show good market opportunities***

[16] Schuler, R., Rogovsky, N. (2007), in: Socially Sensitive Enterprise Restructuring in Asia, International Labour Office, Geneva.

[17] ibid.

[18] Global restructuring also affects local chains and that local chains (without export markets) are often more important for poverty reduction.

***("sunrise sectors"), but we might even have to select sectors that show severe signs of decline and competitive pressure*** – in order to find ways for people working in the sector to cope with market change and new sources of employment and income.

**Sector selection determines contribution towards Decent Work in value chains**

The selection of sectors in which Decent Work can be achieved further lays the foundation for value chain initiatives: In order to achieve a significant contribution to Decent Work within the context of value chain development programmes, several socio-economic criteria need to be taken into account, such as: employment intensity of a given industry (or employment creation potential), known Decent Work deficits (e.g. in terms of labour conditions), percentage of employed women involved (gender equality), industry growth prospects and others. ***The choice and application of sector selection criteria therefore already has an impact on possible Decent Work outcomes.***

## 1.3 Who selects sectors?

Sectors need to be selected for a value chain initiative by any organization that is not immediately part of an economic sector. These could be

- ***Government*** departments, ministries or extension services whose aim it is to promote certain industries and sectors in which the country has a competitive advantage;
- ***Multi-sector business membership organizations*** (such as chambers of commerce, trade and industry) and ***workers' unions*** who want to understand the needs of members in specific sectors and provide better services for them;
- ***Public-Private Partnership forums*** aiming to create a conducive business environment for specific sectors;
- ***Development organizations and banks*** (NGOs, INGOs, IGO, etc.) that work in private sector development with the aim of creating more jobs and income or supporting disadvantaged groups in particular sectors.

**Involving local stakeholders in selection for ownership and support**

Sector selection should always be done in consultation with local stakeholders from the target area/country. After some initial research on available sectors in the target area, the implementing organization should invite national stakeholders with a good overall knowledge of the economy to a consultative socio-economic meeting, in which a decision is made for a particular sector on the basis of the Decent Work agenda or national development priorities. This will increase local ownership (i.e. give people the feeling that they have been part of the decision-making process from the very beginning) and lead to higher support for the value chain initiative. The following section discusses some of the ways to incorporate the Decent Work Agenda.

## 1.4 How to select sectors using Decent Work criteria

**So how do we select sectors?**

The following section will explain how to select sectors for value chain development initiatives in 4 steps: 1) defining objectives and target groups, 2) deciding on selection criteria, 3) rapid assessment of available sectors, and 4) application of selection criteria in a consultative meeting with stakeholders.

# Step 1:

### Defining objectives (Decent Work) and target group

In order to select a sector for a value chain initiative, you need to be sure about your own objectives: *What do I want to achieve? Who is my target group (the market and beneficiaries)?* ***Decent Work Country Programmes***[19] facilitated by the ILO among its national constituents (government, employers and unions) provide a guideline for projects as to which selection criteria best match a country's Decent Work agenda. By placing a value chain initiative for a sector within the framework of Decent Work Country Programmes (which reflect the constituents' development priorities), it will also be easier to generate support and link up with other development initiatives.

### Putting sector selection in the context of Decent Work Country Programmes

Examples for objectives in Decent Work Country Programmes include: poverty reduction through creation of decent work opportunities with a focus on young women and men (employment and income creation), reducing incidences of child labour and its worst forms, mitigating the socio-economic impact of HIV/AIDS at the workplace, promoting gender equity, improving occupational health and safety, enhancing skills, etc. So where does your value chain initiative fit in?

### The target group

Assuming that as a reader of an ILO guide to *Value Chain Development for Decent Work*, you share similar objectives as we do – i.e. the promotion of *Decent Work*[20] in value chains, we might ask ourselves: which are then the most disadvantaged groups in value chains in terms of Decent Work? We might come up with the following answers:

- ***Small and medium-sized enterprises*** (SMEs) which either supply to or buy from larger companies,
- ***Workers and employees*** in medium to larger business units (e.g. factories, offices, etc.),
- ***Women*** working in various occupations along the value chain (e.g. as home-based workers, employees, or micro-entrepreneurs),
- ***Young people and youth*** also working in various occupations in the value chain and looking for a career or trying to enter employment in certain sectors,
- ***Other disadvantaged groups*** such as disabled people seeking employment, ethnic minorities, children (in the case of forbidden child labour), etc.

[19] Decent Work country programmes can be viewed under www.ilo.org/public/english/bureau/program/dwcp

[20] For a definition of Decent Work, see chapter 8

### Defining characteristics of the target group

Decent Work Country Programmes often focus on one (or several) of these target groups, although project managers are encouraged not to forget the other groups.

Finally, having identified your Decent Work objectives and your target group, what are its defining characteristics that you would like to address with your value chain initiative? The table in *Box 1.3* below provides a simple example, and you can also use it to reflect on your own objectives. It is recommended that you discuss these questions at the first team meeting of your organization – i.e. with the people that will form part of the core team (see *Section 1.2.1* below).

*Box 1.3: Template table and example for defining objectives and target group*

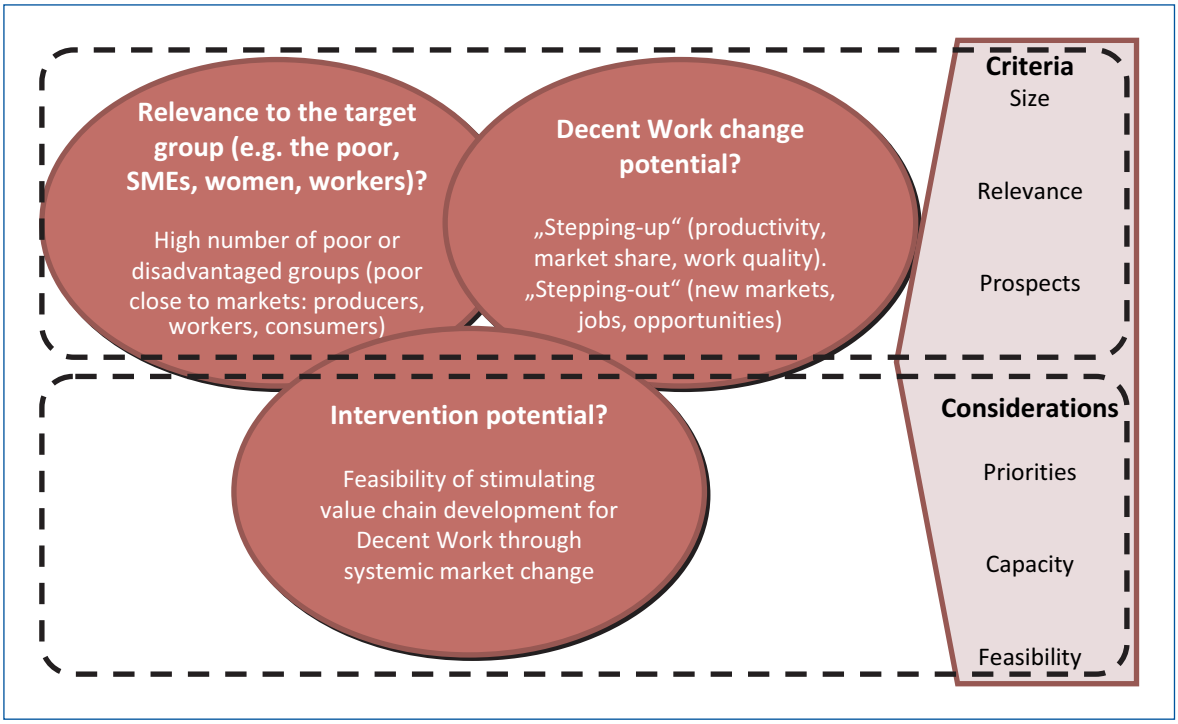
| What are your objective(s)? | Who is your target group? | What are their defining characteristics? |
|---|---|---|
| Create job opportunities national and higher incomes | Micro and small enterprises in rural areas | • Incomes below the poverty line (they are poor)<br>• Lack of voice and legal recognition<br>• Poor working conditions and health risks<br>• Low productivity and product quality<br>• Etc. |
| Now it's your turn… | | |

## Step 2:

### Setting up selection criteria

Having defined your objectives, the target group as well as the defining characteristics which you would like to address in your value chain initiative, you now need to think about some criteria for select a sector. The following ***Decent Work selection criteria*** have been used with success by the ILO Enter-Growth project in Sri Lanka.[21] They can also serve as an example for other value chain initiatives:

*Box 1.4: Decent Work potential selection criteria*




*Source: Taken from The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK). See www.springfieldcentre.com*

[21] Taken from the *Making Markets work for Poor* (M4P) course of The Springfield Centre – Pro-poor growth selection criteria. For more information see www.springfieldcentre.com

### Criteria 1: size and relevance to target group

**1. *Relevance to the target group:***

How many members of the target group are located in a sector?What occupations do they take in within a sector – or within a value chain? How relevant is a sector e.g. for providing jobs and income for the poor? How relevant is the sector as an employment opportunity for youth? How relevant is the sector for the promotion of gender equity? If job and income creation for the poor is your objective, then how employment-intensive is the sector? What is the percentage of women working in the sector, if gender equity is your objective? These are the kind of questions that need to be answered in order to understand whether a sector is relevant for achieving certain Decent Work objectives.

Depending on your Decent Work objectives (step 1) this first criterion ensures that a sector is selected in which a high number of your target group members (e.g. women entrepreneurs) is found – thus also ensuring a high impact of your value chain initiative. It is also important to consider the target group's occupation within a sector: are they workers/employees within larger business units, small producers or entrepreneurs, home-workers, small retailers or even consumers? In other words: where in the sector is my target group?

### Criteria 2: Decent Work change potential

**2. *Decent Work change potential:***

after assessing the relevance of a sector for the target group, we need to consider some characteristics of the sector in general and assess the potential for change towards our Decent Work objectives. If our objective for example is the creation of jobs and higher incomes through micro and small enterprise development in rural areas, then we might ask some questions about the market potential of products and services in a sector by looking at some output indicators (e.g. volume/value of sales). Or if the objective is to improve the working conditions of workers in production units, we might, inter alia, look at some consumer and market trends and requirements with regard to fair trade or codes of conduct for a particular sector.

It is useful here to distinguish between three upgrading strategies that help us to assess the potential for Decent Work change:

a) "*Stepping-up*" strategies involve doing things better. This could mean, for example, increasing productivity, improving product quality and specifications, increasing the market share by perhaps adopting a better marketing strategy, or adding value to products at lower levels of the value chain. All these could be achieved by technical innovation, better management practices, improved workplace conditions, etc.

b) "*Stepping out*" strategies[22] involve a more fundamental shift: this could involve exploring completely new markets, changing towards new products, seeking employment opportunities in other/related sectors, etc. Value chain development does not mean focusing on one single chain (stepping-up strategy), but it also means enabling market players to make choices between different opportunities. Stepping-out strategies are often important when a sector comes under too much competitive pressure and lay off workers and small businesses need to look for alternative income sources.

[22]This could also be the case where restructuring sectors are being downsized due to international competitive pressure from other countries. As a result, stakeholders need to consider alternative income sources, such as entering new markets, product change, re-training programmes for workers to enable them to find jobs in other – perhaps similar – sectors. See also Schuler/Rogovsky, 2007.

c) *"Hanging in"* strategies refer to strategies aiming more at survival under present conditions rather than doing things better or exploring new opportunities. This is often a short to medium-term option for industries coming under heavy competitive pressure.

### Criteria 3: Feasibility of stimulating change

**3. *Intervention potential:***

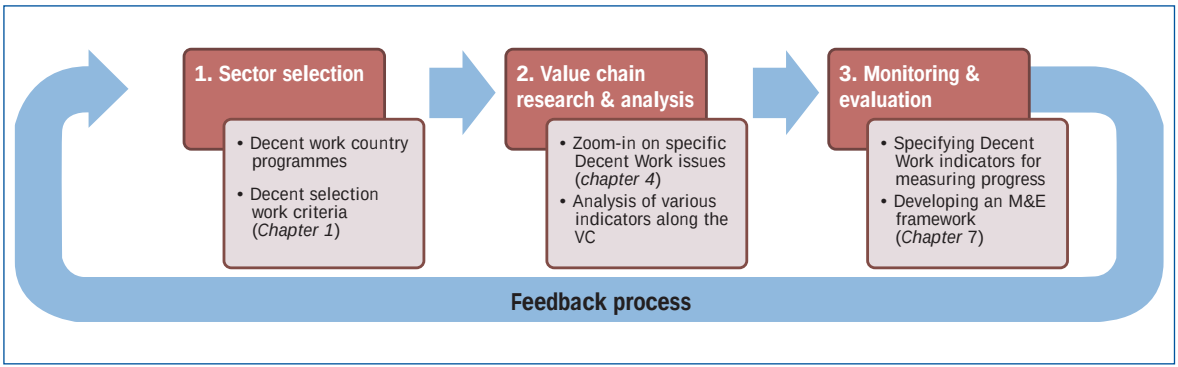
and lastly, we need to assess the feasibility of actually stimulating change in a sector. Change depends on a variety of internal and external factors. By *internal factors*, we mean the priorities and capacities of your organization: First, having assessed criteria 1 (size and relevance) and 2 (change potential), does the sector meet your organization's objectives and priorities? Secondly, does your organization have the necessary capacity/resources (technical skills, human and financial resources, etc.) for starting a value chain initiative in the sector?

There will also be many external factors that determine the feasibility of an intervention. The ILO Enter-Growth project in Sri Lanka for example made the experience that value chain initiatives are only successful if you have a strong local partner organization that has the motivation and resources to drive forward upgrading strategies. Other external factors might include the presence of other development organizations, level of organization in the sector, motivation and commitment of stakeholders towards change, the availability of lead persons and organizations (potential agents of change), etc.

### Sector selection is part of the appraisal of a value chain initiative

The criteria used for sector selection also need to be seen in the overall context of a value chain initiative: they serve as an orientation for value chain research (see *Chapter 4*) – i.e. they help to focus on key issues within a value chain system that value chain research and analysis "zooms" in on. They also set the foundation for monitoring and evaluation during the implementation of actions (see *Chapter 6*) – i.e. which are the indicators against which progress should be monitored. Sector selection is therefore part of the appraisal for a value chain initiative when it is still in the planning stage, before implementation (*prospective* assessment). During this process, sector selection criteria are further broken down into more specific areas of research and indicators for monitoring.

*Box 1.5: Evolution of indicators for monitoring and evaluation*



### Checklist for Decent Work selection criteria

The following checklist (Box 1.6) can be used as a guide for governments and organizations that have to select sectors, with the aim of creating jobs and income through private sector development (of SME development). You may not want to use all of the questions/indicators, and you might also want to add your own. You will also most probably be unable to answer all of the questions in the selection phase (answering them all would in fact already be half of a sector analysis); however, you should be able to give a sufficient answer to the three Decent Work criteria in general. The questions below therefore give you a direction.

*Box 1.6 Checklist – Decent Work selection criteria*

| Criteria 1: Relevance to target group and size<br>**Questions/indicators** | **Answer** |
|---|---|
| **Size (to assess the potential scale of outreach and impact of interventions)**<br>1.1 How big is the sector? Look at the following indicators:<br>• Contribution to national GDP and growth over the past 5 years<br>• Contribution to total employment over the past 5 years<br>• Development of total investments (also FDI)<br>1.2 Has the sector shown signs of growth or decline over the past few years?<br>1.3 What is the size of the market?<br>• Development of market share (i.e. compared to competitors)<br>• Main competitors<br>• Development of export volume and value<br>• Current markets and their share of total sales<br>1.4 Has employment in the sector grown or declined in recent years? | |
| **Relevance to the target group**<br>1.5 What is the estimated number of SMEs (or your target group, e.g. women) in the sector?<br>• Number of SMEs/small producers<br>• Number of people working in SMEs in the sector<br>1.6 What is the income situation of SMEs in the sector?<br>• Average enterprise income per month (net profits)<br>• Price per product unit<br>• Average household income per month<br>• Diversification (i.e. is it a main income source or just a side income?)<br>1.7 What is the level of productivity and product quality of SMEs in the sector?<br>• Output or sales volume per day/week/month<br>• Number of rejects from buyers<br>1.8 How much does the sector contribute to employment of the target group? | |
| ***Final conclusion: is your target group sufficiently represented in the sector? And: is the sector relevant enough to your target group as a source of income and job opportunities?*** | |

| Criteria 2: Decent Work change potential<br>**Questions/indicators** | **Answer** |
|---|---|
| **Stepping-up potential**<br>2.1 Are there opportunities for your target group to increase its market share?<br>2.2 Can the productivity of your target group (small producers/SMEs) be increased in any way (e.g. through technical innovation, better knowledge and information, better working conditions, etc.)?<br>2.3 Is there potential for increasing incomes and the number of jobs in the target sector? This is also very much related to market pa<br>2.4 What is the current situation of workplace quality (safety at work, comfort, payment, organization, EPF/ETF, etc.) and can this be improved through simple and low-cost innovations?<br>**Stepping-out potential**<br>2.5 Are there markets which have yet not been explored and which could provide an opportunity for local producers (i.e. new markets)?<br>2.6 Are there other sectors in which similar skills are required and which could absorb workforce from the sector in question?<br>2.7 Would changing the specifications of the product have a positive impact on market opportunities for local producers (e.g. value-addition, or complete change of product portfolio)?<br>2.8 Are there opportunities for local market players to step out of existing chains and join other more lucrative value chains? | |

| Criteria 3: Intervention potential<br>**Questions/indicators** | **Answer** |
|---|---|
| **Internal factors**<br>3.1 Does the sector match your organizations' objectives and priorities?<br>3.2 Will you be able to bring in your technical expertise and your organization's capacities to a sufficient extent?<br>3.3 How many team members will be required to start a value chain initiative on the sector?<br>3.4 How many of this team can your own organization contribute?<br>3.5 Do the (potential) team members have a clear understanding of the objectives and methodology of a value chain initiative?<br>3.6 Do you need to train team members (perhaps from partner organizations) before starting the value chain initiative?<br>3.7 How much financial resources will be required to start a value chain initiative in the sector?<br>3.8 Does your organization have these financial resources or do you need to find funding partners? | |

| Criteria 3: Intervention potential<br>Questions/indicators | Answer |
|---|---|
| **External factors**<br>3.9 Is there a strong partner organization in the sector with which you can cooperate and which will drive forward change?<br>3.10 Will this partner organization be willing to take over responsibility for parts of the value chain initiative and, later on, the implementation of interventions?<br>3.11 How many other (development) organizations are operating in the sector? I.e., is it necessary to start a value chain initiative in the sector or is it already sufficiently covered by others?<br>3.12 Are stakeholders in the sector interested in changing and do they have the motivation, i.e., are they interested in your value chain initiative?<br>3.13 What resources can partner organizations themselves contribute (e.g. team members, financial and material resources)? | |

# Step 3:

## Rapid assessment of available economic sectors

The next step in sector selection is a rapid assessment of available sectors in the target region: what sectors are available, and which of these is most likely to fulfil the above Decent Work selection criteria? The purpose is to get a short list of sectors amongst which to select one for a value chain initiative.

## Information sources

So, what sectors are available? The following institutions usually provide useful sources of information for development organizations:

- National or regional ***chambers of commerce***, trade and industry, and other multi-sector business membership organizations (perhaps also Rotary and Lions Clubs? Companies represented here often purchase from or sell to SMEs, or they employ workers, women, etc.)
- ***Workers' unions*** and representative organizations (if they are not already sector-specific)
- ***Government ministries and departments*** (e.g. ministries of trade, industries and agriculture), local authorities in the target region such as the department for business registration
- ***Statistical units*** of central banks and ministries of finance, national census departments/bureaus and statistical institutes
- ***Public-Private Partnership/Dialogue forums*** which meet regularly to discuss issues related to private sector development and in which various stakeholders from different sectors are represented
- Country-specific economic information from ***international organizations*** such as WTO, World Bank, IMF, FAO, ITC and other NGOs (their websites often provide useful information)

## Outcome: shortlist of sectors fulfilling DW selection criteria

This exercise might take about two weeks in which one member of your organization (or a partner/consultant) collects information from the above-mentioned sources. If you are from an organization that already possesses sufficient information on available sectors in your region, this step might also be shortened and you could proceed with the next step. However, you should be able to come up with a short list of sectors and be able to (roughly) apply the Decent Work selection criteria to each of them:

*Box 1.7: Shortlist of sectors for selection*

| Sectors | Strong presence of target group? (relevance)? | | Potential for Decent Work change? | | Intervention potential? | |
|---|---|---|---|---|---|---|
| 1. e.g. dairy sector | Yes ☐ | No ☐ | Yes ☐ | No ☐ | Yes ☐ | No ☐ |
| 2. | Yes ☐ | No ☐ | Yes ☐ | No ☐ | Yes ☐ | No ☐ |
| 3. | Yes ☐ | No ☐ | Yes ☐ | No ☐ | Yes ☐ | No ☐ |
| 4. | Yes ☐ | No ☐ | Yes ☐ | No ☐ | Yes ☐ | No ☐ |

# Step 4:

## Organizing a consultative meeting with stakeholders

You now have a shortlist of sectors that (roughly) apply to the Decent Work selection criteria – but you can only do ***one*** value chain initiative (or initially start with one and then continue with other shortlisted sectors later on), unless you have the capacity to take up several sectors at the same time.

Organize a stakeholder meeting to come to a final conclusion (half a day). Stakeholder participation from the beginning of a project – i.e. already in the design phase – is essential for creating a sense of local ownership and to generate support for the value chain initiative. An important decision such as the selection of sectors for private sector development initiatives should not be done by one organization alone, but in consultation with other relevant stakeholders and development partners.

## Whom to invite

Since this consultative meeting is about sector selection, you would want to invite participants who have a good overview of the general economic situation of your target region – not sector-specific stakeholders (since they would be biased). These could be members from the organizations listed above in step 3. Ideally, you would make use of existing public-private dialogue forums for this purpose.

## Proposed agenda for sector selection meeting

The agenda for such a meeting could be as follows:

1. Short presentation of your organization and its objectives, the value chain approach and Decent Work selection criteria (i.e. what the participants can expect; the basis on which a decision is to be made).

2. Presentation of shortlisted sectors – without mentioning whether they match the selection criteria (this would be part of the following discussion).
3. Discussion on whether the short listed sectors match the Decent Work selection criteria (this could be done by means of a card exercise or through a voting system).
4. Ask the participants to prioritize the sectors (again a voting system has proved to be most useful in this case – i.e. for example, two votes per person, which can be allocated to two of the short-listed sectors).
5. Decision: starting a value chain initiative on the sector with the highest priority.
6. Discussion on the way forward: which of the present organizations would like to actively support the initiative – and how? Perhaps you might also consider publishing the outcome of the meeting in media to inform stakeholders in the selected sector of the upcoming value chain initiative.

## 1.5 Further reading on sector selection

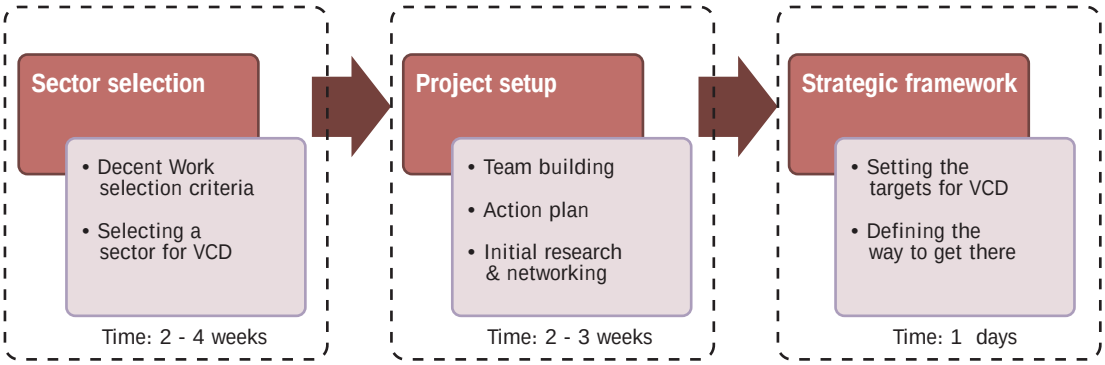

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- **Oldsmann and Hallberg (undated):** Framework for evaluating the impact of small enterprise initiatives, World Bank, Washington D.C.
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Chapter 2

# Project setup and initial research & evaluation

## Summary sheet: project setup and initial research

***Timeline and proposed actions:***




***Summary:***

This chapter will help you to lay the foundations of a value chain initiative. Each of the steps has a clear outcome:

1. **Project setup:** What do you need to do to get started? This section will discuss the initial steps of a value chain initiative, such as setting up a team, putting together an action plan and starting with initial research and networking amongst market players.
2. Setting a **strategic framework** is important for defining the objectives of your value chain initiative and outlining the how you want to achieve these objectives. This will also provide a good framework for assessing what is feasible and what is not.

***Outcomes:***

- A strategic framework outlining the initiative's approach to achieving its final objectives (i.e. job and income creation and Decent Work)
- A project team consisting of a team leader, a core team and a support team
- Initial research assessing the relevance of the sector for the target group, its potential for job and income creation (or Decent Work), and the feasibility of intervention through the initiative
- An initial value chain map outlining the flow of goods and services from raw material / input supply to the final consumer (explanation in detail in *Chapter 3*)

## 2.1 Setup of a value chain initiative

### How do I start?

What do I actually have to do to start a value chain initiative? What needs to be done in the project setup phase? The following section will take you through several initial activities that are needed to get the initiative off the ground.

### Purposes of project setup

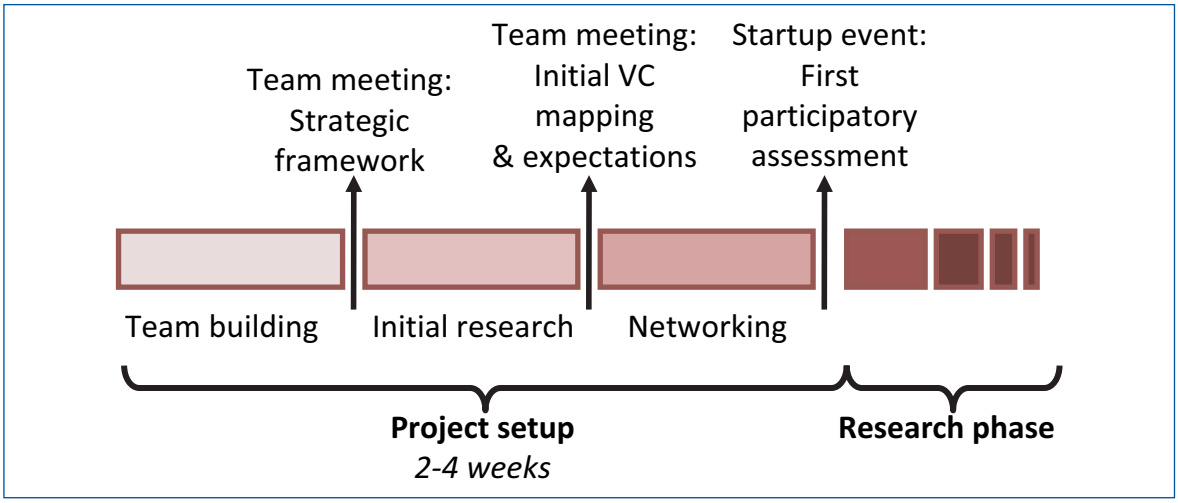
Project setup is in the first place about getting the organization and logistics for a value chain initiative positioned, but also already sets a basis for understanding the sector. In particular, project setup serves the following purposes:

1. Putting together a ***team*** that consists of a team leader, members of your organization and representatives from the target sector.
2. Setting up a ***strategic framework*** that outlines the objectives of the initiatives and how it plans to achieve them.
3. Beginning an ***initial value chain map*** which helps to identify main market players in the sector as well as their position in the value chain (stakeholder directory).
4. Getting a ***first broad picture*** of what is actually happening in the sector; understanding the current situation and getting a first idea of what the main issues you might face could be.
5. Starting to ***network with market players*** and developing linkages that provide the basis for the value chain research.

### Time frame and landmarks

The project setup should not require more than ***four weeks***. In fact the smaller the target region is, the faster the setup should be done. However, keep in mind to leave enough time for an initial assessment of the sector and networking.

*Box 2.1: Setup phase – landmarks and time frame*



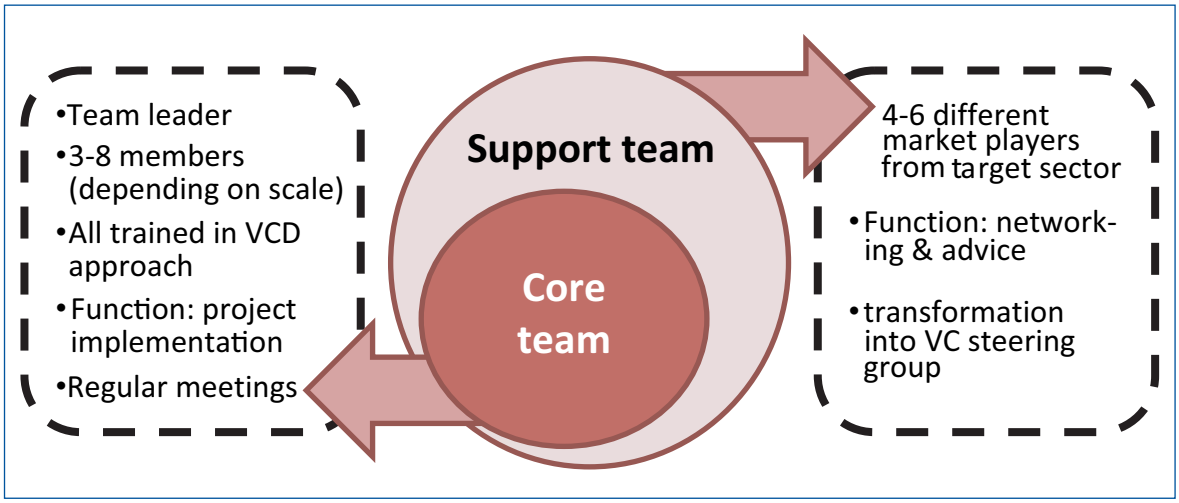
### *2.1.1 Team building and organization*

**Selecting a good team is of paramount importance for success**

The success of a value chain initiative rises and falls with the team, its capacity, capabilities and most importantly: its commitment. Putting together a good team is therefore the first and most important task in the setup phase. It creates the infrastructure on which the initiative is built up.

To achieve good results, the team should consist of a mix of people from your own organization (whether you are a company, a government institution or a development organization), from partner organizations and representatives from different levels of the value chain. This guide therefore suggests the following team structure, which builds on positive experiences in Sri Lanka and Madagascar:

*Box 2.2: Team building for a VCD initiative*




**Team leader**

1. A ***team leader*** who is knowledgeable and has experience in Value Chain Development (as described in this guide) and Local Economic Development and possesses strong leadership characteristics.

**Core team**

2. A ***core team*** of 2-5 persons who have been trained in the VCD approach and who can conduct interviews and workshops independently, collect relevant data and find solutions. These team members would ideally be from private/public partner organizations – thus creating synergy effects from the outset. Local government authorities usually have departments dealing with SME development, for example, and these would be ideal partners, as would local BDS organizations. It is of interest for government and development organizations to know that these persons can also serve as a resource pool for other value chain initiatives.

### Support team

3. A ***support team*** of another 3-5 persons from within the target sector and from different value chain levels (e.g. one agricultural inputs supplier, one farmers' representative, one dairy processor and a dairy product retailer). These persons do not need to be trained in the VCD approach. Their asset to the project lies in intimate knowledge of the target sector itself and their contacts with key stakeholders. Nor would they would attend all team meetings and activities; they would only be invited to key team meetings and events where they can provide advice. Keep in mind that these people have businesses and daily work to attend to, and therefore do not waste their time!

### Important: team consistency and continuity

Note that it is important that the persons in your support and core team participate actively throughout the entire VCD initiative (i.e. they are the *same* persons from project setup to at least results presentation (a total of about 8 to 12 weeks)). Team consistency is essential in order to ensure that information does not get lost on the
way through not-participating team members and to secure good results based on quality research and analysis!

### Organization: working with/through a local partner organization

Building the capacities of local organizations and institutions (e.g. government or BDS organizations) is one of the objectives of most development organizations, and organizing a value chain initiative with/through a local partner organization is a very effective way of achieving this target. The same applies to multinational companies seeking to upgrade their supply/retail chains in Emerging Markets: they often rely on local business partners and service providers such as consultancy firms or business membership organizations.
Multinational companies, development organizations and government ministries/departments can therefore assign a local partner organization to organize a value chain initiative, whereas the company/ministry/ development organization can stay in the background, only providing technical guidance for the local partner organization on the basis of this value chain guide. ***Role allocation between organization and logistical implementation on the one hand and technical VCD capacity on the other*** would therefore be clearly separated (perhaps with a view to transferring this capacity throughout the VCD initiative); the communication basis and terms of references between the two partners would be defined by this value chain guide.

*Box 2.3: Case example of team building and organization*

In Sri Lanka the ILO Enterprise for Pro-Poor Growth (short: *Enter-Growth)* project has conducted several value chain initiatives at local as well as provincial/regional level. In order to carry out these initiatives, the project had to rely on local partner organizations and individual facilitators:

1. **Partner organizations:** the project initiated four larger-scale value chain projects on the dairy, coconut coir, floriculture and packaging industries. For each of these sectors it contracted a local partner organization – either from a government institution (in Sri Lanka many of the BDS organizations are in government hands) or a private sector organization:

- **Dairy:** Irritech (Pvt.) Ltd. – a small private business services company that provides business solutions and management training as well as agricultural irrigation systems for a wide range of enterprises, ranging from micro and small businesses to medium-sized enterprises. The owner is a very entrepreneurial person and has invested into a cow breeding farm and dairy processing unit after completion of the value chain initiative, using private funds.
- **Coconut coir:** Industrial Development Board of Sri Lanka – this is the industrial extension service arm of the government, with offices in every district of Sri Lanka. They focus on developing small industries in rural areas, providing enterprises with a broad portfolio of services ranging from management and technical training, association building, promotion of specific industries and sectors, technical field advice, etc.
- **Packaging:** Dambadeniya Development Foundation – a private sector sponsored local foundation that focuses on local economic development particularly in the Dambadeniya division. The VCD initiative was in fact organized by a private arm of the DDF, the Social Project Development Centre, which is a small for-profit organization which provides services for local entrepreneurs and the local community.
- **Floriculture:** Since the floriculture sector is export-oriented, Enter-Growth contacted the Sri Lankan Export Development Board to that purpose – a government service organization that provides various export and market information related services.

Some of these organizations have continued working on the sectors to which they have been assigned – beyond the contract period. Most of them have now budgeted VCD initiatives in their annual plans, which means they will carry on without the support of Enter-Growth. Only one of the organizations had been trained previously in the VCD approach – others subsequently attended training sessions. This was not an obstacle, however, since Enter-Growth had its own district managers and a national value chain specialist who could provide technical guidance.

***The lesson to be learned from Enter-Growth's experience is that you need to understand the partner organizations' incentives to become part of a VCD initiative for a particular sector and its motivation to take on the organizational component.***

2. **VCD facilitators:** The Enter-Growth initiative only has limited staff available, and therefore had to rely on local "facilitators" who could carry out interviews and workshops, collect relevant information and data, as well as contribute to analysing findings and formulate upgrading solutions for the selected sectors.

   The project therefore selected several stakeholders from different partner organizations in each of its four districts, and trained them in the value chain approach. These training sessions included the conceptual background to the VCD approach as well as practical implications (i.e. carrying out interviews and workshops, presentation techniques, and workshop methodologies, etc.). This way, Enter-Growth created a pool of facilitators from which it could draw for its value chain initiatives – i.e. these persons were hired to become part of the core team.

   Facilitators who have participated in training sessions and subsequently carried out VCD initiatives with Enter-Growth have greatly benefited from this learning experience. Most organizations that have made their staff available for this purpose are now starting to carry out VCD initiatives on their own.

*For further information see intervention reports and case studies on www.entergrowth.com (under 'project library').*



### *2.1.2 Team workshops and events during the setup phase*

**The three landmark events in project setup stage**

According to the figure in *Box 2.1* above, there are three landmark events suggested for the project setup stage:

1. A first team workshop in which a ***strategic framework*** (objectives) will be set up and responsibilities and tasks for the project setup stage will be discussed and allocated.
2. Another team workshop on ***initial value chain mapping*** (identifying stakeholders and their positions in value chains) and the formulation of expectations based on the initial research conducted so far.
3. A start-up event for a ***first general and participatory assessment*** of the current situation of the sector to which all relevant market players are invited.

**…and of course regular core team meetings**

Apart from these three landmarks, the core team should of course meet regularly and frequently to discuss progress and tasks. The support team should only be invited to the landmark events above (perhaps even only to the last two events) in order to avoid over-burdening them in terms of time commitment.

# Event 1:

## Strategic framework and action plan

Having put together a team, it is then important to discuss the general approach of the value chain initiative, the objectives and the ways and means of achieving them as well as actual implementation. Organize a first team workshop for that purpose – half a day will be sufficient, unless the team members are not yet familiar with the approach. Although it is not necessary for the support team to participate at this workshop, it would certainly promote transparency and local ownership.

### Introduction

1. Start by briefly defining a) what value chains are, b) what value chain development means, c) how value chain development is connected to market system development (see Introduction and Chapters 6, 7 and 8). This serves the alignment of the team's understanding of the approach used.

### Strategic framework

2 Define the strategic framework of the value chain initiative as described in the next Section 1.3., i.e. what are we trying to achieve?

### Action Plan

3. Draw up an action plan that indicates the steps of the value chain initiative, tasks, responsibilities and the overall targeted time frame. Discuss within your team what has to be done within the next few days and weeks of the setup stage, and who will be responsible for which tasks. The following template may serve as an example (you can also attach a Gant-chart to better illustrate the progress in time). While making an action plan, bear in mind that the longer a value chain initiative drags on, the less dynamics it will develop amongst market players – i.e. they will lose interest if it takes too long and does not show results.

*Box 2.4: Action plan for the overall VCD initiative*

| Value chain stage | Landmark events | Tasks | Responsibility | Date/ Time frame |
|---|---|---|---|---|
| **Project setup & initial research** | 1. Mapping & expectations team workshop<br><br>2. Start-up event | • Initial research<br>• Stakeholder list<br>• Etc.<br>• Hotel & Catering<br>• Invitations<br>• Etc. | … | … |
| **Value chain research** | 1. Team planning workshop | | | |
| | 2. Developing questionnaires & FGD guidelines | | | |
| | 3. Interviews and FGDs | | | |
| **Value chain analysis & presentation** | 1. Team evaluation workshop | | | |
| | 2. Documentation of findings and proposals | | | |
| | 3. Presentation event | | | |
| **Implementation (monitoring & evaluation)** | 1. First steering group meeting | | | |
| | Etc. | | | |

# Event 2:

## Initial VC mapping and expectations

Having conducted initial research on the target sector (see next *Sections 1.,2. and 3* and also the figure in *Box 2.1* above), you will probably already have a rough idea of

- ***The main market players in the sector:*** these could be government, private sector, business membership organizations, unions, business service providers, NGOs and development organizations, etc.
- ***Their position in the value chain and market system:*** are they part of business transactions in the chain, or do they come from supporting organizations and institutions?
- And, in general, the kind of ***opportunities and constraints*** that you would expect in the sector (or target group) and the kind of ***outcomes*** you anticipate.

## A half-day workshop for core and support teams

Organize a half-day workshop for your core and support teams, and discuss the following items at that team workshop:

## Initial VC mapping

1. ***Initial value chain mapping:*** this will help to create an inventory of market players and understand their positions in the value chain and market system, as well as their relationship to one another. See *Chapter 3* on how to map value chains.

## Expectations

2. ***Expectations regarding opportunities, constraints and outcomes:*** this exercise serves the purpose of bringing together the findings of the initial research as well as aligning the team's understanding of expected outcomes. It ensures that the team speaks 'one language' when approaching market players later on.

   There are different ways in which this can be done. A simple ***SWOT analysis*** on a flipchart to assess the target group's current situation is one way. Another is to use ***Porter's Five Forces*** as a guideline: by using the ***card exercise*** – see *Box 2.5* below, you can, for example, ask your team:

   - What are the expected constraints for the demand and supply side as part of the market system framework)?
   - What kind of outcomes/proposals do we expect to come out of the value chain analysis?

## Preparation for start-up event

3. ***Preparation for the start-up event:*** the next landmark event in the setup stage is a large one. All relevant market players are invited to the start-up event, which therefore requires more preparation (e.g. venue, catering, invitations, special guests, etc.). Discuss with your team what needs to be done, and the responsibilities of each member.

*Box 2.5: Card exercises workshop tool*

Also known as ZOPP cards, this workshop tool guarantees the active involvement of all participants and helps to focus on key messages (rather than having detailed and time-consuming statements by individual participants).

**Required equipment and materials**

- 1-2 large pin boards and lots of pins
- plenty of cards in different colours (size about 12 x 22 cm)
- brown wall paper (used as back ground on to which to pin the cards)
- masking tape
- markers for every participant



**Procedure**

For a card exercise, every participant receives several cards and a marker. They are then asked to write down their answers to/thoughts on a particular question (e.g. what are the strengths and weaknesses of dairy farmers in Polonnaruwa?). The answer has to be very concise and written in large letters on the card. Several cards may be used for several answers/thoughts (e.g. one strength per green card and one weakness per red card).

The moderator then collects the filled cards, reads them out one by one and pins them to the board (where a title/question has already been pinned).

**"Clustering"**

Many filled cards will repeat themselves once they have been pinned to the board. The moderator (or alternatively two participants) then summarizes the cards into categories by grouping cards with similar messages.

# Event 3:

## Start-up event

The *start-up workshop* sets an official starting point, to which all relevant market players from the target sector and media are invited. Start-up workshops in Sri Lanka for example have included between 30 and 70 participants from private sector businesses, government, relevant business service organizations, etc. The value chain mapping in the previous step will help to identify who should be invited to this event.

## Main purpose: first participatory assessment

***The main purpose of bringing all the relevant market players together is to make an initial overall assessment of the target sector by getting answers from market players direct.*** The initial research up to this stage has been based primarily on secondary research and only casual discussions with market players. At the start-up event, market players are now actually invited to provide their input. Later on, during the value chain research (see *Chapter 3*) you will have separate interviews and focus group discussions with individual market players, to better understand their position within the value chain and market system, and their relationship to other market players. For the time being, however, you just want to get an initial picture.

Apart from this, the start-up event also serves several other purposes:

## Networking amongst market players

- ***Enhancing networking:*** it has often been found that market players have never met before such an event. Large businesses rarely attend the same events as small businesses, small businesses rarely get the chance to meet the relevant government organizations, and so on. By bringing them together, you are already contributing to value chain development by promoting better communication between market players.

## Publicity

- ***Publicity:*** make the public and especially market players from the target sector aware that "something is happening". Publicity will also ensure support by important decision makers.

## Refining the initial VC map

- ***Refining of the value chain map:*** the participants can be shown the initial value chain map, and their feedback can be used to correct and further refine it. This helps to further identify key organizations in the market system.

*Box 2.6: Checklist – Time frame, whom to invite, programme, organization & logistics*

| Tasks | Answer |
|---|---|
| **Time frame**<br>2-3 hours max. (Remember you don't want to waste participants' time! They are running businesses and have daily work to attend to. | Done ☐ |
| **Participants**<br>Depending on the scale of the value chain initiative (i.e. also the size of the target area), between 30 and 70 participants from<br>• Private sector businesses involved in transactions in the value chain – ranging from large companies (buyers/suppliers) to small enterprises,<br>• Relevant government departments, extension services, R&D facilities, training institutions, local authorities,<br>• Service providers such as BDS organizations, consultants, banks and insurances, training and skills,<br>• Public sector organizations such as relevant NGOs and development foundations,<br>• The media | Done<br>☐<br>☐<br>☐<br>☐<br>☐ |
| **Organization & logistics**<br>The start-up event requires preparation in order to create a professional impression with market players:<br>• Invitations: personal invitation combined with a casual chat and the handing over of a letter has always proved to be most effective. Start planning for this in time. Getting the invitation signed by a prominent personality is often very helpful.<br>• Venue: hotel conference hall or any other hall with enough space<br>• Catering: market players often come from quite some distance, so it might be good to provide lunch or snacks. This will also enhance networking.<br>• Equipment: cards in different colours (about 300 per colour), brown wall paper, markers, pins, boards, masking tape, flipchart and board, projector and laptop. | Done<br>☐<br>☐<br>☐<br>☐ |

### Proposed structure for the start-up event

The following structure has been used for start-up workshops in Sri Lanka and Madagascar, and may serve you as an example:

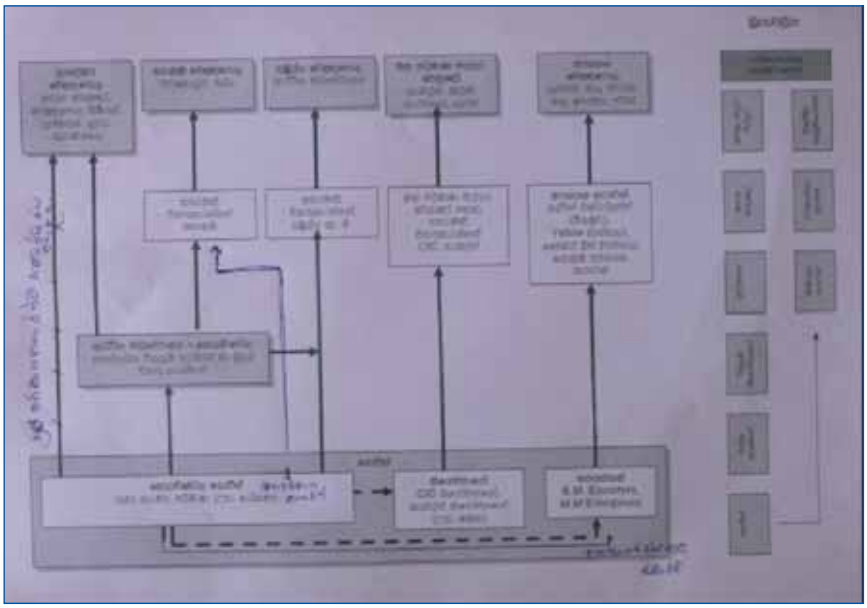
### Introduction

1. ***Introduction I:*** Welcome address, introduction of participants, and short presentation of the value chain approach and the objectives of the initiative, plus a short address of support by a prominent local personality.
2. ***Introduction II:*** A brief presentation on the findings of your initial research. For example some facts and figures that show the target sectors' performance over the past few years (especially market figures are always interesting); or the size and relevance of the sector for your target group; or a profile of your company/private sector initiative.

### Validation of initial value chain map

3. ***Validation of the initial value chain map:*** a quick presentation on the value chain map that has been constructed so far; pass around a handout with the map and ask the participants to make corrections or additions (e.g. add names of markets players, or new market channels, value chain levels that have been omitted, etc.). Collect these handouts to later refine your value chain map.

*Box 2.7: Corrected initial VC map*



### Assessment of opportunities and constraints

4. ***Assessing opportunities and constraints:*** This is the main objective of the start-up workshop and can best be done through a card exercise – i.e. ask the participants to write down answers on cards, collect these and pin them to a board, and perhaps ask some clarifying questions and hold a short discussion on them (see *Box 2.5*). For value chain initiatives targeting in particular small enterprise development in selected sectors, the format introduced in Annex 1 of this guide has proved to be most useful.

### Solutions

5. ***Solutions:*** What kind of solutions do the participants propose for addressing the opportunities and constraints identified? The start-up workshop already helps to get an idea of the general trend of possible solutions. Participants are thus also given the opportunity to shape the outcome of the initiative from the very beginning.

### Closing

6. ***Closing:*** information about the next steps (interviews and focus group discussion for in-depth value chain analysis; forming of a steering group; scheduled presentation of results), closing address and lunch/snacks that provide the opportunity for networking amongst participants.

### The outcome gives an idea of where in the market system to look for constraints

Note that the answers you get from participants in the start-up event are still very broad, since you have market players from all value chain levels and supporting organizations participating. ***But if you look at our market system model (see Chapter 8), the answers might already give you an idea of which supporting functions or rules might be an obstacle to the development of the sector.*** This will also then give you a direction for your value chain research and analysis.

## 2.2 Initial research and networking with market players

### Purpose of initial research depends on your objectives and background

Depending on your objectives and background – i.e. whether you are a private value chain initiative aiming to improve your marketing/supply chain or a government or development organization aiming at better integration of poor and disadvantaged into value chains and markets – the purposes of the initial phase of a value chain initiative may differ:

### Understanding the poor and their context

1. ***Understanding the poor and disadvantaged and their context.*** Before engaging in the wider market system the current position of the target group must first be understood. What are the symptoms of disadvantage? How does insufficient market integration affect the livelihoods of the poor? How do the poor perceive the market system? How do they interact with other market players? The Decent Work selection criteria introduced in *Chapter 1.4* provide a useful guideline for governments and development organizations to assess the context of the poor (or, more generally, the context of the target group).

### Understanding value chains and their context

2. ***Understanding the value chain context:*** the context in which value chains operate must be understood and the symptoms for value chain underperformance identified. This requires a good understanding of market characteristics and trends as well as of how value chains are currently coping with market realities. The five drivers of value chain development set forth in the *Introduction* of this guide can be a useful guideline. Private value chain initiatives in particular might prefer to start from this angle.

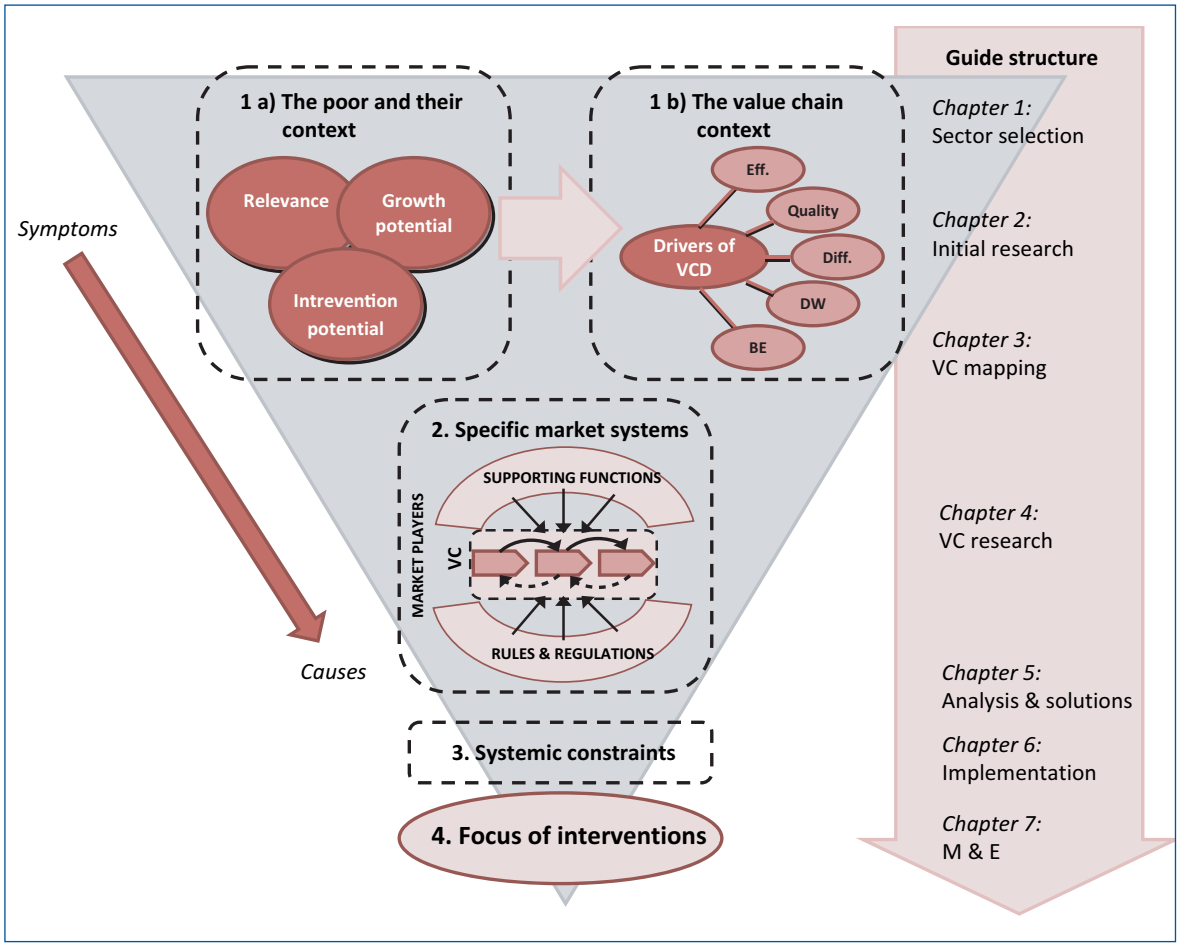
### Networking opportunity

The initial research also serves as an ***opportunity to network*** with market players: informing them about the value chain initiative and introducing the project team, holding informal discussions to develop an initial picture of the sector, expanding the network, getting support from key market players and decision-makers, etc. Experiences with ILO value chain initiatives have shown that invitations to start-up events (see *Section 2.1.2*) can serve exactly this purpose – i.e. using personal invitations rather than invitations through mail and other indirect means.

### Initial research as an entry point for identifying systemic constraints

The initial research has to be seen within the overall context of a value chain initiative: it is the entry point for insight into deeper systemic constraints within the market system of which value chains form the core. This process is similar to an analytical process by which the analysis of value chain systems moves from identifying symptoms to understanding underlying systemic constraints. This is also reflected within the structure of this guide as illustrated in *Box 1.13* below.

*Box 2.8: Diagnostic cone taken from M4P guide*




*Taken from: DFID/SDC (2008): The M4P operational guide available from www.m4pnetwork.org*

### Participatory approaches

***Participatory approaches*** are particularly useful for the initial research stage. They offer the project team an opportunity to look at value chains and market systems from the perspective of the target group (e.g. rural farmers or women entrepreneurs) and are therefore an ideal starting point for value chain initiatives. There is a wide range of tools and methods available from Livelihoods Analysis, Local Economic Development participatory approaches, etc.[23] However, you should also be aware of the risks and limitations of a research and planning process with overemphasis on participation:

- The danger of getting bogged down in symptoms rather than moving on to underlying systemic constraints: "needs"-driven approaches risk falling into the populism trap – i.e. formulating and implementing measures that show quick wins but are not sustainable and do not address underlying issues in the institutional framework of market systems.
- Failure to capture the broad picture: participatory approaches – particularly when they focus only on local economies ? often fail to grasp overall market realities because of the limited insight of their target groups.

### Using Decent Work selection criteria and five drivers of value chain development as orientation

Data and information on economic activities in Emerging Markets is often rare and unreliable. However, during the initial research of a value chain initiative, the project team should collect all the data and information that it can find, and which is relevant for the selected sector or the target group. If this information has not already been collected during the sector selection process, the checklist in *Box 1.5* (*Section 1.4*) above will provide a useful guide as to what information might be relevant:

1. ***Size and relevance*** of the sector as an employment and income source for the target group (GDP, employment, sales, markets, etc.)
2. ***Decent Work upgrading potential*** (stepping-up and stepping-out strategies,)
3. ***Intervention potential*** (partner organizations, resources, motivation, etc.)

The initial research focuses on available secondary materials and sources such as statistics, study reports, media articles, publications, etc. Section 1.2.4 above also mentions several information sources that might provide such information.

[23] See for example: Herr, Matthias (2008): Guide for Local Value Chain Development, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka). Available from www.entergrowth.com

*Box 2.9: Example of Information collected in initial research*

<table>
<tr><th>The target group and its context[24]</th><th>The value chain context (in terms of the 5 drivers)</th></tr>
<tr><td>Relevance to target group</td><td>System efficiency</td></tr>
<tr><td rowspan="2">How the targeted population participates economically – as producers, consumers or employees? This means developing a clear profile of the poor and the nature of their livelihoods. An indication of potential outreach is also necessary.</td><td>Communication and cooperation mechanisms between value chain levels, production costs at different levels, labour productivity, embedded services within transactions, infrastructure requirements and performance, reliability and flexibility of business partners, mechanisms of knowledge and information dissemination, processing times, etc.</td></tr>
<tr><td>Product quality<br><br>General market requirements, relevant quality standards and compliance with market trends, branding strategies, quality control mechanisms, transparency and traceability of production processes over different levels</td></tr>
<tr><td>Growth potential</td><td>Product differentiation (market)</td></tr>
<tr><td rowspan="2">Overall economic opportunities and prospects: sources of growth, important trends and, if possible, the dynamics of key sectors which are relevant to the poor.</td><td>Market players and competitors, market shares, customer perceptions of final products, local competitive advantage, research and development facilities, skills and capacity development mechanisms and facilities, market information access mechanisms, technology</td></tr>
<tr><td>Decent Work (social and environmental standards)<br><br>Related to Decent Work: occupational health and safety at different levels of the chain, fair trade mechanisms, Social Dialogue platforms, gender equity, codes of conduct of multinationals and private sector initiatives, labour participation (e.g. through unions)<br><br>Environmental: environmental standards and regulations and compliance</td></tr>
<tr><td>Intervention potential</td><td>Policy and regulatory environment</td></tr>
<tr><td>“Drivers”: the triggers for change within the wider context, for example policy reform or institutional change, which shape the momentum for change in a market. This can help practitioners determine the feasibility of stimulating more specific changes.</td><td>Public-private dialogue mechanisms (Social Dialogue), relevant rules and regulations that affect the sector, business membership organizations, unions and union density, availability of and access to BDS, business culture (or social perception of a sector as a source of income and employment), voice and participation of small-scale market players</td></tr>
</table>

[24]The Springfield Centre (2008): M4P operational guide

## 2.3 Identifying core objectives for value chain research (problem definition)

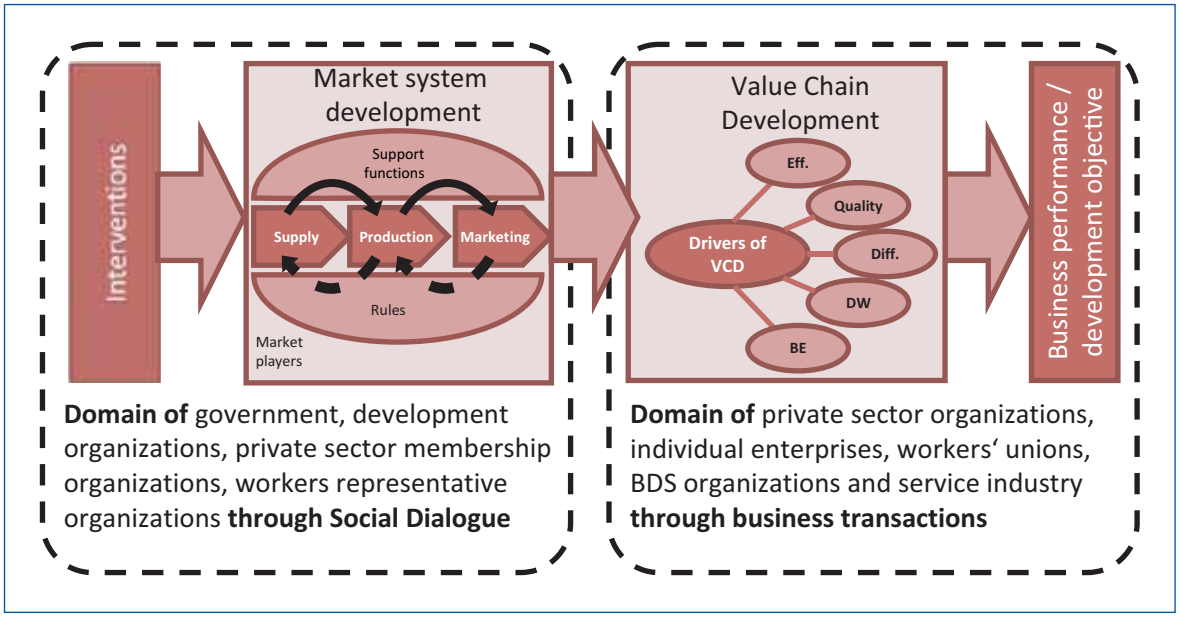
**Starting a VC initiative with a vision of change**

What are my objectives, and how will I achieve them? Who is my target group, and how will I reach them? It is important that a value chain initiative develop a clear vision of change. During your initial research, you will already gather a great deal of information and data on your target sector. You will also begin to understand where the main opportunities and bottlenecks in the value chain lie. The purpose of the initial research is to get an overall picture of the sector. This is done through

- collection and study of secondary materials such as study reports, statistical data, Internet research, etc.
- casual and informal discussions with market players and specialists on the sector (e.g. while inviting them to the start-up event)
- own observations from visiting the production sites and businesses of market players – especially those of your target group
- findings on opportunities and constraints generated by the start-up event (see event 3 above).

Depending on the nature of your organization – i.e. whether you are from a multinational company/private sector initiative, government institution or development organization – the objectives will vary as well as the means of achieving them.

*Box 2.10: General strategic framework*



In defining your strategic framework, you need to be clear on the role which you are playing in the market: is it that of a permanent market player, or that of a temporary facilitator (a catalyst)? In the latter case, you need to have a clear understanding of what sustainability means, as this will affect the way you intervene on markets and approach market players. The following definition for sustainability has been adopted for this purpose:

**Sustainability**

**Definition of sustainability:** the market capability to ensure that relevant, differentiated goods and services continue to be offered to and consumed by the poor beyond the period of an intervention.

*Source: The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK)*



Assuming the role of a facilitator whose intention is to provide an impulse for job and income creation and Decent Work, and to withdraw after a certain period of time, interventions would focus on sustainable *systemic changes*, rather than immediate interventions in core transactions in the value chain. These systemic changes would eventually lead to better performance of core transactions. Better performance of the value chain will then lead to increased job and income opportunities (or, more generally, Decent Work). Thus, a chain of action can be drawn up as shown in *Box 1.15* above.

The following matrix formulates several key questions which you must ask in order to define your strategic framework. You can also use the strategic framework in *Box 1.15* and think it through in your specific context: how do you envisage sustainable change in the market system which eventually leads to improved Decent Work outcomes?

*Box 2.11: Template table and example for defining objectives and target group*

| What is/are your final objective(s)? | Who is your target group? | What is its defining characteristics? |
|---|---|---|
| | | |
| **What is your position in the market system (e.g. permanent player or not)** | **Are your interventions likely to become permanent market functions?** | **If so, who will be responsible for them once you exit, and who will pay?** |
| | | |
| **How will systemic change impact performance of the value chain?** | **How will improved performance of the value chain lead to your final objectives?** | **Draw up a strategic framework outlining the causal chain from intervention to final objectives...** |
| | | |

## 2.4 Further reading on project setup and initial research

- **DFID/SDC (2008):** The M4P operational guide, available from www.m4pnetwork.org
- **Springer-Heinze, Andreas (2007):** ValueLinks Manual – The methodology of value chain promotion, German Technical Cooperation Agency (GTZ), first edition, Eschborn (Germany). Available from www.value-links.org
- **Herr, Matthias (2008):** Local Value chain development for decent work – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth, Colombo (Sri Lanka).Available from www.entergrowth.com

Chapter 3

# Value chain mapping: understanding relationships

## Summary sheet: value chain mapping

***Summary:***

This chapter briefly describes the construction of two different value chain maps, which each fulfil different purposes:

1. **Value chain as flow chart:** this value chain map looks at the different functions in a value chain and illustrates them as process leading from conception / raw material to final consumption. This very generic map can then be used further for creating an inventory of market players along the chain.
2. **Value chain as grid chart:** this map illustrates the different market channels within a sector, thus underlining the fact that value chains are never simple linear relationships, but rather a complex system with market players feeding into different chains and markets. This map is important in value chain research and analysis (*Chapters 4* and *5*) in order to understand the nature of specific relationships – value chain governance, but also to formulate appropriate intervention strategies that effectively target specific channels.

***Outcomes***

- A value chain flow chart
- A value chain grid chart
- A first inventory of market players

## 3.1 What is a value chain map and why is it useful?

### Value chain mapping, research and development: the context

Value chain mapping is often confused with value chain research or development itself (many value chain guides focus to a large extent on mapping rather than the actual purpose of mapping: facilitating value chain *development*). However, drawing a value chain map is only a tool, an aid to illustrate (and perhaps simplify) the complexities of sectors and their value chains. Value chain research needs to go beyond the simple mapping of value chains in sectors: it needs to understand the nature of relationships between market players (see next *Chapter 3*); it needs to understand the reasons for constraints that are preventing value chains from achieving the desired outcomes (stepping-up strategies); it needs to identify alternative opportunities for income and employment creation (stepping-out strategies). Based then on the findings of the value chain research, strategies can be formulated that that will eventually lead to value chain development (see *Chapter 6*).

# Value chain mapping: understanding relationships

**Definition of value chain mapping**

***Mapping a chain means creating a visual representation of the connections between businesses in value chains as well as other market players***. In its simplest form it is merely a flow diagram *(i.e. illustrating the core transactions* of value chains). More sophisticated versions show that some enterprises differ in size and that some connections are more important than others; and they help to identify bottlenecks and leverage points. Value chain maps help to get a quick grasp of complicated realities, also illustrating, for example, how core transactions in value chains are connected with the market players in the *immediate and wider business environment*.[25]

**What a value chain map is useful for**

As a standard tool in value chain research and analysis, a value chain map is not an objective in itself, but a means of realizing these objectives. It has very practical implications for a value chain initiative:

- It helps to illustrate and ***understand the process*** by which a product goes through several stages until it reaches the final customer (i.e. the core transactions). Knowing about the different levels in a value chain is also a precondition for identifying bottlenecks that are preventing the achievement of certain targets (e.g. the five drivers of value chain development, see *Introduction* and *Chapter 7*).
- A value chain map can serve as a way of ***identifying and categorizing key market players***. Such value chain maps (or inventories) have been used in projects to invite market players to various workshops and events, arrange interview appointments with them or form steering groups comprising key market players.
- Apart from businesses involved in core transactions, value chain maps can also illustrate which other ***supporting organizations*** (government, BDS, NGOs, associations, etc.) are available, and which value chain levels they concentrate their services on.
- If a value chain initiative intends to explore market opportunities, value chain maps can ***show up different market channels*** through which products and services reach the final customer. These maps can also provide additional information on the relevance of individual market channels and the nature of relationships (e.g. number of competitors, size of market, number of workers, value chain governance, etc.)
- A value chain map can ***help companies investing in Emerging Markets to orient their activities***, i.e. to identify important stakeholders, possible marketing or supply channels, competitors, weak links in the chain, etc. In other words, it is a who's-who map.

[25] Taken from McCormick and Schmitz (2001): p. 39

*Box 3.1: Attempts to standardize value chain maps*

There are currently attempts under donor agencies to ***standardize the format of value chain maps*** in order to find common ground for understanding and to facilitate the exchange of learning experiences. The German Technical Cooperation Agency (GTZ) has played a leading role in this. To read more about standardized value chain maps, please refer to

- **GTZ (2007):** ValueLinks Manual – The methodology of value chain promotion, German Technical Cooperation (GTZ), first edition, Eschborn (Germany). Available from www.value-links.org
- **Van den Berg, Michael et al. (undated):** Making value chains work better for the poor: A tool book for practitioners of value chain analysis. Available from www.markets4poor.org

## 3.2 How to map value chains

### Constructing two value chain maps:

Constructing a map is not a quick job. How long it takes depends on how much you already know about the enterprises and workers whose situation in the (global) market system you are trying to capture.[26] In this guide we suggest the construction of two value chain maps, which have proved useful in ILO projects:

### 1. Flow chart

1. A simple ***flow chart*** that illustrates different levels in the value chain and serves as a basis for an inventory of market players as well as an analysis of opportunities and constraints by value chain level[27], or for showing key information for each level (e.g. prices).

### 2. Grid chart

2. A more sophisticated ***grid chart*** that illustrates different market channels and includes further relevant information such as size of enterprise, number of workers, nature of relationships, etc.

### Value chain maps evolve during the value chain research

It is always easier to start with a simple flow chart and subsequently expand the map to include more information and to expand it to show different market channels, etc. The construction of value chain maps therefore spans the research period of a value chain initiative: starting with a rough initial map in the build-up phase (*Chapter 1*) and ending up with a more detailed and precise map in the analysis phase (*Chapter 4*).

### No one-size-fits-all map ? you have to experiment

There are of course many different ways of constructing value chain maps, and the reader is encouraged also to look at the references given at the end of this chapter – but most importantly: to experiment; to adapt the value chain map to the local context and needs of the value chain initiative. There is no one-size-fits-all template for value chain maps, but this chapter can give some guidance on how you might go about constructing your map.

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[26] McCormick and Schmitz (2001): p. 39

[27] Analysis of opportunities and constraints (similar to a SWOT analysis) by value chain level is referred to as "GAP-analysis" by GTZ. For reference see Richter, Peter (2006): Value chain promotion and business environment reforms – experiences from Sri Lanka, GTZ-Integration, Colombo, Sri Lanka.

### 3.2.1 Value chain map as a flow chart

#### Definition of a flow chart for value chains

***A flow chart illustrates the process by which a product or service goes through several stages in the value chain until it reaches the final customer.*** It is a very simple way to start mapping value chains and can later be further expanded by including more information about each value chain level in the flow chart.

#### Using a value chain flow chart for an inventory of market players

Initially the flow chart is useful for creating an inventory of market players, which again is useful when sending out invitations for various workshops or arranging appointments for interviews with key players from different value chain levels and supporting organizations. This should be part of the build-up stage of a value chain initiative (see *Chapter 1*) and done before starting with the more elaborate value chain research (*Chapter 3*).

#### Adding information to the flow chart after value chain research

During the value chain research then, you will gather more information that helps to understand particular opportunities and constraints for each value chain level and the relationship between businesses of different levels. You might collect data, for example, on prices and value addition, production and delivery time, number of workers/target group, etc. All this can later be added to the flow chart, and presented in a comprehensive way to your stakeholders.

The following steps guide you through the construction of a flow chart for value chains:

# Step 1:

## Mapping value chains through a simple flow chart

Begin by identifying the core transactions in your target sector – i.e. the simple process from design/raw material to the end customer: first identify the end product (or service) that will be going to consumers. Write down the name of the product as well as the target market in the first column in *Box 3.2* below.

## Starting with the end product/services and identifying steps for getting there

Once you have identified the end product and market, ask "What happens to the product (or service) just before it gets here?" Write this answer into the next column in *Box 3.2* ('level 1'). Repeat this question until all the levels from supply (design, raw materials, inputs, etc.) to production, marketing and distribution have been captured. Initially only enter the functions of each value chain level in the columns, for example: distribution, marketing, packaging, transport, processing, collection, farming, input supplies.

## Keep it simple!

Note that you often have to simplify the process by grouping related activities and functions under one value chain level (for example heating, flavouring, cooling, packaging, etc. under "chocolate production"), and by drawing a line which limits the value chain to a certain number of levels and location (suppliers for example have their separate value chains, and could therefore simply be grouped under the label "suppliers") – otherwise your value chain map will become too complex. ***The purpose of the flow chart is to focus only on core transactions within a sector.*** So keep it simple.

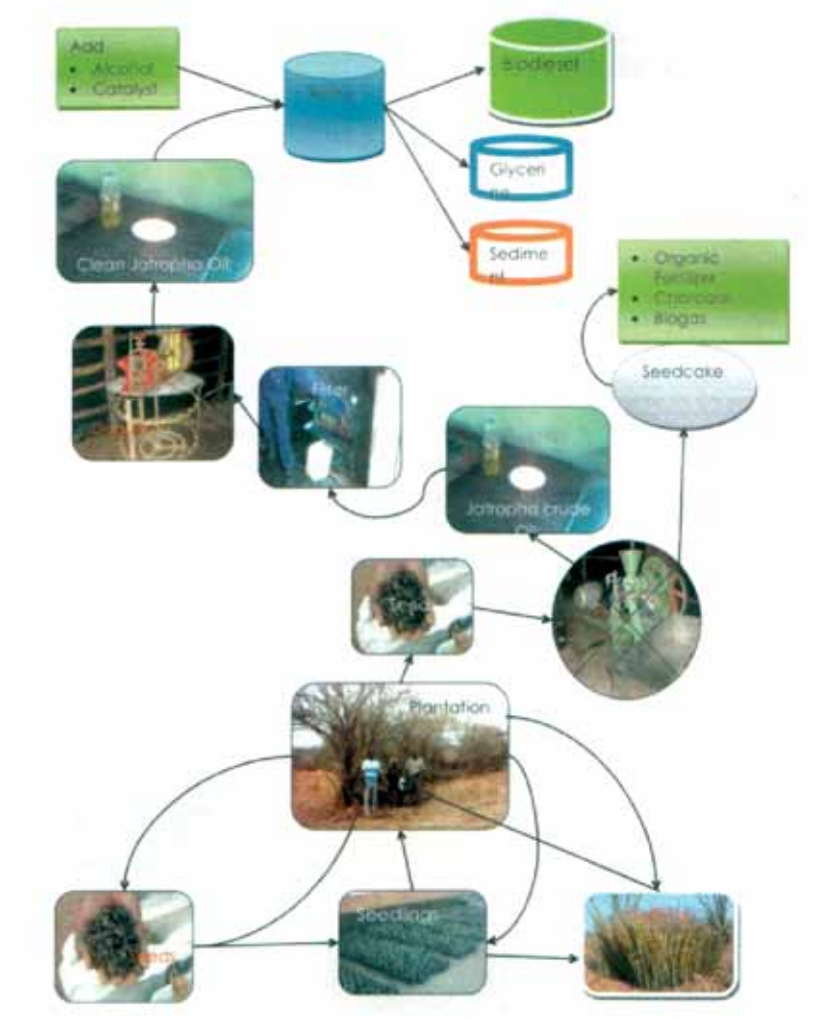
*Box 3.2: Mapping value chain levels through a simple flow chart*

| End product/ market | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 | Level 6 | Etc. |
|---|---|---|---|---|---|---|---|
| Cheese, Yoghurt, etc. | Retail | Wholesale | Dairy Processing | Fresh milk collection | Dairy farming | Agricultural input supply | |
| Your turn… | | | | | | | |

## When and where to map the flow chart, and who should do so

The mapping of value chain levels through a simple flow chart should be done as early as possible, for example at your first workshop with the core and support teams (see *Chapter 1, Section 1.2.2, Event 2*). The presence of participants from your target sector – i.e. your support team – is of particular importance, as they will be able to provide inside knowledge that will make the mapping exercise easier. The steps mentioned above should take you no more than half an hour. You might also make use of the card methodology as explained in *Box 2.5* in *Chapter 2* or a flipchart.

*Box 3.3 Examples for simple flow charts from ILO BDS, Zambia*




*Source: Sinkala and Chitembo (2007): An analysis of the global jatropha industry and case study of the local value chain in Zambia, International Labour Organization, BDS Zambia project, Lusaka (see www.bdszambia.com).*

# Step 2:

## Creating an inventory of market players

Having identified the core transactions of a value chain in a sector – i.e. the steps that lead from design/raw material to the final products – you can now use this flow chart to identify and map key market players. This should also be done as early as possible in your value chain initiative, as this ***inventory of market players*** has a practical use that helps you to organize workshops, interviews and focus group discussions for your value chain research.

### 1. Identify names of businesses in core transactions

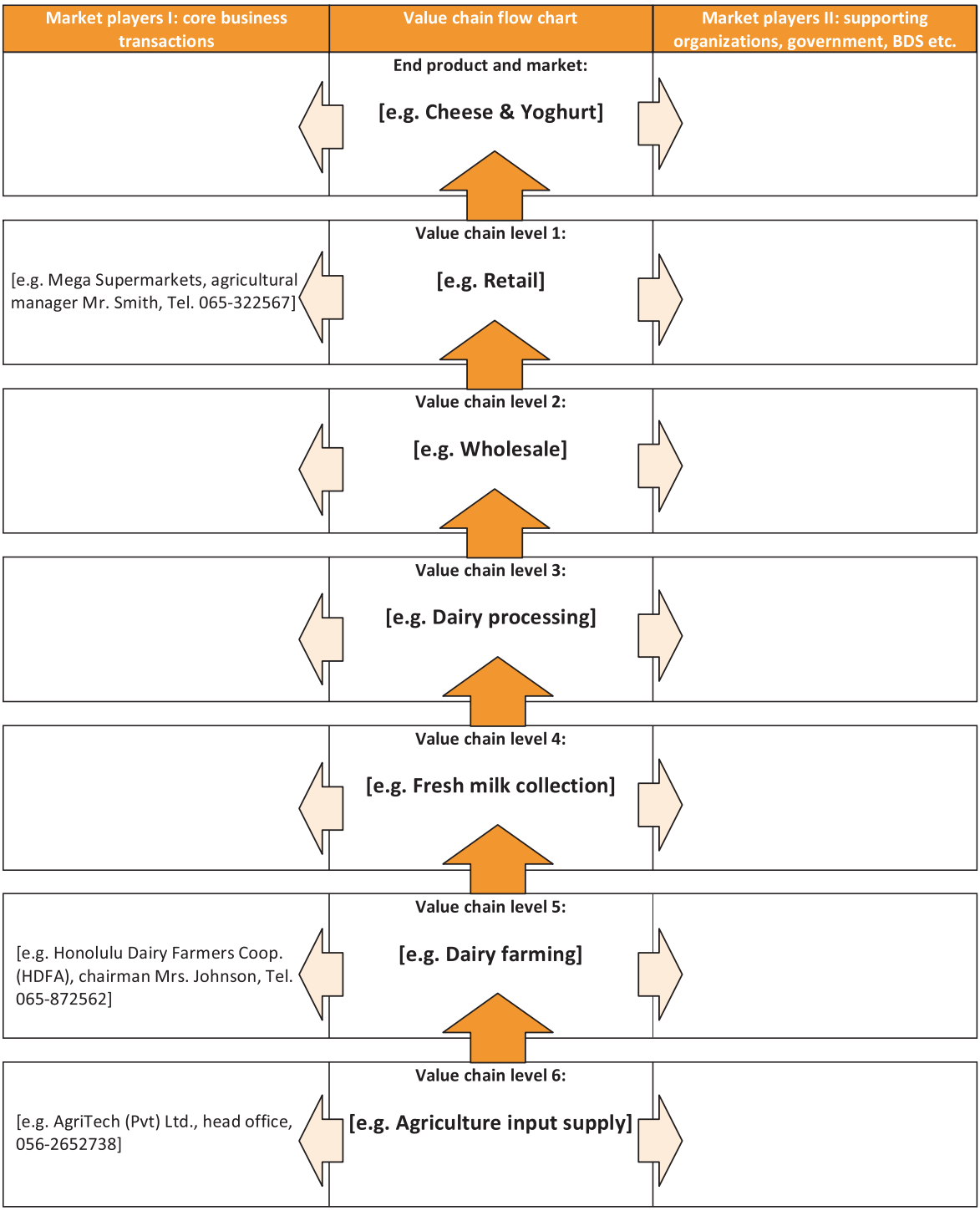
1. Look at your flow chart above and identify what businesses are involved in core market transactions in the value chain (i.e. within the geographic area that you are analysing). These would probably be mainly private sector enterprises, ranging from micro and small over medium to large-scale national and international companies – but they could also be government-owned companies and organizations. The purpose of this exercise is to identify those enterprises that are directly related to one (or more) levels of your value chain. It is therefore important to be as precise as possible: write down all the names of enterprises that come to mind in the first column of *Box 3.4 below*.

   If contact persons and addresses are known, then add them to the name of the enterprise. Examples are given below. Together with your core and support teams (see *Chapter 1*) try to find names for every level of the value chain.

### 2. Identify names of supporting organizations (other market players)

2. Remember our market system model (*Introduction, Box 4* and *Chapter 8*)? In order to facilitate systemic change in the market system, we need to know the other market players who are not directly involved in core business transactions within the value chain. These are government authorities and institutions, business and worker membership organizations, business service providers, informal networks, NGOs, etc. all of these organizations have an important role to play in one way or another in your target sector (e.g. government laying down laws and regulations). So fill in the names of all supporting organizations that come to mind in the third column of *Box 3.4* below. For example, ask yourself: "What kinds of business services are available for dairy farmers?" Repeat this for every level of your flow chart.

*Box 3.4: Inventory of key market players*



Note that you will not be able to immediately come up with all names of enterprises for every value chain level at this stage. The names gathered here, are just a start and you will definitely come across more during the course of your value chain research. However, you will need some names to start with, which is why it is so important that members from the target sector participate in this mapping exercise.

The construction of an inventory of market players should therefore be done after the first step above (flow chart) in the same team workshop – again by using cards or flipcharts, for example, as a participatory workshop methodology. The exercises should take you about one hour. Once you have gathered names and contact details, you need to continuously update this value chain inventory in the course of your research. The example below shows that it can become very useful later on.

*Box 3.5: Using the value chain inventory to publish information on available BDS for SMEs*

The Enterprise for Pro-Poor Growth project of the ILO conducted a value chain initiative for the coir industry in the North-Western Province of Sri Lanka. Coir is a fibre extracted from coconut husk, which can be used for various purposes ranging from simple ropes and yarn, brooms and brushes, and twisted and rubberized fibre for car seats to more sophisticated geo-textiles used for soil erosion control and road construction.

The coir industry consists of large export companies that produce many products themselves but rely to a large extent on supply from small and medium-sized suppliers (coir mills where fibre is extracted, as well as small industries producing preliminary goods). The industry faces severe supply shortages, since the productivity of small and medium enterprises in the sector is low, quality is poor and bad working conditions are preventing the recruitment of skilled labour. The industry is now facing competitive pressure from other countries also entering the global market for coir fibre products.

One reason for the poor performance of small and medium-sized enterprises at the lower end of the value chain is the lack of access to information on available business development services (BDS), such as management training, financial services, input supplies, technical services, etc. Since SMEs do not make use of such services, their performance is poor.

The ILO value chain initiative together with its local partner, the Industrial Development Board of Sri Lanka, therefore compiled and published a leaflet giving information on all relevant BDS providers and input suppliers, their services as well as contact details. The initiative then distributed these leaflets through various associations in the industry. This was not so difficult, since the value chain initiative had already collected the names and contact details of various key market players in its value chain research.

*Source: For more information see intervention reports for various sectors, available from www.entergrowth.com*

# Step 3:

## Using the flow chart to illustrate opportunities and constraints (GAP analysis)

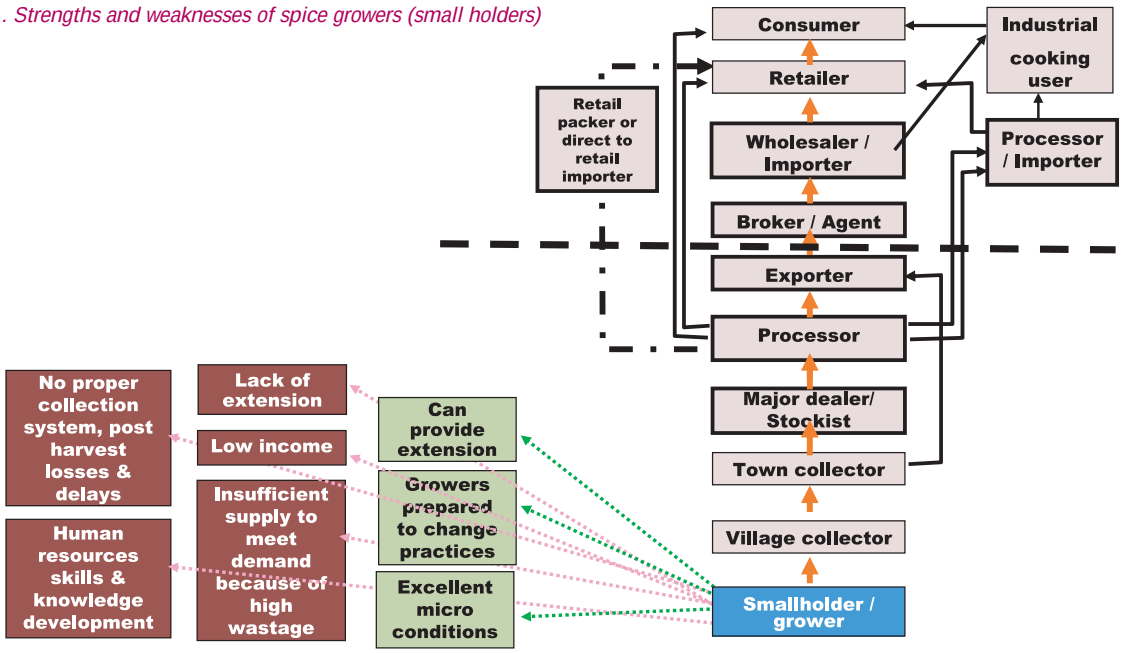
A simple flow chart of a value chain can also serve as an illustration for opportunities and constraints (or SWOT) identified at each value chain level. This method has been used by the GTZ in Sri Lanka, summarizing the main findings of a GAP analysis[28] for the value chain. Adding this information to your value chain flow chart will require some research – i.e. you will only be able to complete the chart after conducting thorough value chain research (see *Chapter 4*).

*Box 3.6* below gives you an example of a flow chart showing the strengths and weaknesses of two particular levels in the Sri Lankan spice sector value chain.



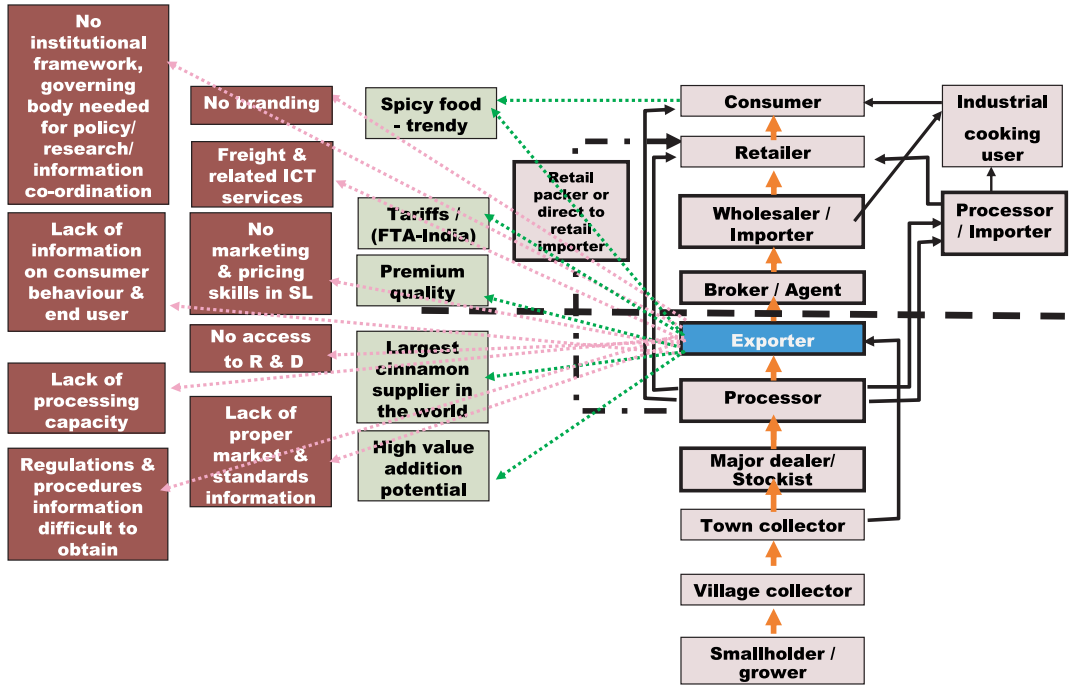
*Box 3.6:: Flow chart showing strengths and weaknesses per value chain level*

*1. Strengths and weaknesses of spice growers (small holders)*




[28] GAP analysis: Where in the value chain are the bottlenecks that are preventing the sector from achieving optimal performance? The analysis tries to identify gaps in the value chain, for example, that are obstructing SME access to market information, or knowledge and skills, or business services, etc.

*2. Strengths and weaknesses of spice exporter*




*Source: GTZ-Integration, Value Chain Promotion Component, by Gratian Peiris, Colombo, Sri Lanka. Also see: Richter, Peter (2006): Value chain promotion and business environment reforms – Experiences from Sri Lanka, Colombo.*

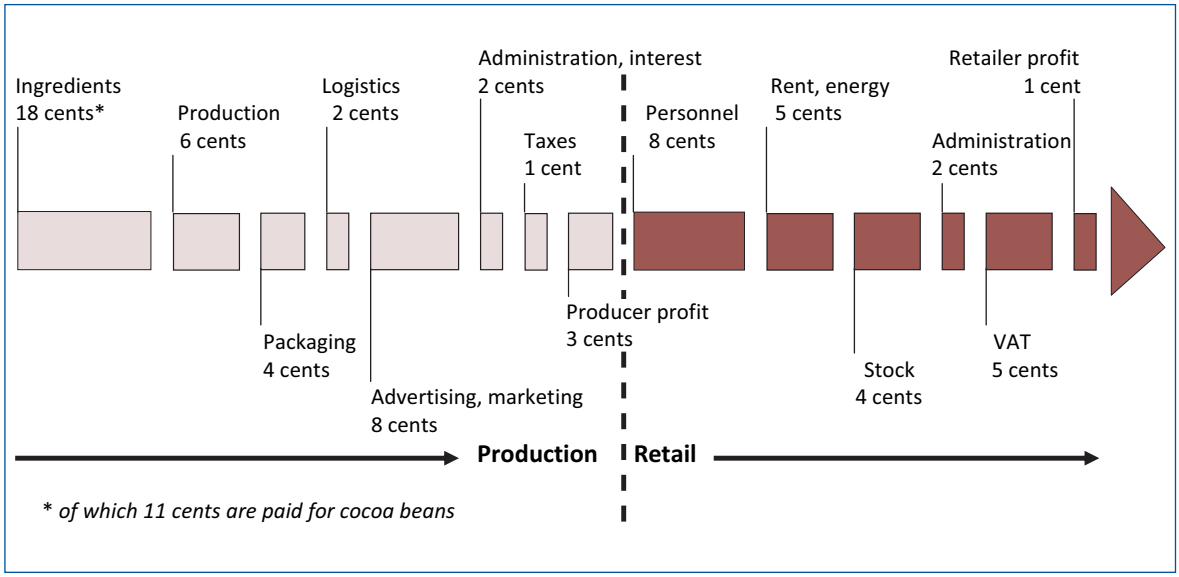
# Step 4:

## Using the flow chart to illustrate relevant information

Whereas the example above in step 3 has shown how to use a flow chart to add qualitative information on opportunities and constraints identified during the value chain research on particular levels, you can also use the same flow chart to add quantitative information. For example, this could be the number of women working at particular value chain levels, average income or net profit per level, sales prices, the number of fall-outs due to health hazards at work per level, working hours, etc. There is no limit.

The following is an example from the chocolate value chain: it looks in particular at the production and retail level – i.e. raw material sourcing (such as cocoa beans), preliminary processing, shipment, storage etc. are not considered. The example tries to explain, why a consumer in Germany has to pay 69 cents for a 100 gr. chocolate bar which he purchases at the supermarket.

*Box 3.7: Example for adding more information to a value chain flow chart*




*Source: Gillies, Judith-Maria (2004): "Viel Glück, wenig Gewinn", in: McK Wissen 11, December edition (German article). By McKinsey.*



### A flow chart is a simplification of the value chain process

Market realities are complex, and a flow chart as explained in this section is merely an abstraction – ***a simplification of the process*** that brings a product from its conception to the final consumer. This is useful when you need to capture the broader picture. It helps you to

- ***Identify the main market players*** – from businesses engaged in core transactions to relevant government institutions, membership organizations, business services, NGOs, etc.
- ***Get an overview of what is happening*** in your target sector, i.e. where in the value chain the main opportunities and constraints (bottlenecks) lie, that are preventing the achievement of certain economic targets.
- ***Organize data and information*** which you have collected in your value chain research, illustrating for example such things as value addition (cost factors, profits, prices, etc.) by value chain level.

### *3.2.2 Value chain map as a grid chart*

**Definition: Value chain map as grid chart**

***A grid chart not only illustrates different value chain levels – i.e. the vertical process from conception to final consumer – but also the horizontal allocation of different market channels within a sector.*** One could say that the vertical flow chart above is now stretched horizontally, which is why the grid chart can be seen as a step following the flow chart.

**Away from linear value chains towards multidimensional grids**

It is generally dangerous and misleading to see value chains only as one-dimensional linear flow charts. This view can put a stranglehold on innovation at a time when the greatest opportunities for value creation (and the most significant threats to long-term survival) often originate outside the traditional linear view. "Thus, companies need to focus on three areas: (1) opportunities to influence customer demand both upstream and downstream, (2) opportunities to modify information access in either direction, and (3) opportunities to explore penetration points in multiple tiers that are not immediately adjacent. These types of opportunities emerge from thinking nonlinearly within the traditional value chain, which constitutes the vertical dimension of the value grid."[29]

**Seeing sectors as "value grids" enhances choices and innovation**

This also has serious implications for governments, membership organizations and development agencies: rather than making market choices on behalf of your target group (e.g. selecting a group of farmers and training them to cultivate a certain product and sell to a selected buyer), value chain development needs to enhance informed choices rather than limiting them. Innovation and competitiveness can only evolve out of an increase in freedom to make informed choices (see also *Chapters 6* and *7*). The grid chart for value chains is therefore a way of illustrating the various market choices and opportunities available.

The identification of different market channels within a sector therefore has multiple purposes, depending on your objectives:

**Purposes of a grid chart for value chains**

- It helps to ***identify potential distribution channels and business partners*** for companies that want to enter Emerging Markets. This includes distribution/supply channels with a large number of SMEs in rural areas.
- It helps to understand the ***competitive situation of a sector*** - i.e. who else is selling on the local market and how they are integrated into supply and marketing channels.
- It highlights ***the various choices and market opportunities available to market players*** – not only upstream and downstream, but also in other related channels.

The following steps will guide you through the construction of a grid chart for value chains:

[29] Pil and Holweg (2006): Evolving from value chain to value grid, in: MIT Sloan Management Review, Volume 47 No.4, Massachusetts Institute of Technology (MIT), Cambridge.

# Step 1:

## Identifying the different markets for a product/service

**Categorize into main end markets or products.** Go back to your value chain flow chart above, in which you have identified the core transactions that bring a product from its conception to the final consumer. Start at the top – with the market and end consumer: ***try to identify the main markets on which you/the target group's products are sold.*** If you are only dealing with a preliminary product it is also important to know the end products.

For example: coconut fibre (coir) extracted from rural mills is mainly sold to large firms that manufacture and export various products. End products include mats and mattresses, brooms and brushes, geo-textiles for road construction and soil erosion control, rubberized coir for car upholstery, coir pith and husk for horticulture, coir yarn and netting for gardening and construction, etc. End markets are mainly export markets: Europe (especially Germany and the Netherlands), China, Japan, Korea, the Middle East and the US. Only a small proportion is sold on the domestic market.

You might come up with a large number of end products and markets. In order to make sense of your grid chart later on, you need to group the information into main categories – i.e. the main markets for your product. In ILO projects focusing on local economic development (LED), a common distinction has been between local/rural, national and export markets or between market channels involving different types of market players (e.g. large supermarket companies, cooperatives, market-based relations). However, a distinction between product categories might also make sense (especially when your intention is to identify market channels with the highest potential for value addition and job and income creation). In other words: you need to experiment a bit.

You can use the table in *Box 3.8* to fill in the main markets/end products (row 1). The following checklist gives you some ideas for questions you might want to think about to do so.

*Box 3.8: Checklist for end products and markets*

| Questions | Answers |
|---|---|
| **1. End products**<br><br>If your product/service is a preliminary product (i.e. used to produce further, more sophisticated, products): for which products is it used as an input? In other words: what are the final products sold to the end consumer?<br><br>• Which end products does your target sector currently produce?<br><br>• Which products are NOT currently produced by your target sector but have high potential for job and income creation? | |
| **2. End markets/final consumers**<br><br>Who are the end consumers and where are these markets located?<br><br>• Location/scale: common distinction between export, national, regional and local/rural markets<br><br>• Are you dealing with domestic and/or export markets?<br><br>• Which of these markets are relevant to your target group? | |

### When to construct a grid chart

This and the following steps can only be done once you have collected some information about your target sector – i.e. between initial research (*Chapter 1*) and your more detailed value chain research (*Chapter 3*). The value chain flow chart as described in Section 2.2.1 above is also a precondition.

### Starting with an initial map

Start with an initial map or sketch already in your initial research, which you can then refine while conducting interviews and focus group discussions and as you find out more information in your research. The initial grid chart is best done at a team meeting to which you invite the core and support teams. The support team, consisting of members from the target sector, will be able to provide inside information. You can then use the initial value chain grid chart at the start-up event, where you can ask participants to check the map, make corrections and/or add further information (as suggested in *Chapter 1.2.2*). You will very probably only be able to finalize your grid chart in your evaluation workshop (*Chapter 5)*.

### Using card methodology in team meetings

The card methodology is a useful and simple way of constructing a value chain grid chart at a team meeting or workshop (see *Box 2.5*, *Chapter 2*).

## Step 2:

### Identifying the way by which products and services reach end markets

Once you have identified the main end markets and products and filled them into a chart as shown in *Box 3.9* below, go back to your value chain flow chart, in which you have identified the names of main market players (*Box 3.2* in *Section 3.2.1*). Ask yourself: which of these market players is catering for which market? Try to allocate each market player to a specific end market or product. Keep in mind that this exercise only concerns businesses involved in core transactions within the value chain, not supporting services (such as the government, BDS, NGOs, etc.).

*Box 3.9: Template for a value chain grid chart (insert names of market players)*

| Value chain (from flow chart) | End market/ product 1: | End market/ product 2: | End market/ product 3: | End market/ product 4: | Etc. |
|---|---|---|---|---|---|
| Level 1: | | | | | |
| Level 2: | | | | | |
| Level 3: | | | | | |
| Level 4: | | | | | |
| Level 5: | | | | | |
| Level 6: | | | | | |
| Etc. | | | | | |

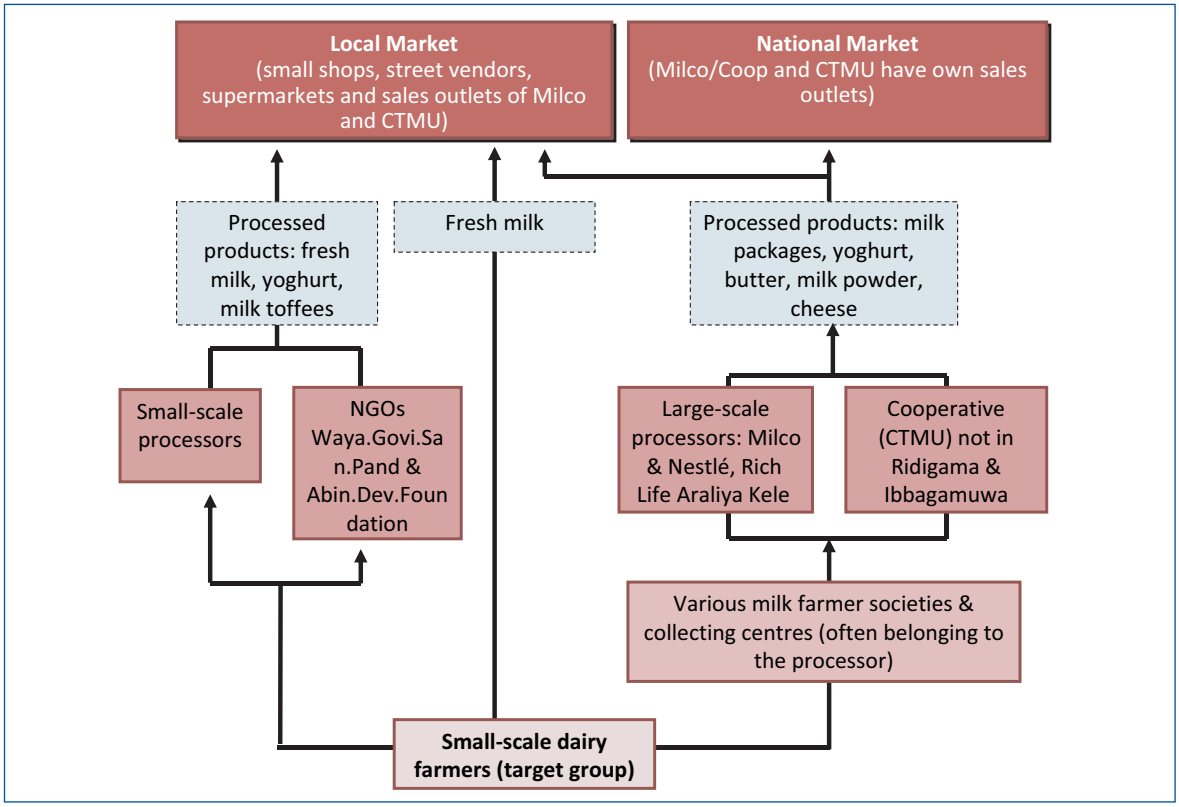
### Dividing the sector into several market channels

Once you have allocated market players under specific market or product categories, this should help you to identify different market channels within a sector. As shown in the example below, you can now link the different boxes with market players in the table above to a comprehensive value chain grid chart that illustrates the different market channels within you sector.

### An example from Sri Lanka: dairy sector

The example shows a grid chart for the dairy sector in a small district in Sri Lanka (Kurunegala). You will notice that it makes a distinction between two main markets: local markets (i.e. within the district) and national markets. There are five market channels that serve these markets: (1) processed dairy products made by local small-scale processors who buy fresh milk from farmers direct; (2) two NGOs that also buy from farmers direct and market their products locally; (3) a fresh milk market channel by which fresh milk is sold directly from the farm gate to the local consumer; (4) large scale dairy companies such as Nestlé which source fresh milk supply for their factories through local collection centres and farmer societies and market their products countrywide; (5) a provincial cooperative owned by the government which also collects milk through farmer societies and collection centres and distributes processed dairy products such as cheese, butter, milk powder etc. on the national market.

*Box 3.10: Example of an initial value chain grid chart (distinction between local and national market)*




*Source: A local dairy value chain initiative in Kurunegala district (North-Western Province) by ILO Enter-Growth in Sri Lanka. For more information see: www.entergrowth.com*

### The value chain grid chart helps to identify market opportunities

Although it is simple, this kind of grid chart already gives us some idea of the market opportunities available to dairy farmers (presuming that dairy farmers are our target group). The value chain research now has to provide more information on specific channels – for example:

- Which of the market channels within the sector has the highest potential for job and income creation?
- Which of the market channels generates the highest income for your target group?
- How are individual market channels organized? Who controls them, and how high are switching costs (value chain governance)?
- Which of these market channels is the most competitive (with regard to the five drivers of value chain development)?
- Which of these market channels serves my company's objectives best (e.g. exploring new market distribution opportunities)?
- Etc.

## Step 3:

### Adding information to the grid chart

Value chain grid charts are particularly useful for displaying information and characteristics of specific market channels. This could for example be the number of women/homeworkers/ disadvantaged groups working in particular channels and at particular value chain levels; or information about value chain governance and the nature of relationships between market players in the value chain; or the size of different market channels (number of potential buyers/ suppliers). Towards the end of your value chain research, you will have collected a considerable amount of information and data, which you can add to the grid chart.

### Using the value chain grid chart to illustrate value chain governance

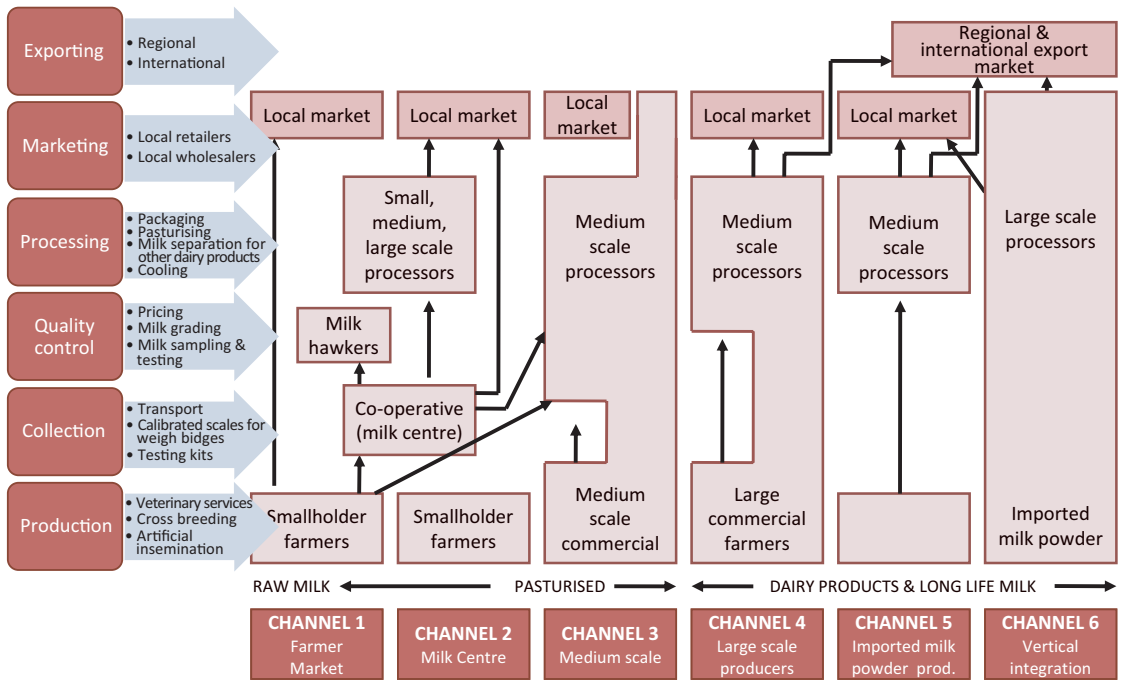
*Box 3.11* gives an example from the ILO BDS project in Zambia which has conducted value chain research on the dairy sector, and identified 6 major market channels through which fresh milk and dairy products enter local, regional and even export markets. Apart from displaying the market channels, the chart also gives us some information on ***value chain governance*** (see *Chapter 5* for definition): whereas channels 1 and 2 are largely characterized by market-based relationships (i.e. many small and medium-scale businesses negotiate prices on a daily basis; the cost of switching from one channel to another is low), channels 3 and 4 indicate more hierarchical relationships with medium and large-scale commercial farmers who have close ties with medium-scale processors (relational to captive relationships; switching costs are high). Channel 6 indicates large integrated firms that control the entire value chain from farming to marketing.

### Knowing about governance is crucial for intervention strategies

Knowledge of how value chains and individual market channels are governed is crucial for intervention strategies. A value chain grid chart can help to shed some light on this issue, as the example shows.[30]

[30] Different forms of value chain governance can also be illustrated by the thickness of lines between market players in different market channels. For more information read McCormick and Schmitz (2001).

*Box 3.11: Dairy grid chart of the ILO BDS project in Zambia*



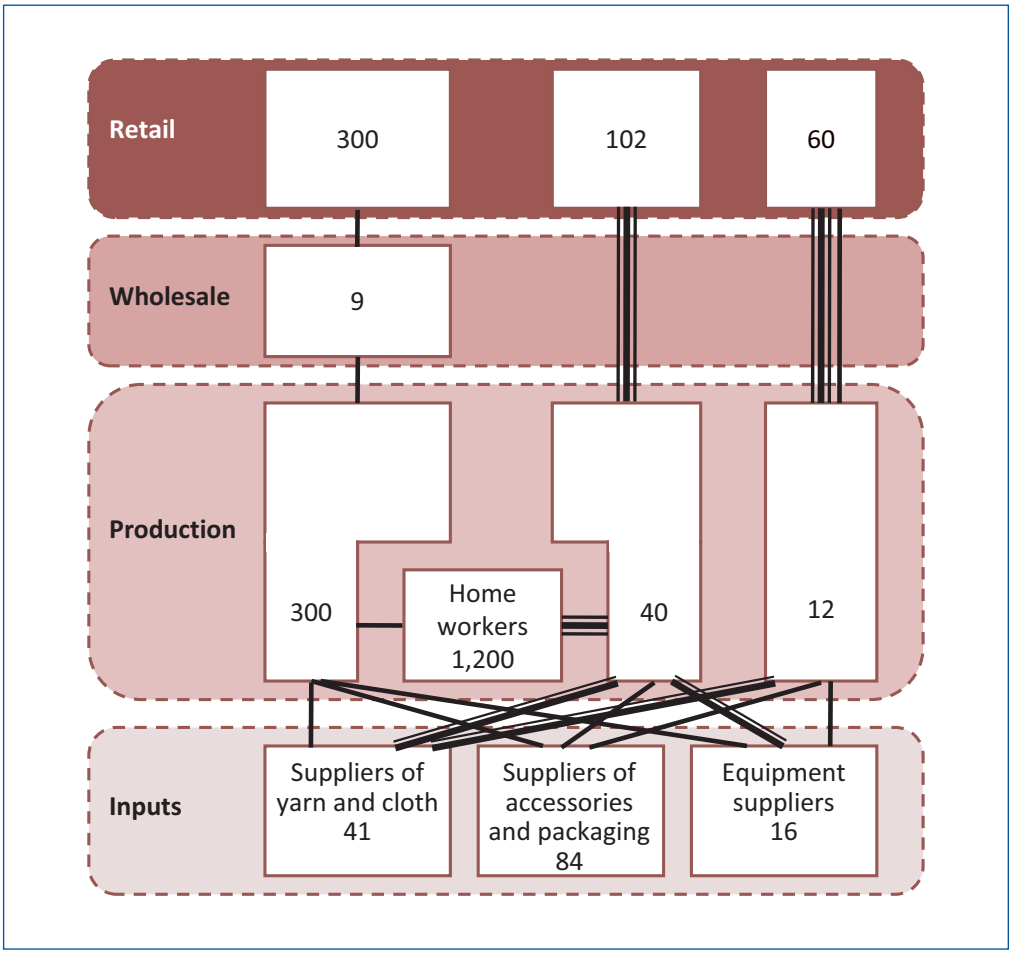

*Source: Manje, L and Muzira T. 2007. Initial mapping of the dairy subsector industry and value chain in Zambia, International Labour Organization, Business Development Services project, Lusaka, Zambia.*

## Adding information to the value chain grid chart – an example

The following value chain map by McCormick and Schmitz (2001) illustrates the type of relationship between market players in core transactions and also provides information about the number of enterprises at each level and in each market channel. The purpose here was to understand the position of homeworkers in the garment industry. The lines between the different market players indicate the type of relationship:

- market-based relationships: firms deal with each other in "arms-length" exchange transactions
- balanced network: firms form networks in which no one firm exercises undue control over others
- directed network: firms form networks directed by a lead firm; for example a buyer-driven chain
- hierarchy: firms are vertically integrated; the parent company controls its subsidiaries

*Box 3.12: Value chain grid chart displaying numbers of enterprises and type of relationships*




*Source: McCormick and Schmitz, 2001: p.55.*

### Rule for value chain maps: form follows function!

There are no limits to value chain maps, and no rules on what they must look like. The only rule that might be applied is that ***form follows function***. Value chain maps facilitate the formulation of appropriate intervention strategies. The information thus illustrated by maps needs to serve the overall objectives of the value chain initiative. Before you start drawing up a value chain map, you therefore need to need know who your target group is, and what your objectives are (see *Chapter 2*).

## 3.3 Further reading on value chain mapping

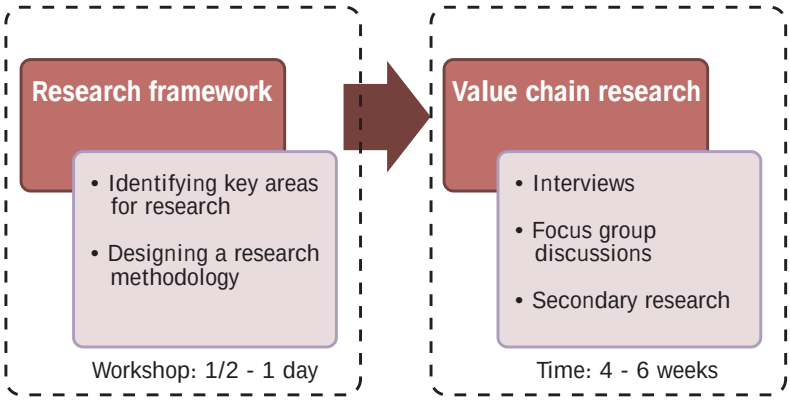
- **Agriculture and Food Council of Alberta (2004):** Value chain guidebook – a process for value chain development, Value Chain Initiative, Alberta, Canada (available from www.agfoodcouncil.com).
- **Springer-Heinze, Andreas (2007):** ValueLinks Manual – The methodology of value chain promotion, German Technical Cooperation Agency (GTZ), first edition, Eschborn (Germany). Available from www.value-links.org
- **Mayoux, Linda and Mackie, Grania (2008):** Making the strongest link – a practical guide to mainstreaming gender analysis in value chain development, International Labour Organization, Sub-Regional Office Addis Ababa.
- **McCormick and Schmitz (2001):** Manual for value chain research on homeworkers in the garment industry, Institute for Development Studies, University of Sussex, UK (available from www.globalvaluechains.org)
- **Van den Berg, Michael et al. (undated):** Making value chains work better for the poor: A tool book for practitioners of value chain analysis. Available from www.markets4poor.org

Chapter 4

# Value chain research: identifying Decent Work deficits

## Summary sheet: value chain research

***Timeline and proposed actions:***




***Summary:***

Value chain research serves (1) the identification of underlying reasons for bottlenecks that are preventing the value chain from achieving certain economic targets; (2) helps to understand incentives of market players to contribute to a solution; (3) highlights pathways to sustainable change by focusing on market opportunities; and (4) helps to identify leverage points for interventions.

Value chain research as described in this chapter consists of two main modules:

1. ***Developing a research framework:*** before commencing research on a value chain, you should know your objectives and the key area that you want to analyse. This is crucial for formulating questions in interviews and focus group discussions. Rather than merely scratching the surface, value chain research goes deeper: it tries to identify the root of a specific problem. "Why?" is therefore the most important question to ask in value chain research.

1. ***Value chain research*** itself consists of several interviews and focus group discussions as well as observations and secondary research. It is recommended that about 4-6 weeks be allocated to the research (depending on the scale of the value chain initiative) – not any longer. Value chain research should not be seen as an academic exercise, but as a contribution to value chain development itself: by bringing together market players in workshops and interviews, the value chain initiative can already at this stage substantially contribute to better cooperation and coordination in the sector. A participatory approach within a limited time frame is therefore essential for creating momentum and generating support from market players.

## 4.1 What is value chain research?

### Defining value chain research

Value chain research is about understanding the functioning of specific markets – e.g. services, information, knowledge and skills, innovation, etc. – within a value chain system, the role of specific market players (or groups) within this system and their relationship to others. Having started with a broader assessment of the value chain in the project setup phase (*Chapter 2*), we are now "zooming in" to look at some particular constraints for competitive performance and their underlying systemic roots.

### Focusing on relationships helps to understand incentives of market players

The particular focus of value chain research on and analysis of relationships helps to identify bottlenecks that are preventing a sector from achieving certain economic and social targets as well as market players' incentives to engage in transactions and contribute to Decent Work solutions[31]. We could find, for example, that the problems facing small enterprises in rural areas are often connected with other value chain levels: lack of knowledge and information provided by input supply companies and their local retailers, for example; or insufficient knowledge of market requirements and lack of embedded services provided by buyers in order to communicate these requirements. Contrary to other business development tools that focus on the internal performance of businesses (e.g. management), value chain research is about understanding the external networks in which businesses are embedded.

### Initial research (chapter 1): identifying symptoms of market failure

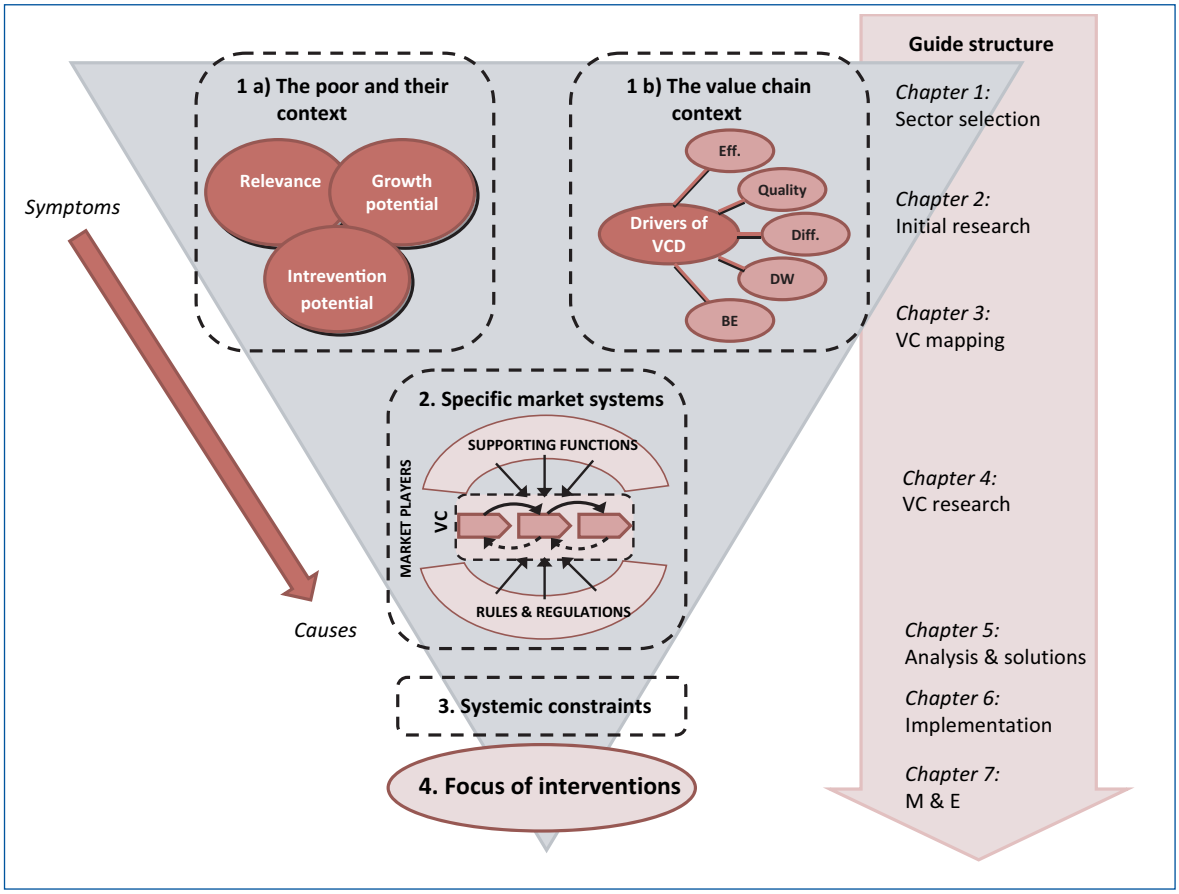
During the initial research as explained in *Chapter 1*, we gained a more general picture of our target sector. Through this scoping of general opportunities and constraints within the sector, we identified ***symptoms for Decent Work deficits*** - for example: lack of knowledge and information about farming techniques; or poor working conditions of small producers and their employees; or occurrences of child labour in garment homeworker families; etc. The initial research was about getting the broad picture of a sector, identifying problems and deciding on core areas of concern for actions (that are in line with the organization's overall objectives).

### Value chain research: moving from symptoms to underlying systemic constraints

However, formulating intervention strategies based on the identification of symptoms alone will not be sufficient and will not address problems at the root. ***We need to go deeper and understand the underlying systemic reasons for Decent Work deficits (or market failure) within the value chain.*** We need to ask why things are as they are: why do farmers not acquire the skills and receive the information they need in order to increase productivity and enhance the quality of their produce? Why are small producers not aware of good workplace practices that are already used by others? Why are children used as cheap labour in homeworker garment manufacturing? "Why" is in fact the most important question we need to ask in value chain research.

[31] In some cases and situations, labour relations and relations between suppliers and customers may be conflictual and national stakeholders may need to come together to establish an enabling business environment with regard to the labour market, inter alia.

*Box 4.1: Moving from symptoms to systemic constraints in the value chain*




*Source: Taken from The Springfield Centre (2008): The M4P operational guide, DFID/SDC, Durham (UK)*

### Seeing constraints in the context of a value chain system

***And by doing so, we must bear in mind that our target group is always part of a value chain system.*** It is part of upstream and downstream transactions within the value chain and is embedded in a business environment characterized by regulatory requirements and the presence of supporting institutions. However, we need to understand that relationships between market players are not only characterized by transactions through which a product/service is transferred from one market player to another in return for payment; relationships in value chains are also characterized by a vast exchange of information, knowledge, skills and various embedded services (e.g. loans provided by input suppliers to small producers, training sessions conducted by lead firms, quality control mechanisms, leasing arrangements, provision of equipment and manuals, marketing support, etc.).

### Relationships matter!

***The degree of cooperation and coordination along the value chain determines the competitiveness of a sector or individual market channel.*** The value chain research will therefore look in particular at the relationship between the target group and other market players.

# Value chain research: identifying Decent Work deficits

Value chain research – complementary to the initial research – therefore goes into much greater depth, analysing the reasons for specific constraints in the value chain and looking for ways to realize market opportunities.

Value chain research therefore

1 serves to identify the underlying reasons for Decent Work deficits that are preventing the value chain from achieving certain economic and social targets (systemic constraints);

2 helps to understand incentives of private and public market players to engage in transactions and contribute to Decent Work solutions;

3 highlights pathways to sustainable change for Decent Work by focusing on market opportunities and relationships and helps to identify leverage points for intervention strategies.

### A participatory approach a) generates local ownership, b) enhances networking amongst market players

The ***participatory nature of value chain research*** as proposed in this chapter is of utmost importance: when the target group as well as other market players within the value chain and supporting organizations are included in the research process, local ownership and support will help to bring the value chain initiative forward. In addition, a participatory approach to value chain research will also enhance cooperation between market players as well as the coordination of activities. ***The value chain initiative can thus already contribute to value chain development within the research phase.*** In various ILO value chain initiatives in Sri Lanka and Madagascar, project managers realized, for example, that some market players had never met each other before and that by bringing them together in workshops the initiatives enabled them to discuss common problems and find solutions to them. A participatory value chain research therefore also strengthens networking between market players!

### Participatory research: interviews, focus group discussions, observa-tions and facilitators

The participatory nature of value chain research is realized is through

- ***Interviews*** with influential market players such as lead firms, government authorities, service providers, etc. but also selected small-scale market players whose position in the value chain we are particularly interested in;
- ***Focus group discussions*** with groups of market players that are easier to organize (e.g. small producers, SMEs or local service providers);
- ***Observations*** of business practices and transactions (e.g. workplace conditions, labour productivity etc.);
- **Use of local facilitators** to conduct interviews and focus group discussions and support the value chain research by other means (this would require a prior training session on the value chain approach).

### Limitations of participatory approaches

Despite the above, it is also very important to be aware of the limitations of a participatory value chain research and analysis process:[32]

- ***Risk of lacking analytical depth:*** participatory research approaches are often liable to get bogged down in symptoms rather than moving on to underlying systemic constraints. The danger is that too much attention is paid to the "needs" of the poor and disadvantaged and that solutions are formulated which address those needs directly rather than leading to sustainable systemic change with impact at scale.
- ***Confusing ends with means:*** although participation and ownership can be an important contribution to value chain development, they should not be confused with the purpose of value chain development. Overenthusiastic participation of the target group can even stand in the way of negotiating solutions with key market players.
- ***Creating false expectations:*** involving target groups always carries the risk of creating false expectations. False expectations eventually lead to disappointment and withdrawal of support if value chain initiatives do not show immediate results that are of direct benefit to the target group. This can be a dangerous development for initiatives that aim at long-term systemic change, and may induce project implementers to seek short-term gains that lack long-term sustainability.

### Experiences with participation in Sri Lanka

Early experiences from the ILO Enter-Growth project in Sri Lanka showed that approaches to value chain development with overemphasis on participation can fail to address the incentives of key market players (such as large buyer or supplier companies), since analysis and solutions generally reflect the situation and interests of the target groups – i.e. the poor, and do not take adequate account of the realities of the broader market system. As a result, large companies find it difficult to join development initiatives unless their interests are addressed in upgrading solutions. This is particularly the case with initiatives that are restricted to a local economy (e.g. a district).

### Avoid falling into the participation trap

Participation and ownership is therefore a tricky issue: efforts should be made to ensure that all of the relevant market players are involved. However, in order to avoid falling into the participation trap, a thorough stakeholder analysis identifying the incentives and roles of market players is crucial.

[32]The Springfield Centre (2008): M4P operational guide, practice note on participation

### *Box 4.2: Some logistical aspects of value chain research*

| | |
|---|---|
| **Who** should carry out the value chain research? | The research should be carried out by **the core and support teams** (see *Chapter 1*). It is strongly recommended that local facilitators be used in the core team to create a sense of local ownership. This requires training them on the value chain approach in advance. The support team can assist by organizing focus group discussions or arranging appointments for interviews. |
| **How long** should research on a value chain take? | Research on a value chain **should not exceed 4-6 weeks** (depending on the degree of the initial, as well as the geographic, scope of the initiative). Keeping the value chain research short and concise will secure support by market players (the longer it takes, the more market players will wonder whether the value chain initiative is really useful). |
| What is **the scope** of research on a value chain? | Value chains are often part of markets with varying scope: export markets, domestic markets, or even more limited local and regional markets. It is therefore often hard to say where value chain research begins and where it ends. The research on and analysis of global value chains is often a very academic exercise that is remote from local market realities – although they provide useful information about market requirements and demand conditions. For most bottom-up value chain initiatives what is feasible ends at the national boundaries. Interviews and focus group discussions would therefore include market players up to the exporter level. Top-down value chain initiatives – e.g. by multinational companies seeking to improve their supply chains – have the advantage that they can cross national borders. Depending on the nature of your organization as well as your objectives, value chain research therefore varies in scope. Despite this rather vague advice, you should always keep the usefulness of information for your target group in mind. |
| How much do I need to **travel**? | Value chain research always requires some degree of travelling to conduct interviews and focus group discussions with market players. Most (if not all) travelling would be done within national boundaries. You therefore need to allow enough time and resources (vehicle) for this purpose. |
| What **resources** are required for researching a value chain? | The following resources are typically needed to conduct research on a value chain:<br>• Card equipment for focus group discussions (boards, cards, pins, marker pens, wall paper)<br>• Vehicle and fuel for transport to and from interviews / focus group discussions<br>• Probably contracts for local facilitators from partner organizations to conduct interviews / focus group discussions<br>• Communication and IT facilities: phone, fax, computer, Internet access |
| What do I need to **prepare** before starting my value chain research? | Before starting to research a value chain, the following is recommended as preparation:<br>• Designing a framework for VC research: key objectives and questions<br>• Depending on the type of interview: questionnaires or guidelines for interviews with market players from different VC levels<br>• Guidelines for focus group discussions<br>• Making appointments for interviews and focus group discussions (though not all appointments need to be made before starting the VC research)<br>• A work plan for the next 4-6 weeks, with schedule and names of interviewees and participants in focus group discussions, as well as the persons/facilitators responsible<br>• A team meeting in which the core and support teams are briefed on the research methodology, and interviews and focus group discussions are practised<br>• Designing a documentation strategy to ensure that no information gets lost within the VC research |

## 4.2 Developing a framework for value chain research

### Essential questions to start with

The essential questions before starting with interviews and focus group discussions are:

- What are my primary interests within the value chain system (targeted Decent Work objectives)?
- Who are the relevant market players (target group)?
- What do I want to ask them (indicators)?
- And how (method)?

These questions set the methodological framework for researching a value chain and should be discussed at a team meeting before starting with interviews and focus group discussions for the research. The following section will take you through the process.

*Box 4.3: Example from ILO projects in Madagascar and Sri Lanka*

After conducting a start-up workshop (see *Chapter 2*) with key market players, in which main opportunities and constraints were identified for the selected sector, the core and support teams sat down in a separate meeting to discuss the further procedure.

Experiences with previous value chain initiatives had shown that rather than trying to cover a wide range of issues within the value chain, it was more important to focus on only a few key constraints, and identify their underlying causes, the incentives of relevant market players and leverage points for sustainable market interventions.

The start-up workshop gave the team an idea of the most pressing issues in the sector. They selected three of these issues, assuming that if these could be solved the sector as a whole would make enormous progress towards enhanced competitiveness and subsequently towards ensuring more jobs and income.

After deciding on the key areas for the value chain research, the team identified the relevant market players on the basis of their value chain map (see *Chapter 3*). These market players would play a significant role in finding answers to the underlying causes of the three key constraints. Some of these players were major lead firms, others were small and rural producers.

The team then discussed which questions it was important to put to the market players identified and how these questions should be asked. It was agreed that individual interviews would be conducted with managers from the lead firms and that focus group discussions would be held with the small producers (since they were easier to bring together). A semi-structured interview/discussion form was chosen for both cases.

Following this, the team set up a work plan for the next three weeks, in which each team member was assigned responsibility for several interviews or focus group discussions. It was agreed that they should always be conducted by two team members – never by one person alone, and that after every interview/discussion the responsible team members would write a summary report on their findings.

On the basis of this team meeting, the team leader sat down and prepared interview guidelines and formats for focus group discussions which would serve as an guide for team members. In the following three weeks the team conducted interviews and focus group discussions with the market players who had been identified and also met periodically to discuss and document the preliminary findings.

# Step 1:

## Deciding on specific Decent Work deficits (or markets) and relevant market players

So the first step is to identify key topics or areas for the value chain research. This means selecting some of the Decent Work deficits which you have identified in your initial research. ***The purpose of this step is to be able to "zoom in" on a specific market within the value chain system, understand how it works, and identify the underlying systemic causes for market failures, the role of market players and their incentives.*** Previous ILO value chain initiatives in various countries have shown that it is much more effective to select key topics for value chain research than to try to cover as many issues as possible.

## What were the main constraints (symptoms)?

Go back to the findings of your initial research (see *Chapter 2*): ***Which were the constraints the key market players mentioned most? Constraints that are preventing the value chain from achieving its economic and social targets (five drivers for value chain development, see Introduction).*** Examples include: poor working conditions resulting in low labour productivity (labour market); lack of information and knowledge resulting in poor quality and low productivity (service and information market); low small producer incomes resulting in loss of opportunities for income and employment creation (core market between buyers and suppliers); insufficient access to financial resources resulting in lack of investment in new productive technologies; discrimination against women resulting in low family income levels; lack of skilled labour and recruitment of youth resulting in supply shortages on product markets (labour market); etc.

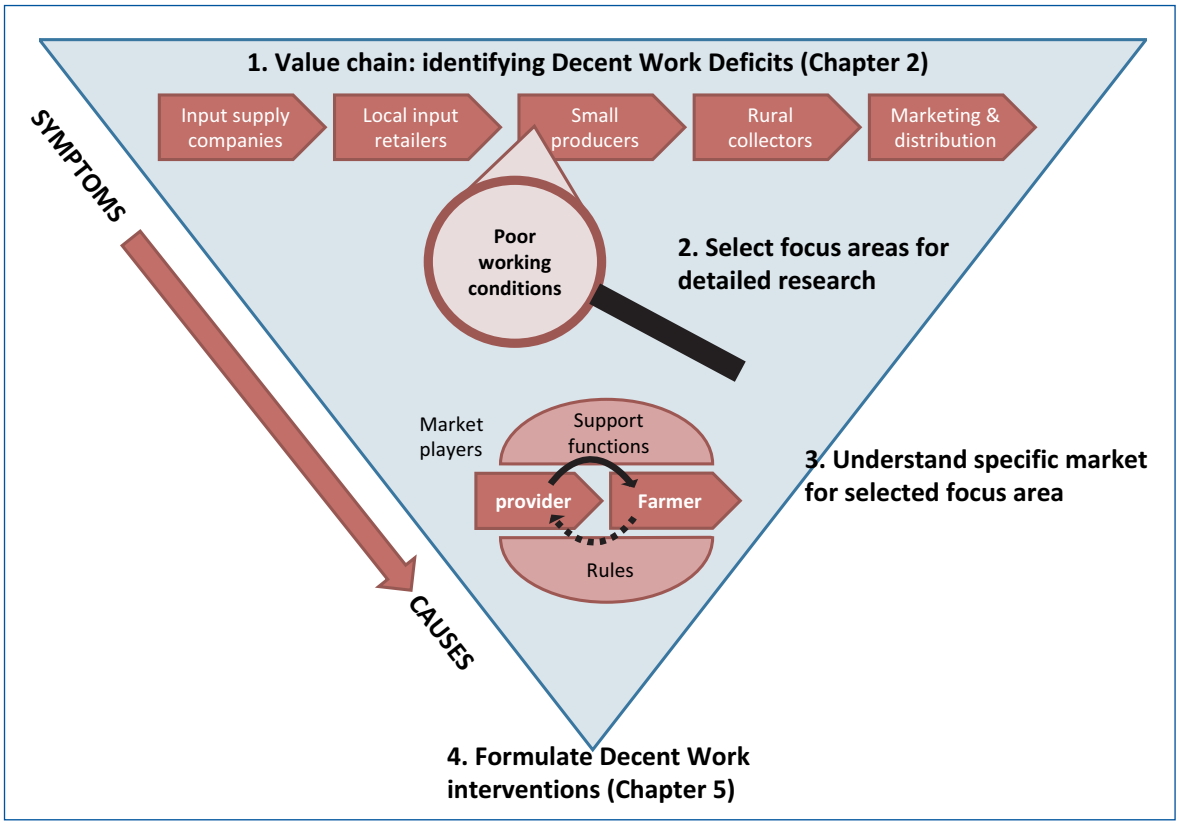
## VC analysis is like a framework with different lenses

It is important to bear in mind at this point that value chain research and analysis is not a specific tool, but rather a framework into which you can put different lenses. You can look at value chains from a gender perspective, for example – i.e. try to identify the position of women in value chains and understand the underlying systemic causes of discrimination. The choice of key focus areas therefore determines the way you look at value chains.

## Don't try to find an answer to every problem!

All too often you will realize that sectors show signs of many different Decent Work deficits. However, bear in mind that ***you have limited resources and therefore cannot solve all of the problems!*** Select key areas where you think interventions can make a big difference in achieving Decent Work targets on a large scale (i.e. promising large-scale impact). Only by focusing on a few key areas can we move away from symptoms to an analysis of underlying systemic causes.

*Box 4.4: "Zooming in" on specific markets within the value chain*




*Taken from: The Springfield Centre (2008): Operational guide for M4P, see www.springfieldcentre.com*

The following checklist will help you to prepare a framework for value chain research:

*Box 4.5: Checklist – preparing a framework for value chain research*

| What is/are your focus area(s)? | What information do you need? | Who are the relevant market players? | Which method will you use? | Who in the team is responsible? |
|---|---|---|---|---|
| *Example:*<br><br>Poor working conditions resulting in low productivity and poor quality | Labour productivity, production costs, level of workers organization, good (low cost) workplace practices already applied | Employers (small entrepreneurs, company managers), workers, unions, industry bodies | Managers: semi-structured interviews;<br><br>small producers: focus group discussions and observation | Names of team members for specific tasks (refer to detailed work plan) |
| Your turn… | | | | |

## 4.3 Focusing on specific Decent Work deficits and markets in value chain systems

### Step 2:

**Deciding on the contents of value chain research**

Once you have decided which lens to put into your framework (i.e. focus area) for value chain research, you need to think about relevant information for identifying underlying causes and market player incentives. The key questions for value chain research are therefore:[33]

- What are the underlying causes of a market system's underperformance?
- What are the primary obstacles to and opportunities for overcoming these problems?

To answer these questions, value chain initiatives need to go beyond the core of the market (i.e. transaction within the value chain), and explore the range of other functions which support and govern the market – i.e. rules and supporting functions. Decent Work deficits are often caused by underlying problems with supporting functions and rules – i.e. economic, social and political norms and institutions. Value chain initiatives therefore need to go beyond the symptom of the problem to understand the causes, from "what" to "why".

**The importance of market player incentives[34]**

At this level [value chain initiatives] should avoid simply describing specific market functions and the players that are currently performing those functions. It is essential to go deeper than that: to get insight into the players' capacity and motivations for performing specific market functions and how well they are performing them. This means looking at:

- Incentives of players
- Capacity of players
- Relationships between players

[…] Incentives and capacity are critical. Value chain initiatives need to explore the reasons why players are acting the way they are and their motivations and ability to change. Assessments must help initiatives to understand the "political economy" of change, which is grounded in the incentives of market players in the private and public sector, whether formal or informal, large or small, national or international.



[33] The Springfield Centre (2008): M4P operational guide, Section 3B: Understanding market systems, Durham, UK.
[34] ibid.

*Box 4.6: Application example*

The accessibility of retailers makes them the most common source of information for farmers. Farmers seek advice from retailers but are often suspicious of the value of information received – retailers are seen to "push" products rather than solve problems. Retailers in the main do not recognize the value of the information "service" they provide. For their part, they are reliant on large input supply companies for their information, but this information currently has a narrow focus geared to products – rather than vegetable cultivation practices per se. It is in the interests of input suppliers and retailers that farmers should be more successful; more and better information needs to be provided by the input supplier and retailers if this is to be achieved. The information problem is to a large extent a business model problem. The logical intervention focus is on working with input supply companies – which have the capacity and incentive to change – to improve the quality of information and advice available to farmers through retailers. This can enhance the reputation of input suppliers and their retailers, strengthen customer loyalty and increase sales.

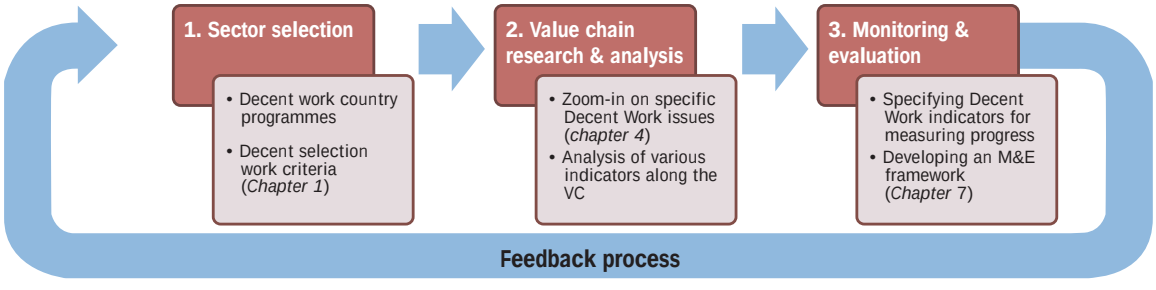
*Source: The Springfield Centre: M4P operational guide (www.springfieldcentre.com). See also Gibson, Alan (2007): Bringing knowledge and information to vegetable farmers, KATALYST project, Bangladesh (www.katalystbd.com).*

### Focus areas in VC research provide a basis for monitoring and evaluation

The decision on which particular Decent Work deficits to focus on also determines the choice of indicators selected for monitoring and evaluation during the implementation of interventions (see *Chapter 7*). The value chain research may in fact also contribute by collecting baseline data against which the progress of interventions can subsequently be measured.

If working conditions are your focus area, for example, and you plan to gather information on labour productivity, production costs and level of worker organization, then these indicators could also be selected for monitoring and evaluation as a basis for measuring progress.

*Box 4.7: evolution of Decent Work indicators for monitoring and evaluation*




The following sections of the guide reflect on some Decent Work focus areas within value chains – i.e. looking at value chains through an ILO lens. They may give you an idea of how to design the contents of your value chain research.

### *4.3.1 Social Dialogue in value chain systems: how market players cooperate*

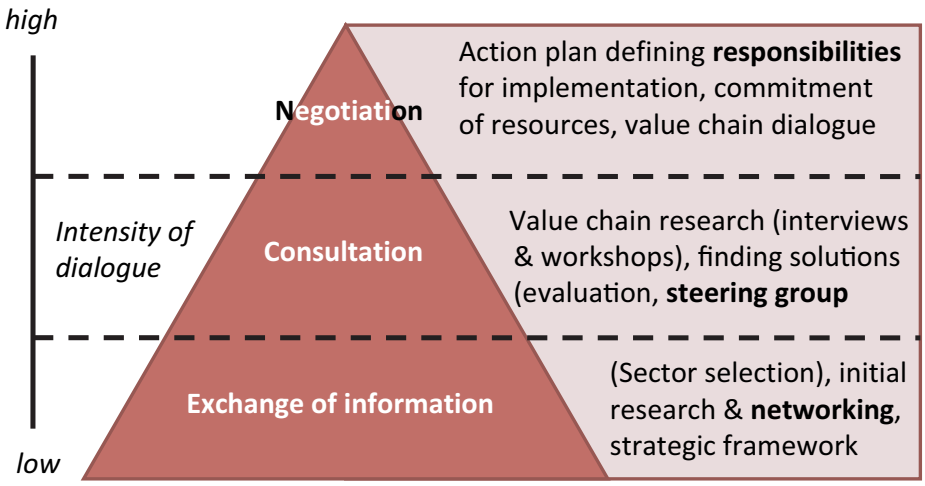
**Definition of Social Dialogue**

The ILO defines Social Dialogue as "all types of negotiation, consultation or exchange of information between representatives of governments, employers and workers on issues of common interest relating to economic and social policy". Social Dialogue can be seen as consisting of three stages of dialogue intensity:

**Three stages of intensity**

1. ***Exchange of information:*** no real discussion or action on the issues concerned
2. ***Consultation:*** engaging in more in-depth dialogue
3. ***Negotiation:*** takes place at many levels; parties have to engage in a dialogue to overcome differences and reach an agreement; can provide a solid foundation for formal tripartite meetings and national level Social Dialogue.

*Box 4.8: Intensification of Social Dialogue*




*Source: Ishikawa (2000), available from www.ilo.org*

**Using Social Dialogue as a tool for value chain development activities**

Value chain development is about better communication and cooperation between value chain stakeholders – not only between large and small businesses along the chain, but also between government, employers and workers/employees. The participatory approach introduced in this guide is geared precisely to that goal. As the value chain initiative proceeds, dialogue between various stakeholders is strengthened – initially through joint workshops and interviews, then by forming a value chain steering group, and finally by negotiating the responsibilities for implementing proposed solutions.

# Value chain research: identifying Decent Work deficits

Value chain development can only be successful if all stakeholders involved support the initiative; a value chain can only become more competitive and add more value if workers are also included with government and employers in the decision-making process; small enterprises in supply/retail chains can only be integrated more effectively if their voice is strengthened and communication with larger companies and government is enhanced. In summary: ***value chain development is through Social Dialogue***.

### Assessing the degree of Social Dialogue in value chain research

Dialogue between businesses in value chains in which other market players in the overall system are also included would usually take place within formal or informal frameworks: in (business) membership organizations, public-private partnership forums, steering committees, lobby groups, conferences, exhibitions and other events, round tables, etc. ***The first step in researching a value chain would therefore be to identify these formal and informal dialogue platforms***: where do market players come together and exchange information? Where do market players negotiate and bargain for agreements? Using the market system model set forth in the introduction of this guide, this would mean identifying who is responsible for performing the ***market function*** of "dialogue between market players".

### Understanding why existing dialogue mechanisms under-perform

***The next step would be to understand how these market functions are performing and why, and whether all of the relevant parties are being included in the dialogue:*** do the existing dialogue mechanisms and institutions sufficiently reflect the interests of all parties? Are workers and small producers involved in the dialogue? What about women? And how intensive is the dialogue? Does the dialogue address crucial bottlenecks in the industry and does it try to find common solutions, or does it merely serve as a forum for information exchange without resulting in action? What prevents market players involved in the dialogue from taking action? Does the dialogue address the incentives of key market players?

Value chain initiatives should never attempt to replace any existing dialogue mechanisms – irrespective of how weak and inefficient they are. They should instead focus on identifying the reasons for weaknesses and address these through appropriate actions that reflect market players' incentives.

*Recommended reading on Social Dialogue*

**Ishikawa, Junko (2003):** Key features of national social dialogue: a social dialogue resource book, International Labour Office, DIALOGUE Department, Geneva (Switzerland).

### *4.3.2 Working conditions in value chain systems: more than just CSR*

**Bad working conditions are a symptom and cause of lack of competitiveness**

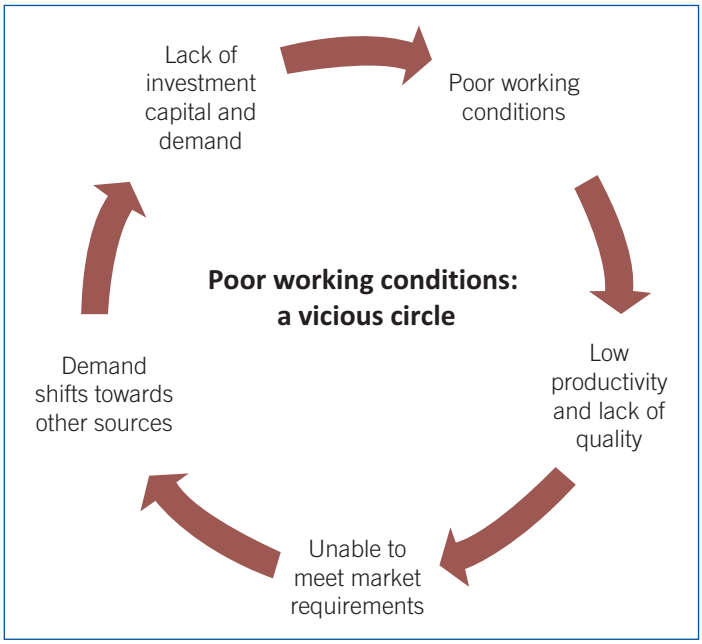
Poor and disadvantaged people are part of value chain systems at various levels: as producers, service providers, workers and consumers. A symptom of poverty is poor working and living conditions affecting not only the health of people but also their social and economic status and recognition, their commitment to work and – most importantly – their productivity and loyalty to their employer, buyers or suppliers.

***However, poor working conditions are not only a symptom of poverty but are often also a cause of system inefficiency and lack of product quality*** (see the five drivers of value chain development in *Introduction* and *Chapter 5*), resulting in the inability to compete on markets. Poor working conditions are therefore not only a social condition but become a serious economic factor determining income and employment opportunities for poor and disadvantaged people.

**Poor working conditions perpetuate a vicious circle**

The figure below tries to capture this point: poor working conditions (e.g. insufficient lighting and an unhealthy/unsafe working environment) affect labour productivity and product quality (e.g. through lost time due to injuries and illness). Since productivity and quality are weak, small producers – or firms employing workers in a poor working environment – are unable to meet requirements of higher value markets. Buyers become frustrated because suppliers are unable to meet demand, and as a result they shift their focus to other sources. This in turn means that income opportunities are lost for small producers, resulting in insufficient investment in productive technologies and better working conditions.

*Box 4.9: Poor working conditions – a vicious circle*



### Poor working conditions undermine the ability of large companies to compete

Good working conditions are not only a matter for the CSR divisions of larger or even multinational companies; they also enhance the ability of companies to compete and respond to market requirements. One weak link in the chain can affect a business's overall performance. The need to promote good working conditions in supply and marketing chains is highlighted by the following two points:

### Increasing consumer/ market pressure

- ***Changing consumer awareness and demand:*** consumer associations, media and policy-makers are increasingly urging (multinational) companies to improve social and environmental standards in their supply/marketing chains, a fact that is underlined by the emergence and increasing popularity of fair trade standards and certifications. Unless companies are able to respond to this demand, they will lose markets to competitors who already have implemented good working conditions and control mechanisms.

### Bad working conditions affect output and performance

- ***Productivity and/or quality weaknesses*** of suppliers/buyers also mean that companies face serious competitive pressure in terms of costs and quality structures. As shown in the circle above, weak supply also means that the buyer company will have problems meeting its own customers' demand. Instead of cutting back on investments in more work-friendly production facilities, improving working conditions can enhance the competitiveness of companies on the market.

### Example

This case is illustrated by an example of an ILO project in Sri Lanka, which also shows how value chain initiatives can approach this subject through initial research and then more detailed research on a particular subject within the chain.

*Box 4.10: Example – How poor working conditions affect system efficiency, product quality and differentiation*

The ILO Enter-Growth project conducted a value chain initiative for the coconut fibre (coir) industry in the North-Western Province of Sri Lanka. The coconut sector as a whole is an important source of income and employment in Sri Lanka and produces a wide range of products for the domestic market as well as export. Coir is the fibre product won out of the shell of coconuts, which again can be used to produce a wide range of value-added products: geo-textiles used for road construction and soil erosion prevention, machine-twisted fibre used as upholstery in car seats, twine for gardening and other purposes, coir pith for horticulture, etc.

The project together with the Industrial Development Board (IDB) of Sri Lanka started with participatory value chain research to identify general opportunities and constraints along the value chain and within the surrounding business environment. Trained facilitators conducted a number of focus group discussions and interviews with relevant market players: coconut plantation owners and managers, traders and collectors of coconut husk, coir millers, manufacturers and exporters of coir products.

The latter include some of Sri Lanka's biggest conglomerate companies. Supply chain and marketing managers of these companies were complaining in particular about the unreliability of coir supply from millers as well as the lack of quality. Since coir supply is weak, companies are increasingly questioning their investments in the industry and some are also looking for other sources of coir supply. The largest company is even considering moving its operations in the coir industry to India – thus depriving thousands of people of job and income opportunities. Companies are also feeling the increasing competitive pressure from other countries: although Sri Lanka still contributes 24.7 percent of the total exports of the Asian Pacific Coconut Community (APCC), this share is rapidly declining as other countries such as Malaysia, Indonesia and Thailand enter the market with much higher productivity gains.

Having also spoken to coir millers and seen their mills, the ILO value chain initiative wanted to find the root cause of the problem and to understand the underlying reasons for low productivity and poor quality of mills. Millers for their part had been complaining about the inability to recruit skilled labour – especially young people. The team therefore suspected that poor working conditions were a major obstacle to higher productivity, and were the reason for poor quality and the lack of skilled labour.

The ILO then hired a reputed consulting firm with expertise in labour productivity and workplace environment. The firm put together a team comprising a medical officer, a labour and a skills specialist, and an engineer. Their task was to identify good workplace practices in coir mills – i.e. practices that were already in place and could be replicated by other millers without large investments. Small things that make a big difference.

The team then spent 4 weeks visiting coir mills all over the country, making observations, interviewing workers and millers and conducting focus group discussions. They also had further interviews with exporters in order to make sure that recommendations and guidelines reflected market requirements. Feedback discussions were also held with the steering group that the value chain initiative had temporarily set up to advise it on implementation.

The in-depth research of the consulting firm helped to identify many weaknesses in the working environment that were affecting the output of mills in terms of quantity and quality: serious health risks for workers working on rotating drums and retting ponds (amputations and fungal infections being common occurrences), low wages and lack of job security (workers had no health insurance and were not eligible for pension), incidences of child labour, alcohol abuse at work, unplanned factory layouts leading to waste of resources through inefficient handling, etc. The list is long.

However, the team not only pinpointed constraints but also identified many small, simple and inexpensive measures that millers could implement to improve working conditions – thus also improving mill output/income. The consulting firm put together a set of GWP (Good Workplace Practices) guidelines and conducted a training session for trainers to which BDS providers, supply chain managers from export companies as well as representatives of millers associations were invited. Using its authority as a UN agency for labour and working with the Employers' Federation of Sri Lanka, the ILO also managed to get the large companies to endorse the GWP initiative and is hoping that the guidelines will be replicated throughout the industry – thus benefiting not only workers but also export companies and millers.

*For more information see: www.entergrowth.com. Under "project library" you will find a report on "Developing the coir industry in North-Western Province".*

### Understanding incentives and using the ILO's authority

Better working conditions are not only a social objective, but have hard-nosed economic implications. All value chain research therefore needs to understand the incentives of market players to improve working conditions for men and women in value chains. Large companies can be an important leverage for wide-scale change. It is important, however, to understand their motivations for doing so. Appealing to social awareness alone will not suffice. ***Good working conditions implemented in cooperation with the ILO can be an excellent marketing tool, for example.*** This is also illustrated by the Ethical Tea Partnership example in *Chapter 5.4*.

How can one identify poor working conditions in value chains? Such conditions are those that fail to meet the expectations for working conditions in what the ILO defines as "sustainable enterprise" (see *Box 4.11* below).

*Box 4.11: Conditions of work in sustainable enterprise*[35]

> "Sustainable enterprises offer conditions of work that provide a safe and motivating working environment and mutually beneficial flexible work organization. They adopt workplace practices that are free of discrimination, harassment and intimidation. They promote gender equality and equal opportunity and treatment of vulnerable groups. They apply workplace practices that maintain a sustainable balance between work, life and family and recognize the role of women in sustainable development. Good workplaces are safe and healthy and allow workers to contribute to changes and improvements. Sustainable enterprises also respect the relevant labour standards including minimum age for employment, reject the worst forms of child labour and, where relevant, address tuberculosis, malaria, HIV/AIDS and other chronic and life-threatening diseases."

### From indicators of symptoms to underlying systemic causes

Identifying poor working conditions in value chains only helps to identify symptoms, but not the underlying causes. But we need to identify the underlying systemic causes for poor working conditions if we want to formulate intervention strategies that will lead to sustainable systemic and long-term change. Identifying indicators for poor working conditions therefore always needs to be accompanied by the question: "**WHY?**" Why are small producers unaware of good workplace practices that would increase their profitability? Why are multinationals not ensuring that their suppliers introduce policies and practices in line with the spirit of the International Labour Standards?

The following questions could be asked when we consider our market system model:

- If poor working conditions are, for example, the result of lack of information about simple and inexpensive measures for improving enterprise output through a better working environment, which market player(s) would be responsible for this information function?

[35] "Conclusions concerning the promotion of sustainable enterprises", International Labour Conference, June 2007, ILO, Geneva, p. 6

- Why is this function currently underperforming?
- Which market player(s) would have a real incentive to improve this market function?
- What is currently preventing them from taking action?
- etc.

The important thing is to understand what is behind the indicators; to understand systemic failures and the incentives of market players to overcome them. This might often mean exploring unconventional avenues: in our coconut coir case above, one could imagine, for example, that insurance companies have a clear incentive to make GWP part of their insurance policies with millers in order to reduce the costs that occur as the result of health and safety risks. Creative thinking is important.

*Recommended reading on working conditions*

- **Ivanka Mamic:** "Implementing Codes of Conduct: How Businesses Manage Social Performance in Global Supply Chains", International Labour Office and Greenleaf Publishing UK, 2004.
- **ILO (2007):** Conclusions concerning the promotion of sustainable enterprises",International Labour Conference, Geneva (Switzerland).

### *4.3.3 Value addition in value chains: understanding who gains most*

**Objective: to add more value to local production for more jobs and higher incomes**

Value addition is often mentioned in the context of value chain development, referring mainly to how local enterprises (especially SMEs) can generate more value within the local economy – thus creating more jobs and higher incomes. For example: instead of just producing and selling fresh tomatoes, local farmers could start adding value by processing the tomatoes into ketchup. You can imagine that this move would bring higher revenues to the local economy and that new job opportunities would be created.

One of the objectives of value chain research could therefore be to find out more about where in the value chain the most value is created. In order to understand the concept of value addition and how to calculate it, the following text (shaded in red) is quoted from the ***GTZ ValueLinks Manual***[36]. If you plan to look at value addition more closely within your value chain research, this will help you to design your research.

[36] *GTZ (2007): ValueLinks Manual – The methodology of value chain promotion, first edition, Eschborn Germany. See module 2 also available from www.value-links.de/manual)*

### Definition of value addition

*Value-added* is a measure for the wealth created in the economy. According to the definition used in systems of national accounting, total value-added is equivalent to the total value of all services and products produced in the economy for consumption and investment (the gross domestic product - GDP), net of depreciation. To arrive at the value-added generated by a particular value chain, the cost of bought-in materials, components and services has to be deducted from the sales value. Box 4.12 shows the calculation principle.

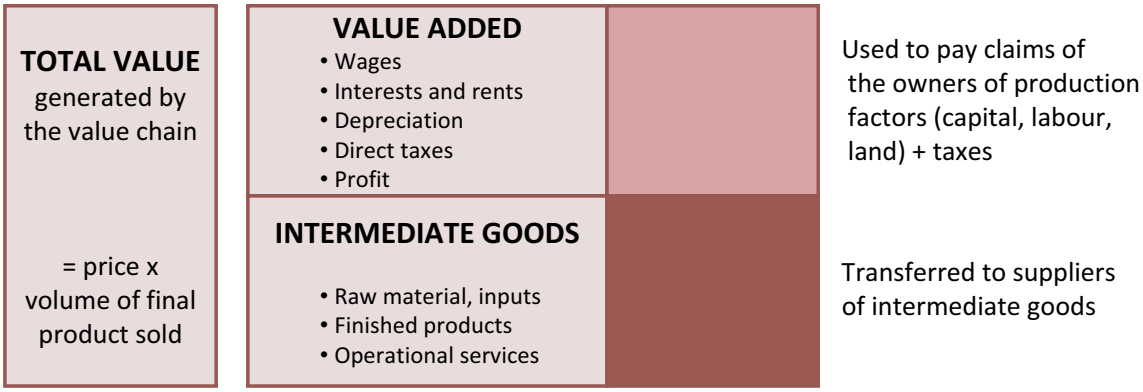
### Value is created through transactions in the value chain

The sales value or revenue (price x volume) achieved by the value chain is divided between the value-added created by the operators constituting the value chain and the intermediate goods, inputs and operational services provided by suppliers who are not part of the core sequence of the value chain.

The calculation in Box 4.12 does not refer to an individual firm but to all enterprises in the value chain together and includes services and inputs provided by enterprises that are not part of the value chain. The growth of total value is a macroeconomic figure and a direct contribution to GDP growth.

*Box 4.12: Concept of value addition calculation*

**Components of total value generated by a value chain:**
(Value-added) = (total sales value) – (value of intermediate goods)



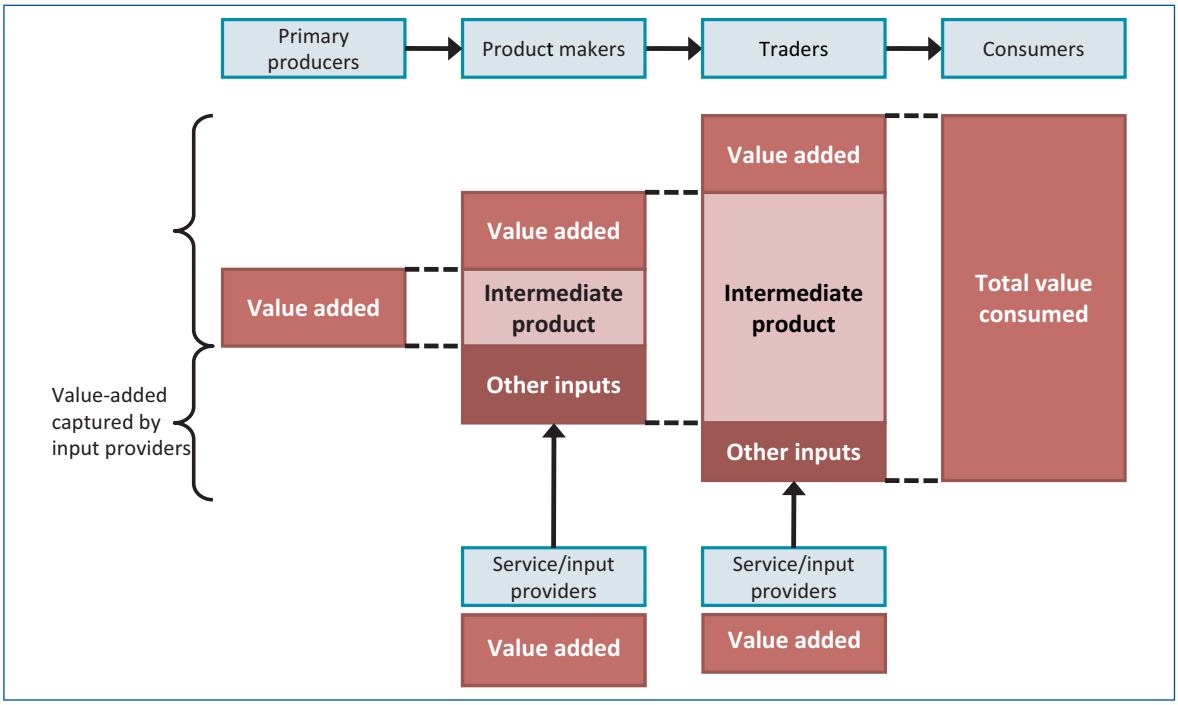

*Source: GTZ (2007): ValueLinks Manual – The methodology of value chain promotion, first edition, Eschborn Germany. See module 2 (also available from www.value-links.de/manual)*
*Price x volume*

### Calculating value addition

The calculation principle can be applied to each stage of the value chain as shown in the next box. The total value paid for and consumed by the final customers is split between value-added and intermediate goods. The latter are further divided between the semi-finished or finished (intermediate) products provided by the operators in the previous segment of the same value chain, and the (other) inputs supplied by external providers. The graph thus shows how the value-added is distributed:

- between the stages of the chain, and
- between the chain operators on one side and the external providers on the other.

*Box 4.13: Concept of the distribution of value addition along the value chain*




*Source: GTZ (2007): ValueLinks Manual – The methodology of value chain promotion, first edition, Eschborn Germany. See module 2 (also available from www.value-links.de/manual)*

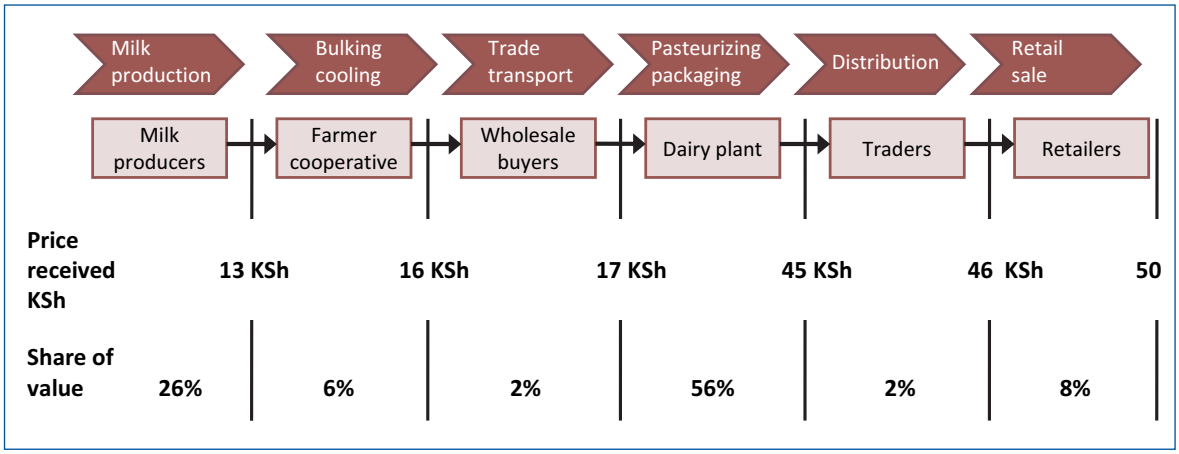
### Creating more jobs and higher incomes by adding value

The sum of the five small blocks ('Value added' and 'Other inputs') indicating value-added is equal to the total value-added consumed. Income or profits make up only part of the value-added. A large share of value-added does not automatically imply high income. However, from a macro-economic point of view, the value-added is a more important parameter than the income of the chain operators. Eventually, the growth generated in related service sectors also counts in pro-poor growth.

### Distribution of value addition can be shifted in favour of target group

Taking the graph in Box 4.13 as a starting point, different scenarios of value chain upgrading can be envisaged: the most obvious is "value creation", i.e. higher sales volumes and/or prices – as a consequence of product improvement or cost reduction. Depending on the place in the chain where new value is being created, the distribution of the value-added changes. If, for example, traders manage to obtain higher prices by improving their marketing strategy, value is being created. The question is who receives ("captures") the value-added. Since traders have to pay more to the product makers, part of the value-added will go to the previous chain segment. Product makers may have to purchase more, or more expensive, inputs, and this in turn shifts some value-added to input providers. It is certainly not easy to putt numbers in the categories in Boxes 4.12 and 4.13. The absolute size of the value blocks in each stage of the chain can be determined by collecting data on the prices paid and the volumes traded. Box 4.14 shows price and thus value distribution in the milk example from Kenya.

*Box 4.14: Distribution of value/revenue along the value chain*




*Source: Hoeffler / Ogana: "Experiences with Kenya´s Dairy Value Chain Analysis", 2006*

### Capturing value through efficiency gains

"Value creation" and "value capturing" are interlinked: capturing value by improving the efficiency of input use increases the value-added of the chain stage concerned but reduces the purchase of inputs and thus the value-added of input providers. At the same time, the efficiency gain is likely to translate into improved competitiveness ensuring a greater market share and thus value creation.

The distribution between value-added and intermediate goods can only be derived from a detailed calculation of the average costs of the operators concerned.

**Warning: knowing about value distribution is not enough!**

Calculating the distribution of value over chains is certainly an interesting and revealing exercise. However, you should also know why you are doing this. The danger is that value calculation becomes a purpose in itself and results in paralysis through analysis. ***What do prices and value distribution at different value chain levels tell you about the underlying systemic causes of this particular value distribution?*** Why is value distributed in this way? Why do small producers get a relatively smaller share of the overall value than large companies? Knowing who gains most is therefore not enough; you also need to know why those who are gaining less are prevented from gaining more. Every calculation of value distribution must therefore be accompanied by efforts to seek the underlying systemic causes for unequal value chain distribution and to understand the incentives of market players to invest in higher-value-added activities.

*Recommended reading on value distribution*

- **Springer-Heinze, Andreas (2007):** ValueLinks Manual – The methodology of value chain promotion, German Technical Cooperation Agency (GTZ), first edition, Eschborn Germany. See module 2. Available from www.value-links.de/manual
- **Van den Berg, Michael et al. (2006?):** Making value chains work better for the poor: A tool book for practitioners of value chain analysis. Available from www.markets4poor.org

### *4.3.4 Gender equity in value chain systems: understanding the position of women*

**Women work in various parts of value chains but face additional challenges**

Women are part of value chains at different levels: as small producers, workers, service providers or consumers. However, they often face additional challenges that men do not face: balance between work and family life, discrimination in income and career opportunities, sexual harassment by male colleagues and superiors, lack of recognition due to cultural barriers, inability to buy and own property such as land, bearing and raising of children and the subsequent absence from work, etc. These challenges affect the way value chain systems work and compete. Fair and equal treatment of men and women alike (gender equity) is essential for exploiting the potential of human resources; it is essential for creating a productive and innovative working environment.

Value chain research and analysis can help to understand the position of women in value chains, as well as the underlying systemic constraints that prevent them from entering the mainstream economy or finding access to the same job and income opportunities as men. The following text is quoted from the ILOs guide for gender analysis and value chain development.[37] It provides an idea of what is important to look at during interviews and focus group discussions, if gender is a particular focus of your value chain initiative.

[37] Mayoux, Linda and Mackie, Grania (2008): Making the strongest link – a practical guide to mainstreaming gender analysis in value chain development, International Labour Organization, Sub-Regional Office Addis Ababa, section 3.1

### Where women work in value chains

- Women who are working at different stages of the value chain but who are less visible, for example: in ancillary activities, temporary work, putting-out systems and homeworking. They are likely to be among the most vulnerable stakeholders. They may also be critical in attempts to improve quality and productivity.
- Women family members who are significant actors in 'male-owned' enterprises as managers, supervisors and unpaid family workers in production or reproductive activities. They may be not only vulnerable but also significant potential beneficiaries of management training and quality improvement measures.
- Women involved in enterprises or trading activities which might be displaced by certain types of upgrading strategies.
- Potential as well as actual female consumers who might be significant in market expansion at the local, national or international level.

*Box 4.15: Understanding women's role in value chains*

**Equality of opportunity**

Are gender inequalities in the value chain perpetuated by:

- Gender segregation of tasks/markets/products?
- Gender discrimination within the production process?
- Gender discrimination in markets?
- Individual differences in skills, resources, time between men and women?
- Gender constraints at household/family/kinship level? e.g. lack of control over income, unpaid household work, restrictions on movements outside the home and relations with men.
- Gender constraints at community level? e.g. social sanctions and violence, withdrawal of social support, lack of business networks.
- Gender discrimination within development institutions? e.g. business development services, training, financial services.
- Gender discrimination in national legislation and policy-making?
- Gender discrimination in international agreements? e.g. on trade, aid and development programmes.
- Gender blindness/bias in the underlying conceptualization of issues and policies?

**Empowerment analysis**

- What are women's own strategies for coping with constraints and maximizing opportunities?
- How far do these perpetuate or challenge inequalities at the different levels?
- What are women's priorities for change?
- How do these compare with those of men?

**A gender equity focus requires a research process that gives equal opportunities to men and women**

Ultimately, in Gender Equitable Value Chain Action Learning (GEVCAL) both are participatory processes which involve women and men and where interpersonal dynamics and power relations will be considered in the designing of the process. Gender issues will also be relevant in deciding the appropriate mix of participatory, quantitative and qualitative methods. Some issues will be investigated more cost-effectively through specifically designed participatory workshops designed to give women confidence and also to give them an opportunity to discuss things with other women which they have not discussed before and also to explore differences of opinion and conflicting interests. This may include areas generally considered very sensitive like sexual harassment and domestic violence. Other issues such as income levels may require individual interviews if very specific details are required.

*Box 4.16: Women in Smallholder Dairy Farming in Zambia*

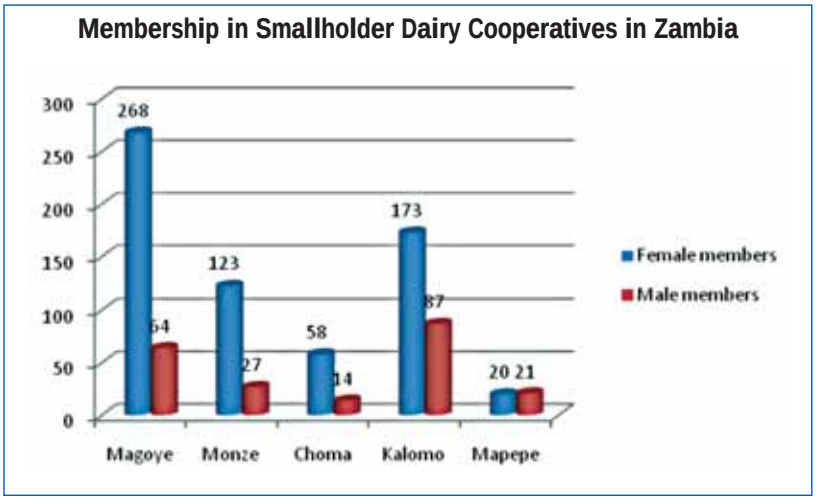



*FIG 1: An analysis of the membership of smallholder dairy milk cooperatives in five rural districts in Zambia's Southern Province. Source: A Gender Analysis of the Dairy Sub-sector Local Value Chain for Smallholder Farmers in Zambia. Zambia Association for Research and Development (ZARD) for the ILO BDS Project. Available from the ILO Lusaka Area Office. www.ilo.org/lusaka or www.bdszambia.com*

Most of the members of smallholder dairy cooperatives are women but their share of key responsibilities in the management of milk cooperative centres is minimal. Women have very little representation in the milk centre management team and therefore very little influence over key issues such as access to markets and negotiation of better milk prices with processors and milk hawkers.

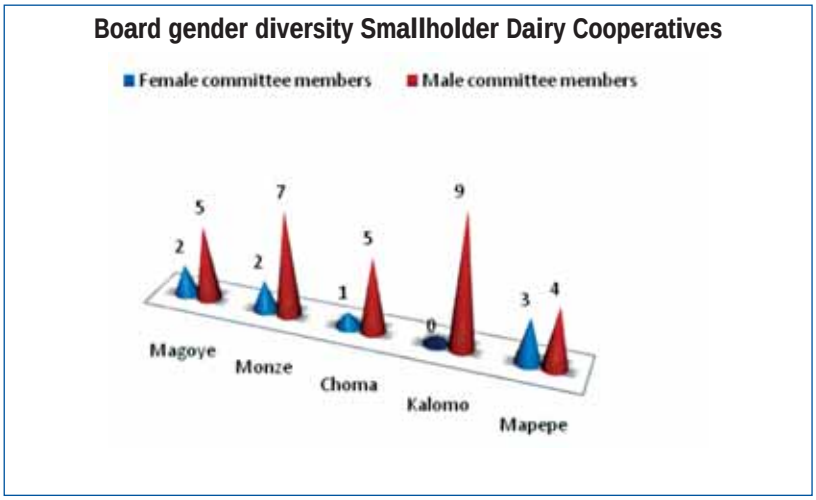



*FIG 2: A gender analysis of the management boards of smallholder dairy milk cooperatives in five rural districts in Zambia's Southern Province.*

The ILO ZARD Report reveals that there are also inequalities in access to business support services, including formal business entry and licensing, which adversely affect women entrepreneurship development and business prosperity.

What is more, access to micro-credit and micro-insurance is a key constraint facing women and youth in Zambia's smallholder dairy sub-sector. This problem is compounded by the lack of collateral reportedly due to difficulties connected with their limited access to land and property rights, access to formal courts, and justice in informal courts in the various chieftaincies in Zambia, for example.

The report suggests that further research is required on the extent to which the current formal regulatory and legal systems in Zambia support gender equality and women's economic empowerment in order to determine exactly what revision and improvements are necessary.

*Source: A Gender Analysis of the Dairy Sub-sector local value chain for smallholder farmers in Zambia. Zambia Association for Research and Develeopment (ZARD) for the ILO BDS Project. Available from the ILO Lusaka Area Office. www.ilo.org/lusaka or www.bdszambia.com*

NOTE: This example illustrates that where gender equality is a cross-cutting theme or main issue for development, there is a need for specific and separate analysis of the Value Chain from the gender perspective in order to accurately reflect the issues specific to women. The first VCA conducted by the BDS project did not highlight these issues in a manner that warranted specific upgrading solutions targeting women.

*Box 4.17: Gender issues in the investigation process*

- Does the research team have the appropriate gender balance to carry out the investigation? Do they have sufficient training in gender-sensitive questioning?
- Are women stakeholders from different backgrounds adequately represented? Are there any specific methodological issues which need to be considered?
- What are the likely key areas of sensitivity which will need to be taken into account? Might this require a strategy for the progressive introduction of particular questions? Should individual qualitative methods be used rather than participatory methods? What sort of preparation might be needed?
- Given the particular areas of sensitivity, vulnerability and vested interests identified, might this require a strategy for phasing the participation of certain stakeholders? What sort of preparation might be needed?
- How is representation of the most vulnerable women to be ensured? For example, are separate workshops and investigations planned for these groups? Are their specific needs in terms of timing and location of meetings taken into account?
- How can sustainable networks amongst women and between women and men be progressively built in the course of the investigation?

*Source: Mayoux, Linda and Mackie, Grania (2008): Making the strongest link – a practical guide to mainstreaming gender analysis in value chain development, International Labour Organization, Sub-Regional Office Addis Ababa, section 3.1*

### The participatory process needs to be complemented by a gender research framework

It is important to stress that the participatory process may not suffice alone for raising and identifying gender inequalities, even where they are important for women themselves. Even a well-facilitated participatory process will therefore need to be complemented by use of some version of the 'gender lens'. This gender lens provides a framework within which the outcomes of the participatory process can be situated and which can then be used to pose further questions beyond those which occur spontaneously. This framework can also be used to help design statistical surveys and qualitative interviews in all types of VCA.

### Several considerations for interviews

In individual interviews it is important to bear in mind the gender of both the interviewer and interviewee. The sex of the researcher is likely to influence the types of responses given[38]. In general, where possible, male researchers should talk to men and women researchers to women when gender issues are being explicitly discussed. In many societies, it will not be possible for women to openly discuss their gender-related problems with men, even where men are allowed to talk to women on other matters. It will therefore be very important to ensure a gender balance on the research team, and also to take the relative genders of interviewer and interviewee into account when analysing the responses.

[38]Research by Cloke, J. (2001) with entrepreneurs in Nicaragua, for example, found very different responses from both women and men from the same households to the same simple questions about ownership and decision-making in the household depending on whether the interviewer was male or female.

*Recommended reading on gender in value chain*

- **Mayoux, Linda and Mackie, Grania (2008):** Making the strongest link – a practical guide to mainstreaming gender analysis in value chain development, International Labour Organization, Sub-Regional Office Addis Ababa

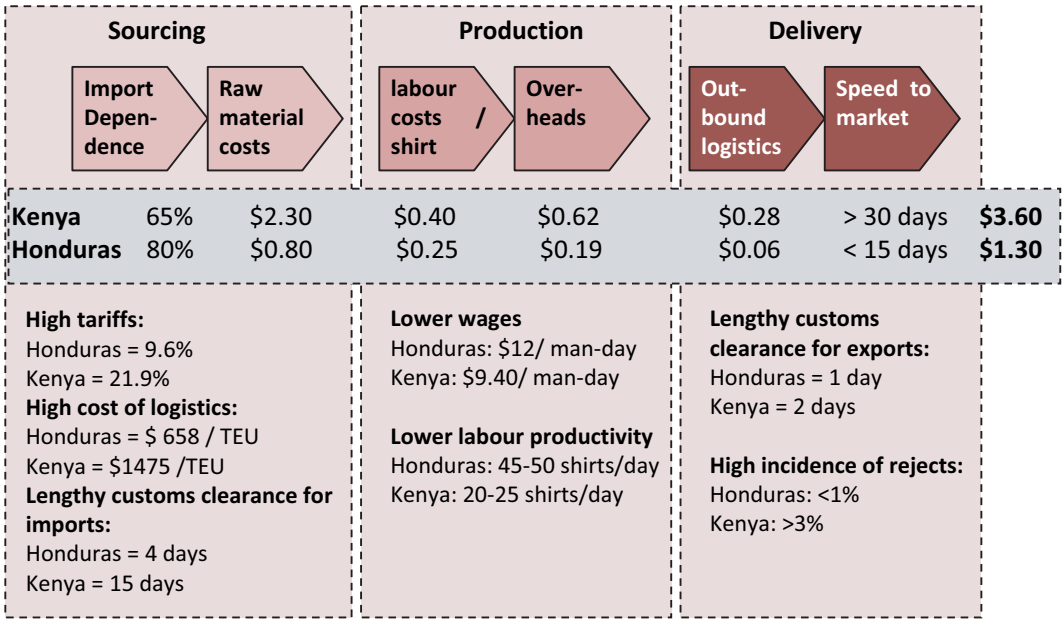
### *4.3.5 Calculating costs in value chains*

**Are higher labour wages a threat to competitiveness?**

Competitiveness can be achieved through quality or cost leadership. Emerging market generally enjoy a cost advantage (e.g. cheap labour and land) over developed markets, which in turn focus on high-tech quality research, production and services. However, emerging markets also compete against one another with similar products and services and therefore also underlie pressure on cost structures and system efficiency, as the benchmarking example in *Box 4.17* below illustrates. Interestingly, the example also shows that higher wage costs for labour do not necessarily pose a threat to competitiveness: labour costs need to be seen in relation to labour productivity.

The following section again quotes from the ***GTZ ValueLinks Manual***[39], which provides useful guidance for calculating costs in value chains.

*Box 4.18: Example – Benchmarking costs per T-shirt between Kenya and Honduras*




*Source: Presentation by Uma Subramanian, FIAS, in Vienna to Donor Committee Working Group on Linkages and Value Chains, 2006*

[39]GTZ (2007): ValueLinks Manual – The methodology of value chain promotion, first edition, Eschborn Germany. See module 2 (also available from www.value-links.de/manual)

### Competitiveness depends on production costs along the VC

[…] Corporate accountancy data are also relevant for the economic analysis of value chains as a whole, because overall chain competitiveness depends on the cost of production in each of its segments. Calculating production costs in value chains involves:

- aggregating the costs of enterprises in a particular segment to arrive at average figures for the value chain or for the sector as a whole
- relating the data to the functions in the value chain. Here, it is not the firm that is the accounting unit but the sequence of production and marketing operations defining the value chain.

### Singling out operations that cause high costs

In order to achieve this, the functional sequence of the value chain has to be broken down into minor steps. Next, the unit cost of each operation is measured (or estimated). The procedure comes close to "Activity-Based Costing" (ABC) analysis in which costs are assigned to business activities. ABC analyses incorporate causal relationships between production activities and costs or output. Those operations which are likely to cause exceptionally high costs are of particular interest and can be singled out for a more detailed analysis. The cost calculation of a relatively short chain is shown in Box 4.18 on the basis of an example of export rice production in Cambodia.



*Box 4.19: Example – Cost calculation related to the rice value chain in Cambodia*

**Costs of performing functions in the production of Neang Mali Rice for export, Cambodia**
(in US dollars/ton)




| | | | | | |
|---|---|---|---|---|---|
| • Land preparation | 14.19 | • Drying | 3.35 | • Transport to harbour | 6.51 |
| • Seeding | 4.15 | • Milling | 12.23 | • Port handling | 10.23 |
| • Transplanting | 20.09 | • Packaging | 2.16 | • Customs clearance | 15.30 |
| • Fertilizing | 26.00 | • Fees & levies | 3.43 | • Vessel loading | 1.40 |
| • Harvesting | 8.03 | • Interests | 2.06 | • (Shipping) | (14.88) |

*Source: GTZ (2007): ValueLinks Manual – The methodology of value chain promotion, first edition, Eschborn Germany. See module 2 (available also from www.value-links.de/manual)*

### Calculating unit costs

The unit cost calculation for each operation includes the direct costs in the first place, i.e. the cost of bought-in material and services, energy consumption, wages, variable costs of machinery and the like. Fixed costs, e.g. interest charges or administrative costs are calculated for entire segments of the chain. The series of cost calculations is compiled along the chain.

### Difficulty in accessing corporate cost data

The data will most probably have to be obtained indirectly, either as estimates derived from cost calculations in comparable enterprises elsewhere, or through model calculations of specific operations. For obvious reasons, the potentially best source of data - books kept by typical enterprises – is the most difficult to access. The data used in the example above have been obtained through interviews.

### Other measures of economic performance: time, productivity, waste rates, etc.

Apart from the cost figures for chain functions, business activities can also be assessed in terms of the time needed to perform them. Other measures of economic performance are productivity indicators, e.g. the number of T-shirts produced per worker per day, the utilization of production capacity in percent, waste rates or the yield of agricultural products per hectare of irrigated land . Such indicators are good proxies for the unit cost of production and can serve as a basis for competitive benchmarking.

### Important: identify underlying causes behind cost drivers (interpretation)

Whatever the methods and results of cost analyses in value chains, the decisive question is how to interpret the data. Cost analyses can be used to:

- identify cost drivers across different stages of the chain and thus the cost reduction potential of typical firms operating at the same stage
- assess the position of the value chain vis-à-vis competitors, comparing unit cost with those of competitors (benchmarking).

Transparent calculation of production and processing costs also has a direct benefit for chain upgrading, as it helps to build trust between the partners in the value chain and provides a reference for negotiations. The following additional analyses set the basis for an interpretation of cost data thus providing the link to strategy formation.

### Identifying cost drivers by calculating cost distribution

**Identification of cost drivers**

Using the type of cost analysis presented in Box 4.18, major cost components can be identified by calculating the cost distribution in percent. The example shows that the cost of fertilizers and the cost of transplanting constitute the two major cost items and therefore

might offer a substantial cost reduction potential. In fact, closer analysis reveals that fertilizers in Cambodia are of lower quality and are not being used effectively. The higher transplanting cost can be explained by low labour productivity. By analysing important cost components in detail, cost drivers such as high waste rates, underutilized economies of scale or underexploited opportunities for using co-products can be identified.

### Understanding transaction costs within the value chain

**Identification of excessive transaction costs**

A type of cost that is particularly relevant in value chain analysis is "transaction costs". Transaction costs result from activities for (a) searching market information and screening market opportunities (b) negotiating contracts, (c) handling the produce (e.g. storage, transport, administrative costs and claims) and (d) monitoring and enforcing contracts (e.g. quality control costs, insurance premiums). Transaction costs cannot be avoided but their amount depends to a large extent on the availability or lack of information, market transparency, appropriate legal regulations and trust. Typical examples of important and tangible transaction costs are the costs of handling produce in a seaport, local taxes and the administrative burden on road transport or the average rate of supplies that have to be rejected.

### Comparing the cost structure to those of competitors (benchmarking)

**Competitive benchmarking**

Competitive benchmarking compares the value of key indicators of the economic performance of the value chain in question with the value of the indicators in other comparable value chains in other countries. Benchmarking can refer to the unit cost of production, labour productivity or indicators of technical efficiency. For example, the international benchmark for labour productivity in the production of basic shirts is 18-25 pieces per day, while the respective figure in Ethiopia is 8-10 pieces per day.

Besides these economic parameters, benchmarks can be established for any other quantitative or even qualitative aspect of the value chain, including, for example, growth rates, investment in technology, research or staff training, existence of market regulations and standards etc. Benchmarking allows comparing the value chain in question with an industry average or best practices of competitors. The comparison helps to identify upgrading needs and potential and to identify new market opportunities.

### From cost distribution to cost drivers to underlying reasons

As mentioned in the text above and in *Section 4.2.3*, calculating costs is not enough: it is essential to interpret the data collected! This means identifying the cost drivers and understanding the reasons behind them – the underlying systemic constraints that prevent enterprises from entering a more cost-efficient production strategy. Every cost analysis therefore needs to be accompanied by efforts to seek the underlying causes. Bare numbers will not suffice for formulating intervention strategies that lead to sustainable Decent Work outcomes.

*Recommended reading on cost calculation in value chains*

- **Springer-Heinze, Andreas (2007):** ValueLinks Manual – The methodology of value chain promotion, German Technical Cooperation Agency (GTZ), first edition, Eschborn Germany. See module 2 (also available from www.value-links.de/manual)
- **Van den Berg, Michael et al. (2006?):** Making value chains work better for the poor: A tool book for practitioners of value chain analysis (Available from www.markets4poor.org)

### *4.3.6 Lead firms in value chain systems: understanding power relations*

#### Understanding value chains is about understanding relationships

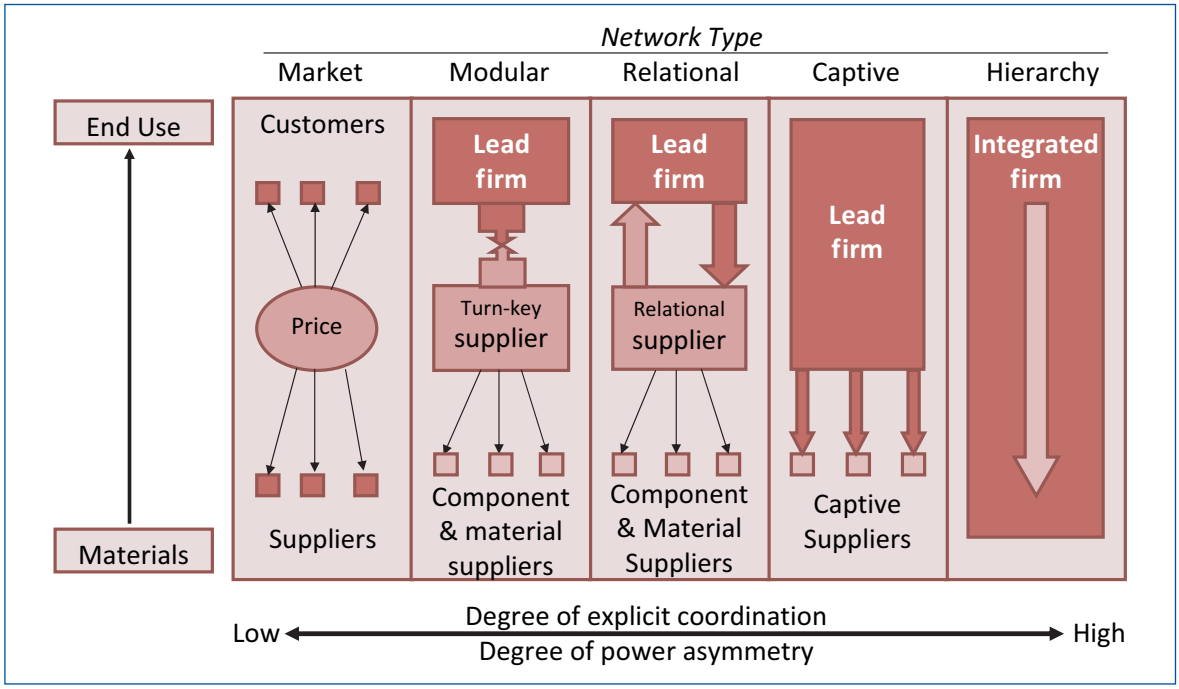
Dealing with value chains requires an understanding of ***how the value chains are organized (or coordinated) and in particular, who has the say in the chain (power relations).*** This is what is meant when referring to *value chain governance*. Value chains display a variety of different "governance structures", and the recognition of different forms of governance in global value chains has important implications for the question of upgrading, that is to say, how enterprises can move into higher value-added activities.

*The figure in Box 4.19* illustrates different types of governance that can occur in value chains. The degree of power asymmetry increases from left to right. Loose connections between enterprises are indicated by a thin arrow, as in market-based relationships. The stronger the relationship between enterprises, the thicker the arrow.

#### Hierarchical relationships

1. Many chains have a dominant player who determines the overall nature of the chain. The powerful players are often called *lead firms*, who seek to *govern* the chain. Lead firms often set and/or enforce terms under which other actors in the chain operate. When a lead firm has extensive control or even takes over direct ownership of parts of the value chain, we speak of ***hierarchical relationships***. A central concern of value chain analysis is to understand the relationships between global lead firms and local producers – and the opportunities and constraints that result from entering such relationships.

*Box 4.20: Different types of value chain governance*




*Source: Gereffi, G., Humphrey, J. and Sturgeon, T. (2003): The governance of global value chains, Institute of Development Studies, University of Sussex, page 9.*



### Network-type relationships

In other chains there is intensive interaction, but the relationships between the enterprises are uneven. We would speak of more ***network-type relationships***. These relationships include: a) *modular relationships*, where suppliers make products or provide services to a customer's specifications, and tend to be highly competent with an ability to provide "turn-key" or "full-package" services; b) *relational relationships*, which are often complex interactions between buyers and sellers and often create mutual dependence and asset specificity; and c) *captive relationships*, which are typical of situations where small suppliers are transaction-dependent on much larger buyers. Suppliers face significant switching costs and are therefore "captive".

### Market-based relationships

Not all chains are governed by powerful lead firms. In some chains there is buying and selling (transaction) but little exchange of information and learning from one another (interaction). This type of value chain governance consists of ***market-based relationships***, because the conditions of exchanging goods and services are negotiated daily on the basis of the market price.

*Recommended literature on value chain governance:*

- **Gereffi, G., Humphrey, J. and Sturgeon, T. (2003):** The governance of global value chains, Institute of Development Studies, University of Sussex.
  Available from www.globalvaluechains.org

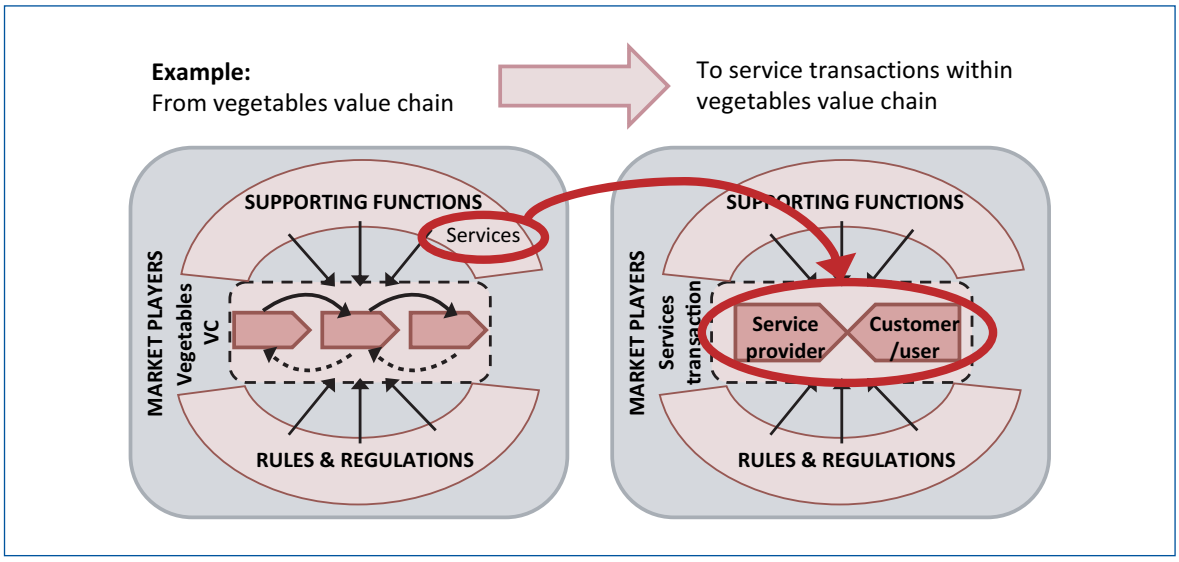
### *4.3.7 Business services and value chains*

**Putting services into the core of market systems**

It is coming to be recognized that the key determinants of improved productivity and competitiveness lie in improved knowledge, information and skills. Services are a critical means through which industry-specific information and knowledge is generated and transferred.[40] However, the mechanisms by which these services are delivered and the market players who deliver them vary. Value chain research needs to identify these mechanisms and market players in order to provide the basis for informed and effective intervention strategies around knowledge and information.

In terms of our market system model, we see services as a supporting function of a given value chain, and in a second step we take these services and put them into the core (as illustrated below), i.e. "zooming in" on the transaction between service providers and customers/users of services and looking at the market system for services.

*Box 4.21: Putting services into the core of market systems*




*Adapted from: The Springfield Centre (2008): M4P operational guide, for DFID and SDC, Durham (UK).*

[40] Elliott, David (2006): 14

### VC research: understanding different delivery mechanisms for services

Typically, a distinction can be made between three different types of service categories:[41]

### Transactional services: "stand-alone" fee-for-service

1. ***Transactional services*** are provided on a "stand-alone" basis by specialized service providers. Often services are bundled together with other services or products – for example when assistance in adopting new technologies is combined with design and training services. Service in this case is the product that is being traded from provider to user usually on a fee-for-service basis.

   When one looks at a particular value chain (such as vegetables), transactional services are not necessarily part of the chain itself, but rather part of the supporting functions that enable the value chain to function efficiently. One could say that transactional services facilitate transactions within value chains. However, they constitute a value chain on their own, Extending from market research and the development of new services to the training of service providers, the provision of services, the customer/user of services and then a feedback process feeding back into the development of new services. They generally do not cater for specific sectors but provide services to a wide range of other sectors.

> ***Examples of transactional services:*** financial services, insurances, transport services, communication services, training and information, management advice, etc.

### Embedded services: part of commercial transactions in value chains

2. ***Embedded services*** are services packaged within or bundled around commercial transactions between a buyer and seller, and are therefore part of core transactions within value chains. They are typically not as visible or as tangible as other service delivery mechanisms and therefore often receive less attention. It is found that lead firms are often the drivers behind embedded services, thereby ensuring that operations along the chain are cost-efficient and effective (i.e. that business partners meet market requirements) and that the competitiveness of the overall value chain is guaranteed. Embedded services are especially characteristic for business models such as franchising[42], sub-contracting and licensing.

[41] See Elliott (2006) and Tanburn et al. (2001)

[42] See Henriques and Herr (2005)

### Embedded services compensate for limitations of other service mechanisms

Interest in embedded services as a credible mechanism for service delivery is growing, particularly as the limitations of other mechanisms become clear:

- Failing public services in general, particularly in rural areas;
- Areas with thin markets and low economic activity limiting incentives for fee-for-services;
- Information within social networks that is growing stale and is not reinvigorating;
- Tightly controlled media reducing competition for innovation.[43]

### Embedded services as a precondition to competitiveness

In the context of value chain development, embedded services are a crucial factor for understanding relationships between businesses as well as the ability of chains to compete on the world market. Embedded services are an essential mechanism by which knowledge and information is passed on along the chain. The better this mechanism functions, the more the value chain will be able to react to changing market realities and remain competitive.

### The risks and dangers of embedded services

Providing embedded services however is often a tricky issue for lead firms – particularly if the recipients are small and informal enterprises. The informal nature of relationships – i.e. the absence of legally binding contracts between buyer and supplier – allows small enterprises to take advantage of services provided by lead firms and to disappear (i.e. switch to another buyer/supplier) once the services have been provided. As a result, many lead firms are reluctant to invest in embedded services, despite the economic advantages it provides. But not only the lead firm looses: small enterprises switching from one buyer/supplier to another deprive themselves of a reliable and continuous source of knowledge and information, and, as a result, productivity, quality and income remain low.

### Understanding market functions that support embedded services

Looking at embedded services within value chains therefore requires an understanding of the market functions and preconditions that support these services. Embedded services require a relationship built on trust and mutual understanding. Formalization of informal enterprises – or at least formalization of business relationships in the form of legal contracts ? is an important precondition. Value chain research then needs to go on and ask: which market player is responsible for registration, formalization, legal enforcement of contracts, etc.? Why is this function currently underperforming (underlying constraints)? Who has the incentive to provide a solution? etc.

[43] Elliot, David (2006): 14

*Box 4.22: The benefits of embedded services – an example from Sri Lanka*

| Cargills Food City | The open-market value chain |
|---|---|
| Cargills Food City is a major supermarket chain in Sri Lanka. The company supplies fruit and vegetables from a large number of small farmers throughout the country.<br><br>To offer consumers products of high and consistent quality at competitive prices (i.e. below market average), the company collaborates closely with its suppliers, offering a wide range of services from training on new production technologies, supply of irrigation systems and loans, to quality control mechanisms, etc.<br><br>The investment in embedded services, not only pays off for Cargills, but also for farmers (win-win):<br><br>• low costs due to short distances and careful handling<br>• higher incomes due to fewer intermediaries<br>• higher quality and productivity due to the training system, embedded services & quality control system | The open market value chain for fruit and vegetables in Sri Lanka consists of a large number of intermediaries, and is characterized by<br><br>• high costs in terms of price and waste (post-harvest losses between 40 and 60%)<br>• low incomes due to numerous intermediaries<br>• low quality due to inadequate handling<br>• low productivity due to inadequate access to technology, information & services.<br><br>There is also a clear mismatch between consumer demand and supply, since farmers lack access to market information that gives them planning security. |

*Source: Herr, Matthias (2007): Value chain development for decent work – training of trainers guide, International Labour Office, EMP/ENTERPRISE, Geneva.*

### VC research needs to understand the market systems behind services in order to address underlying systemic constraints

Distinguishing between the three above-mentioned service categories helps to understand various delivery mechanisms for services, as well as to identify the market players that provide these services; it also helps to understand the incentives of market players to provide services – whether these are economic (as in fee-for-service or embedded services) or in the public interest. In order to understand gaps in the delivery of services, value chain research needs to understand the market system behind those services – i.e. the nature of relationships between service providers and recipients, their incentives as well as the supporting functions and rules that are behind service markets. Based on this focus on service markets, value chain analysis then needs to look at underlying systemic constraints that result in the target group being disconnected and isolated from information and knowledge distribution mechanisms.

*Recommended literature on business services in value chains*

- **Elliott, David (2006):** Understanding embedded services, in: Rural Development News, Volume 1. Available from www.springfieldcentre.com
- **Henriques, Michael and Herr, Matthias (2006):** MicroFranchising and the informal economy, in: Fairbourne, Michael (2007): Fairbourne, Gibson and Dyer: MicroFranchising – creating wealth at the bottom of the pyramid, Massachusetts (USA).
- **Tanburn, Jim, Trah, Gabriele and Hallberg, Kris (2001):** Business development services for small enterprises

### *4.3.8 Star diagrams: measuring sector performance against buyer requirements*

**Definition: Star diagram as performance indicator**

The star diagram is a useful tool for assessing a sector's performance against its competitors on the basis of market requirements. The assessment reflects the views of large buyers supplied by small producers. The assessment would be part of interviews conducted with the managers of companies which buy from the target sector.

The outcome of this performance comparison in the form of a star diagram is a potentially powerful tool for highlighting competitive weaknesses and areas that need improvement. It also can help to prioritize interventions according to areas in which the sector faces the highest risks. When shown to market players, it often functions as an 'eye-opener', pointing to specific problems that enterprises have in fulfilling market requirements. It also points to necessary and specific changes.

## Step 1:

### Requirements of buyers with regard to their suppliers

*What are the most important requirements that buyers have towards their suppliers?* The main requirements can often already be established after initial research on the target sector (for example after the start-up workshop, see *Chapter 2*). You could also ask the buyer himself during the interview: "What are your five main requirements with regard to your suppliers (e.g. dairy farmers – i.e. your target group in the value chain)?".

Examples for buyer requirements are: fast delivery, low price, high quality, modern design, freshness, reliability/regularity of supply, fast response time to orders, flexibility, hygienic packaging, labelling, traceability, compliance with international standards, good customer services, product information, etc.

Try to limit the selection of requirements to about five. If you have pre-selected the requirements prior to your interview with the buyer, you could reassure yourself during the interview, by asking whether the requirements have been identified correctly.

## Step 2:

### Identifying competitors

*Who are the main competitors of your target sector?* From which other regions (within the country if your value chain initiative focuses on a specific local economy, or another country in the case of national sectors) does the buyer source his products? Ask the buyer during the interview to give the names of his 3-6 main sources. If you interview several buyers, it is better to pre-select some sources in order to summarize all interviews in one star diagram later.

## Step 3:

### Assessing buyers' confidence

Now ask the buyer to evaluate the performance of your target sector and that of its competitors on a scale of 1 (very bad) to 5 (very good) by going through the main requirements.

For example: "With regard to *delivery time*, how would you estimate the performance of T-shirt manufacturers in Kenya compared to China, India, Mauritius and Thailand – using a scale of 1 to 5?" Note the answers down as shown in *Box 4.22* below.

*Box 4.23: Constructing a star diagram*

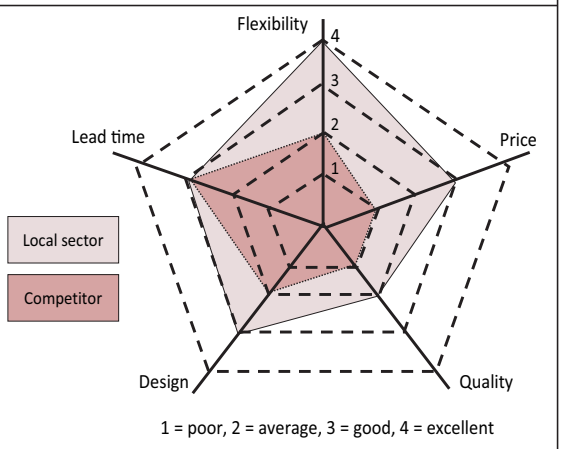
**Questionnaire**

On a scale from 1 to 5, how do you assess the performance of your 4 most important suppliers* from different regions with regard to the following business criteria (mark your answer with a cross):

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Innovative design | | A** | B | C,D | |
| Regular and reliable product quality | | B | C | A | D |
| Price | | A | D | B,C | |
| Delivery time | | A | B | C,D | |
| Flexibility: coping with small orders | | | A,B | C,D | |
| Flexibility: coping with changes in large orders | | A,D | C | | B |

**Star diagram example**

The answers on the left can be put into a diagram as done for two countries below. This can easily be done either in PowerPoint or Excel.




** Even if your local target sector is not one of the most important suppliers, include it in this list!*
***India: A; Italy: B; Brazil: C; China: D. Could be done for competing national sectors or international sectors (as in example)*

# Step 4:

## Evaluating information and constructing the star diagram

A star diagram is easily constructed with an Excel or PowerPoint programme. If you have interviewed several buyers, asking them the same questions above, you need to calculate the average mark for every performance criteria.

The star diagram provides very useful information. From the diagram above you can see, for example, that the local target sector can compete with India in terms of flexibility, but looses heavily in the other areas (especially in quality and price). The target sector therefore needs to improve its design and production functions in order to increase quality and reduce the price. The price and delivery time can also be further improved, for example, by avoiding unnecessary intermediaries along the value chain (direct marketing).

### Different versions of the star diagram

Star diagrams can also be used in a slightly different way:

1. ***Buyer preference and actual performance of suppliers:*** Instead of asking buyers to compare different and competing suppliers with one another, it might often be easier to ask the buyer to rate the importance of criteria on a scale from 1 to 5, and then to assess the performance of your target group against the same criteria. For example:

- "How important is delivery time for you? Please rate on a scale from 1 to 5."
- "In terms of delivery time, to what extent do dairy farmers from … (your target region) meet your requirements? Please rate their performance on a scale from 1 to 5."
- The result can be used to assess, for example, to what extent small producers meet buyers' requirements. This version of the star diagram has proved to be more useful where buyers have been reluctant to compare the performance of their various suppliers with one another.

2. ***Instead of suppliers, use other target groups:*** the same procedure explained above can of course also be used for different target groups: for example, small retailers in the marketing and distribution channels of large manufacturers, service providers supplying services to small enterprises (their performance could be assessed collectively, for example, by small producers in a focus group discussion), workers working for large accompanies as well as small enterprises (this could be done to assess the quality of the available work force, for instance).

In past ILO projects, it has often proved difficult to obtain exact ratings by buyers. However, the efforts pay off, as the star diagram provides highly useful information for an intervention strategy. Managers of buyer companies might be more cooperative when the purpose and benefits of the whole exercise are explained.

*Further reading on Star diagrams*

**McCormick and Schmitz (2001):** Manual for value chain research on homeworkers in the garment industry, Institute for Development Studies, University of Sussex, UK (available from www.globalvaluechains.org)

## 4.4 Methodology: Interviews and focus group discussions

# Step 5:

### Selecting a methodology for value chain research

Value chain research usually consists of a mix of interviews and focus group discussions with various market players as well as observations and secondary research – all of which require careful preparation if the objectives are to be achieved. Once you have developed a framework for value chain research (*Section 4.2*) and decided on specific Decent Work focus areas (*Section 4.3*), you then need to think about the methodology for collecting the required information.

### Preparation for interviews and focus group discussions

Interviews and focus group discussions require careful preparation and monitoring during their implementation; documentation is also essential in order not to lose crucial information in the process. Preparation is important for various reasons:

- to extract the information needed to identify underlying systemic constraints
- in order not to waste people's time (they have businesses to run and work to attend to!)
- to create a professional image with market players in order to secure their support and initiative.

### Planning meeting with team

It is therefore recommended that a team meeting be held with the core and support teams before starting with interviews and focus group discussions for value chain research, (see *Chapter 2*) to discuss methods as well as practice them. The following questions should be asked at this meeting:

### Guiding questions for preparation

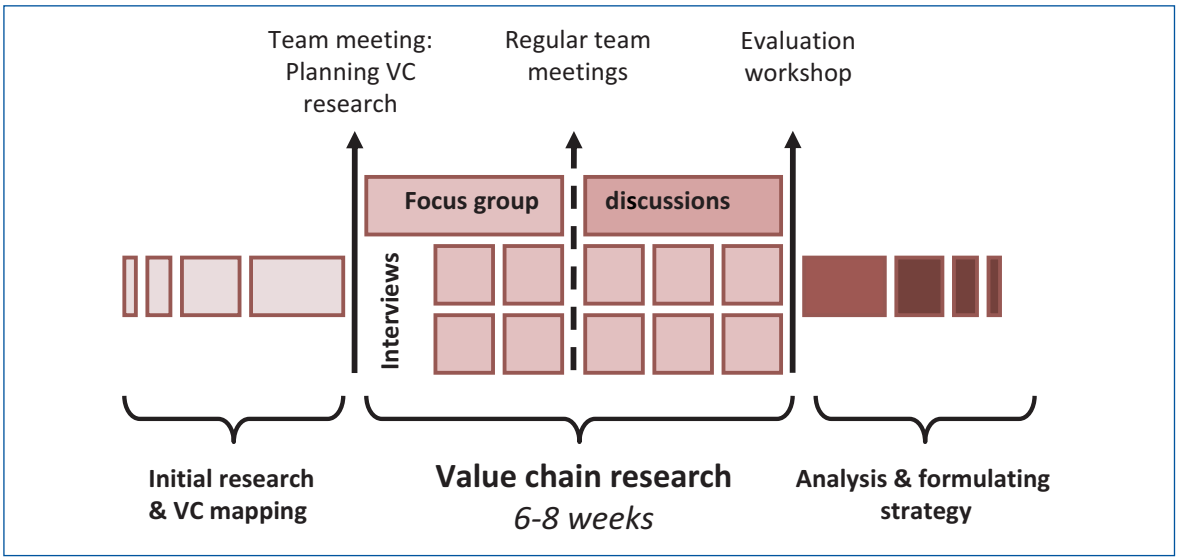
- What are our focus areas, and what kind of information do we need? (see *Sections 4.2* and *4.3*)
- With whom do we need to hold interviews?
- How do we want to conduct these interviews?
- What kind of information do we expect from the interviews?
- With whom do we need to hold focus group discussions?
- How do we want to conduct focus group discussions?
- What kind of information do we expect to get from participants?
- What kind of rules do we need to apply for interviews and focus group discussions?
- How do we organize the documentation of interviews and focus group discussions in order to ensure that information is not lost in the process?

### Using the value chain map as orientation

The value chain maps constructed earlier (see *Chapter 3*) can be a great help in identifying relevant market players for interviews and focus group discussions. Keep in mind that it is not always necessary to interview all market players of a value chain system, but that whom you interview depends on the kind of information you are interested in finding out.

**Time line: interviews and focus group discussions for value chain research**

*Box 4.24: VC research as part of the overall VC initiative*




The following two sections are in no way intended to give a detailed introduction to research methodologies, but rather try to briefly outline available options for interviews and focus group discussions in value chain research. It is assumed that the reader will have sufficient background experience in research or will otherwise make use of existing literature on research methodologies.

### *4.4.1 Interviews*

**Purpose of interviews in value chain research**

During the value chain research you will conduct a wide variety of interviews with different market players such as the business managers of lead firms and small enterprises, representatives of organizations, business service providers, policy-makers, government authorities and extension officers, etc. The interview form is particularly useful when gathering information from market players that are located outside of your target area, or for obtaining more detailed and specific information from individual members of your target group (information that they would not share in a focus group discussion, for example).

**Interview combined with observation for identification of Decent Work deficits**

Conducting interviews with market players from different value chain levels will require a certain amount of travelling on your part – i.e. do not invite people to your office; go and visit them in their working environment. The interview thus combines audio with visual information through observation. Observation is particularly important in understanding Decent Work conditions of workers, small producers, women, youth and other target groups in the value chain.

There are various forms of interviews, ranging from open to closed and structured to semi-structured to unstructured. Which to choose depends on many factors: local communication culture, experience of the team members, available time and other resources, intended depth of research, etc. It therefore is not possible to give definite answers here; these need to be discussed within the project team. However, there are some general choices to be made, which are described below:

**Definition of open interviews**

An ***interview with an open form*** allows your interviewee to freely formulate his answers without restriction. As the interviewer, you will have prepared a guideline for the interview (a list of important questions for which you seek an answer), which, however, leaves the answer open to your interviewee.

An example: "What do you think of the new government policy on livestock import regulation? Does this have a negative impact on your business?"

An open interview form is appropriate if you want to gather as much information as possible. It is often easier to get information this way, rather than pressing your interviewees into a format that does not allow them to express themselves freely.

**Definition of closed interviews**

A ***closed interview*** would be based on a questionnaire limiting the interviewee to a set of answers. This form is particularly useful if you intend to bring the answers of several interviewees (who have all been asked the same questions) into a statistical format.

Example: "If you evaluate the performance of your suppliers on a scale of 1 (very bad) to 5 (very good), what mark would you give them for quality?"

*Box 4.25: Example of interviews and focus group discussions from Madagascar and Sri Lanka*

Two ILO projects in Madagascar and Sri Lanka used an approach which combines a participatory local economic development approach known as PACA[44] with the value chain approach.

After conducting their start-up workshop (initial research, *Chapter 2*), to which the project team had invited many different market players from the target sector to assess general opportunities and constraints, the team held a planning meeting in order to discuss further procedure.

During the initial research and start-up workshop, the team had identified various issues that were affecting the overall performance of the sector. Keeping their objectives (Pro-poor growth through promotion of Decent Work) as well as their organizational capacity in mind, they decided to select issues to which market players gave priority.

They then discussed how interviews and focus group discussions should be conducted with a view to finding out more about the priority issues and understanding underlying systemic constraints. Questions that guided the discussions were:

- Whom should we interview?
- How should we conduct the interviews?
- What kind of information do we want from the interviewees?
- With which market players should we conduct a focus group discussion?
- How should we conduct the focus group discussions?
- What kind of information do we want from the focus group discussions?

It was decided that open interview formats would be used, allowing enough flexibility to adapt interviews to specific contexts. However, a guideline would be prepared with lead questions that would give interviewers a clear orientation. Also, the team leader would develop a format for focus group discussions. Examples of interview guidelines and focus group discussion formats are given in the annex to this guide.

Clear documentation rules for interviews and focus group discussions were established: 1) interviews and discussions were always to be conducted by two people, 2) after every interview and discussion the interviewers would immediately sit down and write up the main findings to a summary report as well as provide copies of the interviewer's filled-out question guidelines. Reports would then be collected by the team leader.

Having decided on the method of the value chain research, an action plan was drawn up for the next 6-8 weeks, in which the time frame and responsibilities were specified. Appointments for interviews and focus group discussions were subsequently filled into the action plan.

*Source: Herr, Matthias (2008): Local value chain development for decent work – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth, Colombo (Sri Lanka). Available from www.entergrowth.com.*

[44] Further information on PACA is available from www.mesopartner.com, or: Meyer-Stamer, Jörg (2003): Participatory Appraisal of Competitive Advantage (PACA) – effectively launching local development initiatives, Mesopartner, Duisburg (Germany).

### *4.4.2 Focus group discussions*

**Bringing together market players with the same business background**

For your value chain research, focus group discussions will be particularly useful when gathering information on local target groups. Small-scale market players with the same business background – i.e. the same value chain level – are much easier to bring together in such a workshop format than large buyers, suppliers or exporters from outside the target region.

**Why focus group discussions are useful**

Focus group discussions are particularly useful in understanding the dynamics of a particular value chain level: its perceptions about other market players, the relationships amongst group members as well as the nature of relationships with other market players, common constraints faced by the group, etc. It is therefore important not to design the focus group discussion as a question-answer session, but rather as an open discussion with lead questions that allow the participants to express themselves freely. Interviews are recommended for more specific information and should therefore be conducted in addition to focus group discussions.

**Definition of focus group discussion**

A focus group discussion is a group discussion that gathers together people from similar backgrounds or with similar experience to discuss a specific topic of interest to the researcher. The group of participants are guided by a moderator (or group facilitator), who introduces topics for discussion and helps the group to participate in a lively and natural discussion amongst themselves.

A focus group is not a group interview where a moderator asks the group questions and participants individually provide answers. The focus group relies on group discussion and is particularly successful when the participants are able to talk to each other about the topic of interest. This is important as it allows the participants the opportunity to disagree or agree with each other. It can provide insight into what a group thinks about an issue, the range of opinions and ideas, and the inconsistencies and variation that exist in a particular community in terms of beliefs and experiences and practices.
The discussion is usually "focused" on a particular area of interest. It does not usually cover a large range of issues, but allows the researcher to explore one or two topics in greater detail.

Focus groups are also "focused" because the participants usually share a common characteristic. This may be age, sex, educational background, religion, or something directly related to the topic. This encourages a group to speak more freely about the subject without fear of being judged by others thought to be superior, more expert or more conservative. For example, young women may not be as forthcoming with their ideas and opinions in the presence of their mothers or mothers-in-law as they might be if they participated in a group that excluded older women.

*Source: Dawson, Manderson and Tallon (1993): A manual for the use of focus groups, UNDP, World Bank, WHO, published by International Nutrition Foundation for Developing Countries (INFDC), Boston, MA, USA (see www.unu.edu/Unupress/food2/UIN03E/uin03e00.htm)*

It is suggested that you use a mix of card and question-answer exercises. **Annex 3** provides you with an example of a focus group discussion format that has proved to be useful in previous ILO value chain initiatives in Sri Lanka and can serve you as guidance for your own focus group discussion. The combination of card exercises, Q&A and discussions should keep the workshop lively and interesting for participants. Maximum duration should be one and a half to two hours.

*Box 4.26: Checklist preparation for focus group discussions*

| Checklist | Answer |
|---|---|
| • Before the first session:<br><br>***Membership*** - Focus groups are usually conducted with 6-10 members. Select members who are likely to be participative and reflective. Try to select members who don't know each other. Select the members of your Focus Group carefully in order to have a representative group for the sector (see *Checklist 2.4*). | Done<br>☐ |
| • Identify the major objective for the meeting | ☐ |
| • Plan your session:<br>• ***Scheduling*** - Plan meetings to be 1 to 1 1/5 hours long.<br>• ***Setting and refreshments*** - Hold sessions in a conference room, or other setting with adequate ventilation and lighting. Arrange the chairs so that all members can see each other, and also provide nametags for members. Provide refreshments, especially box lunches if the session is held over lunch.<br>• ***Ground rules*** - It is essential that all members participate as much as possible. It is useful to have a few, short ground rules that sustain participation. Consider the following three ground rules: a) keep focused, b) maintain momentum and c) get closure on questions.<br>• ***Agenda*** - Consider the following agenda: welcome, review of agenda, review of goal of the meeting, review of ground rules, introductions, questions and answers, wrap-up.<br>• ***Plan to record the session.*** Don't rely on your memory. If this is not practical, involve a co-facilitator who is there to take notes (alternative: audio or video recording). | ☐<br>☐<br>☐<br>☐<br>☐ |
| • Call (potential) members to invite them to the meeting. | ☐ |
| • About three days before the meeting, call the members individually to remind them to attend. | ☐ |

## 4.5 Further reading on value chain research topics

- **Gereffi, G., Humphrey, J. and Sturgeon, T. (2003):** The governance of global value chains, Institute of Development Studies, University of Sussex.
- **Raphael Kaplinsky and Mike Morris (2000):** A handbook for value chain research, IDRC, pages 66-75
- **Mayoux, Linda and Mackie, Grania (2008):** Making the strongest link – a practical guide to mainstreaming gender analysis in value chain development, International Labour Organization, Sub-Regional Office Addis Ababa.
- **McCormick and Schmitz (2001):** Manual for value chain research on homeworkers in the garment industry, Institute for Development Studies, University of Sussex, UK (available from www.globalvaluechains.org)
- **Herr, Matthias (2008):** Local value chain development for decent work – am operational guide, International Labour Organization, Enterprise for Pro-Poor Growth, Colombo (Sri Lanka). Available from www.entergrowth.com.
- **Schmitz, Hubert (2005):** Value chain analysis for policy-makers and practitioners, International Labour Office, Geneva.
- **Springer-Heinze, Andreas (2007):** ValueLinks Manual – The methodology of value chain promotion, German Technical Cooperation Agency (GTZ), first edition, Eschborn (Germany). Available from www.value-links.org – see Module 2 in particular.
- **DFID/SDC (2008):** Three documents on the "Making Markets Work for the Poor" (M4P) approach (available from www.m4pnetwork.org)
  - The M4P operational guide
  - A synthesis of the M4P approach
  - Perspectives on the M4P approach
- **Van den Berg, Michael et al. (undated):** Making value chains work better for the poor: A tool book for practitioners of value chain analysis. Available from www.markets4poor.org

  This tool book – written in collaboration with the ILO PRISED project in Vietnam – provides further sets of value chain research tools:

| | CORE TOOLS | | | | ADVANCED TOOLS | | | |
|---|---|---|---|---|---|---|---|---|
| | Tool 1 | Tool 2 | Tool 3 | Tool 4 | Tool 5 | Tool 6 | Tool 7 | Tool 8 |
| Dimension | Value Chain Identification | Mapping | Margin/ Cost | T+K+U | Income Distribution | Employment Distribution | Governance and services | Linkages |
| Participation of the poor | √ | √ | | √ | √√√ | √√√ | √ | √√ |
| Employment + working environment | √ | √ | √ | √√ | √ | √√√ | √ | |
| Wages + Income | √ | √ | √√ | | √√√ | √ | √ | |
| Access to assets | √ | √ | √ | √√√ | | | | √ |
| Access to info + tech | √ | √ | √ | √√√ | | | √√√ | √√ |
| Access to infrastructure | √ | √ | | √ | | √ | √√ | |
| Access to services | √ | √ | | | | | √√ | √√ |
| Security and vulnerability | √ | √ | √ | √ | √√ | √√√ | √√ | |
| Empowerment | √ | √ | | | | | √√ | √√√ |

**Websites:**

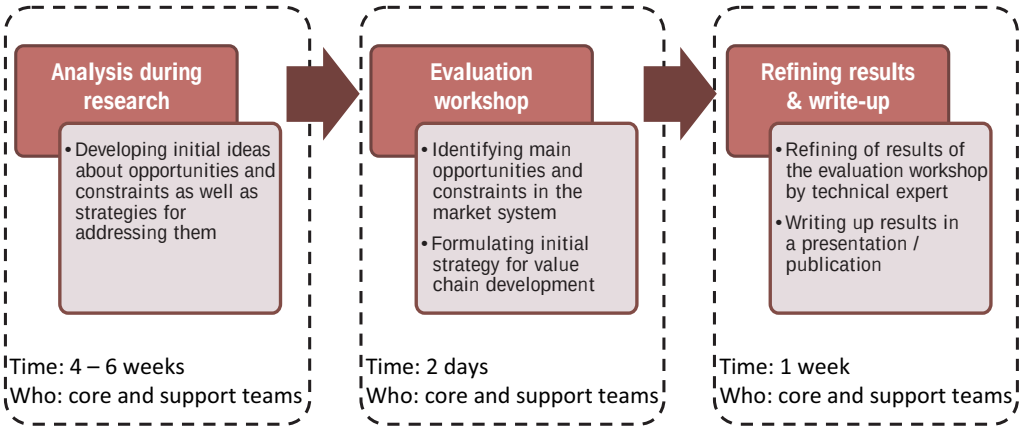
- M4P network: www.m4pnetwork.org
- Global Value Chain Initiative (GVCI), www.ids.ac.uk/globalvaluechains

Chapter 5

# Value chain analysis: developing a vision for sustainable Decent Work outcomes

## Summary sheet: value chain analysis and intervention strategies

***Timeline and proposed actions:***




***Summary:***

Value chain analysis is the evaluation of findings of the value chain research (i.e. interviews, focus group discussions and secondary research) out of which a strategy for value chain development evolves. This process already commences during the research in conversations with the various market players.

The proposed evaluation workshop then analyses the findings by using a market systems framework and applying it to the drivers for value chain development (i.e. system efficiency, product quality, product differentiation, business environment and social and environmental standards). By applying a systemic framework, value chain analysis attempts to identify systemic constraints – i.e. to move from symptoms to underlying causes – and to develop strategies that sustainably address core transactions, supporting functions and rules and are built on market player incentives.

***Outcome:***

- A strategy for value chain development through market system change
- Documentation of findings and strategy

# Value chain analysis: developing a vision for sustainable Decent Work outcomes

### Achieving systemic competitiveness for value chains

In the course of economic development, the integration of different business activities and types of enterprises becomes increasingly important. On the one hand, globalization entails intense competition and pricing pressure. On the other hand, urban customers are increasingly demanding high-quality, fresh and fashionable products.

Both trends call for an increasing level of integration. For example, an organic food product can only be brought to the market if farms are certified and the product is kept apart in the marketing chain. Garment manufacturers, for their part, work on well-defined orders and often sub-contract others to deliver on time. And a particular tourist attraction can only be marketed if all of the related services – from transport to accommodation – meet tourist expectations.

The competitiveness of the national economy thus is not only a matter of the performance of individual enterprises, but also of the degree to which the various companies, both large and small, cooperate efficiently. Consequently, one can speak of the "***systemic competitiveness" of the value chain. Unless it improves, not much economic growth and even less pro-poor growth will be achieved***.[45]

### Decent work as part of systemic competiveness

Systemic competiveness and change is the pre-condition for Decent Work: only through increased competitiveness by efficient value chain integration can jobs and incomes be secured. The role that better working conditions, gender equity and non-discrimination against other disadvantaged groups, social dialogue, abolition of the worst forms of child labour, etc. play in building competitiveness is gaining importance nowadays as consumers, media, politicians, and NGOs call for compliance. The cost of loss of image for brands is potentially enormous, and multinationals and other lead firms are beginning to realize the need for pro-active change for Decent Work. Compliance with International Labour Standards is becoming a key factor for gaining a competitive edge over competitors. This is also reflected by many private sector value chain initiatives that use International Labour Standards as a basis for CSR strategies and value chain initiatives.[46]

### About this chapter

This chapter is about translating value chain research into the development of a vision for change and intervention strategies. In order to do so, research findings need to be analysed and understood. The chapter therefore starts with a framework for analysis that can be used in the context of evaluation workshops. In order to formulate a strategy for change, the project team also needs to be clear on what change means exactly, how change can be initiated in a sustainable way, how market players should be involved, and what the role of a facilitator is in this process.

[45] GTZ Value Links Manual – Module 2

[46] See Mamic, Ivanka (2004): Implementing codes of conduct – how businesses manage social performance in global supply chains, International Labour Office, Geneva.

# Value chain analysis: developing a vision for sustainable Decent Work outcomes

### Learning from case examples

*Section 5.2* brings a number of cases to the attention of the reader. These cases are intended to provide ideas on how certain issues can be addressed. The section also defines value chain development in terms of systemic change towards improving the five drivers of value chain development: system efficiency, product quality, product differentiation, social and environmental standards and business environment. Special attention is thereby given to aspects of Decent Work in value chains.

## 5.1 A framework for finding sustainable upgrading solutions in value chain systems

### I've got loads of information, what now?

I have collected lots of information about the performance of a value chain; I have conducted interviews with key market players and focus group discussions with my target group; so how do I evaluate all this information? How do I identify the bottlenecks that prevent the sector for achieving its optimal performance and generating more jobs and higher incomes? How do I find the leverage points and the agents of change in order to achieve wider systemic change in the market system surrounding the value chain?

### Steps of value chain analysis

*Section 5.1* introduces a format for value chain analysis that can be used as a step-by-step guide for evaluation workshops (see *Annex 4* for sample format). The operational guide for Local Value Chain Development[47] published by the ILO Enter-Growth project in Sri Lanka, gives further ideas on the practical organization of such a workshop (see also checklist below in *Box 5.2*). This section takes you through the following steps:

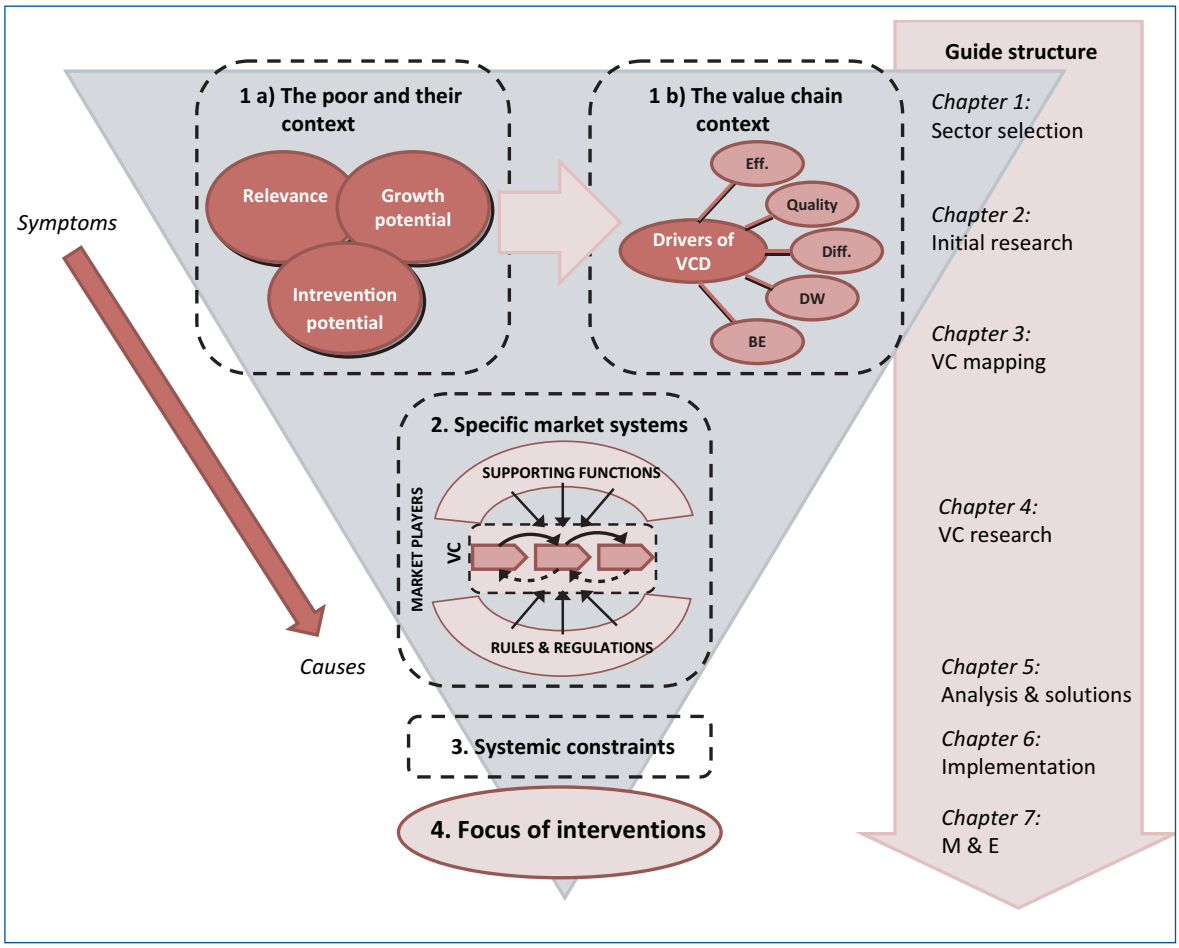
1. ***Identifying constraints and their underlying systemic causes*** This section introduces the basic framework for analysis, and draws up a number of key considerations for identifying the deeper systemic constraints behind the symptoms identified in the value chain research.
2. ***Identifying incentives of market players and agents of change*** The success and sustainability of upgrading solutions depend on whether they sufficiently address the interests and incentives of market players. This section gives an introduction to a rapid stakeholder/incentive analysis.
3. ***Formulating a vision and strategy for sustainable systemic change*** Once the opportunities for realizing these solutions and the relevant bottlenecks have been identified, this section provides guidelines for formulating sustainable value chain upgrading solutions that will lead to systemic change.
1. ***Defining sustainable outcomes and indicators for monitoring*** What do we want to achieve, and how do we measure this change? It is important to lay the foundations for monitoring and evaluating value chain interventions already in the design phase of interventions.

[47] Herr, Matthias (2008): Local Value Chain Development – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth project (Enter-Growth), Colombo (Sri Lanka).

### VC analysis: linking symptoms to systemic constraints and solutions

It is in the evaluation of value chain research findings that we need to find the link between symptoms and causes in the market system and appropriate answers for addressing systemic constraints.

*Box 5.1: Diagnostic process for value chain research and analysis*




*Adapted from: The Springfield Centre (2008): The M4P operational guide, DFID and SDC, Durham (UK)*

### Outcomes of the value chain analysis phase

What are the outcomes of this phase of the value chain initiative?

- ***A clear vision*** on how to bring sustainable and systemic change for more Decent Work in value chains
- ***An intervention framework*** outlining upgrading strategies and interventions, the market players involved and indicators for monitoring and evaluation
- ***A forward strategy*** on how to involve key market players for implementation (ownership) and ensure crowding-in for wider change
- ***Documentation*** of research and analysis findings as well as Decent Work upgrading strategies

*Box 5.2: Format for evaluation workshop - checklist (see also Annex 4)*

| Question | Answer | Check |
|---|---|---|
| Who should participate at the evaluation workshop? | The evaluation should be conducted by the core and support teams alone (see Chapter 2.1) – i.e. team members who have actively been involved in conducting interviews and focus group discussions during the previous weeks. | Done ☐ |
| Who should NOT participate at the evaluation workshop? | The evaluation workshop is an INTERNAL meeting of the core and support teams. It is a WORKshop and not a presentation event. People who have not been involved in conducting interviews and focus group discussions and VIPs should not be invited, as they could distract from the purpose of the evaluation workshop. | ☐ |
| How many people should participate? | As mentioned above, the evaluation workshop should be attended by the core and support teams. Altogether this would be about 10 to 15 people. | ☐ |
| How long does an evaluation workshop take? | Experience with ILO value chain initiatives in Sri Lanka and Madagascar has shown that a good evaluation workshop takes up to two days. This time is absolutely necessary in order to produce good quality and presentable results. | ☐ |
| Where should the workshop be conducted? | Ideally you would plan for a residential workshop to allow sufficient flexibility in time and commitment of all team members. | ☐ |
| What materials are required for an evaluation workshop? | • Flipchart<br>• Cards, pin board, pins, wall paper, masking tape (or similar material)<br>• Lap top for documentation purposes<br>• A projector is not necessary, but could be useful. | ☐ |

### *5.1.1 Identifying constraints and their underlying systemic causes*

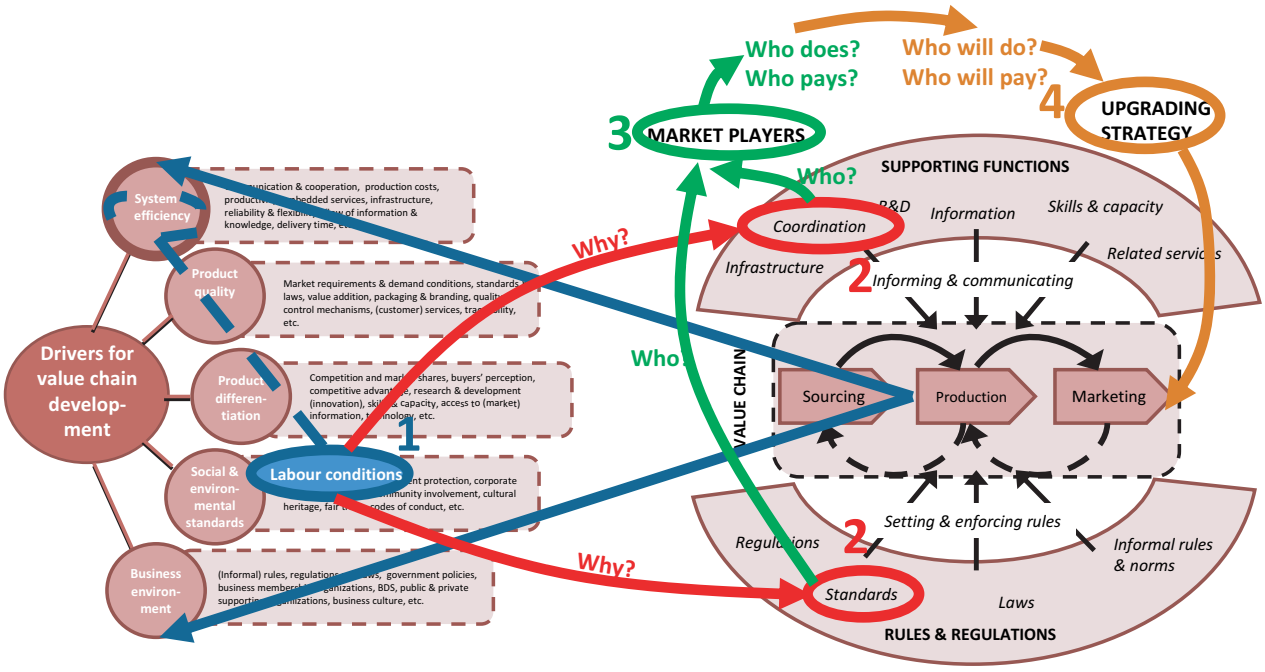
#### VC analysis: the critical link between research and intervention

Value chain analysis requires a framework that leads from symptoms to underlying systemic constraints and requires a clear understanding of the role and incentives of market players before appropriate and sustainable intervention strategies are formulated. Value chain analysis also means linking up the previous stages of the value chain initiative (initial research on the basis of the five drivers of value chain development (*Chapter 2*), value chain mapping (*Chapter 3*) and value chain research based on the market system model (*Chapter 4*)) to each other and drawing a conclusion.

#### VC analysis in four main steps

The figure in *Box 5.3* below illustrates the basic analytical steps for value chain analysis. This section takes you through the process: 1) identify major constraints and relate them to the five drivers of value chain development; 2) link the constraints to specific supporting functions and rules within the market system; 3) identify market players that a) are currently performing functions and b) have incentives to perform certain functions in the future; 4) formulate value chain upgrading solutions that fulfil sustainability criteria.

*Box 5.3: Analysis process*




**Example scenario**

- ***Step 1:*** Poor working conditions of small producers have been identified as a major obstacle to higher productivity and product quality. This again affects the overall performance of the value chain, as exporters find it increasingly difficult to meet global buyers' high quality requirements and increasing demand.
- ***Step 2:*** International Labour Standards (rules) regulate minimum requirements; the national labour department makes recommendations (rules) on good workplace practices and occupational health and safety. Small producers are not aware of these recommendations, however; there is a lack of coordination (function) between relevant market players as regards passing on the information (function) and providing training for small producers.
- ***Step 3:*** The labour department is the government authority responsible for implementing and enforcing labour regulations; small producer associations represent the interests of their members. However, communication between these two market players is virtually non-existent. What is more, associations are still weak in the advocacy function and are largely dependent on donor and government funding. Some development programmes working on various sectors have also developed good workplace practice guidelines but have so far failed to transfer ownership to market players.

→ ***Here it is essential to also have a good understanding of market player incentives. Section 5.1.2 provides details.***

***Step 4:*** The question is therefore: who has an incentive to play the coordination role in future, and how will this market player be able to perform this function in the long run (financial and dynamic sustainability)? Also: how can it be ensured that as many small producers in the country as possible benefit from the new coordination function played by this market player (impact at scale)?

Examination of the various market players involved in the value chain as well as supporting organizations revealed that large buyer companies had a strong incentive to improve working conditions in supplier plants in order to increase product quality and make supply more reliable. There was also pressure from consumers, who were demanding better treatment of workers. It was certainly possible to persuade some of the lead firms with outreach to provide training and information on good workplace practices through embedded services. Insurance companies were also potentially interested in implementation, since they were facing high costs due to injuries at work.

➞ ***Finding sustainable solutions that lead to systemic change is the key objective of value chain development. Section 5.1.4 provides further details.***

*Right figure from: The Springfield Centre (2008): The M4P operational guide, DFID/SDC, Durham (UK).*

# Step 1:

## Identifying bottlenecks in the value chain using the five drivers of value chain development

The performance of value chains can be measured on the basis of the five drivers of value chain development that were introduced in *Chapter 2*. The first step in value chain analysis should therefore be to identify the bottlenecks that are preventing the value chain from achieving optimal performance with regard to these drivers, while bearing in mind that we are only dealing with symptoms at this stage of the analysis. If we look at our market system model (figure on the right in *Box 5.3*), this step focuses on the core: the value chain.

### Guiding questions

Some guiding questions that can be asked are:

- What are the general opportunities and constraints that market players mentioned during interviews and focus group discussions?
- What prevents market players (especially from the target group) for taking advantage of opportunities?
- How do the constraints affect the performance of the overall value chain?
- To which of the five drivers of value chain development do these constraints relate?
- Another way to ask could be: what are the symptoms of system inefficiency, low product quality, inability to compete (differentiation), insufficient implementation of social and environmental standards and a non-enabling business environment?

A simple and practical way to start this exercise is to use cards or a flipchart at the evaluation workshop. Ask your team members the following: a) What are the opportunities identified? b) What are the constraints identified? This could be done for each major value chain level – e.g. suppliers, farmers, processors, retailers. Then continue with a discussion on how these constraints relate to the five drivers and the value chain's overall performance.

Once opportunities and constraints (for each value chain level) have been collected, it is recommended that they be prioritized or that the most burning issues be selected – i.e. which of all the constraints has been identified as most important to market players in the course of interviews and focus group discussions? This could be done through a simple voting system, or, better, through a group discussion.

Depending on your objectives, the discussions in this step can also be centred around a specific topic, such as particular Decent Work deficits (e.g. labour conditions, Social Dialogue, labour participation, gender equity, etc.). The question to ask would then be: where in the value chain have deficits been observed during the value chain research, and how to these deficits relate to the five drivers of value chain development?

***Your answers can be noted in the first and second row of the template in Box 5.5.***

*Box 5.4: Definition of drivers of value chain development and related supporting functions and rules*

| Driver | Definition | Supporting functions and rules |
|---|---|---|
| **System efficiency** | Functions and rules that ensure that a given target (market demand and requirements) is achieved and that the (economic, social) costs associated with this process are kept low.<br><br>**1.** *Productive efficiency* describes the ratio between costs and benefits (or inputs and output) of certain production activities with regard to specified targets – e.g. labour productivity.<br><br>**2.** *Allocate efficiency* is characterized by the degree to which supply meets consumer demand and a market price trend towards long-term marginal costs (i.e. costs per unit). | Communication, cooperation and coordination mechanisms/institutions, price setting/ bargaining mechanisms and information systems, productivity improvement strategies, services embedded in value chains (e.g. loans, training, technical support, monitoring and advice, etc.), infrastructure conditions (delivery time!), export regulations and procedures, contracting mechanisms for ensuring reliability & flexibility, information & knowledge-sharing mechanisms, etc. |
| **Product quality** | Functions and rules (or mechanisms) that ensure that production processes along the value chain meet market requirements and demand conditions. | Market research and development functions, quality standards & laws (e.g. ISO norms, HACCP, GAP, GMP, etc.), quality control mechanisms along the chain, marketing strategies (e.g. packaging & branding), (customer) services, traceability systems, informal or cultural rules (e.g. Islamic rules on animal slaughtering), etc. |
| **Product differentiation** | Functions and rules that ensure the overall competitiveness of a value chain in terms of price/cost or product quality leadership/ differentiation. | Market research functions for delivering market information (competition and market shares) and finding differentiation strategies, product research and development facilities (innovation!), skills & capacity-building institutions, mechanisms and rules for protecting intellectual property (e.g. patent rules) and preventing industry espionage (e.g. contracts with employees), technology transfer mechanisms, etc. |
| **Social and environmental standards** | Functions and rules that reduce the negative external effects on social and ecological environments and also ensure that economic gains along the value chain result in win-win situations for all market players. | International Labour Standards and recommendations (ILO), labour laws and regulations, good workplace practices, environmental protection regulations, law enforcement institutions, corporate social responsibility (CSR) strategies and codes of conduct, community involvement platforms, fair trade agreements and enforcement mechanisms, public lobby and pressure functions, etc. |
| **Business environment** | Functions and rules external to the specific value chain (i.e. not directly part of the production process along the chain), which, however, play a crucial role in shaping the political, social and economic environment in which value chains operate, and that therefore have a strong influence on the ability of a sector to compete on world markets as well as generating income and employment. | National legislation procedures at the macro-economic level, monetary policy, advocacy functions (unions and business membership organizations etc.), business development and support services (BDS), (informal) cultural norms and institutions, public-private partnership mechanisms (Social Dialogue), etc. |

# Step 2:

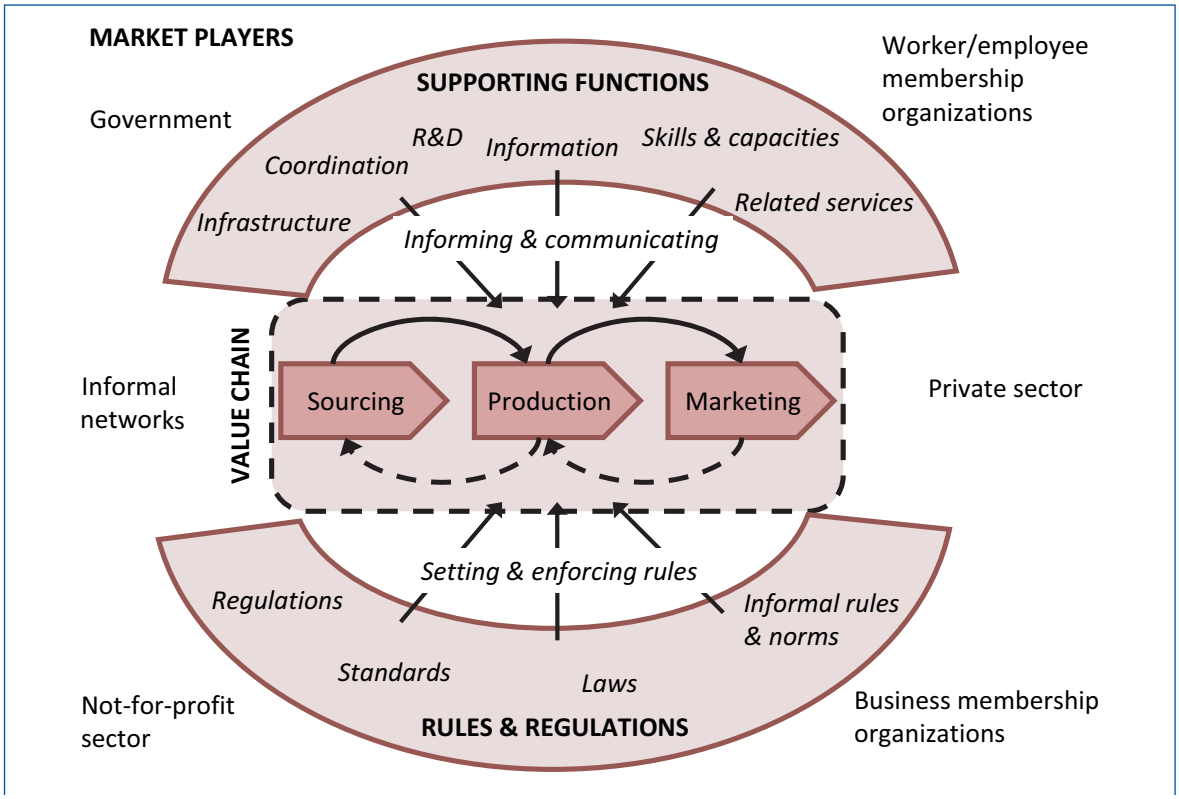
## Identifying underlying systemic constraints in market systems

In the second step, constraints (symptoms) identified on the basis of the five drivers of value chain development have to be related to specific supporting functions and rules within the market system framework. This step is important, since the aim is to find underlying systemic constraints – i.e. to move from symptoms to causes and to understand the systemic nature of value chain development. *Box 5.4* above gives an idea of how supporting functions and rules might be related to specific drivers of value chain development.

In order to make this connection between drivers and underlying constraints in the market system, the most important question to ask is: ***WHY?*** Why do small producers have insufficient access to market information? Why are factory operators not aware of occupational health and safety regulations? Why are women not given equal chances when applying for jobs? The *why* ultimately leads us to supporting functions and rules that govern the market system as well as the roles and incentives of market players within the system. *Box 5.5* below gives definitions for some of the key terms used in this context.

## Definition of key terms

*Box 5.5: Defining key terms in market systems*



**Market system**
The multi-player, multi-function arrangement comprising three main sets of functions (core, rules and support) undertaken by different market players (private sector, government, representative organizations, civil society, etc.) through which exchange takes place, develops, adapts and grows. A construct through which both conventionally defined *markets* and *basic services* can be viewed.

**Core function (marked as value chain above)**
The central set of exchanges between providers (supply side) and consumers (demand side) of goods and services at the heart of a market system. The medium of exchange can be financial or non-financial (e.g. through accountability mechanisms).

**Supporting functions**
A range of functions supporting the core exchange helping the market to develop, learn, adapt and grow, including, for example, product development, skills enhancement, R&D, coordination and advocacy.

**Rules**
Formal (e.g. laws, regulations and standards) and informal (e.g. values, relationships and social norms) that provide a key input in defining incentives and behaviour in market systems.

**Market players**
Organizations or individuals who are active in a market system not only as suppliers or consumers but as regulators, developers of standards and providers of services, information, etc. This can therefore include organizations in the private and public sectors as well as non-profit organizations, representative organizations, academic bodies and civil society groups.

*Source: The Springfield Centre (2008) The M4P operational guide, DFID/SDC, Durham (UK).*

**Guiding questions**In order to make the transition from symptoms to systemic constraints, some guiding questions might be useful (these could facilitate the discussion at a team evaluation workshop):

What are the reasons for constraints that have been identified on the basis of the five drivers of value chain development?

- Which supporting functions and rules in the market system are these constraints related to?
- Why are these supporting functions currently underperforming? Or: which supporting functions are missing?
- Why are rules not being implemented? Is the fact that rules are not being implemented connected with the underperformance of a supporting function and/or a market player?

***Box 5.6 offers a template in which your answers to key questions can be noted (in row 2).***

# Step 3:

## Identifying the current and potential role of market players

Having related constraints to supporting functions and rules it is important to attribute these functions and rules also to specific market players in the system. These could be private sector players that are part of core transactions in the value chain but could also be other public and private actors (e.g. government, membership organizations, civil society, etc.). The purpose of this step is to understand a) the reasons why these market players are currently underperforming and b) the incentives of market players to potentially take over market functions and contribute to the sustainable improvement of the overall system.

## Guiding questions

Some guiding questions that can be discussed in this context are as follows (given the complexity of the analysis however, you should adapt these questions to your specific situation):

- Which market player would be responsible for the performance of this function or the implementation/enforcement of the rule?
- To what extent is the market player fulfilling his role in performing the function or implementing the rule?
- How committed is the market player to fulfilling the function?
- Why is the market player currently unable to perform his market function optimally?
- Are there other market players that fulfil the same function? Are there conflicting interests between these market players?
- Are there other market players in the system that might have a stronger incentive in performing the role that is need to make a supporting function or rule work?

## The importance of understanding the incentives, outreach and influence of market players

Understanding the incentives and interests of market players is the key to successful and sustainable interventions. In addition, the outreach and influence of market players in the system is an important consideration for impact at scale. Given the importance of incentives and outreach, this is dealt with separately under *Section 5.1.2* below.

***Your answers can be written into rows 4 to 7 of the template in Box 5.6.***

*Box 5.6: Template for key questions in value chain analysis*

| Guiding questions | Example | Your answers |
|---|---|---|
| 1. Symptoms: What is the constraint (or the opportunity that cannot be realized)? | | |
| 2. Which of the five drivers of value chain development do these constraints relate to? Or: how do they affect the performance of the chain in terms of the 5 drivers? | | |
| 3. What are the underlying causes in the market system? Which supporting functions and rules are currently underperforming? | | |
| 4. Which market player(s) is/are responsible for fulfilling this market function? | | |
| 5. Why is this market player currently unable to fulfil his role in the market system? | | |
| 6. Which other market player(s) might have an incentive to perform this market function (or contribute to its improvement? | | |
| 7. Potential outreach: What role does this market player play in the value chain and the overall market system? | | |

### *5.1.2 Identifying incentives of market players and agents of change*

**Addressing incentives of market players is the key to successful implementation**

If interventions are to lead to effective and systemic change, it is important that they be based on a thorough understanding of the incentives that determine the motivation and commitment of individuals and organizations to change. Interventions often fail because they do not take these incentives sufficiently into account, but rather build on the idealistic notion that change is in the interests of all. We must understand that the "nominal", formal incentive of organizations may differ from the real world incentives of their stakeholders.[48]

Understanding incentives is for this reason a key step in value chain analysis. The case example described in *Section 5.4.1* below ("Bringing knowledge and information to rural vegetable farmers") shows that it was only by addressing the incentives of the lead firm – an increase in sales – that the project was able to persuade the supply company to invest in embedded services that would ultimately benefit rural farmers. Incentives are the decisive key to the successful implementation of value chain upgrading strategies.

**Defining incentives**

In economics, an **incentive** is any factor (financial or non-financial) that provides a motive for a particular course of action or counts as a reason for preferring one choice to the alternatives. Since human beings are purposeful creatures, the study of incentive structures is central to the study of all economic activity (both in terms of individual decision-making and in terms of cooperation and competition within a larger institutional structure). Economic analysis, then, of the differences between societies (and between different organizations within a society) largely amounts to characterizing the differences in **incentive structures** faced by individuals involved in these collective efforts. Ultimately, the aim of the incentive is to provide value for money and to contribute to the success of the organization.

*Source: www.wikipedia.org (under "incentive")*

**Different types of incentives**

Without going into incentive theory in too much detail, it is important to note that the term not only refers to economic incentives, but that ***there are a wide variety of reasons why people and organizations act as they do.*** Here are some of the distinctions used to classify incentives:

1. ***Material versus immaterial incentives*** Material incentives usually concern monetary returns or other material rewards expected from actions. Immaterial incentives are, for example, recognition, social status, satisfaction, etc.

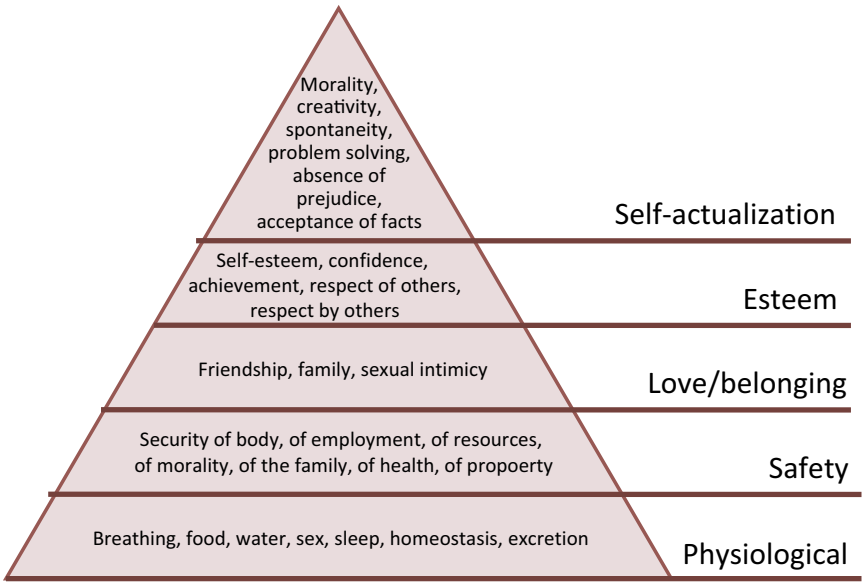
[48]The Springfield Centre: M4P operational guide, Module 3C.

2. ***Extrinsic versus intrinsic incentives*** Extrinsic incentives describe the expected external benefit of actions, for example financial rewards or recognition. Intrinsic incentives refer to an expected positive experience through an action – i.e. it is internal to a person, for example satisfaction or a feeling of accomplishment.
3. ***Economic, social, political, psychological incentives*** This distinction reflects the institutional nature or origin of incentives. Social incentives for example could be recognition or an improvement of social status; political incentives are prospects for a political career.
4. ***Maslow's hierarchy of needs*** Although this is not exactly a classification of incentives, the hierarchy explains the prioritization of needs, which determines people's actions (motivation). It is often depicted as a diagram consisting of five levels. The lower levels concern basic needs that need to be met first. Once these are met, the search for self. Actualization drives personal growth.

The first important lesson to be learnt from these various classifications of incentives is that they go beyond pure economic/monetary incentives: social status, reputation, personal satisfaction, career prospects, recognition, safety concerns (determining risk affinity), etc. are all important incentives to be considered. Value chain research and analysis has to identify these incentives in order to formulate intervention strategies that meet the interests and needs of people and organizations.

The second lesson is that all of these incentives are interconnected: a company, for example, seeks positive recognition of its brand as a marketing strategy for increasing sales.

*Box 5.7: An Analogy using Maslow's hierarchy of needs*




*Source: www.wikipedia.org (under "Maslow hierarchy of needs")*

### How to conduct an incentive analysis

***If it is so important to understand incentives, then how do I analyse them in a value chain initiative?*** The following section describes a brief step-by-step approach that can be used within the context of an evaluation work shop.[49] Start by drawing up the following matrix:

*Box 5.8: Stakeholder analysis matrix with examples*[50]

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| **Market player** | **Interest in the project and incentives to become involved** | **Relevance for market player of achieving systemic change and impact at scale** | **Risk factors and strategies for reducing risk** |
| Local input supply retailers | • Increase sales and income<br>• Interest in win-win marketing strategies<br>• etc. | • Individual impact remains low<br>• High relevance for farmers as source of information<br>• etc. | • Lack of control in implementation (could be compensated by internal control systems of supply firm)<br>• etc. |
| Government extension services | • control government budgetary allocations<br>• Negative for the project if these services refuse to become involved<br>• etc. | • Positive if budgetary allocations are increased<br>• Farmers complain about commitment and relevance<br>• etc. | • High dependence on commitment of individual officers<br>• Inefficient resource allocation<br>• etc. |
| Lead supply firm | • Increase market share<br>• etc. | • Thousands of local retailers sub-contracted, therefore high potential outreach<br>• etc. | • Reluctance to invest in improved embedded services<br>• Start with small-scale pilot area; initial cost-sharing agreement<br>• etc. |
| Your turn now.. | | | |

*Adapted from: Institudo Nacional de Technologia Agropecuaria, Argentina.*

[49] Adapted from Instituto Nacional de Tecnologia Agropecuaria, Argentina. Document undated and no authors mentioned. Title: "Stakeholder Analysis".

[50] The example refers to the case study mentioned in Section 5.3.1. The lead question here is: How can more knowledge and information be brought to small rural farmers.

## Step 1:

### Relevant market players

Look at the value chain map in which you have identified market players (see *Chapter 3*). Identify all of the people, groups and organizations that could be potential partners for the implementation, or will affect or be affected by a particular intervention and list them in the "market player" column in the table in *Box 5.8* above.

An example: access to knowledge and information has been identified as a major constraint for rural farmers. During the value chain research you have identified potential sources of information: farmers themselves, extension services, media, local supply retailers, supply companies, buyers and NGOs. These sources can be filled into the first column as potential partners for value chain upgrading solutions.

Also note that a certain degree of differentiation is necessary between groups of market players. It is all too tempting to identify one group as "farmers". However, farmers in practice consist of different types of farmers: e.g. subsistence smallholders and wealthy commercial farmers. These differences can be crucial for finding the right partners for upgrading solutions.

## Step 2:

### Identify specific interests of market players

Once you have completed a list of market players relevant to a specific intervention, review the list and identify the specific interests – or incentives – that these market players could have in realizing an intervention. Consider issues such as:

- What are the market players' expectations of an intervention?
- What are the benefits of the intervention to the market player?
- What resources might the market player wish to commit (or avoid committing) himself to the intervention?
- What changes might the intervention require the market player to make?
- Are there intervention activities that might cause damage or conflict to the market player?
- What other interest does the market player have that could cause conflict with an intervention?
- How does a market player regard the others on your list (relationship to other market players)?

Note that incentives of all market players may be difficult to define, especially if they are "hidden", or in contradiction to the openly stated aims of the organization or groups involved. This underlines the importance of focusing a great deal of attention of the value chain research on understanding motivations and possible incentives for market players (see *Chapter 4*). Only if value chain upgrading solutions are based on real market incentives will they have a chance of being implemented successfully and sustainably achieving the development targets.

# Step 3:

## Assessing importance of interests and influence of market players

Review the list of market players in column one again, and ask: how important are the stakeholder's interest in/incentives for the success of a proposed intervention and how strong is their influence? These questions are essential in order to ensure that interventions achieve impact on a large scale (see *Section 5.1.5* below).

- What role does the market player play in the value chain? And what is his power position in relation to other players in the chain? (value chain governance, see *Chapter 4.2.6*)
- What is the role the market player is expected to play in the interventions? And how likely is he to play this role?
- How likely is the market player to play this role?
- What is the potential outreach that can be achieved by cooperating with this market player (potential impact at scale)?

Importance and influence can be combined in a matrix as shown below in *Box 5.9* (fill in the names of market players in the relevant cells). This exercise in positioning market players will indicate the relative risks posed by specific players and the potential coalition of support for the intervention. These findings will inform the project negotiations and design.

*Box 5.9: 1) Determinants of market players' relative power and influence, 2) Importance-influence matrix*

<table>
<tr><th>1. Determinants of market players' relative power and influence</th><th colspan="3">2. Importance and influence combined in a matrix diagram.</th></tr>
<tr><td rowspan="3">Within and between formal organizations<br><br>• Legal hierarchy (command and control, budget holders)<br>• Authority of leadership (formal and informal, charisma, political, family or cadre connections)<br>• Control of strategic resources for the intervention (e.g. suppliers of hardware or other inputs)<br>• Possession of specialist knowledge (e.g. engineering staff)<br>• Negotiating position (strength in relation to other stakeholders in the intervention)<br><br>In the case of informal interest groups and primary stakeholders<br><br>• Social, economic and political status<br>• Degree of organization, consensus and leadership in the group<br>• Degree of control of strategic resources significant for the intervention<br>• Informal influence through links with other market players<br>• Degree of dependence on other market players</td><td></td><td>Low influence</td><td>High influence</td></tr>
<tr><td>High importance</td><td>A: Market players of high importance to the project, but with low influence. This implies that they will require special initiatives if their interests are to be protected (e.g. subsistence farmers)</td><td>B: Market players appearing to have a high degree of influence on the project, who are also of great importance for its success. The project will need to construct good working relations with these stakeholders in order to ensure an effective coalition of support for the project.</td></tr>
<tr><td>Low importance</td><td>D: Market players in this box, with low influence on, or importance for the project objectives may require limited monitoring or evaluation, but are of low priority. They are unlikely to be the subject of project activities or management.</td><td>C: Market players with high influence, who can therefore affect the project outcomes, but whose interests are not the target of the project. The conclusion is that they may be a source of significant risk, and they will need careful monitoring and management.</td></tr>
</table>

*Source: Institudo Nacional de Technologia Agropecuaria, Argentina.*

## Step 4:

### Making assumptions and identifying risks in dealing with market players

In the next step, risks that arise from information asymmetry and conflicting interests (principal-agent problem) need to be identified, and assumptions made on how market players will respond to these risks.

The success of an intervention depends partly on the validity of the assumptions made about its various market players, and the risks facing the intervention. Some of these risks will derive from conflicting interests. Planners must therefore identify (and assess the importance of) the most plausible assumptions about each "key" market player; this is necessary if the intervention is to be successful. These market players and assumptions should be entered into the fourth column (*Box 5.9* above).

By assessing the importance and influence of key market players (step 3), several risks emerge from the matrix diagram. Risks will generally be evident from those market players in Box C which have high influence, but interests which are not in line with the intervention objectives. These "key" market players may be able to block the project and eventually lead to its failure.

The following questions might help to make assumptions about market players and identify risks:

- What is the role or response of the key market player that must be assumed if the intervention is to be successful?
- Are these roles plausible and realistic?
- Are there negative responses which can be expected, given the interests of the market player?
- If responses occur, what impact would they have on the intervention?
- How probable are these negative responses, and are they major risks?

## Step 5:

### How to get support and reduce opposition

How can you win the support of market players and reduce opposition to interventions? Within the final step, you need to consider how to approach each of the relevant market players.

- What kind of information will they need?
- How important is it to involve market players in the planning and implementation process?
- Are there other groups or individuals that might induce the market player to support your initiative?

It is important to develop a marketing and communication strategy towards market players. In order to implement value chain upgrading strategies you need the cooperation of strong and reliable partners. The ILO Enter-Growth project in Sri Lanka as well as the ILO CEPP project in Madagascar both found that this is a key factor for successfully implementing intervention proposals.[51]

Note that in value chain interventions, in order to reach the target group (e.g. small scale farmers), it might actually not be necessary to directly involve them in planning and implementation processes, but working together with a significant market player with influence and outreach in the value chain could make more sense. An example of this type of intervention is given below in *Section 5.4.1*. It is not necessary to always involve *all* market players, but impact could in fact be achieved by cooperating with market players who have an *incentive* for change.

### *5.1.3 Formulating a vision and strategy for sustainable systemic change: the intervention framework*

Formulating a strategy for sustainable systemic change that leads to value chain upgrading through Decent Work is not a simple task and requires a degree of experience and awareness of the nature and purpose of interventions. When one has thought about systemic constraints (*Section 5.1.1*) and the role and incentives of market players in the market system (*Section 5.1.2*), the solutions are often obvious. But how do we ensure that these solutions also lead to the desired sustainable outcomes? ***Four considerations lie at the heart of the process of formulating intervention strategies***:[52]

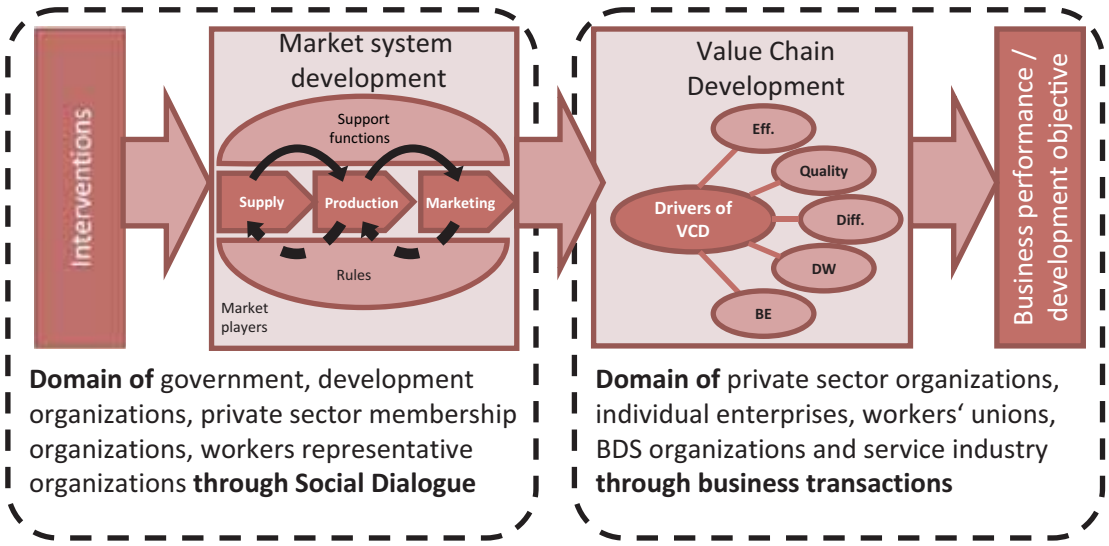
[51] See reports on coir, dairy, floriculture and packaging value chain initiatives at www.entergrowth.com.

[52] The following paper provides a more detailed insight into these principles: Albu, Mike (2008): Making markets work for poor – International development cooperation: seeking common principles that underpin a coherent approach to poverty reduction, for the Swiss Agency for Development and Cooperation (SDC), The Springfield Centre, Durham (UK). Available from: www.springfield centre.com.

### 1. Systemic change leads to value chain development and the realization of Decent Work targets

1. ***Systemic/institutional change:*** The ultimate purpose of systemic change is to improve the way value chains function and perform on the market (which can be measured on the basis of the five drivers of value chain development) and thus achieve desired Decent Work outcomes. Systemic change is defined as a "change in the underlying causes of market system performance – typically in the rules and supporting functions – that can bring about more effective, sustainable and inclusive functioning of the market system.[53] The causal chain can be illustrated as shown in the figure below.

*Box 5.10: From market system development to value chain development*




*Adapted from: The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK)*

### How does the market system need to change to benefit the poor?

The key question therefore is: ***how does the market system need to change so that it better serves the target group (e.g. the poor)?*** "Systemic change objectives obviously vary according to the context […]. Market system change might include:

- Improved delivery of the market's core functions (e.g. increase in access or participation rates, improved quality or levels of satisfaction)
- Changes in the practices, roles and performance of players and functions in the market system
- Changes in the attitudes of players

[53] The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK)

- Demonstrated dynamism of players (e.g. responsiveness to changed conditions in the system)
- Independent and continuing activity in the system (i.e. the extent to which changes are maintained after direct intervention support has ceased)" [54].

Institutions – i.e. supporting functions, formal and informal rules, and core functions – are pivotal to poverty reduction because they have such a strong impact on people's social and economic livelihoods: "In the social realm institutions can shape the experience of marginalized or excluded groups, determine power relations and people's access to assets and opportunities, strengthen or undermine resilience. While in the economic realm, institutions can reduce the ***transactions costs*** facing producers and other market actors, with profound implications for incomes, economic viability, prices and competitiveness.

In all these contexts strong institutions matter because they influence the underlying ***incentives and capacity*** of individuals, groups, and public and private organizations to continue performing important roles." [55]

For all these reasons and more, interventions for value chain development need to consider the institutional and systemic nature of change in order to achieve sustainable outcomes for Decent Work. When thinking about value chain upgrading strategies we need to think about a) whether strategies are likely to become part of the market system in the long run (as core supporting functions and/or rules) and b) which market players might have an incentive to perform this function.

**2. Sustainability means not only maintaining the status quo; it is also about the ability to adapt and innovate in the future**

2. ***Sustainability:*** Sustainability has many different dimensions, for example: [56]

- Environmental sustainability may be said to be achieved when the productivity of life-supporting natural resources (ecological systems) is conserved or enhanced for use by future generations.
- Economic sustainability when market systems are capable of generating incomes and livelihoods for people, and ensuring that relevant, differentiated goods and services continue to be available and accessible.
- Social sustainability when structures, behaviours and networks of relations (the fabric of society) are maintained or continue to evolve in ways which bolster social inclusion, equity and well-being.

[54] The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK).
[55] Albu, Mike (2008): p.11
[56] Quoted from Albu, Mike (2008): p.13

It is very important to note that sustainability in all of these systems is not just about maintaining the status quo without external support. ***It is about the long-term integrity of dynamic processes, the resilience of the system to shock and stresses, and the capacity to evolve or innovate in response to an inevitably changing external environment.***

When formulating intervention strategies for value chain development, we therefore also need to ask ourselves to what extent newly created market functions or rules will be able not only to continue without external support, but also to adapt and innovate in the future.

### A simple framework for assessing sustainability

Sustainability requires in particular that development organizations with temporary funding think about exit strategies: is the intervention likely to create a new market function? If so, who will perform this function in the future, and who will pay for it? The ***who-does-who-pays framework*** is a very simple but effective way to assess the sustainability of interventions (see also Chapter 7 on monitoring and evaluation). It has been found that NGOs and development organizations with temporary funding often take over key functions in the market (whether as actual providers and/or as financers) and are liable to distort or even destroy markets after exit.

*Box 5.11: Who-does-who-pays assessment framework*

| *Current situation* | | | *Future situation* | | |
|---|---|---|---|---|---|
| Functions | Players | | Functions | Players | |
| | *Who does?* | *Who pays?* | | *Who will do?* | *Who will pay?* |
| CORE | | | CORE | | |
| | | | | | |
| RULES | | | Rules | | |
| | | | | | |
| SUPPORTING FUNCTIONS | | | SUPPORTING FUNCTIONS | | |
| | | | | | |

*Source: The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK)*

### 3. Achieving impact at scale through strategies that include "pathways to crowding-in" from the outset

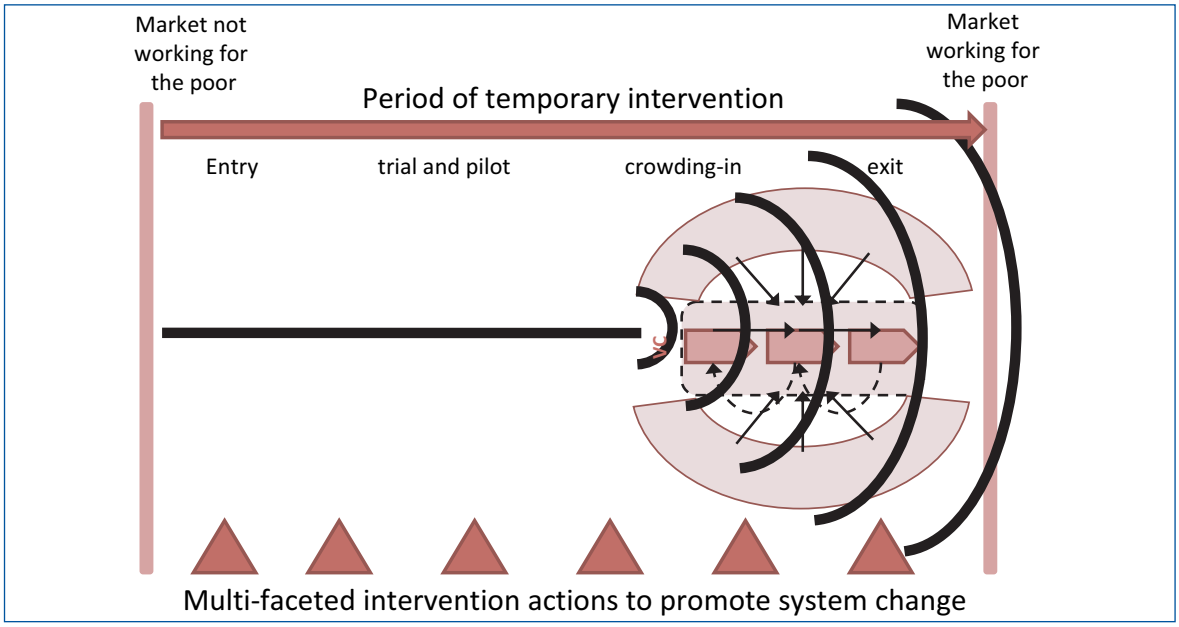
3. ***Impact at scale:*** If the value chain initiative is conducted by a government or development organization, then the question of impact at scale becomes vital: how can value chain interventions lead to the improvement of as many livelihoods as possible? How can we ensure that the impact does not remain with a pilot project in a limited area but that as many people as possible benefit? Governments, development organizations, the private sector and other groups are working to achieve the UN Millennium Development Goals (MDG), of which the first is to be reached by 2015:

- Reducing by half the proportion of people living on less than a dollar a day
- Achieving full and productive employment and decent work for all, including women and young people
- Reducing by half the proportion of people who suffer from hunger.

If these goals are to be achieved, significant impact on a large scale is required. Impact at scale should not be confused with project outreach, however – the latter meaning the scaling-up of project activities (and subsequently leading to further dependency). ***Impact at scale*** refers to sustainable systemic change that leads to an improvement of job and income opportunities and the ability to make informed choices for a large number of people – without necessarily extending the project's outreach. For this, ***value chain analysis needs to identify the right levers and market players that can ensure sufficient scale*** (see *Section 5.1.2*)**.**

Achieving impact at scale is also a matter of opening up "pathways to crowding-in": by this we mean the central process in and purpose of facilitation, through which interventions catalyze or bring in other parts throughout the market system. Crowding-in can result in enhanced breadth (more transactions in the core of a market), depth (supporting functions) or reach (new areas or markets).[57] Pathways to crowding-in require us to think about how upgrading strategies will benefit a large number of people rather than just a small target group in a predefined geographic area. This again underlines the importance of institutional/systemic change rather than short-term subsidy-style interventions.

*Box 5.12: Pathways to crowding-in*




*Source: The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK*

[57]The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK).

The concept of pathways to crowding-in recognizes

- that interventions are limited in terms of time and resources, and that genuinely sustainable Decent Work outcomes can only be achieved if market functions are undertaken by players who are actually part of the market system ;
- the importance of indigenous ownership within the market system. Market systems need to survive and thrive on the basis of the capacity and incentives of market players within the system. Upgrading strategies thus need to be sufficiently innovative to change the status quo but in a way which is consistent with local norms and conditions;
- that large-scale and sustainable action depends on both the breadth of the market (i.e. volume of transactions in the core) and also its depth (i.e. diversity of supporting functions and rules).[58]

Intervention strategies should for these reasons allow other market players who are not part of the initial "pilot phase" to crowd-in at a later stage. Interventions need to be formulated as inclusive strategies from the outset – rather than exclusive with selected market players. This needs to be taken into consideration from the outset when upgrading strategies are being devised.

### 4. The decision to adopt the participatory process needs to distinguish between means and ends

***Inclusion:*** the final point for consideration concerns the degree of inclusion (or participation) of market players. To what extent is it necessary to include all market players in the design and implementation process? To formulate the question more provocatively: is it really necessary for the success of an intervention to include the target group (i.e. the poor, women etc.) in the designing and implementation of interventions, or is it sufficient to cooperate with key market players that possess the necessary leverage to achieve impact at scale? The case example under Section 5.3.1 certainly makes a valid point for the latter.

Experiences of the ILO Enter-Growth project in Sri Lanka with value chain steering groups (see Chapter 6) have shown that achieving systemic change in the market system and at the same time ensuring participation of all market players in the designing and implementation of upgrading strategies often causes delays and can disappoint participants if interventions do not show immediate returns ("quick-wins") and "tangible results". ***Systemic change takes time, and participatory processes risk losing the interest and support of participants.***

This is not to say that dialogue mechanisms in general (such as Social Dialogue between government, employers and workers, or value chain steering groups) are bad - on the contrary! Well-functioning communication and coordination functions are often essential, for example, for reaching sector-wide consensus on a joint competitiveness strategy to position the sector on the world market. However, ends should not be confused with means: participation is only a vehicle for achieving a superior goal – and if this goal can be achieved faster and easier through

[58] The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK).

partnership with selected key market players with sufficient leverage power and outreach a participatory process may only delay implementation.

Whether or not to use a participatory process to design and implement interventions is a context-bound decision that needs to be taken already when value chain upgrading strategies are being formulated.

*Box 5.13: Think it through!*

***Value chain development is essentially about enabling the target group to make informed choices on their own.*** Remember the value chain grid chart introduced in Chapter 3 – the one that illustrates the various individual market channels within a value chain? Very often development organizations and governments select one particular market channel and take over market functions themselves – e.g. the role of a mediator between buyers and small producers, or they fund the provision of equipment and services directly. A project in Sri Lanka has, for example, paid a large amount of money to one of the biggest export firms in the country to train 120 farmers in tomato, gherkin and pineapple production and provide them with the necessary equipment.

But does this really help small producers? What about the thousands of other small producers that have not had the privilege of being selected for a subsidy scheme? What about the crowding-in strategy? What happens if suddenly all the other farmers also start producing tomatoes, gherkins and pineapples? Will they be less poor then? What about the market for input supply that has been replaced by direct subsidies or the provision of equipment? What about the resilience of the service markets that provide training?

***Again, value chain development is not about making choices FOR the target group, but it is about ENABLING informed choices; giving people the liberty to decide for themselves within a market system that responds to their needs and aspirations.*** This is why systemic/institutional change is so important. We do not want to make people dependent on aid; we want to take them more seriously as active market players. It is not up to us to decide for the poor and disadvantaged which of the market channels in our grid chart they need to access. The value chain grid chart reminds us, however, that there are several options for our target groups to choose from, and with a good value chain upgrading strategy we can facilitate this choice sustainably.

### How to find upgrading solutions in actual practice

***This all sounds fine, but how do I find value chain upgrading solutions in actual practice?*** As was mentioned at the beginning of this section, the task of finding value chain upgrading strategies for Decent Work is not a simple one. Experiences with ILO value chain initiatives in Sri Lanka, Madagascar and elsewhere have shown that the process of designing upgrading strategies usually consists of several steps in which the strategies are refined in negotiations between relevant market players and possible participatory processes.

## Step 1:

### Brainstorming upgrading solutions and formulating initial action plan (team work)

Within the format of an evaluation workshop – having determined systemic constraints and understood the role and incentives of market players ? team members (i.e. core and support teams – see *Chapter 2*) should brainstorm on possible solutions. This should also be based on what they have found in interviews and focus group discussions with market players during the value chain research. A few tips:

- Group similar constraints (and/opportunities) and brainstorm solutions for each category individually.
- The constraints can also be prioritized by using a simple voting system before brainstorming on solutions. When doing so, you should prioritize according to your findings in the value chain research.
- Use cards for this exercise. Distribute cards and ask each member to write down their ideas and suggestions on the cards. Collect these cards and pin them to a board; group the cards and ask your team members to prioritize.
- Discuss the findings of the brainstorming session in order to clarify the proposals made.

The findings of the group brainstorming session can be filled into a simple action plan matrix:[59]

*Box 5.14: Action plan matrix*

| Functions | Systemic constraints | Upgrading proposal | Specific activities | Suggested market player | Expected outcome |
|---|---|---|---|---|---|
| **Value chain (core)** | | | | | |
| | | | | | |
| **Supporting functions** | | | | | |
| | | | | | |
| **Rules** | | | | | |
| | | | | | |

[59] For further details see Herr, Matthias (2008): Local value chain development for decent work – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth, Colombo (Sri Lanka). Available from www.entergrowth.com.

## Step 2:

### Consultation with market players and target groups; prioritization of interventions

What do relevant market players think of your proposals? What does the target group think? Various participatory approaches can be used to present your findings and proposals and get feedback in order to further refine them. For example:

- a presentation event to which all market players are invited. At this presentation event you could present your findings and proposals and give participants the opportunity to express their views on them, make additional suggestions and come up with ideas on the way forward.
- a value chain steering group could be elected (see *Chapter 6.2*), which would meet to prioritize intervention proposals, provide ideas on specific activities for their implementation and advise and support the team in the implementation.
- Follow-up meetings and workshops with specific market players to discuss their feedback and also follow-up activities to implement proposals.

These points have been implemented in this order in ILO projects in Sri Lanka and Madagascar, which both use a participatory and local approach to value chain development. However, keep in mind the risks of processes with overemphasis on participation mentioned above. For further details see ***Herr, Matthias (2008): Local value chain development – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo, Sri Lanka (available from www.enter-growth.com)***.

## Step 3:

### Refining upgrading solutions and formulating detailed intervention framework (expert driven)

Value chain initiatives that rely entirely on a participatory approach will almost certainly fail to generate upgrading strategies that address underlying systemic causes. Small producers and other target groups usually cannot see beyond their immediate needs due to information asymmetry. This information gap can be bridged, however, by development organizations, governments and private sector organizations which have capacities and have knowledge of value chain and market system development.

From a certain point onwards, it will therefore be necessary to take intervention proposals and revise them in the light of the above-mentioned four criteria. The project manager does not need to do this on his/her own; the core team (see *Chapter 2.1.1*) can work on it together. An intervention framework such as the one below in Box 5.14 is a useful format for bringing interventions into a comprehensive format. This can also be done in consultation with a value chain steering group (see *Chapter 6.2*). The intervention framework will at the same time provide the basis for a monitoring and evaluation system (see *Chapter 7*).

*Box 5.15: Intervention framework*

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Intervention Area** *(in prioritized order)* | **Interventions** | **Activities** | **Outputs** *(products, services, tools, etc.)* | **Time frame for outputs** | **Responsibilities** | **Expected outcomes** *(change in practices, incomes, etc.)* | **Resource allocation** | | |
| | | | | | | | **Human** | **Materials** | **Financing** |
| Intervention Area 1 | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

# Step 4:

## Adaptation during implementation

It is important to bear in mind that interventions are seldom written in stone once they have been put into an intervention framework. Just as market realities frequently change and require market players to adapt, value chain interventions also need to be able to adapt and react flexibly. In the worst case, intervention strategies need to be abandoned rather than forcefully implemented (e.g. where none of the market players is willing to take over a new market function and thus guarantee sustainability).

***Successful value chain interventions have shown that strategies need to change with the market system they are trying to form.*** Project documents for development programmes should therefore allow project managers a degree of flexibility which even allows them to pull out of a sector completely and reorient resources towards other sectors that are more promising for income and employment creation (or in general: Decent Work outcomes).

## Possible issues and answers in value chain development

To facilitate thinking about value chain strategies, the following table summarizes some typical issues and possible answers. This should not be seen as an exhaustive list, however, but as stimulation. *Section 5.2* also provides case examples that also fulfil this purpose and hopefully give you an idea of what Value Chain Development for Decent Work can look like.

*Box 5.16: Exercise on typical issues in value chain development and solutions. Complete the table.*

| Issue | Description | Possible answers |
|---|---|---|
| Linkages | Linkages between (informal) and main stream economy | |
| Formal/informal divide | Formalization of relationships (contracts, sub-contracting, micro franchising) | Micro franchising, sub-contracting agreements, |
| Voice and participation | Voice and participation (system integrators) | |
| Communication and learning | Communication – information-sharing along the chain | |
| Market requirements | Standards, certifications and formal/legal norms | |
| | Working conditions | |
| | Fair trade | |
| | Access to knowledge and information (also media) | |
| | Business development services<br><br>Promoting embedded services<br><br>Social dialogue and other public-private partnership mechanisms | |
| | Market research, information and development | |
| | Technology transfer (esp. to rural areas) | |
| | Value addition | |

### *5.1.4 Defining sustainable outcomes and indicators for monitoring*

**Strategy design lays the foundation for monitoring and evaluation**

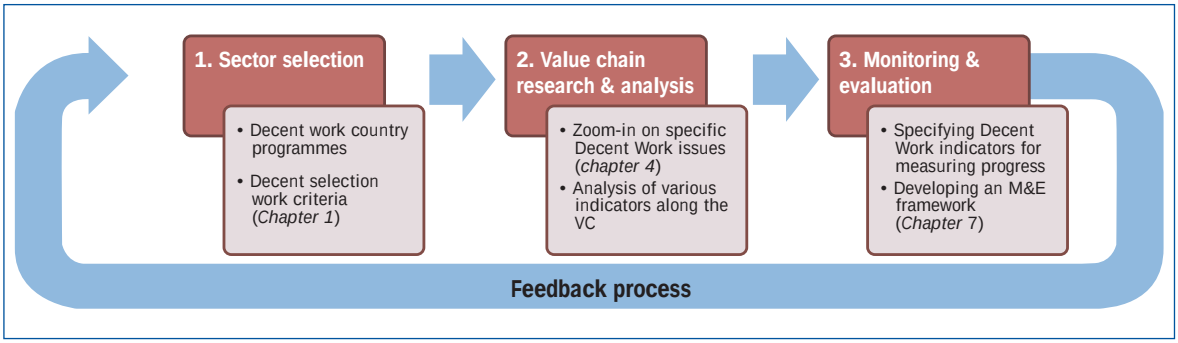
Without going into too much detail here, it should be mentioned that the design of value chain upgrading strategies is directly connected to the monitoring and evaluation of Decent Work outcomes. When formulating upgrading strategies, thought must thus be devoted to the following questions:

- What are the desired Decent Work outcomes of your value chain upgrading strategy?
- How will interventions lead to value chain development in terms of the five drivers?
- How does the market system need to change to lead to these desired outcomes?
- What kind of indicators are necessary to measure a) short-term outcomes and b) long-term impact?

- How can you ensure that these indicators are directly attributable to your intervention (causality)?
- How exactly can you measure these indicators?
- Etc.

*Chapter 7* provides detailed information on how to select indicators to measure Decent Work outcomes. The chapter also provides guidance on how to monitor and evaluate these indicators.

*Box 5.17: Evolution of indicators for value chain development for Decent Work.*




## 5.1.5 Key reading material on the analytical framework

*Recommended literature on business services in value chains*

The M4P approach had significant influence on developing the ILO's approach to value chain development in Sri Lanka, Madagascar and Vietnam. Elements of the M4P approach were already adapted to the ILO Local-VCD operational guide[60] in Sri Lanka after a strategic review conducted by Rob Hitchins of The Springfield Centre. The following two documents contain the essence of the M4P approach:

- **DFID/SDC (2008):** A synthesis of the Making Market Work for Poor (M4P) approach, for DFID and SDC, Durham (UK)
- **DFID/SDC (2008):** The M4P operational guide, for DFID and SDC, Durham (UK).

Both documents are available from www.m4pnetwork.org.

[60] Herr, Matthias (2008): Local value chain development for Decent Work – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth (Enter-Growth), Colombo (Sri Lanka). See www.entergrowth.com

## 5.2 Supporting and strengthening embedded services

### *5.2.1 Case Study: Bringing knowledge and skills to rural vegetable farmers: strengthening embedded services*

**An example from the Katalyst project in Bangladesh**

The following example from Bangladesh is meanwhile widely used as an example of how to develop and utilize embedded services in value chains for bringing knowledge and information to small producers in rural areas. It further shows how development agencies can cooperate with private sector companies (i.e. lead firms) without becoming part of the market system, but ensuring that development goals are still achieved. The text is largely quoted from project sources[61] (shaded in red).

**The vegetable sector**

The performance of Bangladesh's important vegetable sector is undermined by very low productivity. Early evidence from this 2-year pilot project in Rangpur suggests that improving knowledge and information services embedded within the supply chain offers one means of addressing this problem. Focusing on training retailers of agricultural inputs, the results of the project - instigated by KATALYST in collaboration with Syngenta, an input supplier - hold the promise of improvements in the competitiveness and poverty-reducing benefits of the sector.

**The project followed a market development approach**

In undertaking the project, KATALYST followed its market development approach to business services characterized by:

- ***Identification of the underlying cause:*** low levels of knowledge and information in the market (a key cause of poor productivity) can be attributed to weak private sector capacities.
- ***A clear strategic focus:*** developing the capacities of retailers – with whom farmers interact regularly ? and input suppliers (retailers' main source of information) within the market system was therefore the main project goal
- ***Operational flexibility:*** within these strategic boundaries, engaging with appropriate players in an entrepreneurial manner that builds ownership with them. Indeed, the idea of retailer training emerged from such discussions.
- ***Scaling up with other players:*** in order to promote change throughout the market system, encouraging other input providers to invest in knowledge and information.

**Cooperation with a lead supply company**

Under KATALYST's agreement with Syngenta, costs were shared for the development and delivery of a 3-day residential training programme for retailers on a range of generic and product-specific issues, reflecting both wider development as well as narrow commercial goals. In addition, KATALYST made significant technical inputs regarding training content and process. However, the organization and delivery of training – the main part of the project – was managed directly by Syngenta.

[61] See the KATALYST project website: www.kaatalystbd.com

480 retailers, accounting for 20% of all Rangpur retailers and serving approximately 200,000-350,000 farmers, were trained over the 2-year period. Taking account of both direct financial costs and staff time, overall cost per (retailer) trainee was $90-100, the effective Syngenta: KATALYST share of costs being estimated at around 60:40.

### The benefits of cooperation

Early results from the project show positive impacts on each of the market players:

- ***Farmers'*** perception of their experience with retailers' service has improved.
- ***Retailers*** have greater self-confidence, place more emphasis on advice and information, have better customer relations and, in most cases, increased sales.
- ***Syngenta's*** sales have grown 3-4 times faster than in other regions. The strategic importance of knowledge and information in the supply-chain has been re-emphasized. Syngenta is planning to invest in retailer training throughout the country.
- ***Other input suppliers***, who have often lost out competitively in the short term, are now showing positive signs of interest in retailer training. This is the critical issue – "crowding in" - in determining wider market change.

The case highlights the importance of knowledge and information in improving agricultural performance? and the opportunity this presents – and poses challenges for agencies as to how to intervene effectively to stimulate more effective and large-scale market development.

### The project started by trying to identify the most relevant information sources for farmers

**Why did KATALYST decide to work with supply industries?**

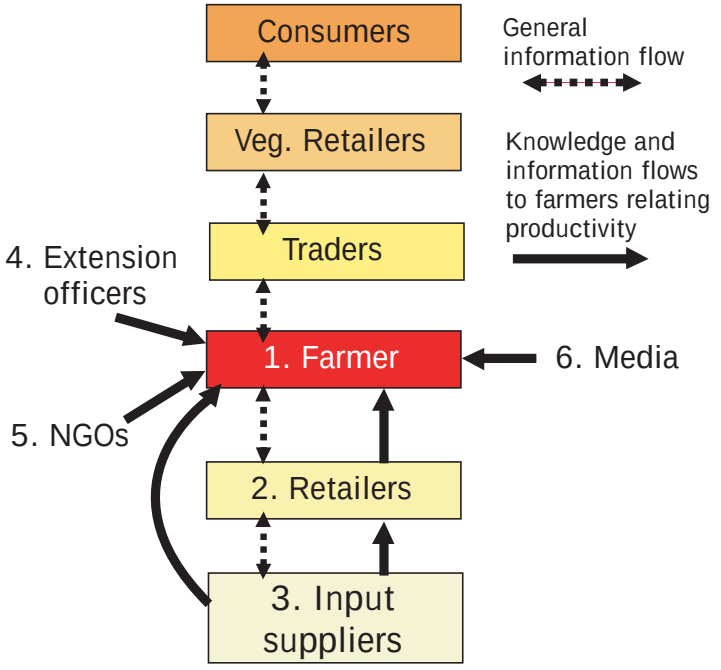
A number of potential sources of information related to productivity became evident from a combination of consumer research surveys, interviews and document analysis:

1. ***Farmers:*** farmers like to go to other farmers for information. Over one-third (figure 3) say that this is their preferred source and certainly within every farming community, there are respected "lead" farmers available locally, who are perceived to be practical. Advice offered here is in the context of wider social relationships and structures. However, progressive and influential farmers still need to be able to access new information (on new approaches, products, etc), raising the question of where this can be sourced.
2. ***Retailers:*** along with farmers, the main and most regularly used source of information is retailers. Retailers are, typically, independent owner-managed small businesses, located in simple shop premises in rural villages and towns. Typically, they sell a combination of fertilizers, pesticides and seeds (and often other non-agricultural household items as well) and information is offered as a service *embedded* within these commercial transactions as a means of adding value to customer relationships. They are likely to stock the products of a number of input suppliers, although sometimes favouring one supplier over another.

Some are sole stockists for one company. Retailers have a number of features as sources of knowledge and information:

- They are used widely and regularly. Like farmers, their closeness to and frequent interaction with farmers offers a real opportunity for influence.
- 60% of farmers going to a retailer do so in search of a solution to a farming problem rather than to buy a specific product (or brand) ……
- …… yet, despite this, most retailers undervalue the importance of the embedded information service they provide to farmers. They are often reactive in their approach to customers, don't know how to deal with them positively and lack technical knowledge. More commonly they see themselves as sellers of products rather than providers of solutions. …..
- …… and they have a "mixed" record and image with farmers. While survey data indicates that a reasonable proportion of farmers regard retailer advice favourably, tales of retailer "cheating", product adulteration and wrong advice are widespread in farming communities.

Reliance on input suppliers for information: input suppliers give retailers a variety of promotional material on their product, and retailers' opinions are formed to a considerable extent by the that material and by their experience with those products. There is certainly no independent "neutral" view to guide them.



3. ***Input supply companies:*** these fall into three main categories – seed, fertilizer and pesticide suppliers (with some overlap between them). The seed supply sector is the most disparate sector, where a vast array of informal suppliers, NGOs and large emerging parastatal corporate ventures co-exist. Pesticide suppliers, on the other hand, totalling around 8-10 main players, are relatively large-scale firms, both Bangladeshi and multinational, with the latter predominating. While input suppliers do occasionally organize product demonstrations for farmers direct, their route to their final consumers s mainly through retailers.
4. ***Government extension officers:*** the role of the Department of Agricultural Extension (DAE) is to advise farmers direct and to organize fairs to bring different actors together. In Rangpur there are believed to be around 200-300 *block supervisors* (i.e. officers with responsibility for a particular "block" of land). Although most farmers are aware of the government extension service and respect block supervisors' technical knowledge, few are regular users of their services. The main beneficiaries tend to be larger farmers. This level of weak outreach and impact comes after a long history of substantial donor support. Many donors have concluded that the DAE cannot be an effective deliverer of knowledge and information due to its ingrained incentives and culture.
5. ***NGOs:*** like many parts of Bangladesh, there is an extensive NGO presence in rural Rangpur. They work with groups of low-income "beneficiaries/clients" and provide a range of advisory and more tangible (seed) support. Their coverage is limited and they depend on further external funding for their continuance.
6. ***Media:*** beyond these sources, farmers may also gather relevant information from the wider media. However, newspapers are not widely read, and while they contain relevant advertisements there are few user-friendly articles on vegetable production. Similarly, radio and television coverage is poor and programme content is of limited relevance.

*Further reading on the case*

**Gibson, Alan (2005):** Bringing knowledge to vegetable farmers: improving embedded information in the distribution system, The Springfield Centre, Durham (UK). Available from www.katalystbd.com

### *5.2.2 Business membership organizations as "system integrators"*

**Business membership organizations address key constraints in value chains**

The term 'business membership organization' is used here to describe organizations such as cooperatives or small producer associations. It refers in particular to sector-specific organizations such as associations of dairy farmers. Business membership organizations address key constraints often found in value chains (i.e. transactions between businesses) and the policy and regulatory environment due to lack of organization:

- ***Bargaining power:*** low prices for products – high prices for inputs; individual SMEs find it hard to bargain for better deals, as suppliers and buyers face high delivery/collection costs.
- ***Mistrust and unequal relationships*** between buyers and sellers either because there are no communication and coordination channels or because such channels are not working well.
- ***Dependency on intermediaries***: buyers and suppliers rely on intermediaries in order to achieve the necessary bulk and to dilute risks.
- ***Information gaps*** (concerning quality requirements, new technology, etc.) resulting from the lack of communication channels enabling effective flow of information along the value chain. SMEs thus lack essential market information.
- ***Lack of recognition:*** SMEs in particular have no means of expressing their interests and concerns to policy-makers and authorities.

It is important for all players in a value chain to understand that these constraints affect the overall performance and competitiveness of a sector. One weak link in the chain often results in other levels – including large companies – facing severe problems such as supply shortage, lack of quality, lost markets for products and services, etc. Strong business membership organizations are therefore a means of overcoming these constraints.

**Business membership organizations as system integrators in value chains**

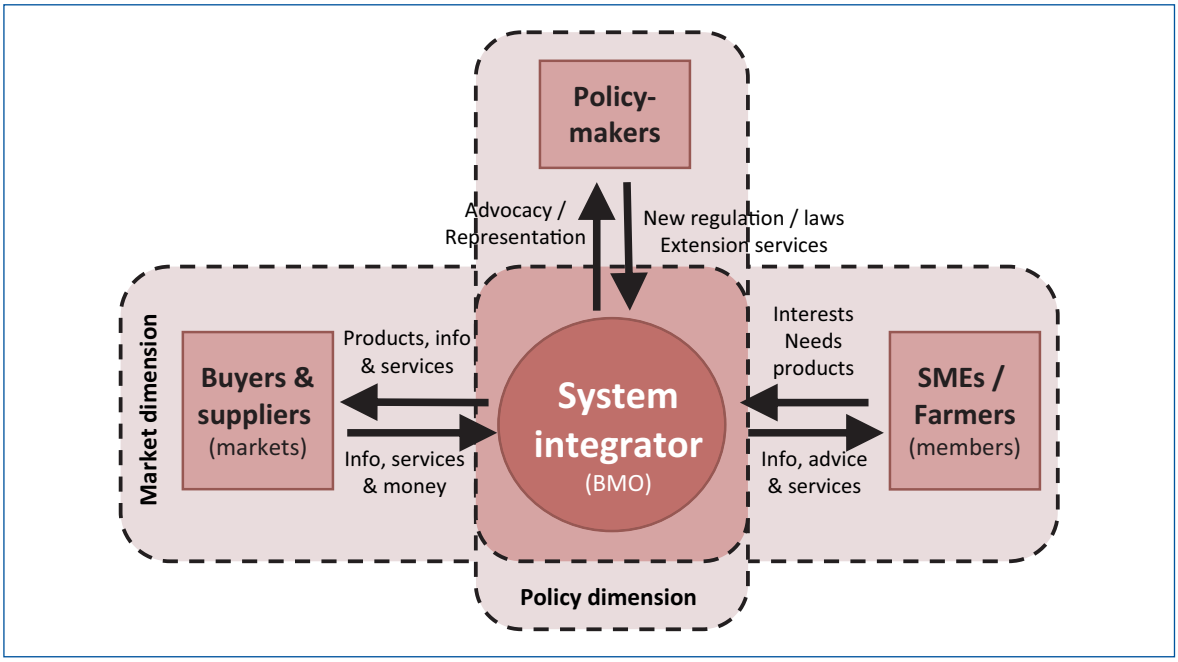
Business membership organizations address the common interests of their members that go beyond individual competition between member businesses. Taking our market system model from Box 5.5 above, business membership organizations can be seen to address two dimensions of the market system:

1. ***Core transactions in the value chain (market dimension):*** in terms of the five drivers of value chain development, business membership organizations can be instrumental in increasing the efficiency of operations between businesses along the chain, communicating strategies and information relevant to product quality and market requirements, etc. Most importantly, they can achieve economies of scale though collective bargaining – thus ensuring a better deal for members as well as making markets accessible to suppliers and buyers. Business membership organizations can therefore act as linkage points to buyers and suppliers in the chain.

2. ***Communication and interaction with relevant supporting organizations (policy dimension):*** rules and regulations, institutions such as training and standards and other supporting functions in the market system are often controlled by formal public and private organizations. Business membership organizations therefore give SMEs a chance to participate in decision-making processes that affect the particular sector. They also help to enforce new regulations, etc. – i.e. translating information from the policy level to members.

These two dimensions can be illustrated as follows:

*Box 5.18: Business membership organizations as "system integrators"*




### Supporting functions that can be performed by business membership organizations

Some of the market functions that business membership organizations can perform:

- Setting formal/informal rules and regulations for quality and business conduct of members
- Representation and lobbying to decision-makers, development organizations and other (larger) market players
- Collective bargaining with suppliers and buyers
- Effective management of joint resources (e.g. internal collection and quality control system, jointly used machines and equipment, etc.)
- Dissemination of information on market requirements, demand conditions, new products and technology, laws and standards, etc.
- Additional services to members (e.g. training, loans, information events, exhibitions, joint marketing, branding etc.).

*Further reading on system integrators and business membership organizations*

**Lamotte, David and Herr, Matthias (2005):** Challenges and opportunities for giving voice and participation to entrepreneurs in business environment reforms, International Labour Office, EMP/ENTERPRISE Department, Geneva (Switzerland).

### *5.2.3 Implementing International Labour Standards along the value chain*

**International Labour Standards are gaining increasing importance in markets**

International Labour Standards are gaining increasing importance as consumers, media, governments, and rights groups are demanding higher social and environmental standards along the supply and retail chains of multinational companies. The costs associated with damage to image through negative campaigning that exposes violations of labour standards are putting multinational companies under enormous pressure to react. Corporate Social Responsibility strategies have been implemented in most companies in response.

However, given the complexity of value chain systems, lead firms often find it difficult to control supply and retail chains – especially where many anonymous small enterprises are involved. Product traceability is essential not only for controlling product quality, but also for ensuring that CSR standards (or codes of conduct) are implemented along the chain. The following example of the *Ethical Tea Partnership* shows that large private sector initiatives are increasingly investing resources in upgrading labour standards along their supply (or marketing) chains:[62]

**ETP is a private sector non-commercial initiative**

The Ethical Tea Partnership (ETP) is a non-commercial and non-competitive alliance of tea packing companies, working to monitor conditions of tea production around the world and to seek and encourage improvement where needed. ETP is entirely funded by its members, who together invest over US$3.2 million a year in the organization and its work. The 22 members of the ETP range from large multinationals to small privately owned companies. Over 50 brands, fully packed and blended by our members, are included in this initiative.

[62] Largely quoted from www.ethicalteapartnership.org.

*Box 5.19: Members of the Ethical Tea Partnership*

Accord Tea Services Ltd, Matthew Algie & Co Ltd, Bell Tea Company, Bettys & Taylors of Harrogate Ltd., DJ Miles & Co Ltd, Drie Mollen, Finlay Beverages Limited, Imporient UK Ltd, Jing Tea, Keith Spicer Ltd, Metropolitan Tea Co Ltd, The Nambarrie Tea Company Limited, Newby Teas, Republic of Tea, Sara Lee, Tazo Tea . TEAZ Tea Boutique (also trading as Herbal Republic), The Tetley Group, R Twining & Company Ltd, Unilever (Europe), Williamson Fine Teas Ltd, The Windmill Tea Co Ltd.

**ILO Labour standards are at the heart of ETP's codes of conduct**

Many tea producers already recognize that social responsibility is good business practice and are actively committed to ensure the right standard of living and working life on their estates. However, challenges remain. The long-term aim is to demonstrate that everything the tea ETP members buy is produced in a socially responsible way. Working in close partnership with tea producers ensures that problems can be targeted and issues resolved.

At the core of ETP is the independent monitoring carried out by a global network of independent monitors who check living and working standards on tea estates (in collaboration with PricewaterhouseCoopers). They look at six key areas of estate life: Employment (including minimum age and wage levels), Education, Maternity, Health & Safety, Housing and some areas of Basic Rights. ETP has recently revised its monitoring system and developed a new Standard which provides robust provisions in all key areas of labour practices in the tea industry and is based on the Ethical Trading Initiative (ETI) Base Code, which is itself drawn from ILO Conventions. Monitoring to the new standard will shortly be rolled out in all the countries in which ETP is active.

**Codes of conduct are implemented through an independent monitoring system**

ETP monitoring is free to all estates which take part. ETP is unique in this respect as no other initiative offers free monitoring to producers.

ETP is also developing a network of Regional Managers who are able to represent the in-country initiative and manage and coordinate relationships with producers and other key stakeholders locally. They now have Regional Managers in East Africa, Sri Lanka and the Far East and plan to recruit additional representatives in other key tea producing regions.
The ETP also aims to champion the whole issue of the ethical trading of tea with tea producers, consumers and all of its other stakeholders, through a real dialogue and open exchange of ideas.

**Codes of conduct affect all levels in the supply chain – including smallholder farmers**

**The tea value chain**

It starts with the grower. Tea may be grown by:

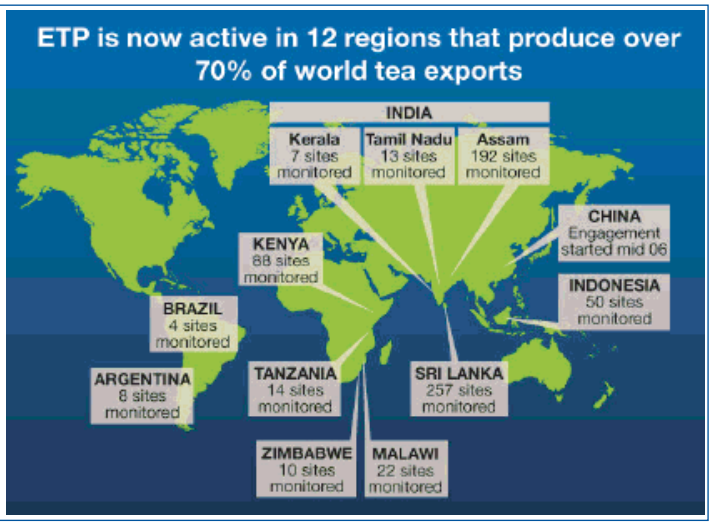
- **a tea estate**, which will have a garden or a number of gardens The estate will have a factory unit for processing the raw leaf and putting it into sacks or chests. ETP currently monitors 1,200 estates, which supply their members in seven tea producing countries. Tea produced on an estate is given a 'selling mark', which identifies the estate and country where the tea was produced. Sacks or chests of tea that leave the estate will carry the selling mark. When ETP monitors an estate they check correspondence between the estate and the selling marks it produces.
- **an outgrower**, who will usually have more land available - perhaps 10 hectares or more - and a regular arrangement to supply a factory unit. Outgrowers usually employ people outside the family circle to pick the tea. ETP plans to eventually include outgrowers in their monitoring, but they are not included at the present time.
- **a smallholder**, often a family, who will usually have a small amount of land dedicated to growing produce, including tea. Smallholders supply their tea to a factory. They are not currently part of the Ethical Tea Partnership scheme. ETP has been working with other members of the Ethical Trading Initiative to understand the issues and help devise guidelines. These guidelines have now been published and ETP is looking at how they can develop them into a practical tool.

This tea is then sold to the tea packing company, either direct, through an auction, or via an agent or broker. The tea packing company produces brands of tea that are sold to the retailer and to the consumer.

*Box 5.20: Tea value chain*




*ETP member countries*




*Source: www.ethicalteapartnership.org*

**First signs of improvement: Improvement Actions on Tea Estates**

As a result of ETP's monitoring and tracking of remedial work, the organization logged over 400 improvement actions in 2006.

Over 270 of these were in Health & Safety, for example, improvements in general workplace conditions (including dust removal, lighting); fire safety; protective clothing; first aid availability and provision; hygiene (including drinking water, latrines, refuse disposal); worker accommodation (including painting, electricity, toilets) and in the provision of crèches, including milk/food provisions, toys, hammocks, etc.

The balance covered employment issues such as improvements in record-keeping; provision of medical examinations; ensuring that hours were kept within legal limits; ensuring that overtime was correctly calculated and paid in a timely manner; calculation and payment of maternity benefits, housing allowances and sick leave.
In a number of instances information on workers' rights is now being prominently displayed on estates and plantations and correct disciplinary/grievance procedures are now in place.

*Further reading*

- **Ethical Trading Initiative:** www.ethicaltrade.org
- **The Ethical Tea Partnership:** www.ethicalteapartnership.org
- **Ivanka Mamic:** "Implementing Codes of Conduct: How Business Manage Social Performance in Global Supply Chains", International Labour Office and Greenleaf Publishing UK, 2004.

### *5.2.4 Market requirements and quality standards: preconditions for market access*

**Compliance with market requirements and demand conditions is essential for job and income creation**

As markets become more globally interconnected, market requirements and demand conditions play an increasingly important role and small enterprises are also having to adopt them as part of global value chains. Failure to comply with market requirements and demand conditions can result in loss of markets to competitors, resulting in turn in fewer employment and income opportunities.

By ***market requirements***, we mean the formal and informal rules set by the industry or public agencies. These could be specific health laws and regulations for the food industry (e.g. HACCP), formal quality standards (such as ISO norms, GAP, etc.), customer requirements in terms of quantity and product specifications, normed designs, copyrights, etc.

By demand conditions we refer to changing patterns in consumer demand. In the fashion industry, for example, these would be seasonal changes in designs but also changes in taste. They could also be social and environmental norms (e.g. fair trade and organic food) required by end consumers.

***If SMEs in emerging markets fail to meet market requirements and demand conditions, their access to high value markets will remain restricted, and opportunities for creating jobs and income will be lost.*** It is therefore imperative that information on market requirements and demand conditions should also reach the smallest businesses in the value chain. The following example from the toy industry in China illustrates the huge economic costs for the overall value chain caused by non-compliance with market requirements on the part of several medium-sized and anonymous suppliers.

*Box 5.21: Why quality standards matter for employment and income creation – From an article in 'The Economist': China's toxic toymakers, Aug 16th 2007*

Until a brief notice appeared in China's state-run *People's Daily* on August 14th announcing that Zhang Shuhong had hanged himself, almost no one had ever heard of him. *The Economist* could not find a picture of him. Even in Foshan, a manufacturing centre in southern China, where he owned part of a factory that produced dolls for Mattel, a big American toy-maker, he was an obscure figure.

That is not unusual. There are legions of equally faceless sub-contractors, who are collectively responsible for much of the astonishing growth in Chinese exports. But when Mattel announced a recall of the flawed toys Mr Zhang had made, and especially after he took his own life in response, he became one of China's most famous businessmen—and the embodiment of all the world's misgivings about what comes out of its factories.

The same day that he died, Mattel recalled 436,000 cars daubed with lead-based paint and more than 18m toys containing small magnets which could come loose and be swallowed by children, with dire medical consequences. The recall was Mattel's second of the month. Earlier, the company's Fisher-Price unit had found lead paint on its toys, at least some of which came from Mr Zhang's factory. All of the flawed items were made in China, where 65% of Mattel's products are sourced. The first recall will cost the firm about $30m, and the second might prove more expensive still.

The consequences might have been even worse, were it not for the fact that Mattel is hardly the only company to have been caught selling sub-standard Chinese goods of late. Pet food, lorry tyres and toothpaste have all suffered recent product recalls. Nokia has just warned that some of its mobile-phone batteries made in China are prone to overheating, although the factory at fault belonged to Japan's Matsushita.

Some of America's more populist politicians are taking this list as proof that anonymous Chinese sub-contractors are not to be trusted, that America needs much more elaborate safeguards against tainted goods and that firms that had outsourced manufacturing to faraway lands would have done better to keep their factories closer to home. Charles Schumer, a tub-thumping senator from New York, has called for the creation of an "import tsar" to police foreign goods.

No doubt many importers will examine their supply chains more carefully, if only for fear that they will be sued by customers who have bought poisonous furniture or explosive mobile telephones, and shunned by others who hear about such fiascos. This sudden scrutiny will probably bring other scandals to light. Mr Zhang's problems, after all, appear to have stemmed from the contaminated paint he bought from another, as yet unidentified, local industrialist. On the assumption that Mr Zhang was not the local industrialist's only customer, there must be other firms that have not yet disclosed their own shortcomings, or are not yet aware of them.

There are several ironies in this. One is that in China it is often said that sub-contractors making electronics or trainers or toys are not the worst violators when it comes to safety and labour standards. Their products are typically bought by big firms like Mattel, and the order is large enough for the purchaser to set standards and carry out regular inspections. Smaller foreign firms ordering smaller lots, in luxury goods for example, have a far weaker negotiating position.

Monitoring contract manufacturers from abroad is not easy. Visits to factories are hard to arrange, are often cancelled, and, when they do occur, are sometimes elaborately stage-managed. Reporters are particularly unwelcome, but even customers do not always know what is going on. Mattel, for example, had done business with Mr Zhang for 15 years.

The other irony is that, broadly speaking, quality is improving (something that worries the Japanese). The Chinese authorities are aware of and embarrassed by the recent string of scare stories, and are anxious to revive China's faltering reputation. They have started a high-profile campaign to raise standards and punish slapdash manufacturers.

**Getting to know you**

What Chinese manufacturing lacks is not so much quality control as accountability. Foreign firms feel obliged to use contractors like Mr Zhang to cope with capricious and corrupt local officials, and the arbitrary justice they mete out. Yet firms like Mr Zhang's are inscrutable and transient, with no brand or reputation to speak of. When Japan was industrializing, ambitious companies did some contract manufacturing, but they also worked hard to build their own brands, as Matsushita did with Panasonic. In South Korea Samsung has prospered by keeping both production and marketing in house. Yet in China, firms like Mr Zhang's eschew their own brands and keep a low profile in order to win contracts from several competing foreign firms.

Until now, this anonymous arrangement suited both the contractors and their clients. It would undermine the brands that Adidas, Puma and Nike have spent so much to promote if their customers knew that a Taiwanese contractor called Yue Yuen produced shoes for all of them in China. Likewise, Hewlett Packard, Dell and Apple do not advertise that they all make use of a firm called Hon Hai. Conversely, it is only by keeping the lowest of low profiles that the likes of Yue Yuen and Hon Hai can sell to several competitors.

But this whole system might founder on the question of quality control. To distinguish themselves from their dodgier rivals, Chinese contractors will have to become better known. In that sense, the suicide of a faceless figure like Mr Zhang, and the furore it has prompted, might prove the deathknell of all China's anonymous industrialists.

*Source: The Economist (2007): China's toxic toymakers, August 16.*

## 5.3 Documentation and presentation

### Publications of value chain research and analysis need to consider the purpose

There is one rule that the documentation of value chain research and analysis should always follow, and that is:

**Form follows function!**

Whether you publish your findings in an extensive research paper, summarize them in illustrative booklets or brochures, make flashy PowerPoint presentations or just fill out data sheets for internal use depends on the purpose of the value chain initiative. Often short, easy-to-read and informative publications have proved to be more effective in reaching a wide target audience than long research papers (i.e. value chain analysis and research as described in this guide is not done out of academic interest!). However, findings do not necessarily need to be published: value chain research and analysis can also be used as a means of making strategic planning decisions within a project.

### Some questions to ask yourself before publishing

Before you plan to publish your findings, think about the following questions:

- What is the purpose of the value chain analysis?
- Does this purpose require you to publish your findings?
- If so, who would be the intended target audience?
- What further action do you expect to result from the publication?
- Which form of publication would best suit your purpose?

The following box provides different examples of publications on value chain initiatives:

Extensive value chain studies for technical experts:

- **Hultquist, Ingrid (2007):** Binh Phuoc – Cashew value chain, International Labour Organization, PRISED project Hanoi, Vietnam.
- **Ewasechko, Ann (2005):** Upgrading the Central Java Wood Furniture Industry: a value chain approach, International Labour Organization, Manila.

Somewhere in between:

- **Sinkala, Thomson and Chitembo, Andrew (2007):** An analysis of the global jatropha industry and a case study of the local value chain in Zambia, International Labour Organization, BDS Zambia project, Lusaka.
- **Pandey, G.S., Mukumbuta, Likando and Banda, Gulam (2007):** Analysis of dairy subsector industry and value chain in Zambia, International Labour Organization, BDS Zambia project, Lusaka.

Short and easy-to-read publications for broader audience (result of participatory approach):

- **ILO (2008):** Developing the packaging sector in North-Western and North Central Provinces – value chain development for more competitiveness and decent work, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka).
- **ILO (2008):** Developing the floriculture sector in North-Western and North-Central Provinces – value chain development for more competitiveness and decent work, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka).
- **ILO (2008):** Developing the dairy sector in North-Western and North-Central Provinces – value chain development for more competitiveness and decent work, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka).
- **ILO (2008):** Developing the coir sector in North-Western Province – value chain development for more competitiveness and decent work, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka).

Value chain initiatives do not always have to result in publications, but rather produce a number of presentations. For example

- ILO CEPP project in Madagascar
- ILO in Ethiopia: Women weavers Ethiopia

## 5.4 Further reading on value chain analysis and upgrading strategies for value chain development

***Case examples:***

- ILO Enter-Growth: Coir, floriculture, dairy and packaging
- ILO BDS Zambia: Dairy and Jatropha
- ILO Madagascar: Embroidery
- ILO Ethiopia: Women weavers
- ILO India: Moradabad brassware sector
- Katalyst (Swiss Contact): Vegetable sector, pond fish and maize

***Useful resources on strategy formulation***

- **Albu, Mike (2008):** Making markets work for poor – International development cooperation: seeking common principles that underpin a coherent approach to poverty reduction, for the Swiss Agency for Development and Cooperation (SDC), The Springfield Centre, Durham (UK). **Albu, Mike (2008):** Making markets work for poor – Comparing M4P and SLA frameworks: complementarities, divergences and synergies, for the Swiss Agency for Development and Cooperation (SDC), The Springfield Centre, Durham (UK).
- **Albu, Mike and Schneider (2008):** Making markets work for poor – Comparing M4P and SLA frameworks: case studies, for the Swiss Agency for Development and Cooperation (SDC), The Springfield Centre, Durham (UK).

All three papers are available from www.springfieldcentre.com.

- **Schmitz, Hubert (2005):** Value chain analysis for policy-makers and practitioners, International Labour Office, Geneva.
- **Springer-Heinze, Andreas (2007):** Value Links Manual – The methodology of value chain promotion, German Technical Cooperation Agency (GTZ), first edition, Eschborn (Germany). Available from www.value-links.org – see especially the following modules:
  - **Module 3:** Determining the value chain upgrading strategy
  - **Module 4:** Facilitating the chain development process
  - **Module 5:** Strengthening private business linkages
  - **Module 6:** Engaging in public-private partnership
  - **Module 7:** Strengthening services in value chains
  - **Module 8:** Financing value chains
  - **Module 9:** Introducing social, ecological and product quality standards,
  - **Module 10:** Improving the business environment of value chains

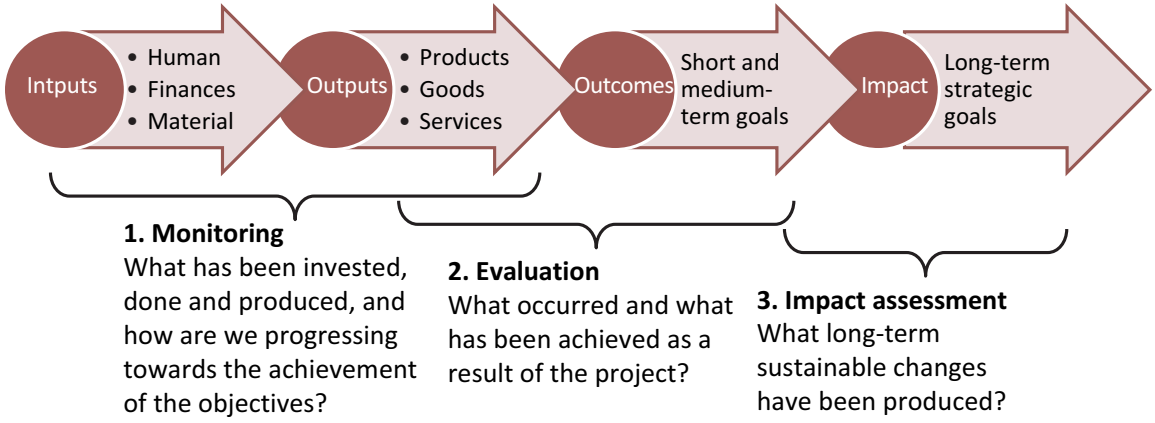
- **DFID/SDC (2008):** Three documents on the "Making Markets Work for the Poor" (M4P) approach, available from www.m4pnetwork.org:
- The M4P operational guide
- A synthesis of the M4P approach
- Perspectives on the M4P approach, particularly the following chapters are of interest:
  - Labour market
  - Political markets
  - Land markets
  - Economic markets

Chapter 6

# Monitoring & evaluation for value chain development

## Summary sheet: monitoring and evaluation

***Process for montoring and evaluation:***




*Source: ILOEVAL Unit (2005)*

***Summary:***

Monitoring and Evaluation are interdependent and the distinction is primarily of analytical depth. *Monitoring* is the continuous follow-up of activities and results in relation to pre-set targets and objectives. The levels of monitoring are inputs, outputs, outcomes and impacts.

An *Evaluation* is a careful and systematic retrospective assessment of the design, implementation, and results of private or public sector project[63] activities. For example, a private sector company may be seeking to improve its systems and processes so that efficiency is enhanced through the establishment of project management[64] as a core competency throughout the business and projects can be terminated, owned or transferred to another party. The principal evaluation criteria by which the merit or worth of the project is assessed include effectiveness, impact, relevance, sustainability and efficiency.[65]

The aim of development assistance is not just to help solve immediate development problems of a pressing kind but to strengthen the capacity of developing countries to deal with such problems using their own resources. And as such, one key aspect of evaluation, particularly for donor interventions, is sustainability – the continuation or longevity of benefits from a development intervention after cessation of development assistance[66].

[63] A project is "any series of activities and tasks that: have a specific objective to be completed within certain specifications, have start and end dates, have funding limits (if applicable) and consume resources (money, people, equipment)." (Kerzner, 1998).

[64] Project management is the application of knowledge, skills, tools and techniques to project activities in order to meet stakeholders needs and expectations from a project. It is the process by which projects are defined, planned, monitored, controlled and delivered so that agreed benefits are realized." (APM, 2006): APMBOK.

[65] See ILOEVAL Guidelines.

[66] See Sida Evaluation Manual: Looking back Moving forward. www.sida.se/publications

In this respect, the definition of sustainability is broadened from financial, management and organizational factors and exit strategy to include the extent to which the project reflects partner country priorities, partner country ownership and participation, institutional and cultural factors, technological and environmental factors. These are ring-fencing parameters for Decent Work Country Programmes, which are the focus of this guide.

The basis for monitoring and evaluation is already set in the very beginning of a value chain initiative by defining selection criteria and setting objectives (strategic framework). This impacts the choice of indicators selected for monitoring and evaluation. In some countries the monitoring and evaluation indicators are often better derived from those already set for national development frameworks such as private sector development programmes. In other words, indicators should be project-specific[67] but the project contribution or impact must be clearly linked to national development frameworks such as Decent Work Country Programmes.

This section discusses monitoring at project management level understood here as a management tool that enables project managers to track activities for the implementation of a value chain development strategy and see whether development targets are achieved. The guide discusses several aspects of evaluation, arguing that both monitoring and evaluation should also feed into a learning process that enables the project to further deepen its understanding of the value chain system and refine its strategy with a view to addressing systemic constraints.

***Outcomes:***

- An intervention framework outlining intervention areas, activities, expected outcomes, responsibilities, etc.
- Selection of indicators for monitoring the progress of interventions
- A format for tracking activities and immediate outputs
- A format for evaluating outcomes with a view to achieving development targets

[67] See also www.itcilo.org/marketdev

### Definition of a monitoring system

Monitoring is concerned about measuring the progress of development against targets. A good monitoring system allows the manager to see whether the project is still on track, or whether correcting measures are needed. It is a management tool, and generally a function that is part of any development intervention, whether it targets value chain development for Decent Work or any other development objectives. However, the choice of indicators to be monitored allows the project manager to look at some more specific factors related to value chain development. We could therefore say that the framework is generic but the contents are specific.

A monitoring system looks at progress in four areas:[68]

### Inputs

1. **Inputs:** the financial, human and material resources used for development intervention (i.e. the resources needed in order to achieve the outputs).

### Outputs

2. **Outputs:** the products, goods and services which result from a development intervention. Outputs are services or products which the project is responsible for delivering. Examples are manuals, publications, training programmes, exhibitions, public-private forums, etc.

### Outcomes

3. **Outcomes:** the likely or achieved short and medium-term effects of an intervention's outputs. Examples are increased awareness for income and employment opportunities in a particular business sector, provision of BDS by providers previously trained in a TOT programme, revision of regulations that pose an obstacle to SMEs, banks increasingly providing loans to small producers due to better awareness of needs, etc. Outcomes serve the achievement of long-term development objectives (impact).

### Impact

4. **Impact:** although not only part of a monitoring, impact looks at the achievement of overall long-term and strategic development objectives, such as poverty alleviation, income and employment creation, increased competitiveness of a sector with a view to maintaining and increasing the number of jobs, gender equity at work, better working conditions, eradication of child and forced labour, etc. There are four types of impact – expected positive, unexpected positive, expected negative and unexpected negative impact. Negative unintended or perverse effects include, for example, substitution and displacement.

[68] ILO (2005): A Handbook for Planning Impact Assessment (draft version), Job Creation and Enterprise Department, Geneva.

*Figure 6.1: A more extensive list of contracts defining the relationship between monitoring and evaluation (both of which process and impact evaluation)*

| Monitoring | Evaluation |
|---|---|
| 1. Continuous or periodic | Episodic, ad hoc |
| 2. Project or programme objectives accepted as defined | Objectives assessed in relation to higher-level goals or national development frameworks |
| 3. Pre-defined indicators of progress assumed to be appropriate | Validity and relevance of pre-defined indicators open to question |
| 4. Tracks progress against a small number of pre-defined indicators | Deals with a wide range of issues |
| 5. Focuses on intended results | Identifies both intended and unintended results |
| 6. Quantitative methods normally based on baseline studies | Quantitative and qualitative methods |
| 7. Data routinely collected | Multiple sources of data |
| 8. Does not answer casual questions | Provides answers to casual questions |
| 9. Usually an internal management function | Often done by external evaluators and often initiated by external agents |
| 10. Based on good practice for example UNEG and ILOEVAL | Based on good practice and quality standards such as OECD, 3ie (International Initiative for Impact Evaluation www.3ieimpact.org) |

Adapted from Sida Evaluation Manual: Looking back, moving forward. www.sida.se/publications

## Indicators / proxies for measuring outcomes

Outputs, outcome and objectives are measured through **indicators (or proxies)**. These are qualitative and quantitative factors or variables that provide a simple and reliable means of measuring achievement and reflecting the changes connected with an intervention. The choice of indicators depends essentially on the overall development objectives of the project.

On the basis of the above definitions, a good monitoring and evaluation (M&E) system can be divided into three components:[69]

## Developing a three-step monitoring and evaluation system

1. **Appraisal:** the assessment of a project when it is in the planning stage, before implementation (i.e. it is *prospective*).

2. **Monitoring:** the routine collection and analysis of information to enable the assessment of a project's progress during the course of implementation (i.e. it is *current*).

3. **Evaluation:** the assessment of a project's performance conducted after a period of implementation (i.e. it is *retrospective*).

[69] The Springfield Centre: Making Markets Work, Durham, 2007.

*Box 6.1: A tool for monitoring and evaluation*

**Monitoring and evaluation template:**

the ILO BDS project in Zambia has developed a monitoring and evaluation system that has been used for jatropha and dairy value chain interventions. This M&E system serves as a basis for this chapter and is available as template on *CD/website*. The examples on dairy and jatropha can be downloaded from *www.bdszambia.com*.

The system consists of three easy-to-use Excel sheets, which reflect the overall M&E process: a) appraisal (intervention framework), b) continuous monitoring of outputs, and c) periodic monitoring of outcomes. The three sheets are interconnected and provide the basis for a detailed evaluation of interventions later on. The project manager can fill out the sheets without spending too much time on it.

**The following sections explain how to use this particular M&E system.**

## 6.1 Appraisal of interventions

### Definition of appraisal: prospective assessment of interventions

As mentioned above, appraisal is the assessment of a project when it is in the planning stage, before implementation (i.e. prospective). This includes

- capturing intervention strategies into a comprehensive intervention framework (action plan),
- assessing financial, human and material resources required for an intervention (inputs),
- deciding on indicators/proxies to monitor,
- and conducting a baseline survey against which to measure progress.

This will help the project manager to decide whether an intervention is feasible or not and whether it serves the overall development objectives.

Appraisal should be done after researching and analysing a value chain and before beginning to implement the interventions that have been proposed. It is essentially important to assess the feasibility of interventions in terms of input requirements as well as contribution to development targets. It does not need to be a complicated and time-consuming affair, but can be done fairly quickly within a day or two.

### Doing appraisal in a participatory way

Capturing intervention strategies into a comprehensive framework, formulating specific activities and prioritizing them, is best done in a participatory manner. By including stakeholders from the target sector, the project will create a sense of transparency and local ownership. This is especially important when the project aims at mobilizing also local resources for the implementation. *Box 2* gives an example of how this has been achieved by an ILO project in Sri Lanka.

*Box 6.2: Using the value chain steering group for appraisal*

The ILO's Enterprise for Pro-Poor Growth Project (short: Enter-Growth) in Sri Lanka conducted a participatory value chain research and analysis for the coir (coconut fibre) industry in the North-Western Province. The findings and proposals were presented to public and private sector stakeholders at a presentation event, at which also a steering group was elected.

The steering group is a temporary and sector-specific public-private dialogue forum (covering only that province) that meets regularly once per month. The purpose of the group is to discuss and prioritize proposals, and to support their implementation through networking, advice and personal commitment.

The findings and proposals presented to all stakeholders were separately discussed in more details at the first steering group meeting. Rather than presenting a completed action plan, the members were asked to answer the following questions:

a) which of the proposals/interventions did they think were most important? (prioritization)

b) starting with the most important proposal/intervention, how exactly could they be implemented? (activities)

c) and finally: who should be responsible for implementing the interventions, and who could provide support?

Ideas were initially gathered on a flipchart and later written up in a summary report on the meeting. The ideas the project team got from the steering group allowed the team to fill out and complete an intervention framework, which was then discussed again at the next steering group meeting and presented to other stakeholders (e.g. the provincial government for budget allocation).

**Deciding on expected outcome and indicators**

Apart from using participatory means, the appraisal of interventions will also require decisions within the project team (or by the project manager). These decisions include the choice of indicators/proxies to be monitored, the assessment of required resources and the conducting of a baseline survey.

The monitoring and evaluation system developed by the BDS project in Zambia serves as basis for this chapter. Within this system, the first Excel sheet ("Intervention Framework (Appraisal)") can be used by the project team to capture the necessary information for appraisal. Outcome indicators and baseline data are entered into the third sheet ("Periodic monitoring of outcomes"). The use of these sheets will be explained in the following two sections.

### *6.1.1 Intervention framework (log frame)*

**Definition of intervention framework**

An intervention framework is a tool used for capturing and summarizing intervention strategies and specific activities for their implementation. This will help the project manager to have all the neces-

sary information about planned interventions in one comprehensive table, and will allow him to keep track of the overall strategy. The intervention framework provides information on

### Intervention area

- **Intervention area:** this gives the heading under which several interventions are planned. It does not give specific details but provides an idea of the objective/outcome of a group of interventions. Examples are: "improving the policy and regulatory framework", or "access to knowledge and information for small farmers", or "improving quality of work", etc.

### Interventions

- **Interventions:** under one intervention area, several interventions give further details on the strategies through which the project intends to achieve the overall objective. Interventions already give an idea on possible outputs – i.e. are more specific as regards targets/outputs. Examples for interventions are: "facilitating public-private dialogue for better policies", or "conducting and publishing a market survey to enable farmers to make informed choices", or "building media capacities for SME-relevant programme content", etc.

### Activities

- **Activities:** as a tree further splits from the trunk (intervention area) into several branches (interventions) and twigs, activities give further details on exactly how the implementation of a particular intervention is planned. The formulation of activities should be as specific and practical as possible, reflecting the steps of implementation. An example:

### Example

| Intervention area | Intervention | Activity |
|---|---|---|
| *1. Creating an enabling regulatory and policy environment* | *1.1 Enhancing public private dialogue* | *1.1.1 Electing a steering group with members from public and private sector at results presentation* |
| | | *1.1.2 Developing a joint action plan for interventions and responsibilities* |
| | *1.2 Stimulating public awareness for income and employment opportunities* | *1.2.1 Publishing findings and proposals of the value chain research and analysis as a booklet* |
| | | *1.2.2 Organizing a press conference to provide information on the opportunities and needs of the sector* |

### Outputs

- **Outputs:** once the activities are implemented, what kind of specific outputs would the project expect? These are important indicators for the project manager to ensure that partner organization, consultants or the project team do what they are supposed to do and that these outputs contribute to the overall development objectives.

### Time frame

- **Time frame for outputs:** this gives information on deadlines for producing certain outcomes, or time frames within which certain activities are to be implemented. It is important to be realistic when setting time frames, i.e. also allowing time for overcoming any obstacles that might crop up.

### Responsibilities

- **Responsibilities:** who is going to implement specific activities? To enhance local ownership of interventions, most development projects cooperate with local partner organizations. The project would usually provide technical or financial support, whereas the partner organization is responsible for the actual implementation. The intervention framework should therefore also indicate responsibilities for certain interventions.

### Example

| Outputs | Time frame | Responsibilities | Outcomes |
|---|---|---|---|
| *1.1.1 PPP Forum that meets on a regular basis* | *Start: 14 Feb 2008, monthly, initial period: 6 months* | *Chamber of commerce (assisted by project)* | *Better coordination of intervention by government and development partners* |
| *1.1.2 Action Plan* | *14 to 21 Feb* | *Chamber of commerce (together with PPP forum)* | *Comprehensive sector development strategy supported by all relevant stakeholders* |
| *1.2.1 Booklet* | *By end March 2008* | *Project* | *Increased awareness of the opportunities and needs of the sector* |
| *1.2.2 Press conference, media coverage* | *31.March 2008* | *Chamber, project, ministry, industry association* | *Media support for development strategy; taking into account information needs of SMEs* |

### Expected outcomes

- **Expected outcomes:** How do specific activities and outputs contribute to short and medium-term development objectives? The intervention framework includes a column into which the project manager can fill in expected outcomes, such as "change of perception of dairy farming as viable business opportunity", or "better access to and availability of information on BDS", or "better coordination of stakeholders through public-private dialogue forum", etc.

### Resource allocation

- **Resource allocation:** what is needed in terms of human, material and financial resources to implement interventions (not necessarily specific activities)? This probably requires an educated guess by the project manager/team, based on previous experiences and the country-specific financial situation (i.e. cost of living, inflation, etc.). The Zambian intervention framework allows the project manager to make a distinction between the three resource factors: human resources, materials and financing.

The above mentioned components together form the intervention framework, which can be put into an easy-to-use Excel table as developed by the Zambian BDS project of the ILO (see *Table 6.1* below). It requires a project manager and his team a day or two to fill out the framework – perhaps within a planning workshop, before starting with the implementation of interventions.

### The intervention framework as tool for daily management

The intervention framework is not a purpose in itself, but can be used for various purposes: a) the assessment of the feasibility of intervention; b) as controlling instrument for the project manager to ensure that targets are achieved; c) to "market" interventions to potential partner organization and convincing them to take responsibilities.

*Table 6.1: Intervention framework developed by the ILO BDS project in Zambia*

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Intervention Area** *(in prioritized order)* | **Interventions** | **Activities** | **Outputs** *(products, services, tools, etc.)* | **Time frame for outputs** | **Responsibilities** | **Expected outcomes** *(change in practices, incomes, etc.)* | **Resource allocation** | | |
| | | | | | | | **Human resources** | **Materials** | **Financing** |
| Intervention Area 1 | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
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### 6.1.2 Assessing the feasibility of interventions

**Checklist for feasibility assessment**

Several important questions need to be asked in order to assess feasibility. The checklist below provides some ideas. However, the feasibility of interventions also depends to a large extent on the project's overall targets and mission, which is why the project manager will also have to consider further feasibility criteria that are more specific to his project situation.

| No. | Question | Answer |
|---|---|---|
| 1 | Do the interventions reflect the needs of local target stakeholders, or are they your own idea about what is the right thing to do? (Strategy ownership) | |
| 2 | Are local partners available to implement interventions and activities? (Implementation ownership) | |
| 3 | Can the intervention be carried out in the given time frame of the project? (Time frame) | |
| 4 | Will implementing partners have sufficient time, commitment and motivation? (Human resources) | |
| 5 | Are the available material and financial resources sufficient? (Costs and logistics) | |
| 6 | Who will pay? Are local and other development partners contributing to the costs? (Cost sharing) | |
| 7 | What are the chances that the intervention will have a lasting impact and will be continued after project expiry? (Impact sustainability) | |

### *6.1.3 Baseline (and periodic) surveys*

**Definition and purpose of baseline surveys**

A baseline study or survey is a snapshot of initial conditions in a locality, site or sector prior to an intervention (public or private project or programme). A baseline study provides benchmarks against which change and progress can be measured and evaluated

**Timing: before implementation**

Changes can only be measured if there is some data for comparison with. Increases in employment, income, business start-ups, work quality, decision-making authority, etc. can only be measured if the 'base' is known.[70] Baseline data therefore allow the project to draw up a before-and-after picture that show changes resulting from specific interventions; it also makes it possible to subsequently monitor progress periodically with regard to outcome achievements. As a management instrument, this will allow the project manager to undertake strategic corrections if she/he realizes that a project is 'off track' in achieving its development targets.

It is therefore essential that baseline surveys be conducted before the implementation of interventions – i.e. immediately after value chain analysis and research and before drawing up an intervention framework. Ideally some information/data can be taken from the value chain research findings, thus saving time and money for a further survey.

A baseline survey does not need to be a time-consuming and costly activity (in fact it *should* not be). Smaller projects in particular lack the financial and human resources for conducting extensive surveys. This section outlines how an easy and simple baseline survey can be done using a step-by-step approach.

[70]ILO (2005): 37.

# Step 1:

## Designing a framework for monitoring

**Designing a framework for the periodic monitoring of outcome indicators.** A comprehensive and easy-to-use framework that captures baseline information and allows it to be compared with information collected later during the monitoring of interventions, is an essential prerequisite for any M&E system. Things are also much easier for the project manager if she/he is able to access all the information on one sheet.

The ILO's Zambian BDS project has developed a framework for baseline and monitoring of outcomes as part of a threefold system (appraisal, monitoring outputs, and monitoring outcomes). This framework can easily be replicated and is described below.

## Monitoring information: quantitative data, qualitative information, sustainability check

The framework consists basically of three components (horizontal structure of the table):

- **Monitoring of quantitative data:** this is information that can be expressed in numerical terms, such as percentages (relative) or numbers (absolute).
- **Monitoring of qualitative information:** information that cannot be expressed in numerical terms, such as "endorsement of new policies by the government".
- **Sustainability check:** replication, local ownership and financial sustainability are important criteria for assessing the sustainability of an intervention.

For the baseline survey only columns 1 to 4 as need to be filled in well as the baseline data/information. Information is gathered for each intervention separately (i.e. *not* intervention areas or individual activities) – the above framework is therefore replicated for every intervention. This can easily be done in an Excel table format. The "interventions" and "expected outcomes" columns can be copied from the intervention framework (see *Table 1*).

*Table 6.2: Outcome monitoring framework developed by the ILO's BDS project in Zambia*

| 1 | 2 | 3 | 4 | 5 | | | | | 6 |
|---|---|---|---|---|---|---|---|---|---|
| Intervention | Expected outcomes | Quantitative indicators/proxies | Data collection method/means of verification | Tracking change | | | | | Other external factors that possibly contribute to change |
| | | | | Baseline | Period 1 | Period 2 | Period 3 | Period 4 | |
| Intervention 1 | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | Qualitative indicators/proxies | | | | | | | | |
| | | Baseline | Period 1 | Period 2 | | Period 3 | | Period 4 | Other possible external factors |
| | Indicator A: | | | | | | | | |
| | Indicator B: | | | | | | | | |
| | Indicator C: | | | | | | | | |
| | Sustainability check | | | | | | | | |
| | Can other stakeholders use the output? (replication) | | Who does it? (local ownership) | | | Who pays for it? (financial sustainability) | | | |
| | | | | | | | | | |

*Herr, M and Muzira, T. 2008. ILO BDS Zambia Project*

### 6.1.4 Selecting indicators for monitoring Decent Work impact

## Step 2:

### Selection of indicators

**Selection of indicators to be monitored.** As mentioned before, the means by which progress and achievements towards specific outcome targets are measured is through indicators[71]. These are qualitative and quantitative factors or variables that provide a simple and reliable means of measuring achievement and reflecting the changes connected with an intervention. We would make a distinction between output indicators (such as the number of training sessions conducted or the type of publication) and outcome indicators (such as the percentage of farmers who say that they now receive better services). The choice of indicators is essentially dependent on the overall development objectives of the project.

[71] Indicators refer to … Proxies: e.g. business start-ups ➞ registration of businesses

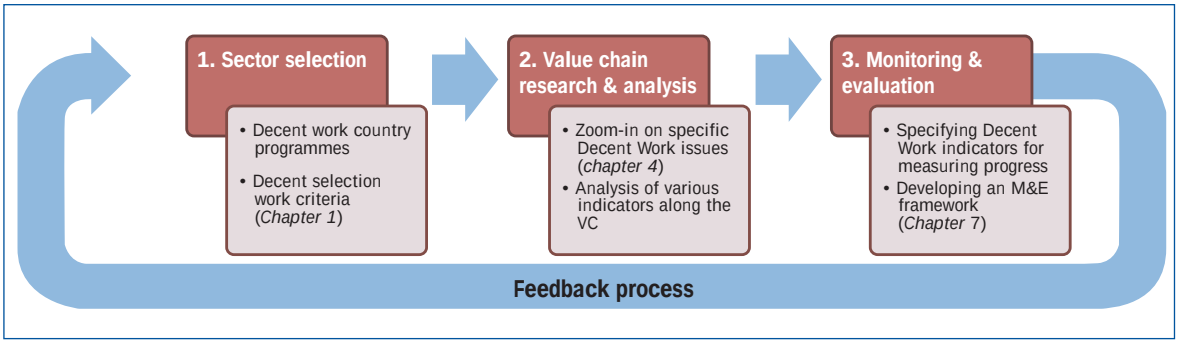
The selection of indicators for monitoring and evaluation is very closely connected with the Decent Work criteria that have been used to select a sector for a value chain initiative in the first place (see *Chapter 1*): employment creation potential, known Decent Work deficits (in terms of labour conditions), percentage of women involved (gender equity), industry growth perspectives and so on. Indicators therefore reflect the overall goals of the implementing organization – i.e. what are we trying to achieve through the intervention? *Decent Work Country Programmes* negotiated between the ILO and its contituents in a given country, for example, provide project managers with a guideline for deciding which sectors to select and which indicators need to be considered in order to achieve the target set in the programme.[72]

**Selection of indicators goes back to *Decent Work* criteria for sector selection *(Chapter 1)***

Sector selection feeds into value chain research and analysis, in which the Decent Work criteria that have been used to select a sector are being looked at within the framework of a value chain. In other words, from a broader view of a sector we are zooming in on a specific subject within the value chain – for example labour productivity and conditions at different value chain levels, or the performance of business membership organizations as system integrators, or the level of worker participation in decision-making processes at different levels. This means that the choice of indicators for monitoring and evaluation is in fact a process that starts with sector selection and is then specified during the value chain research and analysis (see *Chapter 4* (*Section 4.2*) for information on specific topics to look at in value chain research).

**Value chain research further specifies the choice of indicators**

*Box 4.7: evolution of Decent Work indicators for monitoring and evaluation*




[72] Decent Work Country Programmes can be viewed at www.ilo.org/public/english/bureau/program/dwcp

### Indicators for M&E feed back into sector selection

As the figure above (*Box 6*) also illustrates, indicators selected for monitoring and evaluation of Decent Work outcomes are also crucial in determining selection criteria for future value chain initiatives (see *Chapter 1*) or in facilitating a decision on whether the efforts in a selected sector should be scaled up. The following questions might be important in this context:

- **Relevance for Decent Work:** has the selected sector been relevant to the promotion of Decent Work targets (i.e. large number of poor, women, workers, etc.)?
- **Decent Work change potential:** has the selected sector shown signs of improving Decent Work outcomes during the intervention period (i.e. growth, market player incentives, etc.)?
- **Intervention potential:** have our interventions in the selected sector led to more Decent Work outcomes? Are there signs of crowding-in involving other market players?

The monitoring and evaluation of Decent Work indicators through out the implementation of value chain interventions provides useful information on whether value chain development targets are achieved. This again feeds into the overall process of continuous value chain upgrading and innovation – it becomes part of the learning process that leads to more competitiveness. Development agencies should therefore also devote critical thought to who will take over this market function (monitoring and evaluation) after project expiry (see *Chapter 6*).

### Be "SMART" when selecting indicators

The challenge for monitoring and evaluation during the implementation of value chain interventions is to make indicators quantifiable and place them in a framework that allows the implementing organization to follow development towards the intended targets. From a practical aspect, the selection of indicators therefore should be SMART:[73]

- **Specific**, related to the conditions the project seeks to change
- **Measurable**, either numerically or in terms of ranking or preferences
- **Achievable**, within limited financial, human and technical resources
- **Relevant**, with regard to the objective concerned
- **Time-bound**, within a certain framework

The baseline and periodic monitoring surveys should not take up too much time or resources. It is therefore strongly recommended that only 3 to 5 indicators be selected per intervention. These indicators therefore need to have a strong message with regard to measuring outcomes, and it is important to note that indicators should not be added or changed during the monitoring of implementation. The project manager needs to be clear on final objectives from the start.

[73] ILO (2005): p. 40

### Measurability problem (I): putting qualitative information into the M&E system

The measurability criteria is however sometimes difficult to apply to more qualitative indicators, such as "government endorsement", "media coverage" or "availability of information". One way to deal with this problem is to look for proxies, for example "number of bills passed in parliament", "number of articles" or "number of information sources". These, however, do often not give a precise picture and can be considerably influenced by other external factors. The M&E system developed in Zambia therefore allows the manager to note qualitative indicators separately, and instead of measuring their progress in numerical terms, she/he can add a sentence or a small paragraph instead – giving a short description of the progress made.

### Examples of Decent Work indicators

The following box gives some examples for indicators that can be chosen for a monitoring and evaluation system.[74] The chosen quantitative indicators can then be put into column 3 of Table 2 above; qualitative indicators are put into column 2 under the heading "qualitative indicators/proxies".

*Table 6.3: Examples for possible Decent Work indicators/proxies*

| Targeted Small Enterprises[75] | |
|---|---|
| **Defect rate (rework (or scrap)** | Proportion of units that do not conform to design standards and are subsequently reworked or scrapped |
| **Order-to-delivery time** | Total amount of time (hours or days) from receipt of order to delivery on the customer's premises |
| **On-time delivery rate** | Proportion of orders delivered to customer according to agreed schedule |
| **Customer rejects** | Proportion of items delivered to customers and subsequently rejected due to non-conformity |
| **Capacity utilization** | Proportion of available resources (e.g. plant and equipment) used in production |
| **Labour productivity** | Sales value of output produced during the period divided by direct labour hours used in production |
| **Sales** | Revenue derived from the sale of goods or services |
| **Net profit** | Operating profit (sales minus cost of goods sold) and other income less total expenses |
| **Employment** | Full- and part-time workers employed by companies or sole proprietorships as of a specific date or pay period – e.g. the week of March 12th |

| Targeted employment & income[76] | |
|---|---|
| **Output** | Sales value of goods and services produced and consumed in the economy |
| **Personal income** | Income received by households from employment, self-employment, investments and transfer payments |
| **Income per capita** | Personal income divided by the total population in the region |
| **Income distribution** | Proportion of total household money income received by households in particular groups – e.g. quintile income groups |
| **Labour force participation rate** | Proportion of the working age population that is employed or actively seeking work |
| **Unemployment rate** | Number of persons without jobs who are available and seeking work divided by the number of persons in the total labour force |
| **Poverty rate** | Number of persons or households with incomes below a specific minimum level divided by total population or households |
| **Human Poverty Index (HPI)** | The HPI is a composite index introduced by the UNDP that takes three dimensions into account: life expectancy, illiteracy rate, and overall standard of living |
| | |

[74] Adapted from Oldsmann and Hallberg (undated): Framework for evaluating the Impact of small enterprise initiatives, World Bank, Washington D.C.

[75] Adapted from Oldsmann and Hallberg (undated): pp.9-14

[76] Ibid

| Targeted Government Reforms[77] | |
|---|---|
| **Reporting requirements** | Number of forms that small enterprises are required to file with government agencies and level of effort required to complete them |
| **Regulatory compliance costs** | Costs incurred by small enterprises to comply with government regulations |
| **Business fees** | Fees paid by small enterprises for registrations, permits and licenses |
| **Bribes** | Fees paid by small enterprises to government officials |
| **Import tariffs and quota levels** | Tariff rate and quotas on imported goods |
| **Tax burden** | Effective tax rate for small enterprises after accounting for exemptions, deductions and credits |
| **Business registrations** | Number of enterprises (of a particular sector) registering their business |
| | |

| Targeted BDS Providers and Market[78] | |
|---|---|
| **Sales** | Revenues derived from the sale of services (particularly sales to small enterprises or other sub-targets) |
| **Net Profit** | Operating profit (sales minus costs of goods sold) and other income less total expenses |
| **Employment** | Full and part-time workers employed by companies or sole proprietorships as of a specific date or pay period – e.g. the week of March 12th |
| **Number of sellers** | Number of companies offering a specific service in the defined market |
| **Number of buyers** | Number of small enterprises that purchased a specific service |
| **Willingness to pay** | Maximum price at which individual consumers would still want to buy a particular service |
| **Market price** | The current price established in the usual and ordinary course of trade between buyers and sellers for the same service |
| **Volume of services** | Quantity (value) of services sold in a specific market. For every sale there is a purchase. |
| **Lerner price** | A measure of market power defined as the weighted average of each firm's margin with weights given by the firms' market shares |
| **Herfindahl Index** | A measure of market concentration defined as the sum of market shares (squared) of each firm |

| Targeted government reforms (contd.) | |
|---|---|
| | |

| Targeted BDS providers and market (contd.) | |
|---|---|
| **Consumer's surplus** | Difference between the maximum prices that consumers are willing to pay and the actual price for all units purchased |
| | |
| **Producer's surplus** | Difference between revenue received and the variable costs for each unit sold. Represents a contribution to fixed costs and producer profits |
| **Total surplus** | Sum of consumer's and producer's surplus |

[77] From Oldsmann and Hallberg (undated)

[78] Oldsmann and Halberg (undated): pp. 9-14

| Targeted Value Chains | |
|---|---|
| **Level of cooperation/ communication** | Extent to which businesses in the chain communicate with each other |
| **Order to delivery time** | Total time a product needs to go through all value chain levels – e.g. from the farm to the consumer/market |
| **Value chain governance** | Five types of governance: market-based, modular, relational, captive, hierarchical relationships |
| **Waste/rejects (value) along the chain** | Total waste (value) caused by faulty handling and too many intermediaries along the chain (esp. important for perishable products) |
| **Number of links** | Number of businesses linked together in the value chain incl. intermediaries |
| **Number of market choices** | Number of buyers to which small enterprises can sell (or number of suppliers from which they can buy) – indication for type of VC governance |
| **Customer satisfaction (Star diagram)** | Proportion of buyers of products small enterprises that were satisfied with the quality of products (or other criteria) |

| General *Decent Work* Indexes[79] | |
|---|---|
| **Freedom of association index** | Freedom to establish trade unions as well as the protection of this right of association comprising several sub-indicators (reported number of violations vis-à-vis trade union members/leaders, government interference, legal limitations) |
| **Freedom from gender discrimination index** | Extent to which ILO conventions on gender are ratified: discrimination in employment and occupation, equal remuneration, maternity protection, night work, underground work, workers with family responsibilities, part time. |
| **Freedom from child labour index** | Looks at the extent to which ILO child labour conventions are violated, using a set of variables (violation by non-ratification, violation by lower minimum age) |
| **Forced Labour index** | Extent to which ILO conventions on forced labour are violated: slavery and abductions, compulsory participation in public works projects, coercive recruitment systems in agriculture and remote rural areas, certain forms of domestic work, bonded labour, forced conscription of both children and adults for non-military purposes, trafficking of labour under false pretences, certain types of prison labour and rehabilitation through work in prison. |

[79] Cuyvers and Bulcke (2005). Although these indices might be difficult to calculate, the individual components (sub-indicators) orientation as to which indicators to look at (and how) in value chain initiatives focusing on one sector.

| Targeted Social Dialogue[80] | |
|---|---|
| Trade Unions and membership | |
| **No. of trade unions** | Number of trade unions within a country or responsible for a selected sector |
| **No. of trade union members** | Number of workers who are members of a trade union – e.g. country-wise or sector-wise |
| **Density of trade unions** | Number of active members who are contributors in relation to total labour force |
| Collective bargaining | |
| **Collective bargaining coverage rates** | Ratio of employees actually covered by a collective agreement to the potential number who could be covered by the formal provision of bargaining rights (unadjusted rate) |
| **Collective bargaining level** | The level at which collective contracts are negotiated and formally set e.g. at N/S (National/ Sectoral level) and/or C (Company/plant level). |
| **Collective bargaining coordination** | The extent to which pay negotiations are coordinated across the economy (five levels are distinguished) |
| Strikes and lockouts | |
| **No. of strikes or lockouts p.a.** | Number of strikes/lockouts during a year – e.g. sector-wise or country-wise |
| **No. of working days lost p.a.** | Number of days not worked as the result of strikes/lockouts per year (e.g. industry-wide) |
| **No. of workers in strikes/lockouts p.a.** | Number of workers involved directly and indirectly in strikes/lockouts per year (e.g. sector-wise) |
| Indices relating to Social Dialogue | |
| **FACB index** | The Freedom of Association and Collective Bargaining index codes and assigns a numerical value to instances of violations based on the application of measures relating to freedom of association. |
| **Voice representation security index** | Measures the protection of collective voice in the labour market through independent trade unions and employer associations and other bodies (composed of 13 indicators) |
| **Industrial (collective) relations law index** | Examines government regulations on industrial relations through 3 sub-indices: a) collective bargaining; b) workers' participation in company management; and c) collective disputes (strikes and lockouts). |
| **Cooperation in labour-employer relations indicator** | Opinion on labour-employer relations on a scale from 1 (confrontational) to 7 (cooperative) |

| Other targeted Decent Work areas | |
|---|---|
| Occupational health and safety | |
| **Labour inspectors** | Inspectors per 100,000 employees (or less) – cross-sector |
| **Occupational injury insurance cover** | Percentage of employees covered by insurance |
| **Excessive hours of work** | Percentage of employed who work more than agreed between employers and unions or the industries' average working hours |
| **Fatal injury rate** | Numbers of injuries per 100,000 employees (or less – depending on the size of the sector and target region) |
| Gender | |
| **Occupational segregation by sex** | Percentage of non-agricultural employment in male-dominated and female-dominated occupations and index of dissimilarity |
| **Female shares in management and administration** | Female share of employment in managerial and administrative occupations (as a proportion of female share of non-agricultural employment) |
| **Female share in non-agri wages** | Percentage of women in non-agricultural wage employment |
| **Wage-earning ratios** | Female/male wage or earnings ratio in selected occupations |
| **Employment rate** | Employment rate for women with children under compulsory school age (as a proportion of the rate of all women aged 20-49) |
| Social protection | |
| **Public security expenditure** | Public social security expenditure (e.g. separate figures for health services, old-age pensions etc. as a percentage of GDP) |
| **Public expenditure for income support** | Public expenditure on needs-based cash income support (percentage of GDP) |
| **Average monthly pension** | Average monthly pension (percentage of median/minimum earnings) |
| **Share of population receiving a pension** | Share of population over 65 years receiving a pension |
| **Contribution to pension funds** | Share of economically active population contributing to a pension fund |

[80] Taken from Chataignier, Anne: 2005

### Measurability problem (II): Quantifying qualitative information such as preferences

There is no limit to indicators that could be chosen for a monitoring and evaluation system. The i ndicators mentioned in *Box 4* above will often be hard to measure for local/rural economies or particular sectors – also given the lack of data and record-keeping of government agencies in developing countries.

Multiple choice questions, however, offer an easy way to quantify qualitative indicators such as the perceptions and preferences of the target group, as the following example shows:

| Question | No. of people that answered "yes" | No. of people that answered "no" |
|---|---|---|
| *Do you feel that the government is aware of your needs?* | 6 | 14 |
| **Conclusion:** "70 percent of the farmers interviewed said that they felt the government was not sufficiently aware of their needs" | | |

This can then be entered as one indicator into *Table 2* above, putting 70% into the baseline column and asking farmers the same question again after a certain period of implementation (monitoring outcomes, *Section 2.2*). *Decent Work* indicators in particular can be tested this way – e.g. "Do you perceive your working environment as comfortable?" These examples show that there is in fact no limit to indicators from which a project manager can choose – she/he just needs to choose them wisely.[81]

[81] Further information on how to choose the right indicators, is also provided by The Springfield Centre, 2007.

# Step 3:

## Data collection methods and scale

**Data collection methods and scale of survey (means of verification).** Once the project manager and her/his team have decided which indicators to monitor, they also need to decide on which methods to use to collect the relevant data and information and on what scale this should be done. It is very important at this point that the manager bear in mind the resources that are available to him/her. He/she must also remember that these surveys need to be carried out periodically – e.g. every three months. Data and information collection for monitoring and evaluation therefore needs to fulfil three criteria; it needs to be:

## Baseline surveys: cost effective, simple and quick

1. **cost-effective,**
2. **simple, and**
3. **quick.**

**Interviews:** in order to provide quantitative information, the project team will have to conduct several interviews and/or focus group discussions with the target group (so that a conclusion such as "3 out of 15 farmers (20 percent) said that…" can be made). Since the outcome of this survey will, however, also generate a lot of information on qualitative indicators, short question guidelines need to be prepared in order to ensure that all interviewees are asked the same questions. Interviews require that the project team carry out field visits, spending perhaps two to three days in the target region.

## Focus group discussions: using the VC steering group as a reference group for qualitative evaluation

**Focus group discussions** are useful for gathering qualitative information; for example, for finding out more about the group dynamics and perceptions of the target group. **Value chain steering groups,** by the way, can also be a very useful means of verification: members can be periodically asked to assess the progress of interventions according to the indicators selected. The group thereby also acts as a control group.

*Box 6.4 : Focus Group Discussions*

A focus group is not a group interview where a moderator asks the group questions and participants individually provide answers. The focus group relies on group discussion and is especially successful where the participants are able to talk to each other about the topic of interest. This is important as it gives the participants the opportunity to agree or disagree with each other. It can provide insight into what a group thinks about an issue, the range of opinions and ideas, and the inconsistencies and variation that exist in a particular community in terms of beliefs, experiences and practices.

As mentioned before, keep it short and easy. It is not helpful to design long questionnaires that take time and resources to evaluate and will be difficult to repeat periodically. The project team needs to focus on a few chosen indicators (*step 2*) and ask questions that help to fill in the information into the M&E system (Table 2).

**The method of data collection (means of verification) is entered into column 4 of *Table 2* above.** For example: "interviews with 15 randomly selected farmers every three months; semi-structured interview"; or "2 focus group discussions with selected farmers (control group) every 3 months"; or a combination of both…

## Step 4:

### Conducting a baseline survey

Bearing in mind the above, the findings of the baseline survey are then entered into the respective column of *Table 2*. An additional summary report can provide further details and is also a good source of information for the evaluators who will later be assessing the impact of a project.

## 6.2 Monitoring implementation

### Definition of monitoring: current routine assessment

Monitoring is the routine collection and analysis of information to enable the assessment of a project's progress in the course of implementation (i.e. it is *current*).[82] Monitoring looks continuously at output as well as outcome indicators to enable informed decisions that keep the project "on track" in terms of output and outcome targets. A manager can make strategic corrections when he realizes that interventions are going the wrong way.

As a management tool, monitoring should focus on two sets of indicators: 1) see whether planned outputs are achieved, and 2) whether the implementation is strategically on track towards its development objectives (outcomes). Monitoring can therefore be structured along these lines, as described below.

[82] The Springfield Centre, 2007.

### 6.2.1 Monitoring outputs and the implementation activities involved

**Outputs are products, goods & services that an intervention produces**

As mentioned in the introduction to this chapter, outputs are the products, goods and services which result from a development intervention. They are the services or products the project is responsible for delivering – together with other local and development partners. A project manager has to see that the activities which are needed to produce a specific output are carried out within a given framework (time and resources), and that they lead to the desired result – the output. This is what is meant by 'monitoring outputs and their implementation activities'.

**Monitoring outputs: what actually happened**

Monitoring of outputs and activities is done continuously – i.e. as soon as a certain activity is carried out, it is entered into the M&E system. This is in fact like keeping a diary: tracking activities over a certain period of time until they lead to the desired result. This is particularly useful for the evaluation of a project later on, in that evaluators can then better understand *what actually happened* in order to implement interventions. The ILO BDS project in Zambia has designed a very simple format for this purpose, which is part of its M&E system:

*Table 6.4: Continuous monitoring of activities and outcomes*

| 1 | 2 | 3 | 4 | 5 | 6 | | 7 |
|---|---|---|---|---|---|---|---|
| **Intervention** | **Output target** *(incl. start and end date)* | **Date** | **Persons/organizations involved** | **Brief description of activity** | **Report available** | | **Results and next steps** |
| | | | | | **Yes** | **No** | |
| Intervention 1 | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | **Final output** | | | | | | |
| | **Type of output** *(specify)* | | **completed by** *(date)* | **Availability** | **Remarks** | | |
| | | | | | | | |

**How to use Table 6.4:**

Although the table is fairly self-explanatory, here a short description of how to use it:

- **'Intervention' and 'output target' columns copied from intervention framework**
- **Intervention (column 1):** the information for this can be copied from the intervention framework – see *Table 1* in *Section 1.1*. Note that this does not refer to 'Intervention Area' or specific 'Activities'.
- **Output target (column 2):** this can also be copied from the intervention framework, and describes the type of product that is expected as the result of several activities. Since projects often contract consultants or partner organizations, this column may also include information about the start and end date of such an assignment.

### Using the monitoring table as a diary for activities

Once columns 1 and 2 have been filled out, activities are entered into the next columns and rows as they are implemented – i.e. continuously. As soon as one activity is completed, it is entered into the open space. This can be done either by the project manager him/herself, or by the team member responsible for the implementation of this particular intervention.

- **Date:** enter the date on which the activity took place.
- **Persons/organizations involved:** enter the persons involved in this particular activity and the names of their respective organizations; perhaps also indicate who was responsible for that activity.
- **Brief description of activity:** what was this activity about? For example: "Meeting with minister of livestock development to discuss…"
- **Report available:** if a meeting was important, most probably minutes have been taken; or a report on a conducted workshop is available; a survey document; etc. If further reports are available for a specific activity, it needs to be ensured that they are also filed systematically for later review.
- **Results and next steps:** what is the result of that particular activity? What decisions were taken at the meeting? What will happen next? Other conclusions? This column indicates whether the activities will eventually lead to the desired output.

Once the desired output has been achieved, the project manager (or team member) is given some space below to describe the output – i.e. what type of output (e.g. 'a training manual and 5 training sessions')? When was the output completed? From whom will it be available in future (or: who will be further responsible)?

### Tracking activities helps to relate changes to specific activities (project ownership)

The combination of a diary (i.e. tracking of outputs and their activities) and the monitoring of outcome indicators (Section 1.3 and 2.2) gives the project a powerful tool that will enable it to relate changes more specifically to certain activities.

## *6.2.2 Monitoring outcomes (first signs of impact)*

### Definition of outcomes: short to medium-term effects of interventions

Outcomes have been described as the likely or achieved short and medium-term effects of an intervention's outputs. Outcomes serve the achievement of the project's long-term development objectives (impact), for example more jobs and higher incomes. 'Monitoring these outcomes' means keeping track of changes which are brought about by a certain intervention, and by doing so, being able later on to draw a line between intervention, outcome and impact.

### Progress is monitored against baseline data

The basis for monitoring outcomes is set with the baseline survey, as described in *Section 1.3*. This means that the numerical variations in the previously selected indicators are recorded periodically (i.e. monthly, quarterly, half-yearly or annually) and are observed over the entire intervention period within the geographic boundaries of the target region. This shows how important it is to choose the right indicators from the beginning; they cannot be changed afterwards.

To monitor the change of indicators compared to the baseline – or the previous period, the project team again will have to spend 2-3 days in the field collecting relevant information from the target stakeholders. The same questions are asked as in the previous period to see whether changes have taken place. The extent of the survey should be limited, selecting only a small sample from the target group within a certain area.

The findings of the monitoring survey are again entered by the project manager or a team member into one of the 'period' columns in *Table 2* (*Section 1.3*) above. It is recommended that information be kept as brief as possible so as to maintain the overview nature of the format. Further and more detailed information on findings can be provided in a separate short survey report.

*Box 6.6: Hypothetical example*

| Indicator | Jan 2008 (baseline) | April 2008 | July 2008 | October 2008 | Jan 2009 |
|---|---|---|---|---|---|
| Farmers awareness and use of new sources of technical information (Variation 1) | 10% | 12% | 18% | 35% | 61% |
| Farmers awareness and use of new sources of technical information (Variation 2) | 10% | 11.5% | 10.4% | 10.8% | 11.0% |
| Farmers awareness and use of new sources of technical information (Variation 3) | 10% | 9.8% | 9.2% | 8.5% | 7.7% |

### Example: Using monitoring as a management tool

To illustrate the benefit of outcome monitoring, consider the example above: A project has developed a training and information package for local supply retailers who sell various inputs (fertilizers, seeds, pesticides, tools, machines, etc.) to farmers. The purpose is to improve the availability of the knowledge and information provided for farmers by delivering better input retailer customer services. The project is monitoring, whether farmers are now becoming aware of this new source of information (the indicator: awareness).[83]

### Outcome monitoring allows early learning and correction of mistakes

Three possible variations have been considered in the table above, which pose different **strategic options** to the project manager:

- **Variation 1:** awareness in this example is increasing almost exponentially. There is therefore no need for the manager to correct the direction of the intervention. It is successful.

[83] A question like "Are you aware of the new information services provided by local supply retailers?" could be asked – depending on where exactly the intervention took place. The percentage of "yes" answers is then entered into the table.

- **Variation 2:** after an implementation period of 6 months ('July 2008') there is still no progress to be seen. There can be various reasons – for example: a) the supply retailers are not implementing their new skills; b) there is no marketing or publicity for the new services; c) the contents of the training might not have met the target beneficiaries' needs; etc. Whatever the reasons, the manager needs to find them out and take corrective measures.
- **Variation 3:** awareness is not only stagnating, but it is even declining. The reason could be that the intervention has lead to market distortions – e.g. it has driven other sources of information out of the market but has replaced them with an inadequate source. This requires immediate action by the project manager.

### *6.2.3 Sustainability check*

#### Assessing the sustainability of interventions

Although there are many indicators for assessing whether an intervention has been sustainable or not, the ILO BDS project in Zambia has concluded that in fact only three really matter:

#### Can others replicate the outputs?

- **Replication (technological and environmental factors):** can other stakeholders use the outputs delivered by the project, or is access limited to only a few organizations? And can stakeholders further develop the outputs by themselves? In this context, a project manager should also think about whether his learning experiences with the intervention and outputs are available to other development partners and organizations – not only within his own region/country.

#### Who is responsible? Who pays?

- **Local ownership (partner country priorities, level of participation, consideration of local institutional and cultural factors, and exit strategy):** have local organizations and partners taken responsibility for an intervention? And will they continue after the project has expired? Has the project managed to keep out of the core business, or has it taken over market functions in the value chain?

#### Sustainability check as part of a M&E system

- **Management, organization and financial sustainability:** is the solution commercially viable or will stakeholders always depend on outside donors? Who exactly pays for the intervention? Have local resources been mobilized to ensure long-term sustainability?

*Table 2* (outcome monitoring, as shown in *Section 1.3*) of the M&E system developed by the BDS project includes some space that allows the project manager to assess the sustainability of an intervention by using the above criteria. Although they come at the end of the table, they are actually meant as guiding questions throughout the implementation of an intervention: who does it? Who is paying? Can others also make use of it? The space below the questions gives the manager an opportunity to provide some information for evaluators.

## 6.3 Evaluating VC outcomes and impact[84]

### Definition of evaluation: retrospective assess-ment of interventions

Evaluation is the assessment of a project's performance conducted after a period of implementation (i.e. it is *retrospective*).[85] The monitoring of outputs and outcomes supports the evaluation of a project and provides useful information for the evaluators. Evaluation often is not done by the project manager, but by an external organization (sometimes directly contracted by the donor or head office).

### Intervention reports: focus on immediate outcomes

Evaluation can be done after a relatively short period of time (e.g. after one year) through small **intervention reports**. They therefore focus more on short to medium-term outcomes, rather than long-term impacts which often cannot be measured within the project's limited time frame and are usually dealt with in more detailed impact assessments (see *Box 8* for further references). Intervention reports are ideally written by an external consultant but can also be done by a team member, who has the advantage that she/he does not need to gather background information on the project first.

The ILO Enter-Growth project in Sri Lanka adopted a very simple and easy-to-read format for intervention reports that it adapted from a multi-donor project in Bangladesh.[86] The structure is standardized, which also makes it easier for local stakeholders to follow the projects' activities (transparency!). The reports usually do not consist of more than eight pages – long study reports are read only by a small audience; short and easy-to-read reports also arouse a great deal of interest amongst local target stakeholders. Once finished – it takes about 2 to 3 weeks altogether – the reports are published on the project's website.

### Structure of intervention reports

The structure of the intervention reports is simple, and you will notice that the M&E system described in this chapter already covers a lot of information required:

### Background

1. **Background:** provides some basic information and data about the target-sector (e.g. significance regarding income and employment contribution); describes shortly why the sector has been selected[87]; and gives a summary of the main problems.

[84] IFAD has a good M&E guide that can also be applied to VCD projects to a large extent: http://www.ifad.org/evaluation/guide/index.htm

[85] The Springfield Centre, 2007.

[86] Developed by The Springfield Centre

[87] The Enter-Growth uses three 'Pro-Poor growth' criteria for selection: a) Is the sector pro-poor? b) Pro-poor growth potential, c) Intervention potential (resources, feasibility, objectives, etc.).

### Action and plan

2. **Project action and plan:** this chapter describes the project's intervention strategy and how it got to this strategy; the projects' approach towards the development issue can be mentioned; and a summary of proposals and interventions should be given.

### Activities for implementation

3. **What actually happened:** This chapter is about the activities that have taken place to implement certain interventions. It should not only focus on the projects' own activities, but also on what local stakeholders and partners have done as a result of the projects' intervention. *Table 3* (*Section 2.1*), where the project manager has tracked all of the important outputs and their relevant activities, will provide useful information for this chapter.

### Outcomes

4. **First signs of impact (outcomes):** the intervention report is written after a relatively short time. It is therefore unlikely that interventions have already achieved wider impact (e.g. more jobs and higher incomes). However, it should be possible to observe some outcomes that result from an intervention; these are described in this chapter. Information can be taken from *Table 2* – in addition, a local facilitator/consultant can also be asked to conduct a couple of interviews to gather more qualitative information.

### Learning experiences

5. **Learning, conclusion and next steps:** what has the project learnt from this intervention? What will it do differently next time? What can it recommend to other development partners? What will happen next? The intervention report is supposed to be a *useful* document. It should therefore not only describe success stories, but also look at things that went wrong and that provide a useful lesson for future interventions.

## 6.4 Further reading

This chapter has described how monitoring and evaluation can be implemented in a simple and cost effective way that does not take up much of the project manager's time. Readers who wish to further develop their knowledge, or who wish to obtain further details are recommended to look at the following literature:

**Further reading on indicators, monitoring, evaluation and impact assessment**

*Decent Work Country Programmes:* www.ilo.org/public/english/bureau/program/dwcp

- **Anker, Richard et al. (2002):** Measuring Decent Work with statistical indicators, International Labour Office, Policy Integration Department, Working Paper No.2, Geneva.
- **Chataignier, Anne (2005):** Statistical indicators relating to Social Dialogue – A compilation of multiple country databases, International Labour Office, Policy Integration Department, Working Paper No.56, Geneva.
- **Cuyvers, Ludo and Van den Bulcke, Daniel (2005):** The quantification of respect for core labour standards – towards a social development index?, International Labour Office, Policy Integration Department, Working Paper No.71, Geneva.
- **DFID/SDC (2008):** The M4P operational guide, available from www.m4pnetwork.org – see section 3E.
- **ILO (2005):** A Handbook for Planning Impact Assessment, EMP/ENTERPRISE, Geneva.
- **ILO (2006):** Evaluation Guidance - Planning and managing project evaluations
- **ILO (2006):** From pilot to Decent Work pilot programme – lessons from the Decent Work pilot programme, Policy Integration Department, Geneva.
- **Kenworthy, Lane and Kittel, Bernhard (2003):** Indicators of Social Dialogue – concepts and measurement, International Labour Office, Policy Integration Department, Working Paper No.5, Geneva.
- **Mujeri, Mustafa K. (2004):** Bangladesh Decent Work statistical indicators – a fact-finding study, International Labour Office, Geneva.
- **Oldsmann and Hallberg (undated):** Framework for evaluating the impact of small enterprise initiatives, World Bank, Washington D.C.
- **SIDA (2004):** Looking back, moving forward – SIDA evaluation manual, Stockholm
- **Springer-Heinze, Andreas (2007):** ValueLinks Manual – The methodology of value chain promotion, German Technical Cooperation Agency (GTZ), first edition, Eschborn (Germany). Available from www.value-links.org – see especially the following modules:
  - **Module 11:** Monitoring and managing impact
- **The Springfield Centre (2007):** Making Markets Work, Assessing market level change, Durham (UK).
- **Zarka-Martres, Monique and Guichard-Kelly, Monique (2005):** Decent Work, standards and indicators, International Labour Office, Policy Integration Department, Working Paper No.58, Geneva.

# Annex

## A1: Format for an RVCD Floriculture start-up workshop

The start-up event sets an official starting point to the value chain initiative. The main purposes are:

- to inform all stakeholders that "something is happening" in their sector;
- to win their support; to verify the initial value chain map and information collected in the build-up phase;
- to initially assess opportunities and constraints for the overall sector plus supporting functions, rules and regulations;
- and finally to inform stakeholders about the planned steering group, forthcoming activities (interviews and focus group discussions) and expected outcomes.

**Participants:** Stakeholders from all value chain levels and districts, plus supporting functions and organizations. Total number: 50-70.

**Time frame:** 3 1/2 hours in total. Strict time management is essential in order not to waste people's time. Make sure in particular that card exercises are done as quickly as possible (limit the number of cards to 2-3 per person, for example).

**Equipment:** Different coloured cards (about 300 per colour), brown wall paper, markers, pins, boards, masking tape, flipchart and board, projector and laptop.

**Handouts:** agenda, MSE forum brochures from all four districts, value chain map, presentations

| Time | Activity | Who? |
|---|---|---|
| | **1. Introduction** | |
| 5 mins | **1.1 Short welcome address** | |
| 5 mins | **1.2 Introduction of participants**<br>Participants are asked to briefly introduce themselves and say what they expect of the start-up event. | |
| | **2. Presentation of the project objectives and approach** | |
| 15 mins | **2.1 Project organization and approach**<br>*Explain what Enter-Growth is and what we do – also introduce EDB and the partner organizations of the facilitators. Then explain what value chain development is and the project approach.* | |
| | **2.2 Project objective: Floriculture value chain development**<br>*Explain the objectives of the floriculture value chain project (Slides nr. …)* | |

| Time | Activity | Who? |
|---|---|---|
| | **3. Address of support** | |
| 15 mins | **3.1 Address of support by chief guest**<br>*The address should not exceed 10 minutes (no speech or political statements, please). The chief guest should say something about the importance of floriculture development for job and income creation and express his/her support for the initiative.* | |
| | **4. The floriculture sector: a brief introduction** | |
| 10 mins | *This short presentation will give a brief overview of the sector. Matthias will prepare slides (No) and a "inception document" – coordinate with Shyamalei. The presentation will be done by the EDB (Mrs. Malani). Participants will be given a handout of the presentation (inception document). Team members are expected to send information on above subjects by Friday 9th.*<br><br>*The presentation would cover the following topics:*<br><br>a) The market: demand for floriculture products (main markets, market development, market requirements, etc.)<br>b) Supply: the situation of floriculture in Sri Lanka<br>c) Supporting functions for the dairy sector | |
| | **5. Mapping the value chain** | |
| 10 mins | **5.1 Validation of the core value chain**<br>*First the core value chain will be presented – participants will receive a handout. They are asked to comment and/or suggest changes or additions. They can also make these comments on the handout and return it to the team. Matthias will prepare the value chain map slide and handout (Slide nr. ).* | |
| | **6. Assessing opportunities & constraints** | |
| 75 mins | **Card exercise: whole sector**<br>*Start by explaining the purpose of this exercise and how to use the cards. The participants are then asked to write down opportunities and constraints on the cards (blue/green for opportunities and red for constraints). It is important that you explain what opportunities and constraints are.*<br><br>*a) What are the opportunities for the floriculture sector?*<br>*b) What are the constraints to realizing these opportunities?*<br>*c) Discussion: what are the reasons for the identified constraints?* | |

| Time | Activity | Who? |
|---|---|---|
| | **5.2 Card exercise: supporting functions** (Slide no…)<br>*A chart will be prepared that shows the value chain in the middle.*<br>*a) Cards: the participants are asked to name supporting functions. They need to be as specific as possible. The information given is written into the chart by a facilitator. (slide nr. ..)*<br>*b) Cards: what are the issues regarding supporting functions?*<br>*c) Discussion: what are the reasons for these issues?* | |
| | **5.3 Rules and regulations** (Slide no…)<br>*a) Using the same chart as above (5.2), participants are asked to mention all the rules and regulations (R&R) they know which are relevant for the floriculture sector. Point to the value chain map – not only R&R concerning growing, but also R&R concerning exports, for example. They need to be as specific as possible. (slide nr. 17)*<br>*b) Cards: what are the issues regarding R&R?*<br>*c) Discussion: what are the reasons for these issues?* | |
| | **7. Identifying possible solutions** | |
| 15 mins | **Card exercise**<br>*Ask the participants what they think are the most urgent needs. What kind of solution would they propose to the problems identified in the previous session? How can the floriculture sector in NWP/NCP deliver better results? Answers are written on to cards and pinned to the board.* | |
| | **8. Steering group, next steps and closing** | |
| 10 mins | **9.1 Value chain steering group**<br>*The value chain steering group will become important when implementing the proposals. It is a round-table of relevant private and public sector stakeholders from the district, provincial and national level that will meet every 1-2 months for a period of 1-2 years. It will not replace any existing organizations!*<br><br>*The participants are asked what they think about this idea, and who they suggest should be in this group. The names of the persons and organizations concerned should be written down. These people will also become focus persons during the research period (help making contacts, etc.). The members of the steering group could also attend a team meeting to give us their advice.* | |
| 4 mins | **9.2 What next?**<br>*After the steering group introduction, Shyamalee will give a short explanation of the next steps and already draw attention to the results presentation on ….* | |
| 1 mins | **9.3 Closing**<br>*"Thanks for coming, lunch is ready, and good-bye".* | |

## A2: Example of interview guidelines (Floriculture sector, Sri Lanka)

**Guidelines for interviewing producers and exporters of coir-based products**

**Objectives:** There is much to learn from (large) producers about SMEs, since they source preliminary products and raw materials from such companies. As buyers they can therefore tell us a lot about the problems in dealing with SMEs. A weak supply basis also affects their competitiveness, and they are therefore bound to be interested in a solution to help SMEs integrate into value chains more effectively.

Most large producers also export themselves and therefore also have good knowledge of the market.

We can also learn a lot about how large producers develop new products and the kind of embedded services they provide for suppliers and buyers (customer services). They are also often well connected with provincial or even national-level political decision makers and organizations.

| No. | Questions & answers |
|---|---|
| | **Market** |
| 1 | What kind of products does your company export? And which of these products do your customers order most (perhaps as a percentage of total sale)? |
| 2 | What are the countries to which your company exports? And to which of these countries do you export most? (perhaps as a percentage of total sales) |
| 3 | Do you sell some of your products on the local market? How much (total share of sales in percent)? What are these products? |
| 4 | What are the five most important criteria that foreign buyers have? (for example in terms of quality, delivery time, price, etc.) |
| 5 | Do your customers require compliance with international standards? (for example ISO 9000) |
| 6 | Do your customers provide you with designs and information for new products? Or does your company also carry out research and development itself? |
| 7 | Does your company participate at international exhibitions and trade fairs? |
| 8 | What recent development do you observe on the market? (for example new products, competitors, price, etc.) |
| 9 | What are the main constraints in taking advantage of new market opportunities? |
| | **Sourcing** |
| 10 | Do you also buy processed (value-added) coir products from other (smaller) enterprises or do you just sell your own products? |
| 11 | Where do you obtain your coir fibre supplies? Do you source anything from Kurunegala and Puttalam Districts? |
| 12 | What particular problem do you face when sourcing from SMEs (for example millers or small coir manufacturers)? |
| 13 | How do you interact with your suppliers? Have you signed formal contracts with them? |
| 14 | How important are the following criteria for you? (1 = not important at all, 2 = not important, 3 = indifferent, 4 = |

**Guidelines for interviewing producers and exporters of coir-based products**

**Objectives:** There is much to learn from (large) producers about SMEs, since they source preliminary products and raw materials from such companies. As buyers they can therefore tell us a lot about the problems in dealing with SMEs. A weak supply basis also affects their competitiveness, and they are therefore bound to be interested in a solution to help SMEs integrate into value chains more effectively.

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| No. | Questions & answers | | | | | |
|---|---|---|---|---|---|---|
| | How important are the following requirements with regard to your raw material suppliers? Please rank them on a scale from 1 (least important) to 5 (most important). | | | | | |
| | Criteria: | 1 | 2 | 3 | 4 | 5 |
| | • High quality of coir fibre (dust free and long) | | | | | |
| | • Low price for coir fibre | | | | | |
| | • Reliability in fibre supply | | | | | |
| | • Flexibility in changing orders | | | | | |
| | • Short delivery times | | | | | |
| | • New innovations to improve fibre quality | | | | | |
| | | | | | | |
| 15 | Do you get the necessary quantity of fibre for your production? How do you ensure that you have the necessary quantity? | | | | | |
| 16 | Do you have your own collection centres for fibre in different districts? | | | | | |
| 17 | Do you have your own mills? And do you have your own coconut plantations from which you source the husk/fibre? | | | | | |
| 18 | What are the main opportunities with regard to fibre supply? | | | | | |
| 19 | If you would have to evaluate the performance of your suppliers in Puttalam and Kurunegala district, what mark would you give them? (1 = very poor, 2 = poor, 3 = indifferent, 4 = good, 5 = very good) | | | | | |
| | Criteria: | 1 | 2 | 3 | 4 | 5 |
| | • Quality | | | | | |
| | • Price (very cheap = 5, very expensive = 1) | | | | | |
| | • Reliability | | | | | |
| | • Flexibility | | | | | |
| | • Delivery time | | | | | |
| | • Product innovation | | | | | |
| | | | | | | |
| 20 | Do you provide any services for your suppliers? (for example training, loans, equipment, new technology, market information, product design, etc.) | | | | | |
| 21 | What are the main constraints in sourcing the quantity and quality of fibre that you need for your production/export? | | | | | |
| 22 | How do you suggest solving the problems? Who should solve them? | | | | | |

**Guidelines for interviewing producers and exporters of coir-based products**

**Objectives:** There is much to learn from (large) producers about SMEs, since they source preliminary products and raw materials from such companies. As buyers they can therefore tell us a lot about the problems in dealing with SMEs. A weak supply basis also affects their competitiveness, and they are therefore bound to be interested in a solution to help SMEs integrate into value chains more effectively.

Most large producers also export themselves and therefore also have good knowledge of the market.

We can also learn a lot about how large producers develop new products and the kind of embedded services they provide for suppliers and buyers (customer services). They are also often well connected with provincial or even national-level political decision makers and organizations.

| No. | Questions & answers |
|---|---|
| | **Production & labour** |
| 23 | Where are your factories located? Do you have factories in the Kurunegala and Puttalam districts? |
| 24 | Are you planning to invest in further production sites? If so, are you considering also Puttalam and Kurunegala Districts as venues? |
| 25 | If you have a production site in Kurunegala or Puttalam district (or if you are planning to set one up there), have you encountered any problems in doing so? |
| 26 | How high is your demand for coir fibre per month? Do you have problems getting this quantity from millers? |
| 27 | What are the 5 highest production cost factors? What about labour costs? |
| 28 | What kind of skills do workers need in your production? Do you have to train them yourself or are skilled workers readily available? |
| 29 | Is there a vocational training centre for your industry from which you recruit workers? |
| 30 | Are there any health risks for workers? If there are, how do you deal with them? |
| 31 | Do you find it difficult to purchase new machines? Where would you buy them from? |
| 32 | What certifications or licenses do you have for your factory? For example ISO 9000? |
| | **Business environment** |
| 33 | With regard to the legal and regulatory framework for the coir sector, have you experience any difficulties? |
| 34 | Have you experienced any difficulties when setting up your factory (registration, loans, licensing, land, etc)? |
| 35 | Have you experienced any difficulties when importing machines and input supply and exporting your products? (Customs regulations) |
| 36 | What kind of services do you receive from the government? Are you satisfied with these services? (for example IDB, BOI, EDB, Lankaputra Bank, etc.) |
| 37 | Are you member of any private sector business association? Are you satisfied with the services you receive there? Does the association face any problems? |
| | **Conclusion** |
| 38 | What are the biggest opportunities in the coir sector |
| 39 | What are the main constraints to taking advantage of these opportunities? |
| 40 | What kind of solutions would you propose and who should implement them? |
| **Other information you received during the interview and observations:** | |

## A3: Example of a focus group discussion format (Floriculture sector Sri Lanka)

**Format for focus group discussion with growers**

A focus group is not a group interview where a moderator asks the group questions and participants individually provide answers. The focus group relies on group discussion and is particularly successful where the participants are able to talk to one another about the topic of interest. This is important as it allows the participants the opportunity to disagree or agree with each other. It can provide insight into what a group thinks about an issue, the range of opinions and ideas, and the inconsistencies and variation that exist in a particular community in terms of beliefs, experiences and practices.

**Objectives:** To find out about the problems that are affecting the supply of floriculture products from growers in general (weak supply affects the competitiveness of all other stakeholders in the floriculture sector); the level of support that small growers receive; the solutions that growers themselves regard as important and feasible.

**Participants:** about 15 growers from the district (maximum 20)

**Time frame:** maximum 140 min. Try to keep the time as proposed below, otherwise you will waste peoples' time. In the card exercises try to making the collection and reading-out of cards as quick as possible. Be careful with discussions: it is very important to let people speak, but just as important to cut them short if they hold forth at length (ask them to get to the point).

**Documentation:** One person should always take notes during the workshop. If possible the notes should be taken directly in English to save translation time later. It is particularly important to document the discussions between the card exercises (could also be done on a flipchart by the second person – the other moderates the discussion). After the workshop (same day), please sit down together with the other facilitators and write up the cards and findings in a short summary report (half to one page). Send the report to ...

**Equipment:** cards, brown wall paper, markers, pins, boards, masking tape, (small stickers for voting), flipchart and board.

| Time | Activity | Who? |
|---|---|---|
| | **1. Introduction (max 10 mins)** | |
| 4 mins | **Welcome address & purpose of this workshop**<br>• Welcome the participants.<br>• Briefly explain our objectives (as described above). | |
| 4 mins | **Introduction round**<br>• Ask the participants to introduce themselves briefly. | |
| 2 mins | **Workshop procedure and methodology**<br>• Give a brief overview of the agenda and time frame so that participants know what to expect<br>• Explain how to use the cards | |
| | **Input supply (max 30 min)** | |
| 10 mins | **Card exercise**<br>Ask the participants to write down opportunities and constraints regarding input supply for their floriculture cultivation on the cards (i.e. availability of seeds, fertilizer, organic | |

| Time | Activity | Who? |
|---|---|---|
| | inputs, pesticides, netting, other equipment). Ask: "What are the opportunities with regard to better input supply and what are the constraints in realizing these opportunities?"<br><br>• Put a "+" for opportunities and "-" for constraints<br>• Collect the cards, read them out load, pin them to the board (try to keep this as short as possible)<br><br>*Note: It is sometimes difficult to explain what "opportunities" are. If this is the case, you can also use the terminology "positive" and "negative" (instead of "opportunities" and "constraints"). **But only if participants have difficulty understanding!*** | |
| 10 mins | **Discussion (I): reasons for opportunities and constraints**<br>It is important to give participants the opportunity to express their thoughts and opinions. As a facilitator you need to guide the discussion by asking some lead questions. Also let the participants discuss amongst themselves. Make sure that someone takes notes.<br><br>• Start with the opportunities: take a look at the cards and ask the participants to give further details on specific opportunities. Also ask whether local resources are available for realizing this opportunity.<br>• Look at individual opportunities and then ask: What are the bottlenecks for / constraints to realizing this opportunity? Why has no one yet taken advantage of this opportunity?<br>• Then ask the reasons for the constraints: why is there a specific problem?<br><br>**You can also use the questions in the "interview questionnaire for floriculture growers" as a lead for the discussion (section: input supply). You can also use some issues identified at the start-up event and discuss and verify them in this workshop. Make sure the discussion is well documented (this can be done by a second facilitator using a flipchart).** | |
| 10 mins | **Discussion (II): solutions**<br>What solutions do the participants themselves propose? What are the most urgent needs for addressing the problems in input supply? And especially: *who* should implement the solutions?<br>• Ask the growers this question while referring to the opportunities and constraints identified above.<br>• Let them discuss the solutions and present their ideas.<br>• Make sure that someone takes down notes. | |
| **Cultivation (max 30 mins)** | | |
| 10 mins | **Card exercise**<br>Ask the participants to write down opportunities and constraints concerning their own nurseries on the cards (i.e. what opportunities are there in floriculture cultivation and what are the constraints to realizing these opportunities?).<br><br>• Put a "+" for opportunities and "-" for constraints.<br>• Collect the cards, read them out load, pin them to the board (try to keep this as short as possible).<br><br>*Note: It is sometimes difficult to explain what "opportunities" are. If this is the case, you* | |

| Time | Activity | Who? |
|---|---|---|
| | *can also use the terminology "positive" and "negative" (instead of "opportunities" and "constraints").* ***But only if participants have difficulty understanding!*** | |
| 10 mins | **Discussion (I): reasons for opportunities and constraints**<br>It is important to give participants the opportunity to express their thoughts and opinions. As a facilitator you need to guide the discussion by asking some lead questions. Also let the participants discuss amongst themselves. Make sure that someone takes notes.<br><br>• Start with the opportunities: take a look at the cards and ask the participants to give further details on specific opportunities. Also ask whether local resources are available for realizing these opportunities.<br>• Look at individual opportunities and then ask: what are the bottlenecks for / constraints to realizing this opportunity? Why has no one yet taken advantage of this opportunity?<br>• Then ask the reasons for the constraints: why is there a specific problem?<br><br>**You can also use the questions in the "interview questionnaire for floriculture growers" as a lead for the discussion (section: Cultivation). You can also use some issues identified at the start-up event and discuss and verify them in this mini-workshop. Make sure the discussion is well documented (this can be done by a second facilitator using a flipchart).** | |
| 10 mins | **Discussion (II): solutions**<br>What solutions do the participants themselves propose? What are the most urgent needs for addressing the problems in the cultivation of floriculture products? And especially: *who* should implement the solutions?<br>• Ask the participants this question while referring to the identified opportunities and constraints above.<br>• Let them discuss the solutions and present their ideas.<br>• Make sure that someone takes notes. | |
| **Market (max 30 mins)** | | |
| 10 mins | **Card exercise**<br>Ask the participants to write down opportunities and constraints of their markets (means: What kind of market opportunities are there and what are the constraints in realizing these opportunities (e.g. market access)?) on to cards.<br><br>• Put a "+" for opportunities and "-" for constraints<br>• Gather cards, read them out load, pin them to the board (try to keep this as short as possible)<br><br>*Note: It is sometimes difficult to explain what "opportunities" are. If this is the case, you can also use the terminology "positive" and "negative" (instead of "opportunities" and "constraints").* ***But only if participants have difficulty to understand!*** | |
| 10 mins | **Discussion (I): reasons for opportunities and constraints**<br>It is important to give participants the opportunity to express their thoughts and opinions. As a facilitator you need to guide the discussion by asking some lead questions. Also let the participants discuss amongst themselves. Make sure that someone takes notes. | |

| Time | Activity | Who? |
|---|---|---|
| | • Start with the opportunities: take a look at the cards and ask the participants to give further details on specific opportunities. Also ask whether local resources are available for realizing those opportunities.<br>• Look at individual opportunities and then ask: what are the bottlenecks for / constraints to realizing this opportunity? Why has no one yet taken advantage of this opportunity?<br>• Then ask the reasons for the constraint: why is there a specific problem?<br><br>**You can also use the questions in the "interview questionnaire for floriculture growers" as a lead for the discussion (section: Market). You can also use some issues identified at the start-up event and discuss and verify them in this mini-workshop. Make sure that the discussion is well documented (this can be done by a second facilitator using a flipchart).** | |
| 10 mins | **Discussion (II): solutions**<br>What solutions do the participants themselves propose? What are the most urgent needs for addressing the market problems? And especially: *Who* should implement the solutions?<br>• Ask the participants this question while referring to the opportunities and constraints identified.<br>• Let them discuss the solutions and present their ideas.<br>• Make sure that someone takes down notes. | |
| **Business environment (max 30 mins)** | | |
| 5 mins | **Brainstorming exercise: rules and regulations**<br>• Explain what rules and regulations are. Give examples such as "taxes, ISO norms, registration, licenses, customs, accounting standards, etc".<br>• Ask the participants for all the rules and regulations that affect floriculture.<br>• Write these down on a flipchart. | |
| 10 mins | **Discussion: constraints in applying rules & regulations**<br>It is now important to identify the problems regarding rules and regulations. Since this is a difficult topic, it *cannot* be done simply by using cards. As the facilitator you need to moderate the discussion. Look at the flipchart with rules and regulations and ask:<br><br>• Which of these regulations is a constraint?<br>• What is the reason for this constraint? Please try to be very specific about the reasons.<br>• Ask the participants whether they are aware of international quality standards (such as GAP and ISO). If so, do they apply them? What are the issues?<br>• Also find out what the specific problems are in applying these regulations to SMEs.<br><br>**Make sure that this discussion is well documented (this can be done by a second facilitator using a flipchart – the other moderates the discussion).** | |
| 5 mins | **Brainstorming exercise: supporting organizations/functions**<br>• Explain what supporting organizations are. Give examples: extension services, training centres, research institutes, BDS providers, government authorities, ministries, business associations.<br>• Ask the participants to name all the supporting organizations that are important for business – or organizations that they have already used.<br>• Write these down on a flipchart. | |

| Time | Activity | Who? |
|---|---|---|
| | | |
| 10 mins | **Discussion: opportunities/constraints of supporting organizations**<br>Look again at the organizations listed on your flipchart. Now ask your participants:<br>• What experiences have the farmers made with these organizations?<br>• Which organizations are useful, which are not?<br>• *Why* is a specific organization not useful? What are the reasons for poor services?<br><br>**Make sure that this discussion is well documented (this can be done by a second facilitator using a flipchart – the other moderates the discussion).** | |
| **Conclusion & next steps (max 10 mins)** | | |
| 10 mins | **Closing discussion**<br>Ask the participants what they think should be the next steps. Ask them also about their own commitment: are they willing to support our initiative?<br>• **Can some of the opportunities identified already be realized immediately? Who can do this? (Consider MSE forums' help in case of regulatory issues, for example.)**<br>• Inform them about what we are doing next (results workshop and presentation).<br>• Tell them about the planned steering group. Ask them whether they think this is useful and whether one or two of them would be interested in participating in the steering group. | |

## A4: Example of an evaluation workshop format

**Objective:** to bring together the findings of the value chain research (interviews and focus group discussions); to analyse the findings with a view to finding opportunities and the constraints that are preventing stakeholders from taking advantage of them; to formulate proposals and specific activities that address opportunities and constraints; and to prepare the results presentation event.

**Participants:** All team members who have conducted interviews and focus group discussions, plus additional project staff who can provide useful inputs (e.g. an expert on the regulatory environment or a sector expert) – altogether 10 to 15 persons.

**Equipment:** cards, brown wall paper, markers, pins, boards, masking tape, (small stickers for voting), flipchart and board.

**Duration:** 1½ to 2 days.

| Time | Activity | Materials |
|---|---|---|
| | **Introduction (about 30 mins)** | |
| 5 mins | **Welcome & agenda** | |
| 5 mins | **Collection of research material**<br>Facilitators are expected to bring the following:<br>• Summary report of interviews with attached filled-out questionnaire<br>• Summary report and write-up of mini-workshops<br><br>The material will be collected and classed according to VC category. Someone will be sent to make copies for everyone. | |
| 15 mins | **Mapping main sub-chains (refining initial maps)**<br>Different chains in the sector provide different strategic opportunities for small producers. The generic and simple VC has already been identified. Now we will divide this chain into sub-chains that are organized according to their degree of VC governance (or control) and product category. | Cards, boards, pins (alternatively, flipchart) |
| 15 mins | **Mapping supporting functions (refining initial maps)**<br>Mapping supporting functions will include:<br>• Public sector organizations<br>• Private sector organizations<br>• Other relevant BDS providers<br>In the next section we will also look at exactly what services these organizations **provide for the coir industry.** | Cards, boards, pins (alternatively, flipchart) |
| 15 mins | **Mapping rules and regulations (refining initial map)**<br>• Formal and informal rules<br>• Government regulations<br>• Private sector rules (e.g. quality standards, codes of conduct etc.)<br>• International trade agreements and standards<br>• etc. | Cards, boards, pins (alternatively, flipchart) |
| | **Export/delivery (estimated time: 100 mins)** | |
| | **Study time** | |

<table>
<tr><th>Time</th><th>Activity</th><th>Materials</th></tr>
<tr><td></td><td>Everyone is given print-outs of summary reports and copies of the filled-out questionnaires. Sit together in pairs and study the materials for exporters, EDB and producers/millers (“market” section).<br><br>Think about the following questions (note down on a flipchart):<br>• With regard to export markets, what are the feasible opportunities for small producers?<br>• What kind of embedded services do Exporters offer to their suppliers? And do small producers know about these services?<br>• What kind of relationship do exporters and small producers/ millers have?<br>• What kind of problems do exporters face with regard to their supply?<br>• What organizations and BDS providers are there for supporting exports, and what kind of services do they provide? Are exporters happy with these services?</td><td></td></tr>
<tr><td></td><td>Briefing – knowledge sharing<br>Prepare a wall paper with the following categories:<br><br><table><tr><td>Coir export</td><td>Supporting functions</td><td>Rules & regulations</td></tr></table><br>This section is only about collecting information – not yet about opportunities and constraints. From the information collected so far from stakeholders, what do we know about…?<br>1. Coir export: main markets, market requirements, export products, market development, embedded services<br>2. Supporting functions: transaction services, public services, education & training facilities, government authorities<br>3. Rules & regulations: relevant laws, standards (e.g. quality and management), regulations & procedures, etc.<br><br>This should be done in the form of a discussion. One facilitator notes down the answers on cards and pins them into the relevant category.<br><br>Ask whether apart from the issues above there is any other useful information for SMEs to consider.</td><td></td></tr>
<tr><td></td><td>Card exercise: opportunities<br>Bearing in mind the above information and also the interviews and mini-workshops conducted, what are the opportunities with regard to the export/delivery value chain level? It is important to explain the difference between opportunities and strengths - examples:<br><br><table><tr><td>Strength<br>• Good climatic conditions<br>• Clustering of coconut cultivation</td><td>Opportunities:<br>• Financial support (leasing of machines) offered to producers by exporters<br>• EDB export directory helping to find exporters and foreign buyers</td></tr></table><br>Write the opportunities down on cards, collect the cards, and pin them to the board. Ask two facilitators to cluster them. Discuss the opportunities – if necessary</td><td></td></tr>
</table>

<table>
<tr><th>Time</th><th>Activity</th><th>Materials</th></tr>
<tr><td></td><td>add cards or specify. Note the discussion down on a separate flipchart.<br><br>Use a voting system to prioritize the opportunities.</td><td></td></tr>
<tr><td></td><td>Card exercise: constraints<br>Looking at the prioritized opportunities, what are the constraints for SMEs in taking advantage of them? Explain the difference between constraints and weaknesses – example:<br><br><table><tr><td>Weaknesses<ul><li>Lack of financial support</li><li>No knowledge about available exporters and foreign markets</li></ul></td><td>Constraints<ul><li>SMEs lack the necessary qualifications to apply for the financial support that exporters provide</li><li>SMEs lack computer access to make use of the EDB directory on CD-ROM</li></ul></td></tr></table><br>Constraints emphasize more the underlying reasons for weaknesses.<br><br>Also mention specifically constraints concerning rules and regulations as well as supporting functions (business environment) that affect export/delivery.<br><br>Have the participants write the opportunities down on cards, collect the cards, and pin them to the board. Ask two facilitators to cluster them. Discuss the opportunities – if necessary, add cards or specify. Note the discussion down on a separate flipchart.<br><br>We are mainly looking for constraints directly related to the prioritized opportunities, but if there are any further constraints to be added, this can be done.<br><br>If a large number of constraints have been identified, use the voting system to prioritize them.</td><td></td></tr>
<tr><td></td><td>Action plan matrix<br>Prepare a large action plan matrix with the following columns:<br><br><table><tr><td>VC</td><td>Opportunities</td><td>Constraints</td><td>Proposals</td><td>Activities</td><td>Expected outcomes</td></tr></table><br>Write down the prioritized opportunities and the respective constraints for the Export/delivery VC level and stick them on to the action plan matrix.</td><td></td></tr>
<tr><td></td><td>Proposals, activities & expected outcome<br>Look at the individual opportunities and their related constraints on your action plan matrix. Use a flipchart for this purpose to begin with.<br><br>1. Proposal: together in the team, discuss and formulate one or two proposals relating to a specific opportunity/constraint.<br><br>The proposal would be more general – example: “Improve SME access to EDB export directory”, or “Promote exporters’ embedded financial services for SMEs”.</td><td></td></tr>
</table>

<table>
<tr><th>Time</th><th>Activity</th><th>Materials</th></tr>
<tr><td></td><td>2. Activities: look at the proposal and ask which kind of specific activities are necessary for implementing this proposal. One proposal can have several activities.<br><br>The activities would be more specific – example: “Discuss with company X, Y and Z to share information about embedded financial support for SME association on a monthly basis; set up a database on available embedded services for SMEs which is managed by SME association…”<br><br>3. Expected outcome: look at the expected proposal and its activities, and ask what the expected outcome is. Example: “SMEs in rural areas will find it easier to get contact information on exporters and foreign buyers, and, as a result, export linkages will improve.”</td><td></td></tr>
<tr><td></td><td>Feasibility check<br>• Prepare three small cards for every participant with numbers 1, 2 and 3 written on them.<br>• Look at the activities and vote on them, by holding up the appropriate numbered card.<br>• The criteria to vote on (for every activity) are: 1. Feasibility, 2. Quick win, 3. Fast implementation.<br><br>Note the results down on a flipchart:<br><table><tr><td>Activity</td><td>Feasibility</td><td>Quick win</td><td>Fast imple-mentation</td><td>Total marks</td></tr></table><br>The proposals and activities are finally inserted into the action plan matrix.</td><td></td></tr>
<tr><td colspan="3">Production (estimated time: 100 mins)</td></tr>
<tr><td></td><td>This section follows the same pattern as the above section on export/delivery.</td><td></td></tr>
<tr><td colspan="3">Sourcing (estimated time: 100 mins)</td></tr>
<tr><td></td><td>This section follows the same pattern as the above section on export/delivery.</td><td></td></tr>
<tr><td colspan="3">Business environment</td></tr>
<tr><td></td><td>Rules and regulations as well as supporting functions should be dealt with under the specific value chain level. However, some issues may have been identified during interviews and mini-workshops that have so far not been mentioned.</td><td></td></tr>
<tr><td></td><td>Study time<br>Sit together in pairs and look at the summary reports and filled-out questionnaires (“Business environment” section ). Try to answer the following questions:<br><br>1. Rules and regulations</td><td></td></tr>
</table>

<table>
<tr><th>Time</th><th>Activity</th><th>Materials</th></tr>
<tr><td></td><td>
• Which particular rule or regulation poses a constraint to the development of SMEs in the coir industry?<br>
• Why is this rule/regulation a constraint?<br>
• Which authority/organization is responsible for this rule/regulation?<br>
2. Supporting functions:<br>
• Which organization do stakeholders find particularly useful – and which not?<br>
• Why not?
</td><td></td></tr>
<tr><td></td><td>
Card exercise: constraints<br>
Divide the wall paper into two parts:
<table>
<tr><td>Supporting functions</td><td>Rules & regulations</td></tr>
</table>
Based on their studies and the knowledge gained from interviews and mini-workshops, what are the particular issues with regard to rules and regulations and supporting functions?<br>
Collect the cards, pin them to the board, cluster them, discuss and clarify if necessary.
</td><td></td></tr>
<tr><td></td><td>
Proposals, activities and expected outcome<br>
Look at individual opportunities and the respective constraints on your action plan matrix. Use a flipchart for this purpose to begin with.<br>
4. Proposal: together in the team, discuss and formulate one or two proposals relating to a specific constraint.<br>
5. Activities: Look at the proposal and ask which kind of specific activities are necessary in order to implement this proposal. One proposal can have several activities.<br>
6. Expected outcome: Look at the proposal and its activities and ask what the expected outcome is. Example: “SMEs in rural areas will find it easier to get contact information on exporters and foreign buyers, and, as a result, export linkages will improve.”
</td><td></td></tr>
<tr><td></td><td>
Action plan matrix<br>
Prepare a separate action plan matrix for rules & regulations and supporting functions:
<table>
<tr><td>Rule/ Organi -zation</td><td>Opportunities</td><td>Constraints</td><td>Proposals</td><td>Activities</td><td>Expected outcomes</td></tr>
</table>
</td><td></td></tr>
<tr><td colspan="3">Preparation for results presentation</td></tr>
<tr><td></td><td>
The following needs to be prepared for the results presentation:<br>
• Report: this summarizes the findings of the value chain analysis and also gives an overview of proposals and activities (action plan). It should be no more than
</td><td></td></tr>
<tr><td></td><td>
10 pages long and easy to read.<br>
• PowerPoint presentation: this summarizes the findings of the value chain analysis and also gives an overview of proposals and activities (action plan). It should be no more than 10 pages long and easy to read.<br>
• Agenda and specific activities and responsibilities<br>
• Logistics: hotel, lunch, equipment, invitations to stakeholders, etc.
</td><td></td></tr>
<tr><td></td><td>Make out a work plan that clearly indicates responsibilities.</td><td></td></tr>
</table>