Creating 'Whole Value Chain' Agricultural Development Projects

Project Development Guidelines

24 March 2006

DOCUMENT OVERVIEW

This document contains guidelines for developing projects to improve the efficiency of whole agricultural value chains, i.e. the entire chain of individuals and organizations involved in making agricultural produce and bringing it to the final consumer. This kind of project should be contrasted with traditional agricultural development projects, which usually work only on delivering benefits to producers.

This document contains four sections, as follows:

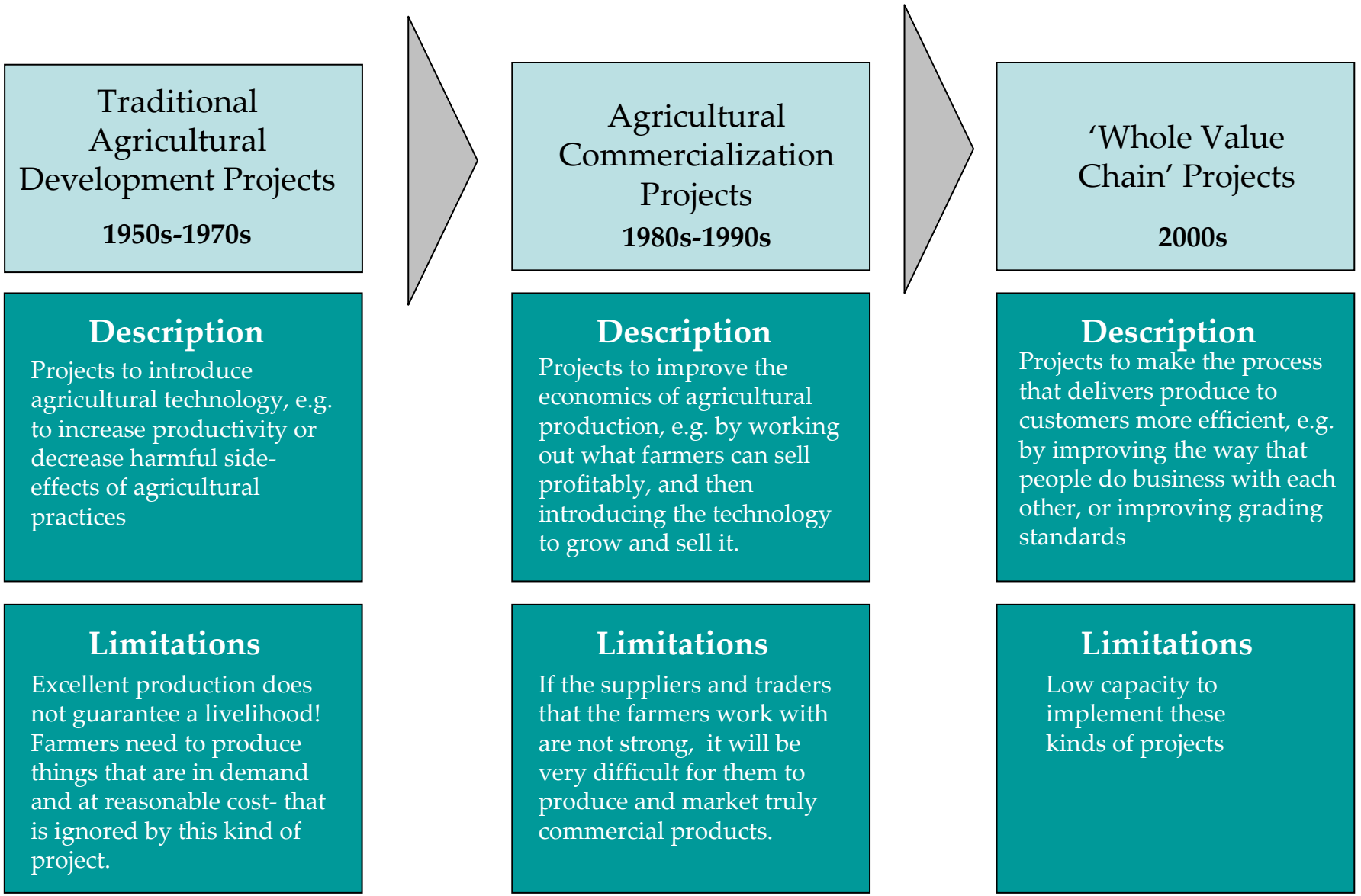
- An introduction to the concept of 'Whole Value Chain' projects
- A method for external value chain analysis
- Guidelines for developing a value-chain improvement strategy in partnership with key actors from the value-chain
- A process for implementation and performance management

DOCUMENT OVERVIEW

- Introduction
- Value chain analysis
- Participatory strategy development
- Implementation

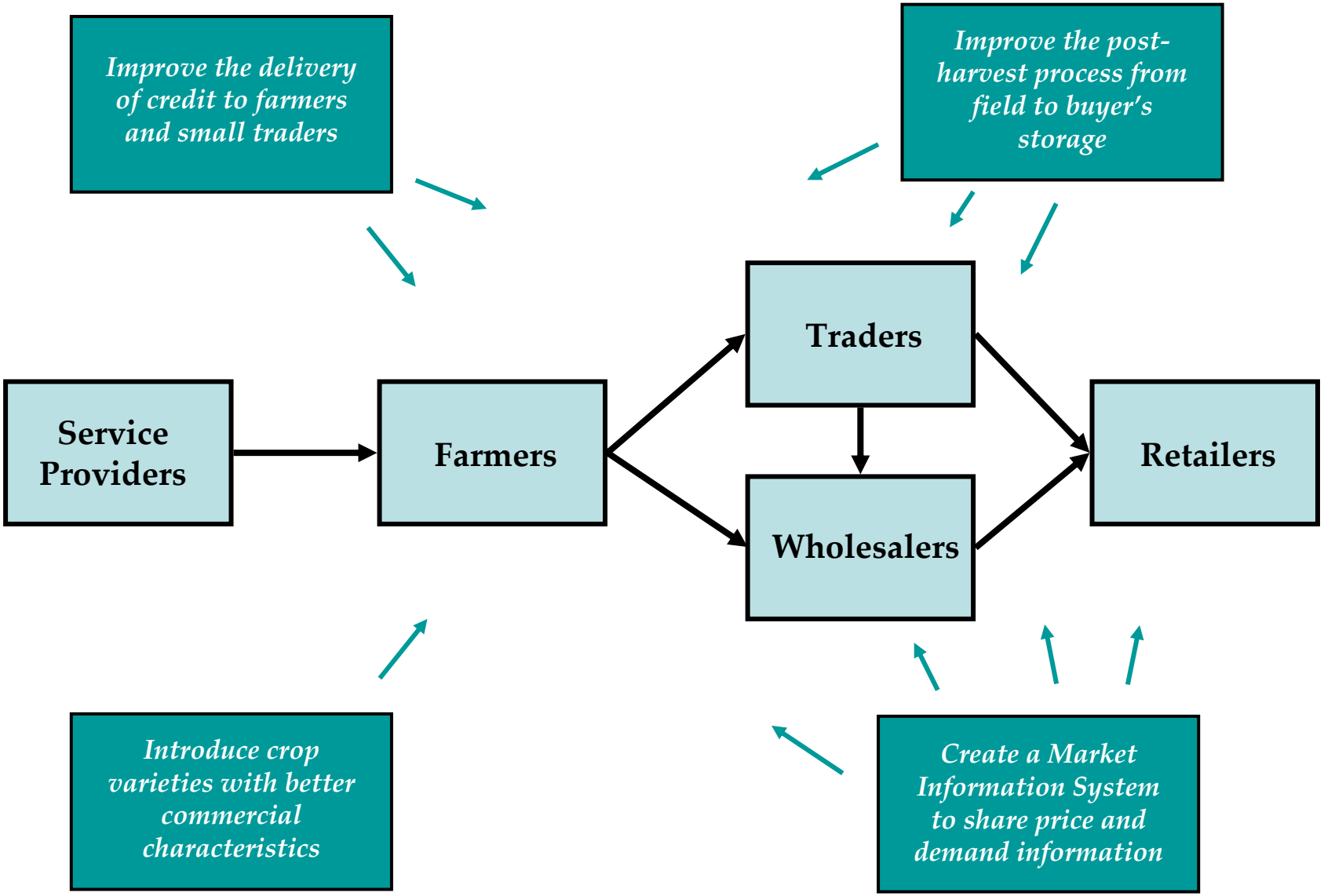
'Whole Value Chain' projects come from the recognition that it is difficult for farmers to succeed if their business partners don't.

EVOLUTION OF AGRCIULTURAL DEVELOPMENT PROJECTS



The interventions in this kind of project target many parts of the value chain with the objective of making the whole chain more efficient.

EXAMPLE 'WHOLE VALUE CHAIN' PROJECT ACTIVITIES



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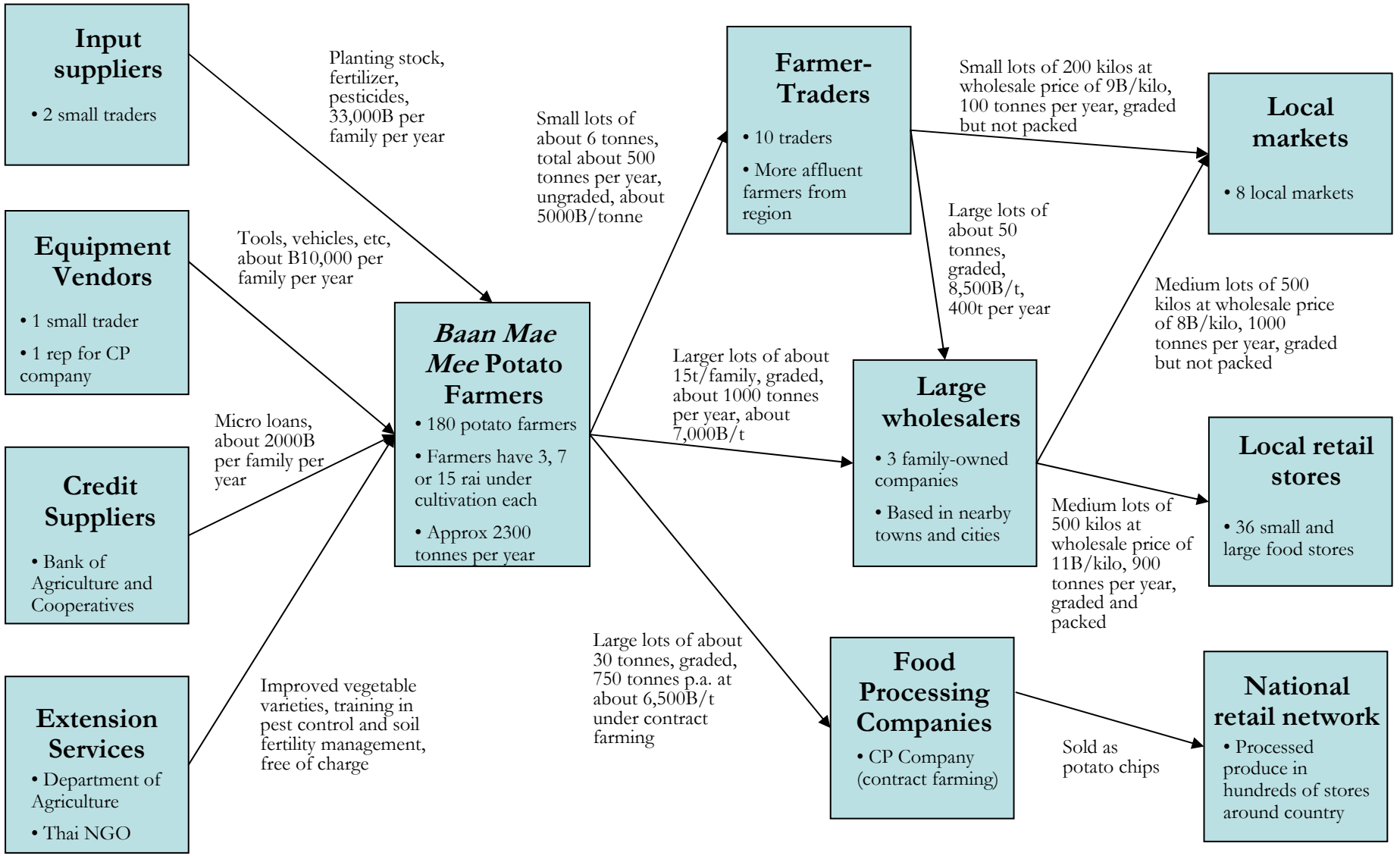
Value chains are usually made up of many different types of individuals and organizations

SAMPLE IDENTIFICATION OF SUB-CATEGORIES

Category	Sub-Category	Description
Service Providers	• Small firms	• Independent traders selling inputs, equipment, etc
	• Large firms	• Regional, national and international firms
	• Development agencies	• NGOs and research agencies
	• Official agencies	• Local and central government, other publicly owned agencies
Farmers	• Poor farmers	• Farmers with little land and income, low capacity
	• Comfortable farmers	• Farmers with middling income, land and skills
	• Rich farmers	• Farmers with high incomes, ample land and well-developed technical and entrepreneurial skills
Traders & Wholesalers	• Small traders	• Small wholesalers and farmer-traders
	• Medium & large traders	• Larger wholesalers
	• Food processors	• Firms doing food processing, e.g. snacks and drinks
Retailers	• Local markets	• Small food markets with multiple stall-holders
	• Food retailers	• Local food stores
	• Industrial caterers	• Restaurants, hotels and other large-scale food users

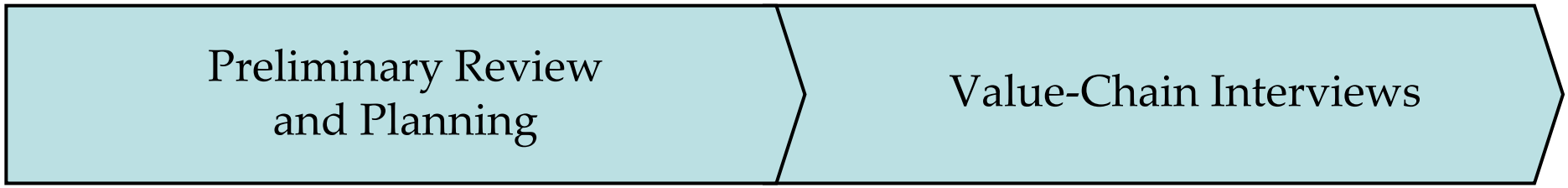
In the first stage of value-chain improvement project, researchers must map the structure of the value chain

EXAMPLE VALUE CHAIN FOR LOCAL POTATO-PRODUCING COMMUNITY



This is done through a combination of conducting interviews and consulting secondary sources

PROCESS FOR VALUE-CHAIN MAPPING



Contact and recruit 'Key Informants' who have knowledge of value chain and can help to plan research process, e.g.

- Researchers or development agency staff
- Socially-conscious members of trading or food-processing companies
- Government extension agents

Collect and review secondary data about market chain, e.g.

- Market research reports
- Research done by universities or development agencies
- Reports by Trade & Industry government departments

Identify 3-4 interviewees from all parts of value chain, e.g. farmers, traders, wholesalers, processors, retailers

Conduct interviews to ascertain, for each organization

- Who customers and suppliers are
- Prices and volumes of purchases and sales
- Delivery systems and terms of trade
- Packing and grading systems and requirements
- Quality of relationships
- Problems encountered during business

Aggregate interview data to produce value-chain map

If possible, the value-chain should also be benchmarked against similar but more efficient value chains

EXAMPLE BENCHMARKING OF BAAN MAE MEE POTATO VALUE CHAIN

Criterion	Baan Mae Mee Potato Chain	Sappon Potato Chain	Upper Chiang Rai Site
Quality	Mixed	Mostly top grades	Mixed
Quantity	2,000 tonnes p.a.	7,000 tonnes p.a.	6,000 tonnes p.a.
Distribution systems	Vehicles owned by traders	Vehicles owned by farmers and traders	Vehicles owned by farmers and traders
Market Information Systems	None	Farmers call markets using mobile phone	Prices posted in village by DoA
Product packaging	Basic packing by large wholesalers	Special branding and packing	Basic packing by large wholesalers
Level of value added	Low	Medium	Medium
Management of over-under supply	None	Strong annual production planning by Cooperative	Weak annual production planning in village

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In the second stage, the key actors attend a workshop to develop a strategy to improve the market chain

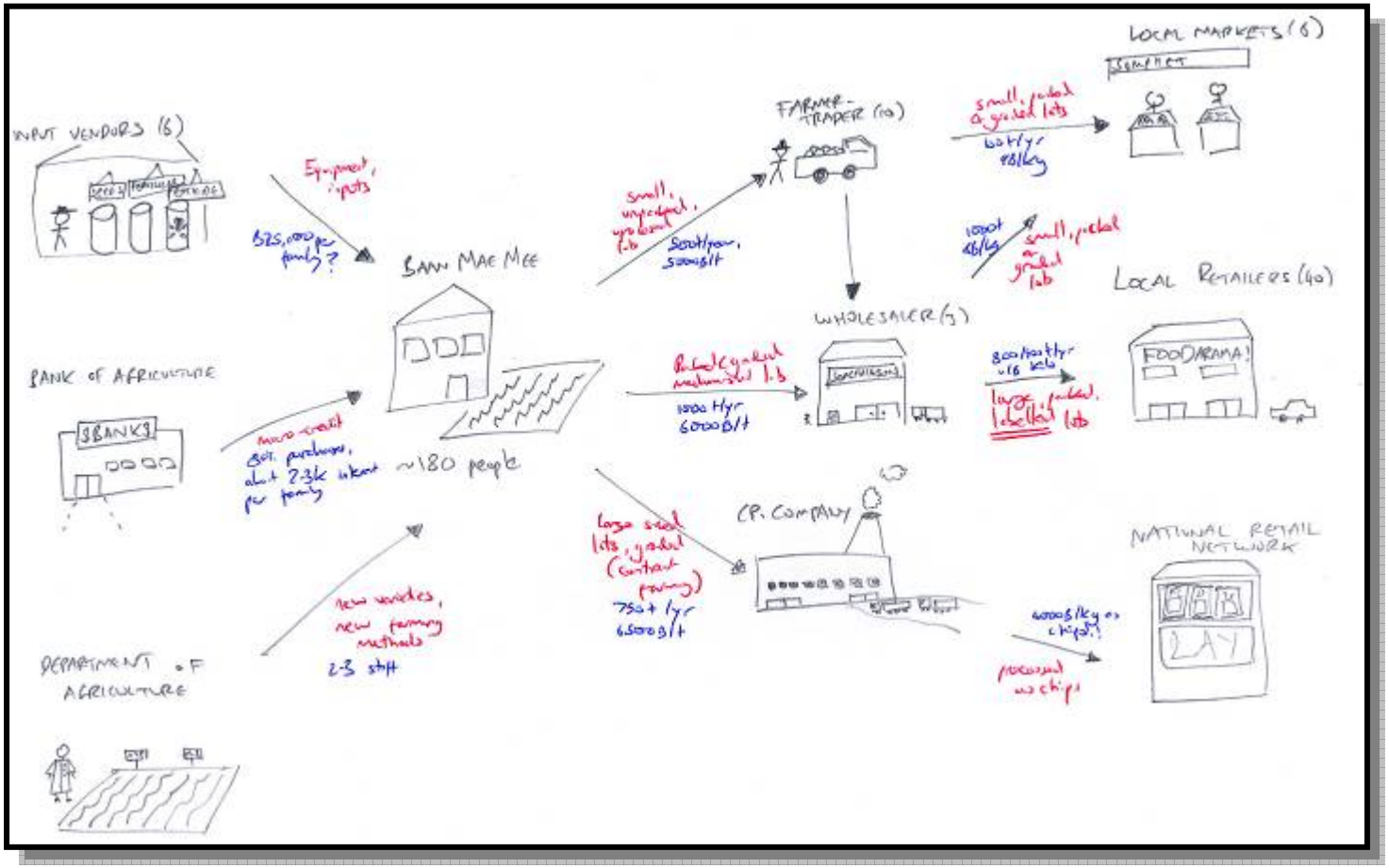
SUGGESTED TIMETABLE FOR STRATEGY DEVELOPMENT WORKSHOP

Time	Day One	Day Two
09:00 – 12:00	Drawing the market chain	Identifying and analyzing limiting factors
13:00 – 15:00	Developing a market history	Creating the market chain improvement strategy
15:30 – 17:30	Assessing producer support services	Brainstorming strategy implementation

If not possible to get all key actors together at the same time, several workshops can be conducted at different times

In the first activity participants should sketch out the value chain

WORKSHOP MAPPING OF VALUE CHAIN



This activity corroborates the work done in the research phase and ensures shared understanding amongst participants



The participants should then develop a timeline for the value chain

WORKSHOP CREATION OF TIMELINE

History of Value Chain

Year	Event
1982	Potato introduced to Baan Mae Mee
1984	Sealed access road built
1985	DoA starts to train local farmers
1989	Somchai & Son starts to trade in village
1990	Bank of Agriculture and Cooperatives starts to make loans in village
1993	CP Company starts contract farming in village
1997	DoA introduces improved potato varieties to some farmers

Continued...

This activity identifies how the value chain has developed and what has been tried in the past



The services provided to the farmers should be assessed by both the farmers and the service-providers

ASSESSMENT OF SERVICE PROVIDERS

Farmers Assessment

Service	Terms	Assessment
Buying inputs	Cash within 30 days	Good
Buying farm equipment	Cash within 30 days	Good
Credit	8-9% interest rates	Poor- expensive, hard to get loan
Extension services	Free training, pay for seeds, cultivars etc	Poor- hard to understand
Contract farming	Get training, inputs, sell after harvest at fixed price	Good- but price low

Service-Providers'

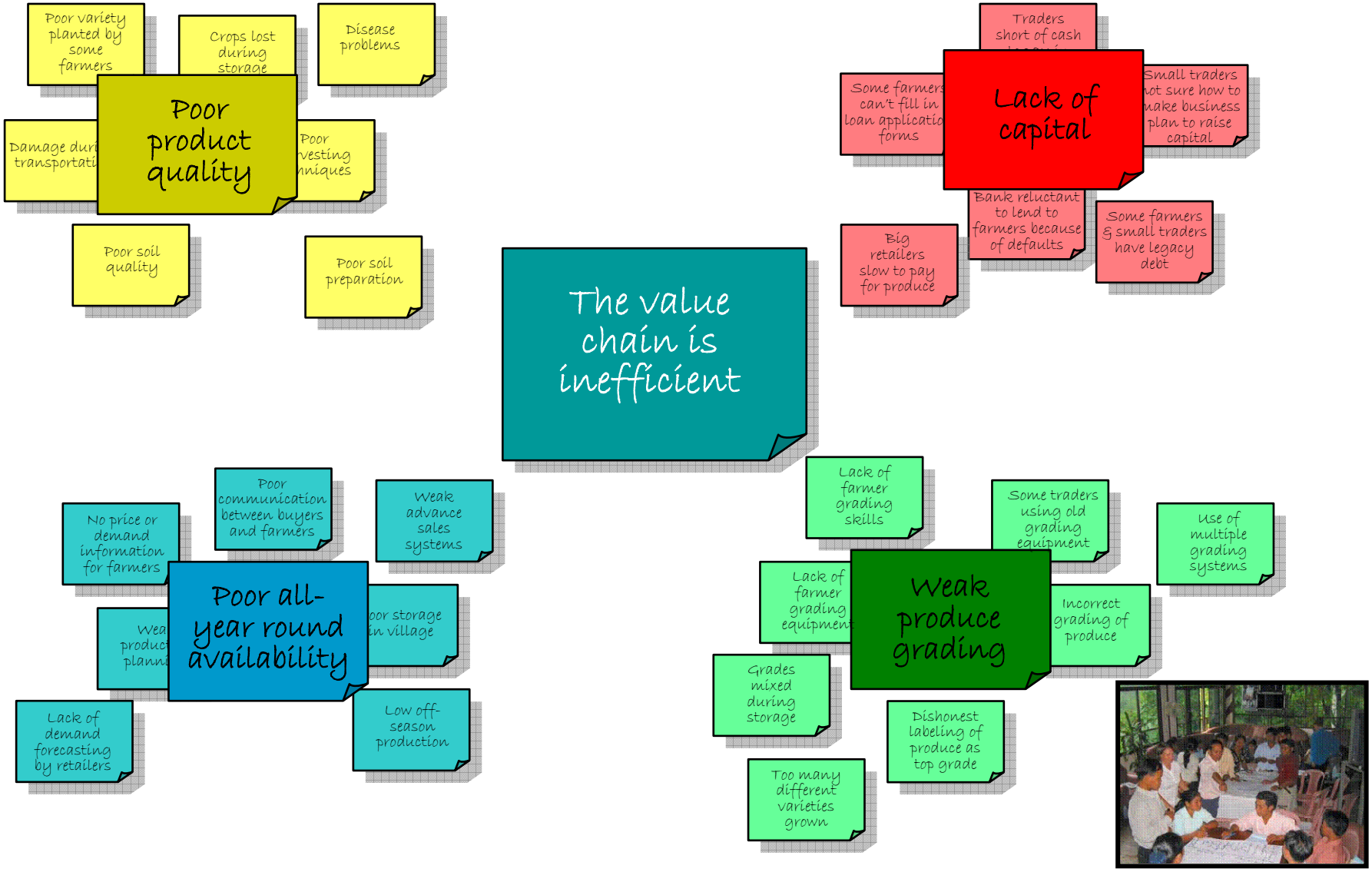
Service	Terms	Assessment
Buying inputs	Cash within 30 days	Good
Buying farm equipment	Cash within 30 days or hire purchase for big-ticket items	Good
Credit	Base + 3%	Excellent
Extension services	Free training, pay for seeds, cultivars etc	Excellent
Contract farming	Give training, inputs, sell after harvest at fixed price	Okay- farmers renege on contracts too often

This activity can generate some simple ideas for value-chain improvement, by identifying problems with delivery of services



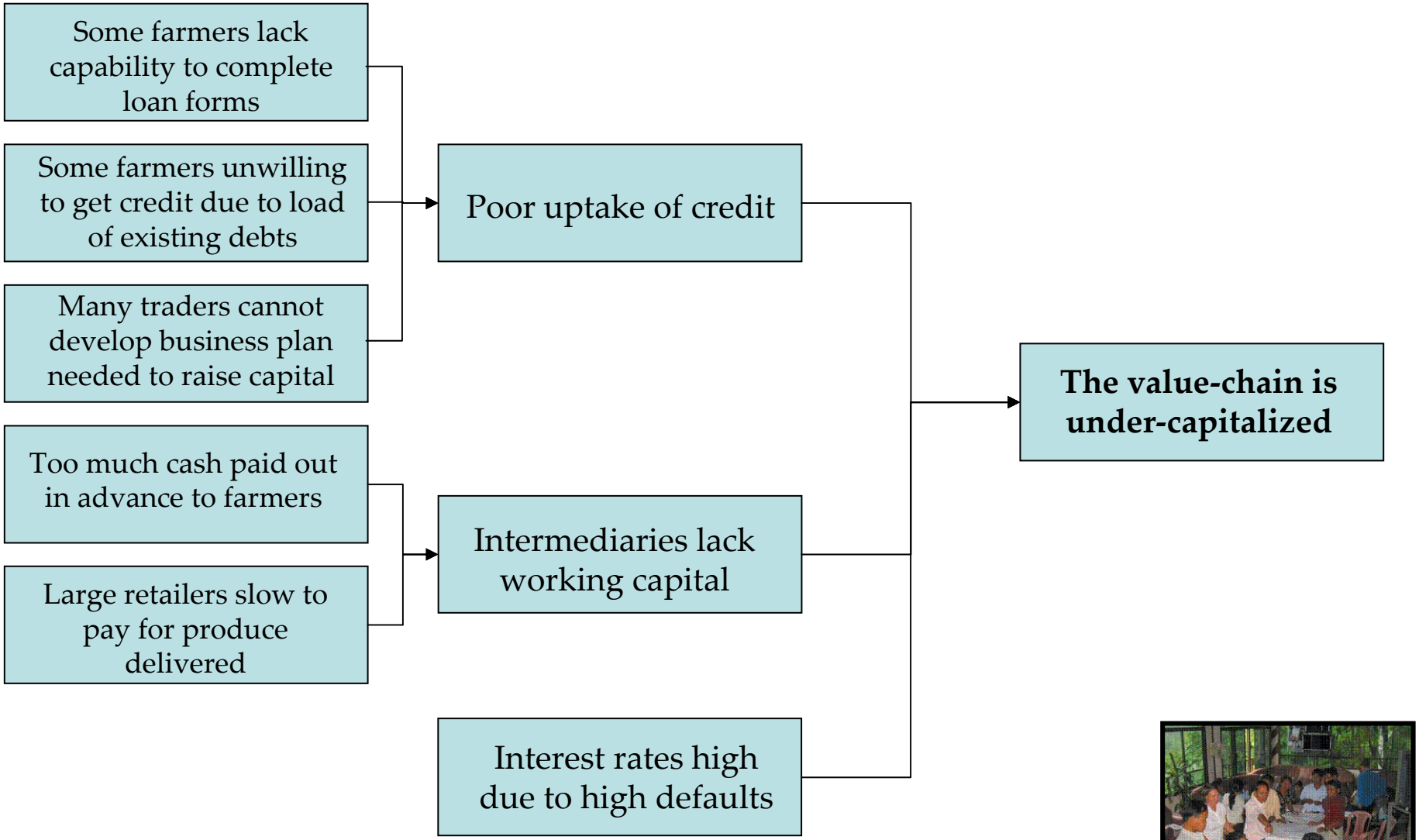
The first step in strategy development is to brainstorm and then group the problems and limitations of the value chain

PROBLEM IDENTIFICATION AND GROUPING: EXAMPLE



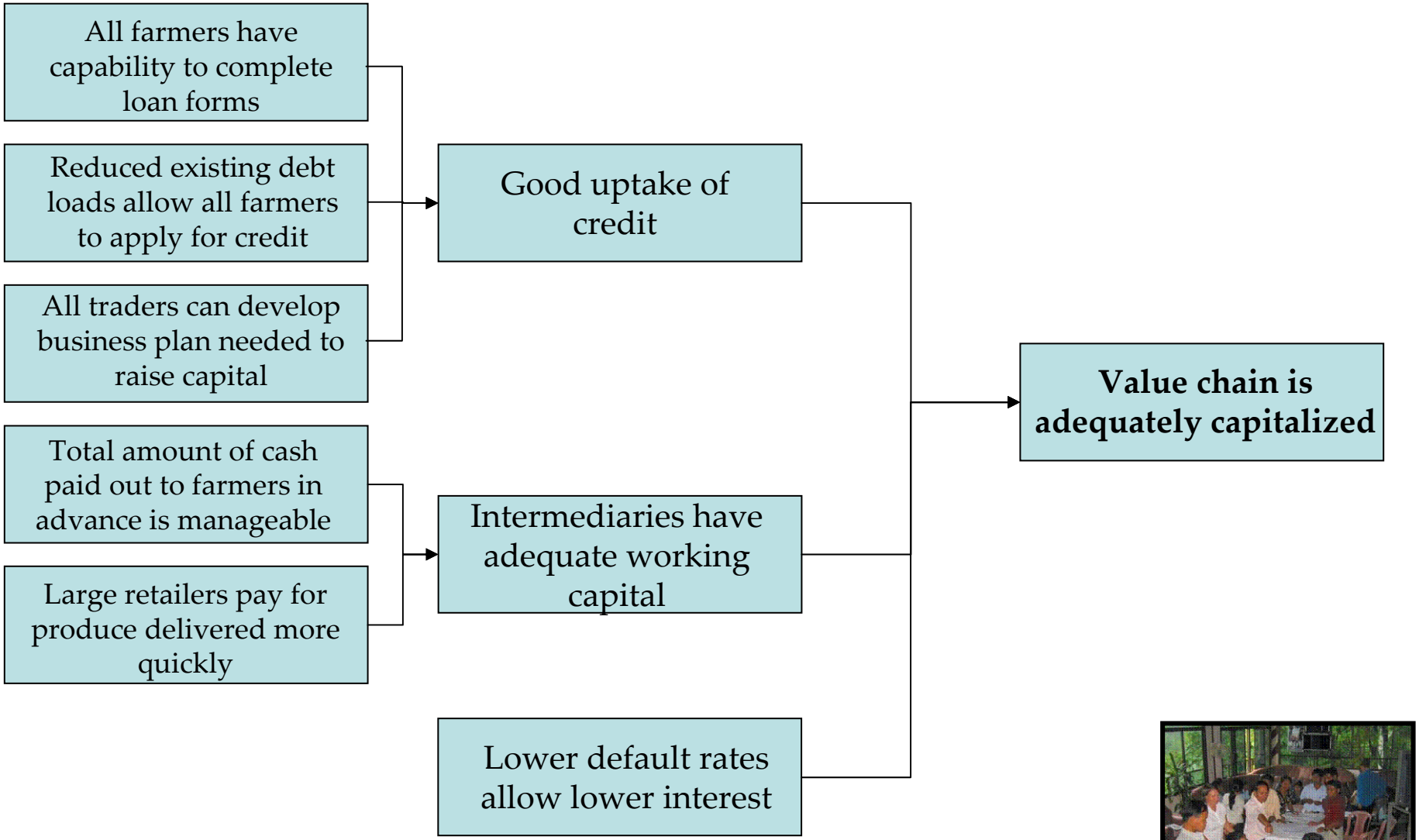
The issues identified can be grouped, and organized into a causal analysis of the overall problem

EXAMPLE CAUSAL ANALYSIS I: LACK OF CAPITAL



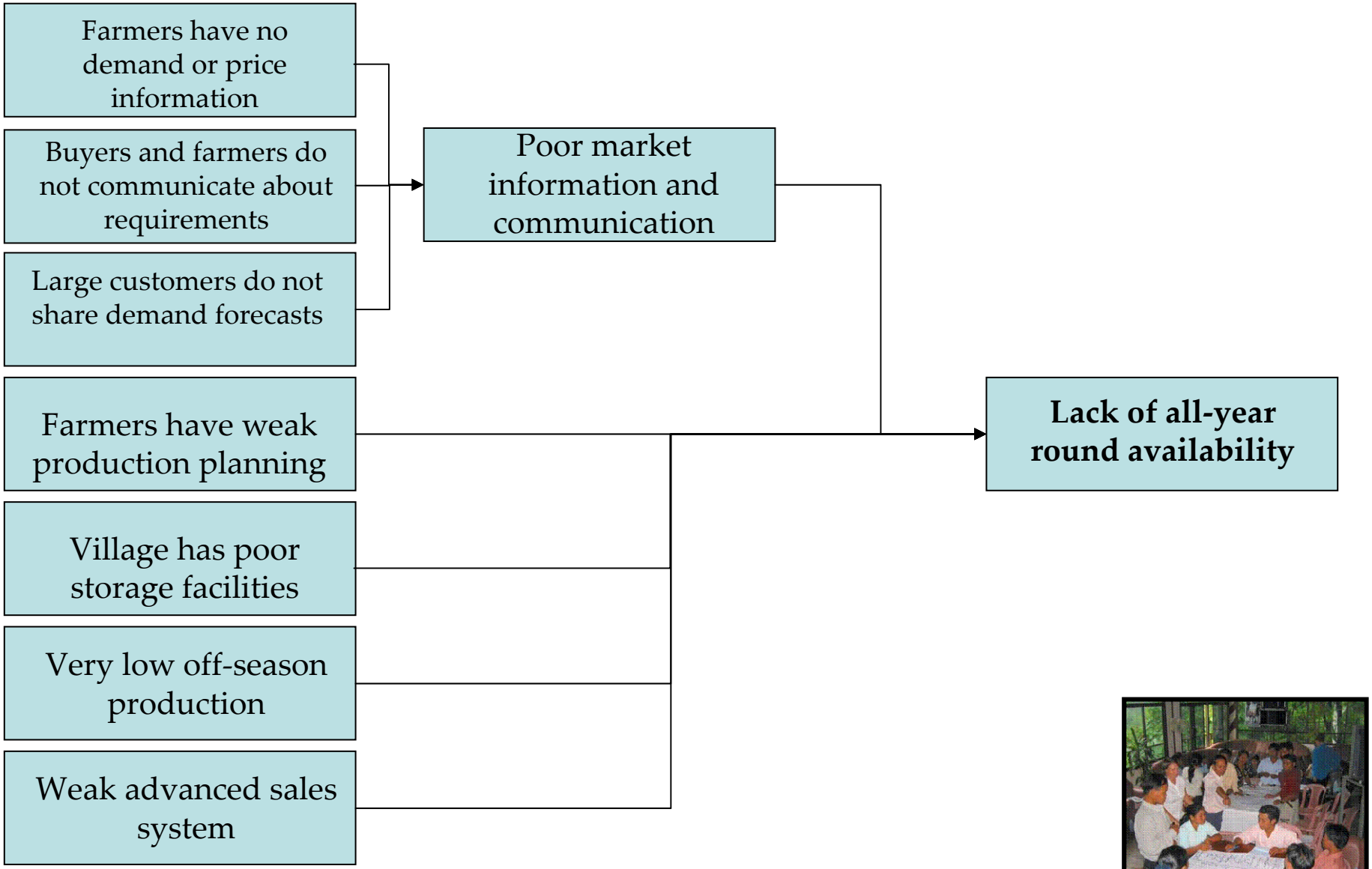
The causal analysis can then be 'flipped' to produce a strategy for solving the problem

EXAMPLE OF 'FLIPPING' METHOD: VALUE-CHAIN CAPITALIZATION



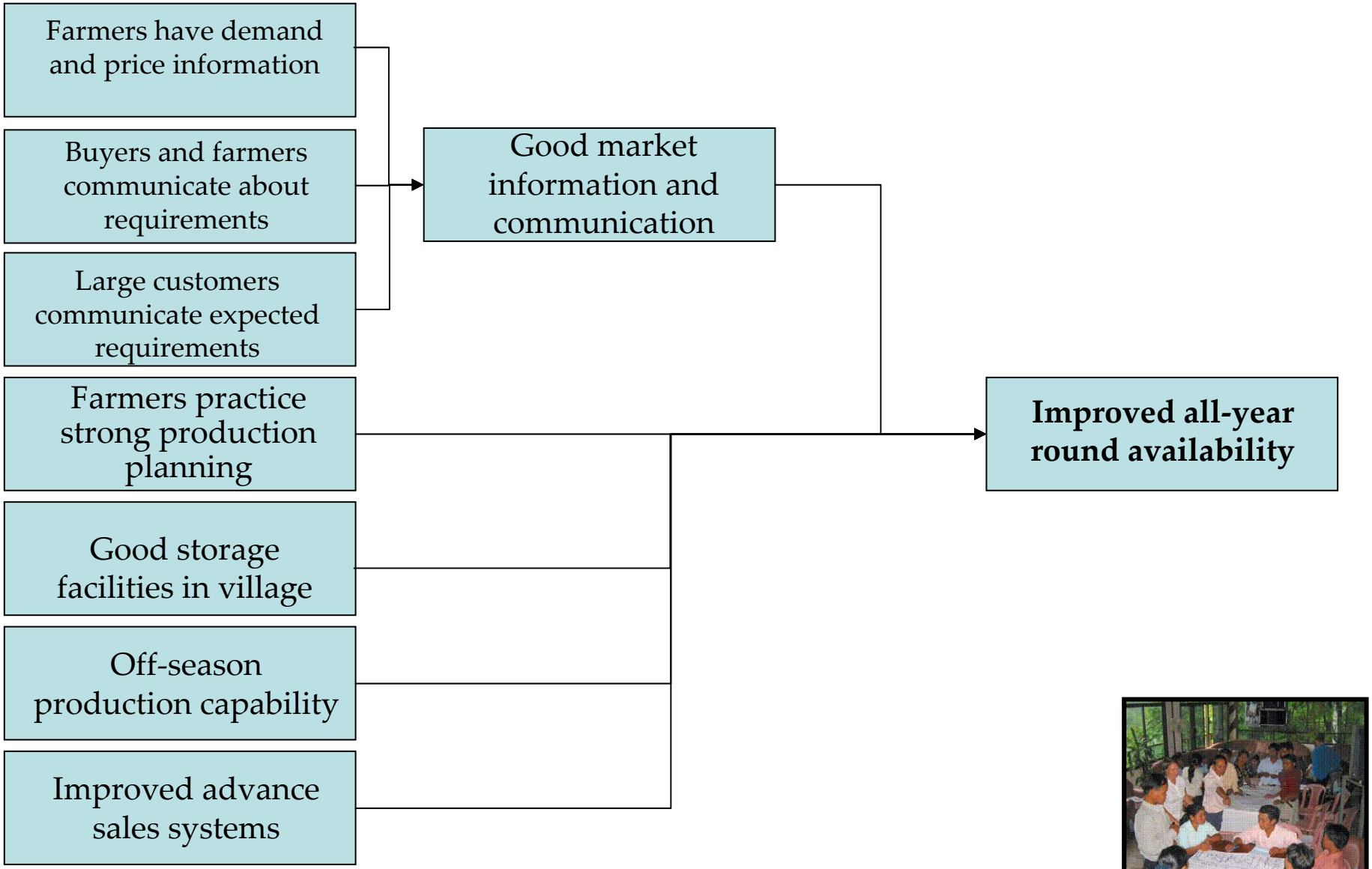
Causal analyses should be developed for each of the groups of problems identified by the participants

EXAMPLE CAUSAL ANALYSIS II: LACK OF ALL-YEAR ROUND AVAILABILITY



The output of this process will be strategies for solving all of the major problems facing the value chain

EXAMPLE FLIPPING METHOD II: IMPROVING ALL-YEAR AVAILABILITY



In the final stage, the participants can brainstorm initiatives to implement the strategy that has been developed

IMPLEMENTATION STRATEGY WORKSHEET: CAPITALIZING VALUE CHAIN

Initiative	Strategy Objective						Participants						
	Farmers can get loans	Farmers have lower debts	Traders can develop business plans	Advance payments to farmers not too high	Retailer pays supplier more quickly	Lower default rates	Farmer	Trader	Whole-salers	Retail	Agri-Business	Bank	HRDI
Do a debt work-out for indebted farmers		✓				✓	✓					✓	✓
Give farmers training in banking and finance	✓					✓	✓					✓	✓
Improve terms of trade for 'middle men'				✓	✓			✓	✓	✓	✓		✓
Give training to traders on business planning			✓					✓	✓		✓	✓	✓

✓ Main role

✓ Advisory/supporting role



This process should be repeated so that an implementation plan can be developed for each part of the improvement strategy

IMPLEMENTATION STRATEGY WORKSHEET: IMPROVING PRODUCT QUALITY

Initiative	Strategy Objective				Participants						
	Good varieties planted	Farmers have strong pest control	Farmers practice good soil management	Strong Post-Harvest Process	Farmer	Trader	Whole-salers	Retail	Agri-Business.	Bank	HRDI
Test and select improved varieties	✓				✓	✓	✓	✓			✓
Set up farmer field school for Integrated Pest Management		✓			✓						✓
Deliver training on soil fertility management			✓		✓						✓
Redesign post-harvest handling from field to buyer's storage				✓	✓	✓	✓		✓		✓

✓ Main role

✓ Advisory/supporting role



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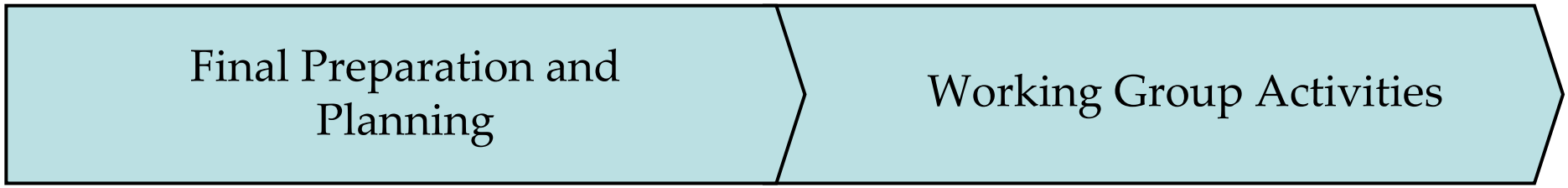
Value chain analysis

Participatory strategy development

Implementation

Once the strategy has been designed, the key actors must be encouraged and supported to implement the strategy they have developed

PROCESS FOR STRATEGY IMPLEMENTATION



Write up results of research and strategy development workshop in formal document, and disseminate to key actors. Report should include

- Value chain analysis
- Analysis of problems
- Improvement strategy

Obtain formal commitments from Key Actors to participate in initiatives developed in the strategy session

Obtain resources for project including

- Cash budget
- In-kind contributions from Key Actors
- Working group members
- Steering committee members

Convene working groups to plan and execute activities

Monitor performance of working group activities

Hold annual meetings/workshops to review overall project process

The impact of the activities should be measured and managed using a Results-Based Management Framework

RESULTS-BASED MANAGEMENT FOR EXAMPLE ACTIVITIES

Activity	Input	Output	Outcome	KPIs
Farmer debt workout	• Advisory services • Refinancing • Facilitation of asset purchasers	• Reduced external debts • Reduced external interest payments • Increased uptake of agricultural credit	•Increased farmer production	• Total indebtedness (B) • Average agricultural credit (B) • Tonnage per farmer (t)
Testing and selecting improved varieties	• New planting stock • Test plots • Advisory services • Group meetings	• 1 or 2 improved varieties selected and cultivated	• Higher potato prices	•Average price per tonne/kilo (B)
Creating Market Information System	• Internet site • Fax machine • Government post service	• Weekly prices and demand available to all parties	• More all-year round sales • More sales at peak season	• Standard deviation of average monthly sales (sigma) • Total dry season sales (B)
Modernizing intermediary grading	• Group workshops • Training • Publication of new standards • Investment in new equipment	• Single grading standard more widely practiced	• Higher final prices	• Traders' and wholesalers' operating margin (%)

END