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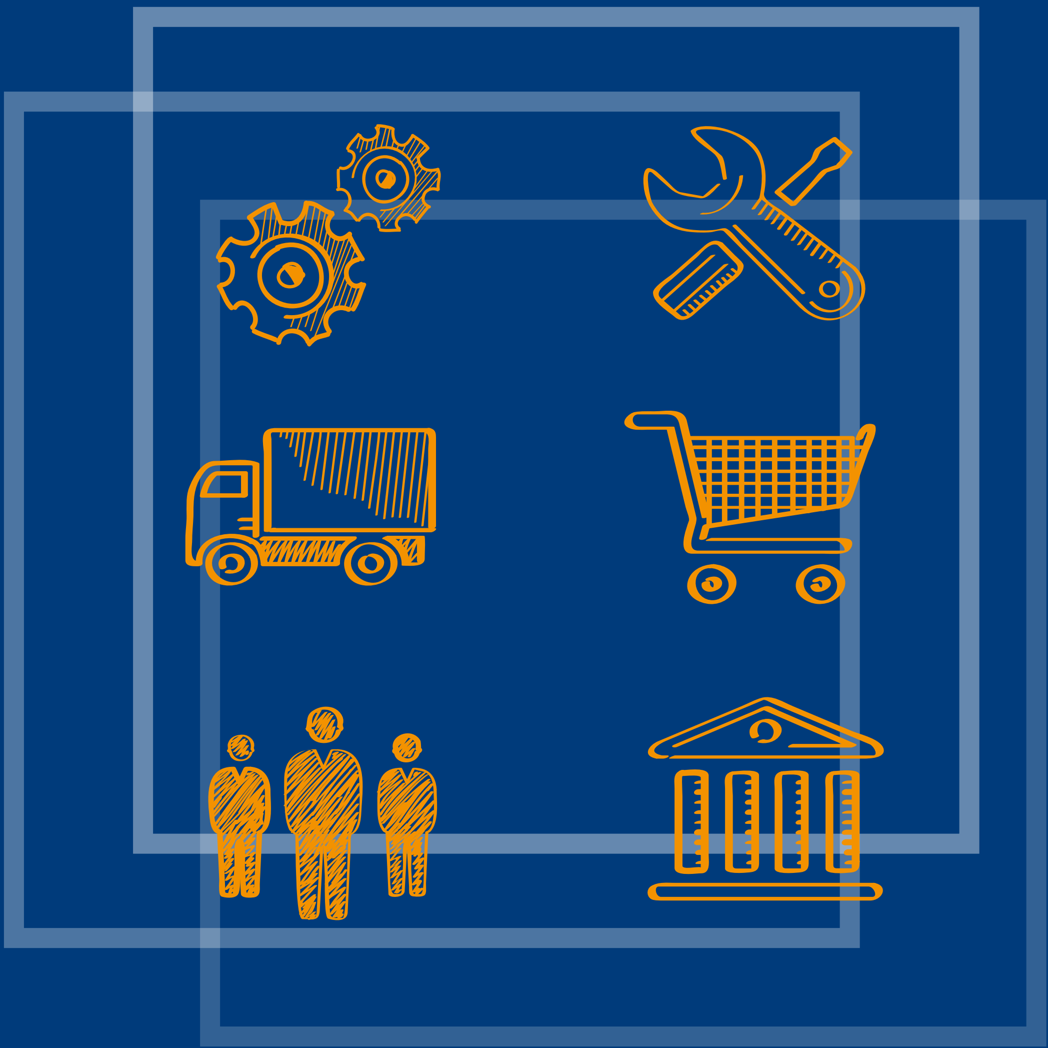
# A ROUGH GUIDE TO VALUE CHAIN DEVELOPMENT

## How to create employment and improve working conditions in targeted sectors



Nadja Nutz & Merten Sievers

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This rough guide to Value Chain Development has been developed for development practitioners, governments and private sector initiatives to give a simplified overview of the Value Chain Development approach as applied by the International Labour Organization (ILO).

The basis for this document was provided by the 2009 ILO guide on “Value Chain Development for Decent Work”. For simplification purposes, the structure of the original guide has been modified slightly: The Chapter on “Project setup and initial research and evaluation” has been shortened and its essential messages integrated into the Chapter on “Sector Selection”. The original Chapters on “Value Chain Mapping”, “Value Chain Research” and “Value Chain Analysis” have been merged into one Chapter entitled “Market Analysis”. More detailed descriptions of useful methods, tools and workshops can be found in the original guide[1].

This document is partly based on the 2009 guide, but includes substantial additions and changes by its authors, Nadja Nutz and Merten Sievers of the SME Unit. Inputs and feedback were provided by Markus Pilgrim, Matthew Ripley and Michal Strahilevitz Beneliezer.

This rough guide has been elaborated within the framework of the project for Responsible Industry Development in the Garments and Fisheries sector in Myanmar which applies a value chain development approach to promote inclusive economic growth and responsible business practices in both sectors. The project is managed and implemented by the ILO Liaison Office in Yangon, Myanmar, and is part of the DANIDA-funded Programme for Responsible Business in Myanmar.


1 Here: www.ilo.org/valuechains

# Contents

# Introduction

**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 and delivery to final consumers, and final disposal after use."[2] This includes activities such as design, production, marketing, distribution and support services up to the final consumer. The activities constituting a value chain can be contained within a single firm or divided among different firms, within a single geographical location or spread over wider areas.

**Box 1: Example for a Value Chain for Fish Production**

| Price | MMK 400/kg | MMK 650/kg | MMK 800/kg | MMK 1200/kg | MMK 1400/kg | MMK 1600/kg |
|---|---|---|---|---|---|---|
| **Input supply** | **Production/ Capture** | **Collection** | **Processing** | **Distribution/ Logistics** | **Retail** | **Consumer** |
| **COSTS** | Labour<br>Land<br>Feed<br>Boat and fishing gear<br>Ice/storage facilities<br>Fuel<br>Repair | Vehicle<br>Fuel<br>Repair<br>Driver<br>Ice/storage facilities<br>Labour<br>Repair | Machines<br>Building<br>Electricity<br>Labour<br>Packaging<br>Marketing<br>Processing inputs<br>Repair<br>Admin/ support staff<br>VAT | Vehicle<br>Fuel<br>Repair<br>Driver<br>Storage<br>Admin/support staff<br>VAT | Shop rent<br>Storage<br>Labour<br>Advertising<br>Admin<br>VAT | **Consumer pays for all costs added** |

All products and services are part of a value chain[3]. Some are global value chains, like in car or computer production, others are local, like local fish production. Different services (like accommodation in a hotel) and goods (like socks) coming out of a value chain compete against similar services and products coming from value chains that are structured differently. For instance, an international five star hotel and a local guest house both are part of the tourism sector but their service production chain is likely to be very different.

Understanding these production systems or value chains helps development practitioners in identifying those value chains where actors can produce better products, increase job creation and reduce poverty, and intervene in these systems to improve outcomes.

## Drivers of change that prompt value chain development

Having established what value chains are, what exactly is value chain ***development***? In a market economy, value chains are competing against each other. For instance, for a local garments value chain to stay in business the locally produced clothes need to be cheaper or have other distinctive qualities that would convince final consumers to buy it. It is competing against imported clothes from a different value chain. Local garments

2 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

3 For more explanation on the terminology used in this rough guide, see Box 2 and Annex 1

producers will only stay in business if their value chain can compete with the imported garments. This competition is the main driver for most value chain development.

We can identify several factors that are important for how value chains might develop. For definition purposes it is useful to make a distinction between five drivers of change that could prompt value chain development:[4]

| | |
|---|---|
| **System efficiency** | There are opportunities for reducing costs and increasing efficiencies on the market if value chain stakeholders – large and small – work together. |
| **Product quality** | Markets today are changing fast and competition is becoming increasingly fierce. If production systems want their products to stay in the market or even increase their market share, they need to make sure that their products and services meet changing market requirements and demand conditions |
| **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. Product differentiation can help in achieving a competitive advantage over them. |
| **Social and environmental standards** | Consumers are becoming increasingly aware of social and environmental standards and are increasingly demanding products that fulfil these requirements. 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 can also contribute to improve working conditions throughout the value chain. |
| **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. The market in turn is influenced by regulations, institutions and interventions that immediately affect a particular sector. Changes in the business environment (like in trade regulations) can open new market opportunities. |

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

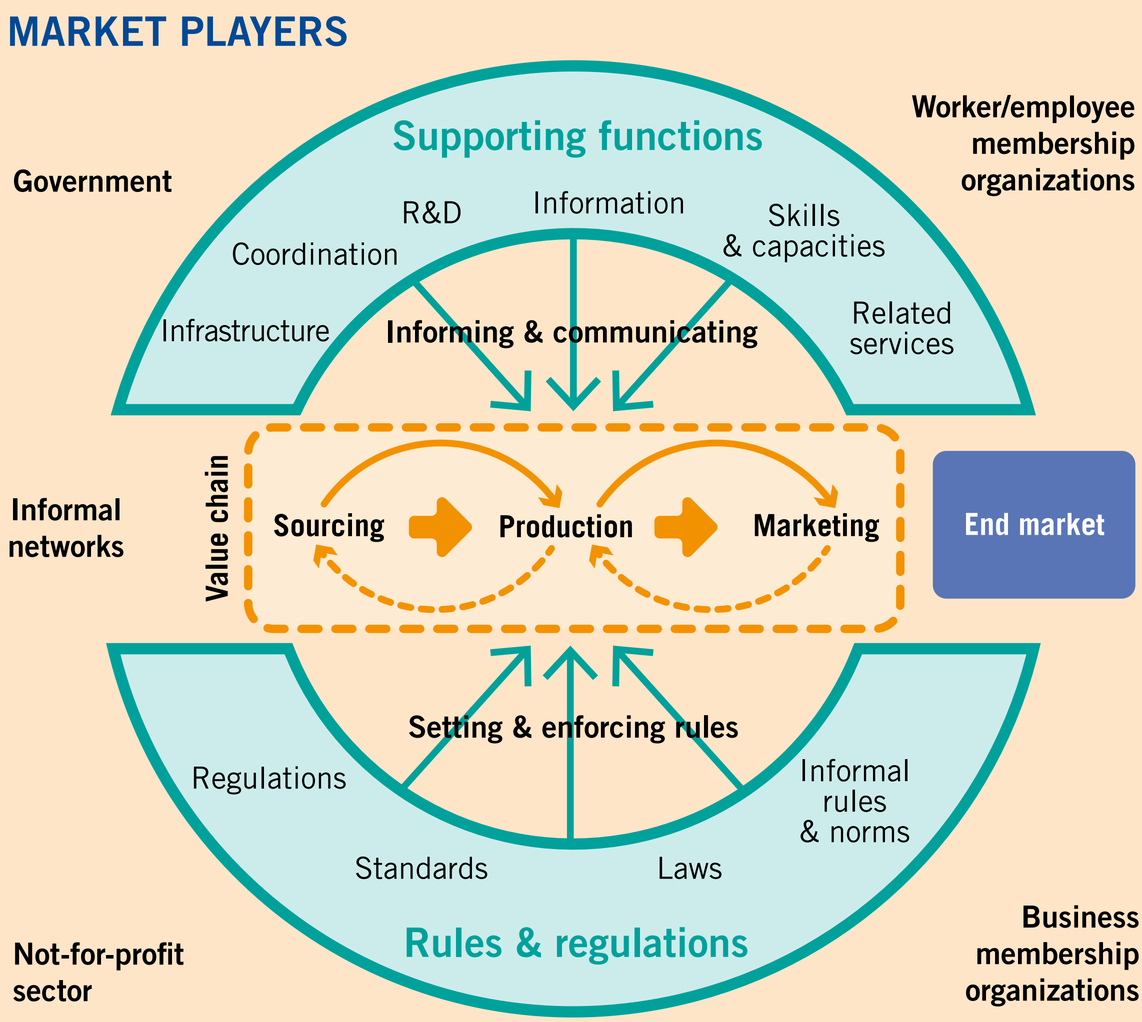
The value chain as described above consists of transactions from one business to another. The line of transactions from producer to consumer constitutes the value chain – a 'core' market. However, the performance of any value chain in a particular sector is always influenced by a much wider ***'system'*** consisting of various **supporting functions** and **rules**. Within this so-called market system (see Box 2) different **market players** are either directly engaged in business transactions or part of supporting organizations such as BDS providers, government institutions or NGOs.

4 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.

**Box 2: Value chains as part of market system frameworks**

**Terminology: Value Chains, Supply Chains and the Market System**

Below is a graphical representation of how a value chain is embedded within a wider market system. At the centre are the value chains that bring products and services to the market. The environment is formed by supporting functions (e.g. information, training, finance, inputs) and rules and regulations. Each of the supporting functions and rules that are identified as relevant to shaping the functioning of the value chain can be analyzed as its own 'interconnected' market system. Around the core of this new market system (e.g. training), new supporting functions and rules emerge. This diagnostic process is vital to understand often-complex market systems and to arrive at the real underlying constraints (in inter-connected markets) that can be intervened in to maximize scalable and sustainable change in the core value chain. Using this diagram can be helpful for analyzing and understanding specific market systems and their underlying constraints (i.e. doing Value Chain Analysis) and to plan for and implement the actions that can be taken to improve them (i.e. Value Chain Development). While supply chains are usually analyzed and developed from the perspective of a main buyer (usually a large multinational) and often focus on the logistics of organizing a supply system, the term value chain is more often used with a developmental connotation addressing productivity, growth and job creation in the market system.



## The Value Chain Development Cycle

The approach suggested by this rough guide consists of five 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.

The **five main steps** of value chain development are:

| | |
|---|---|
| **1. Sector Selection** | Which sectors should be promoted depends on objectives and target group of the initiative. Sector selection requires a process based on clear criteria including scale |
| **2. Market System Analysis** | Market System Analysis includes value chain mapping to illustrate complexities of the sector, research consisting of interviews and focus group discussions to understand opportunities and constraints, and a final analysis of findings |
| **3. Intervention Design** | There are no 'one-size-fits-all' approaches to successful pro-poor market facilitation; tailor-made 'packages' of interventions need to be built around local market realities to find solutions for remedying bottlenecks in the value chain and its underlying constraints that hinder participation of disadvantaged groups |
| **4. Implementation** | Sustainable solutions to remedy bottlenecks need to be understood as business-models that will be able to exist once projects or externally funded interventions end. Interventions by private or public actors need to be able to become sustainable, grow in the market system and be driven, replicated and adapted to change by its actors |
| **5. Monitoring and results measurement** | Value chain and market system development is a continuous process that never ends. A good monitoring and results measurement system, for example based on the DCED measurement Standard[5], can therefore help to measure the success of implemented interventions and provide feedback on what needs to be done further. |

5 See: http://www.enterprise-development.org/page/measuring-and-reporting-results

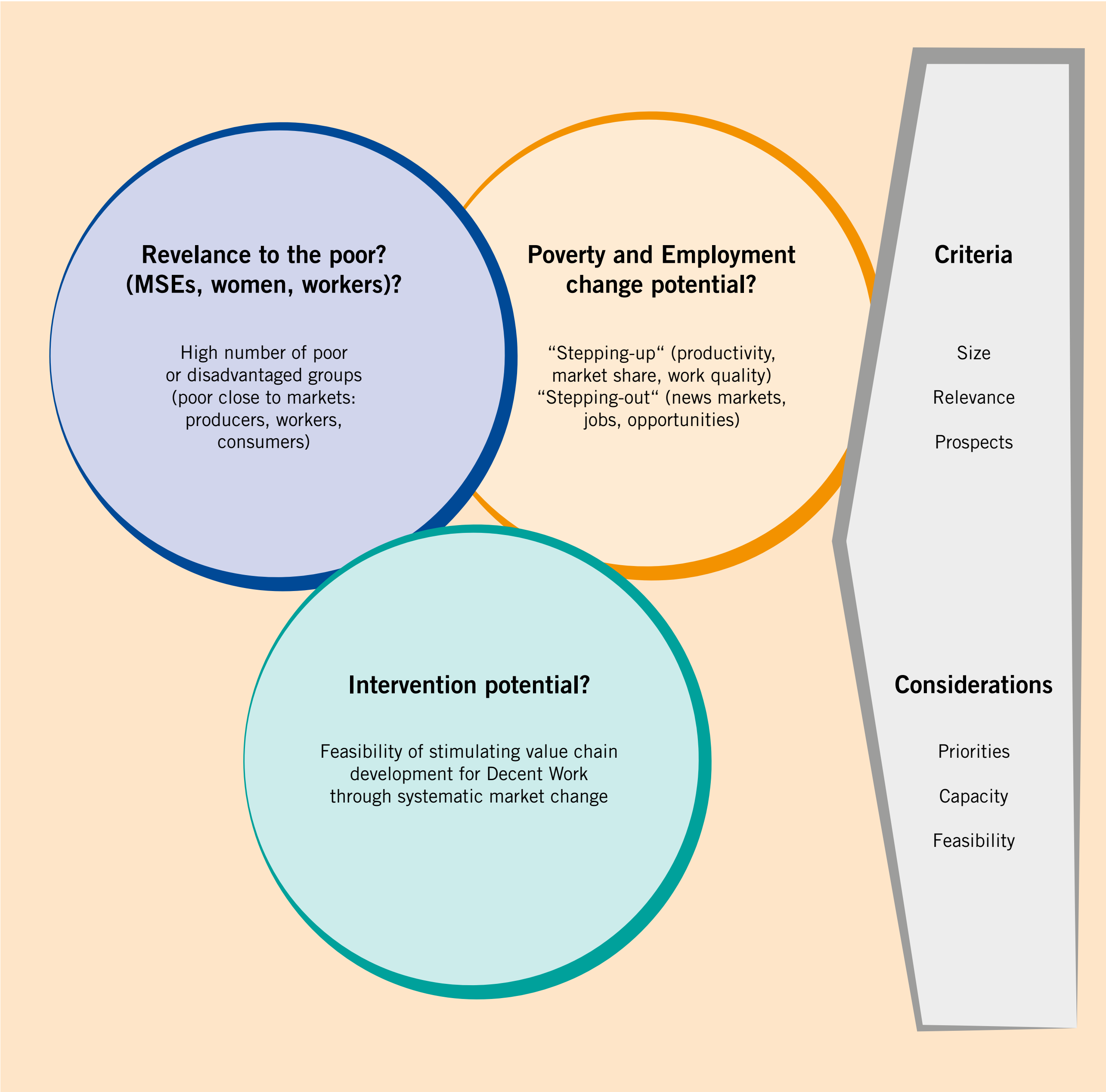
# I.Sector Selection

Priority sectors are often already defined in national development frameworks in accordance with national priorities. However, while initiatives need to take these priorities into account, not all sectors will necessarily be able to create employment or reduce poverty at scale (a clear goal of this guide). Before initiating value chain analysis it is thus crucial to identify the sector in which the most impact can be achieved.

The four steps to select a sector are:

| | |
|---|---|
| **Step 1: Defining objectives and target group** | In order to select a sector for a value chain initiative, you need to be sure about your own objectives: Who is my target group? What do I want to achieve with value chain development? |
| **Step 2: Criteria selection** | Having defined your objectives and the target group, you now need to define criteria based on your objectives to select a sector. Examples of criteria that have been used with success are: importance of the sector for employment creation at scale and economic growth, potential to enhance competitiveness or decent work change potential. |
| **Step 3: Rapid assessment of economic sectors** | This step consists of a rapid assessment of available sectors in the target region with the purpose of getting a short list of sectors amongst which to select one for a value chain initiative. Sectors should be assessed according to selected criteria as well as relevance to the target group. |
| **Step 4: Consultative meeting with stakeholders** | You now have a shortlist of sectors that apply to your selection criteria. Organize a stakeholder meeting to come to a final conclusion as this decision should in all cases be done in consultation with other relevant stakeholders and development partners. Next to selection criteria and relevance to the target group, the final decision should also take into account the feasibility for intervention. Are sufficient resources available to intervene in the sector? Does this sector have the potential to achieve sustainable impact on a large scale? Are there any external factors that could inhibit the success of an intervention, such as cultural norms or political resistance? |

**Box 3: The rational for sector selection**



# II. Market System Analysis

Once a sector has been selected, it is advisable to organize a value chain research team. The team should then engage in initial research for a better understanding of the sector and draw an initial value chain map. A start-up event[6] with all relevant market players should then be organized to initiate networking with market players and obtain a first general and participatory assessment of the current situation of the sector, thus preparing for the next step of value chain development: market system analysis.

Market system analysis consists of several components, i.e. value chain mapping, value chain research and value chain analysis, that each helps to gain a deeper understanding of the market and its constraints. These three components are not necessarily completed in a prescribed rigid order but might overlap and be done in parallel. For instance, a project team might start with mapping the value chain but then complete the value chain mapping only after engaging in intensive value chain research. Similarly, a project might set out to do value chain analysis but then go back to value chain research if additional information for the analysis is needed. The order in which these three components are finalized thus depends on the context.

## 1. Value Chain Mapping

Drawing a value chain map is a tool and an aid to illustrate the complexities of sectors and their value chains. Mapping a chain means creating a visual representation of the connections between businesses in value chains and supporting organizations as well as other market players. As a standard tool in market 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:

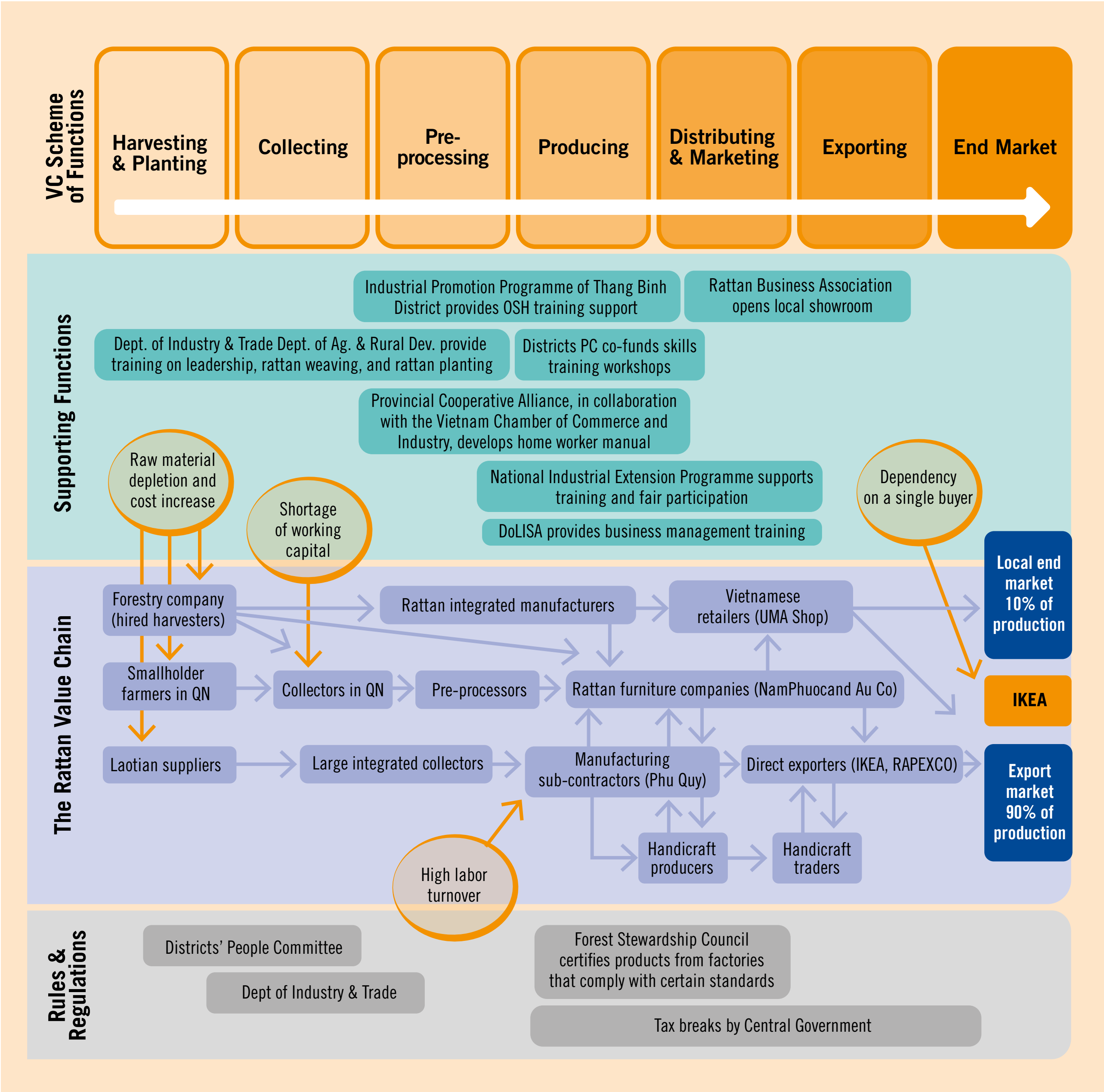
- It helps to illustrate and ***understand the process*** by which a product or service goes through several stages until it reaches the final customer
- A value chain map can serve as a way of ***identifying and categorizing key market players***
- Apart from businesses involved in core transactions, 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 ***illustrate different market channels*** through which products and services reach the final customer and the end market. Based on research, these maps can also illustrate 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, working conditions, value chain governance, etc.)

6 See the ILO VCD for DW Guide on how to organize a start-up event

The construction of a value chain map entails several steps:

| | |
|---|---|
| **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. 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") – otherwise your value chain map will become too complex. |
| **Step 2: Creating an inventory of market players** | Having identified the core transactions of a value chain in a sector, you can now use this flow chart to identify and map key market players. Look at your flow chart above and identify what businesses are involved in core market transactions in the value chain. We also need to know the other market players who are not directly involved in core business transactions within the value chain, such as government authorities and institutions, business and worker membership organizations, business service providers, informal networks, NGOs, etc. |
| **Step 3: Illustrate opportunities and constraints** | 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. Adding this information to your value chain map will require some research and you might only be able to complete the chart after conducting thorough value chain research. |
| **Step 4: Identify the different markets for a product or service** | Now try to identify the main markets on which products are sold. You might come up with a large number of end products and markets. In order to make sense of your chart later on, you need to group the information into main categories – i.e. the main markets for your product. It will be crucial to understand which of the market segments is growing or has growth potential as this has implications for what needs to be done in terms of interventions. |
| **Step 5: Identify the way by which products and services reach the end market** | Once you have identified the main end markets and products, you should ask yourself which of the previously identified 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. |
| **Step 6: Add information to the grid chart** | Value chain charts are particularly useful for displaying information and characteristics of specific market channels. This could for example be the number of women or disadvantaged groups working in particular channels and at particular value chain levels; or information about prices, financial flows or about value chain governance and the nature of relationships between market players in the value chain. |

**Box 4: Example of a Value Chain Map of Rattan Production in Vietnam**



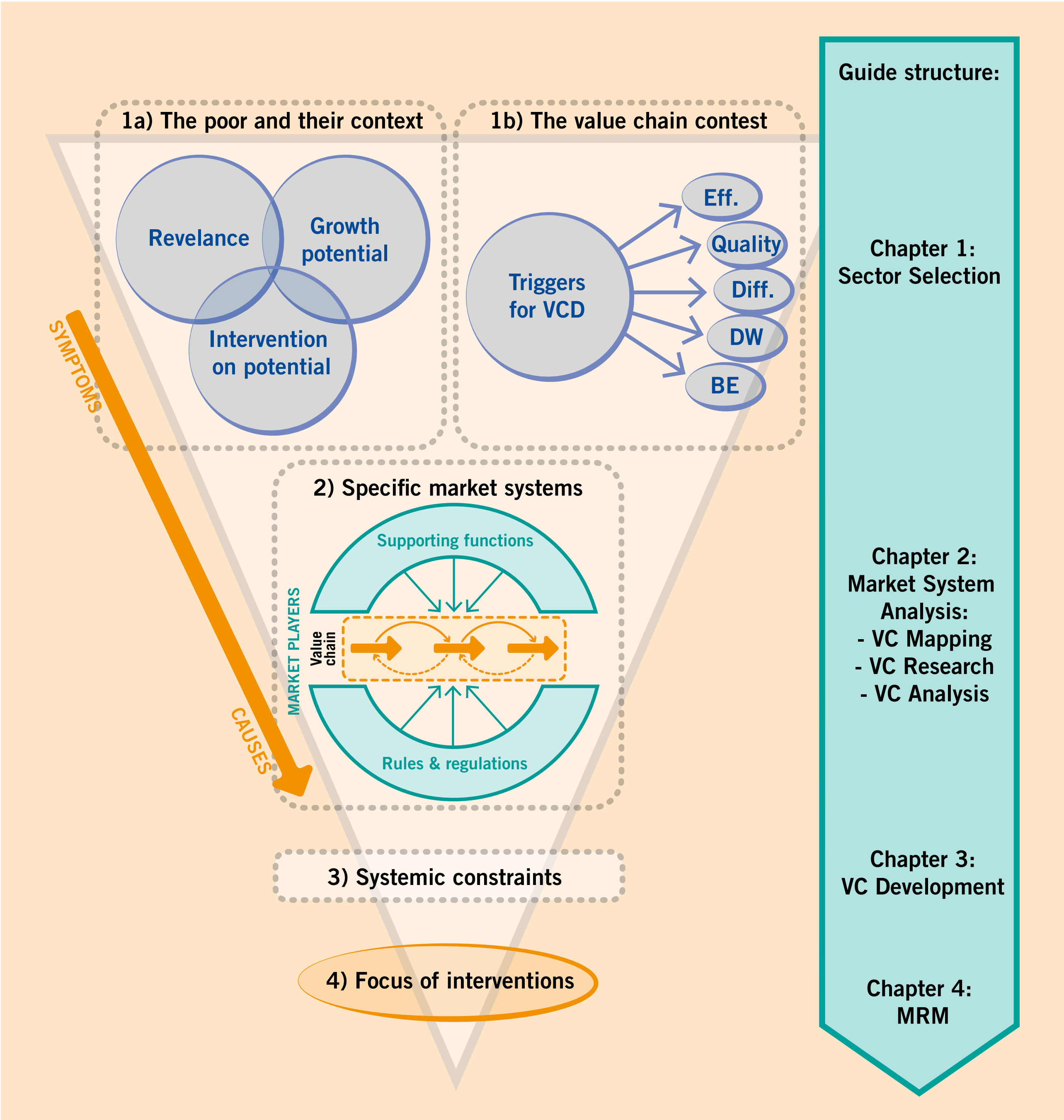

## 2.Value Chain Research

Value chain research (1) serves 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.

Through initial research, team workshops and the value chain map 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 example: lack of knowledge and information about farming techniques or poor working conditions of small producers and their employees.

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 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? Why are small producers not aware of good workplace practices already used by others? "Why" is in fact the most important question we need to ask in value chain research.

**Box 5: Moving from symptoms to systemic constraints in a value chain**



Before commencing research on a value chain however, you should **develop a research framework** to know your objectives and the key area that you want to analyze. The essential questions before starting with interviews and focus group discussions are:

- What are my primary interests within the value chain system?
- 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. Developing a research framework should be done in two steps:

| | |
|---|---|
| **Step 1: Decide on specific constraints or deficits and relevant market players** | This means selecting some of the deficits or constraints which you have identified in your initial research. Which were the constraints the key market players mentioned most? 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 targets on a large scale |
| **Step 2: Decide on the contents of the value chain research** | Once you have decided on specific focus areas, you need to think about relevant information for identifying underlying causes and market player incentives. To do so, value chain initiatives need to go beyond the core of the market and explore the range of other functions which support and govern the market – i.e. rules and supporting functions. |

***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 – not any longer. This process should in any case be of a participatory nature as this will create local ownership for the initiative and in the same time enhance cooperation between different market players.

The participatory nature of value chain research is realized through:

- ***Interviews and consultations*** with 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).

At this level value chain research 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' capacities 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.

Important issues when conducting value chain research are:

| | |
|---|---|
| **End Market** | Understanding demand trends for a certain product is key to value chain development. Value chain research thus has to entail a thorough analysis of the end market of a product. Are there any signs that indicate future increases in demand? What criteria have to be fulfilled to satisfy consumers? Have there been any changes in consumer trends? Are there specific quality standards or restrictions? Consumers could be end consumers but also big buyers in the chain like supermarkets or other larger enterprises. The market opportunity needs to be concrete and specific. |
| **Social Dialogue** | Social Dialogue is defined as being all types of negotiation, consultation or exchange of information between representatives of governments, employers and workers on issues of common interest. Value chain research should therefore identify and understand these formal and informal dialogue platforms: where do market players come together and exchange information? Where do market players negotiate and bargain for agreements? Do the existing dialogue mechanisms and institutions reflect the interests of all parties? Are workers and small producers involved in the dialogue? |
| **Working conditions** | Poor and disadvantaged people are part of value chain systems at various levels: as producers, service providers, workers and consumers. 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. This includes the absence of child- or forced labour and better incomes, but also non-discrimination and further reaching aspects like occupational safety and health, social protection, representation and voice. |
| **Value addition** | Value addition is often referring mainly to how local enterprises can generate more value within the local economy – thus creating more jobs and higher incomes. 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. You should ask yourself: 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. |

| | |
|---|---|
| **Gender equity** | 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. Value chain research should 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 income opportunities as men. Depending on local norms and culture, women might not be that apparent in the value chain, as for example they might not be involved in trading. It is key to consider this when analyzing the chain and to ensure a sufficient level of women's participation in workshops, interviews and focus group discussions. |
| **Costs** | Competitiveness may also depend on production costs along the value chain, thus costs can be calculated at each step of the value chain. Cost analyses can be used to identify cost drivers across different stages of the chain and assess the position of the value chain vis-à-vis competitors (benchmarking). It is important to identify cost drivers and understand the reasons behind them – the underlying systemic constraints that prevent enterprises from entering a more cost-efficient production strategy. However, not all research will be able to identify costs as enterprises are normally reluctant to share financial data, so researchers need to be realistic about what is possible. |
| **Power relations** | Dealing with value chains requires an understanding of how the value chains are organized and in particular, who has the say in the chain. Value chains display a variety of different 'governance structures', and the recognition of different forms of governance in value chains has important implications for the question of upgrading, that is to say, how enterprises can move into higher value-added activities. |
| **Business and financial Services** | It is coming to be recognized that the key determinants of improved productivity and competitiveness lie in improved knowledge, information, skills and the access to finance needed to fund improvements. Services are a critical means through which industry-specific information and knowledge is generated and transferred. 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, information and financial services. |

**Gender-sensitive Value Chain Development:**

As mentioned, women often may not be as visible as men in the value chain and may suffer from additional challenges and obstacles. If value chain development projects neglect women's specific needs and challenges and focus only on men's perspective, sustainable solutions risk to be geared to offer support only to constraints and bottlenecks perceived by men, and thus disadvantage women even further. A gender lens must thus be adopted at EVERY STEP of the value chain analysis and – development process. For more information on how to integrate gender analyses into the value chain development process, please refer to the ILO guide "Making the strongest link – A practical guide to mainstreaming gender analysis in value chain development" at:
http://www.ilo.org/empent/Publications/WCMS_106538/lang--en/index.htm

## 3. Value Chain Analysis and Intervention Design

Value chain analysis is the evaluation of findings of the value chain research out of which a strategy for value chain development and specific interventions evolve. This process already commences during the research in conversations with the various market players. The findings are then analyzed in a final evaluation workshop, 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).

Value chain analysis also means linking up the previous stages of the value chain initiative (initial research, value chain mapping and value chain research) to each other and drawing a conclusion. The outcomes of a value chain analysis should be:

- ***A clear vision*** on how to bring sustainable and systemic change in value chains
- ***An intervention framework*** outlining possible upgrading strategies and interventions, the market players involved and indicators for monitoring and evaluation. This includes a clear strategy on how to involve key market players and ensure market up-take[7] for wider change
- ***Documentation*** of research and analysis findings and strategies

The following section gives an overview of the **four steps of a value chain analysis** and illustrates these with practical examples:

| | |
|---|---|
| **Step 1: Analyze major constraints identified during value chain research** | Example: Poor working conditions of small producers have been identified during value chain research 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: Link the constraints to specific supporting functions and rules within the market system** | Example: The demand by larger buyers and the need for improvement of the quality of intermediate products provides incentives for improving workplace practices and occupational health and safety in lower parts of the chain. Small producers however are often not aware of some of the benefits of low-cost insurance or occupational health and safety measures that can increase staff loyalty and performance. There is a lack of coordination between market players as regards passing on the information and providing training for small producers. |

7 Market up-take describes a process by which other market players take up innovations or improvements and replicate these. This could include competitors copying new business models for service provision, new ways of packaging or selling products, the spreading of the idea of setting up business associations, banks seeing how MFIs successfully lend and entering the market and many others, depending on the interventions and the value chain.

| | |
|---|---|
| **Step 3:** **Identify market players that are currently performing functions or have incentives to perform functions** | Example: 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 local training providers and develop a business model that is financially viable. |
| **Step 4:** **Formulate sustainable solutions for value chain upgrading** | Example: 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? 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? Who pays for what costs of delivering services and information? And how will this become sustainable?<br>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 companies were facing high costs due to injuries at work. Local companies were willing to pay for services that would effectively enable them to reach export markets.<br>→ ***Finding sustainable solutions that lead to systemic change is the key objective of value chain development*** |

# III. Value Chain Development

## Finding sustainable solutions with impact on a large scale:

When one has thought about systemic constraints and the role and incentives of market players in the market system, the solutions are often obvious. But how do we ensure that these solutions also lead to the desired **sustainable outcomes**? When formulating intervention strategies for value chain development, we 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.

Sustainability requires that (i) interventions become financially viable for local players and that (ii) project teams 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? Market players that will perform a particular function need to have incentives to do so. While companies express willingness to pay for certain services as in the example above, a project needs to be able to support other market players in developing the new service and test it on the market. A business model needs to be developed that sustains and spreads service provision to a large number of actors in the chain, making the innovation widely available.

To achieve **impact on a large scale**, the project team needs to ask: 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? For this, value chain analysis needs to identify the right levers and market players that can ensure sufficient scale. Achieving impact at scale is also a matter of market up-take: Intervention strategies should allow other market players who are not part of the initial 'pilot phase' to take up the innovation at a later stage. Interventions need to be formulated as inclusive strategies from the outset – rather than exclusive with selected market players. In the case above on improving occupational safety and health for instance, this could include an insurance company offering a new, more affordable accident insurance and other insurance companies taking up similar models; or a training provider that develops a new low cost training that helps local business to comply with the requirements of larger buyers for which local business are paying the fees, and similar training providers taking up similar services, spreading a model to a larger number of actors in the market.

The role of the project is to facilitate this change and (i) develop new business models that can be taken up by the wider market, (ii) understand how this innovation can be spread and make that information available to other players, thereby stimulating market up-take, (iii) exit from the market, and (iv) test out the next intervention that addresses a different underlying constraint.

The project could also facilitate change of rules and regulations and the way public functions and the business environment influence the functioning of the value chain. Here again, similar questions need to be asked: who is going to implement changes in regulations and administrative procedures and what incentives do these players have to do it? How can we ensure that innovations in the business environment spread and get applied to a large number of market players?

**Remember!**

Value chain development is about enabling the target group to make informed choices on their own. It 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. We do not want to make people dependent on aid; we want to take them more serious as active market players. 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.

During the value chain development process, the project needs to keep an eye on the market system and how it evolves. For this, it is key to have a well-functioning monitoring and results measurement system.

## IV. Monitoring and Results Measurement

Monitoring is concerned with 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. The basis for monitoring and results measurement is 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.

A monitoring and results measurement system looks at progress in four areas[8]:

- **Inputs:** the financial, human and material resources used for development intervention
- **Outputs:** the products, goods and services which result from a development intervention. Outputs are services or products which the project is responsible for delivering, such as trainings, manuals or publications.
- **Outcomes:** the likely or achieved short and medium-term effects of an intervention's outputs, such as increased awareness for income and employment opportunities in a particular business sector, provision of BDS by providers previously trained in a TOT programme.
- **Impact:** impact looks at the achievement of overall long-term and strategic development objectives, such as poverty alleviation or income and employment creation.

Outputs, outcome and objectives are measured through indicators. 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. A good monitoring and results measurement system is able to describe how the interventions of a project lead to development results by establishing a theory of change. It then captures changes happening at the different impact levels, enabling the intervention team to track bottlenecks or obstacles to change and adapt value chain interventions. Monitoring systems thus allow for continuous progress and help the intervention to adapt to a constantly changing environment.

8 ILO (2005): A Handbook for Planning Impact Assessment. Job Creation and Enterprise Department, Geneva.

**Box 6: Intervention Model for Value Chain Development**

| INTERVENTION MODEL VALUE CHAIN DEVELOPMENT | | | | |
|---|---|---|---|---|
| ← IMPLEMENTATION → | | | ← RESULTS → | |
| **Inputs** | **Activities** | **Outputs** | **Outcomes** | **Impact** |
| • Budget<br>• Staff<br>• Local counterparts<br>• Trainers<br>• Training tools<br>• Partnership<br>• Facilities<br>• Equipment<br>• Supplies<br>• Technical expertise | **Research & analysis**<br>• Analyze and select promising sectors for VC intervention<br>• Develop tools for VC analysis<br>• Conduct VC analysis<br>**Design & implementation**<br>• Assist in developing proposal<br>**Capacity building**<br>• Produce trainer manual<br>• Conduct trainings for field staff/ counterparts/VCD facilitators<br>• Provide mentorship for implementation<br>**Monitoring and evaluation**<br>• Design intervention models and M&E systems based on DCED standard<br>• Design rigorous impact assessment for selected interven-tions<br>• Extract lessons learned and share with other practi-tioners | **Research & analysis**<br>• Sector selections report<br>• Tools for VC analysis<br>• VC mapping<br>**Design & implementation**<br>• Project proposal for donors<br>• Work plans<br>**Capacity building**<br>• Training material<br>• Key personnel trained<br>• Mentees mentored<br>**Monitoring and evaluation**<br>• M&E systems based on DCED standard<br>• DImpact assess-ment report<br>• Reports or issues briefs on lessons learned | **Macro**<br>• New market choice<br>• Customer satisfac-tion<br>• Upgraded com-petitiveness of the selected sector<br>• New policies, laws, or regulatory and administrative changes adopted to improve the en-abling environment<br>**Intermediaries**<br>• Improved capacity for BDS<br>• Additional resources mobilized fron others<br>**Individual enterprises**<br>• Additional skills acquired<br>• Better business practices<br>• Financial performance of enterprises im-proved<br>• Informality of enterprises reduced<br>• Working conditions improved<br>• Better compli-ance with labour standards | • Additional jobs created<br>• Higher household income generated<br>• Quality of jobs improved<br>• Poverty reduction |

**Box 7: Examples of Indicators for Value Chain Development**

| Outputs | Outcomes | High-level outcomes |
| --- | --- | --- |
| **Research and Analysis**<br>• Report on value chain analysis finalized and available<br>• Other market intelligence reports available<br>• Number of VCD solution designs documented by project?<br>• Reports on regular meetings of value chain actors<br><br>**Design and Implementation**<br>• Number of project proposals submitted to donors<br>• Work Plan available<br><br>**Intermediaries**<br>• New business models developed for intermediaries<br>• Training material published and available<br>• Number of key personnel or trainers trained<br>• Number of mentees mentored<br>• Number of new BDS/ financial service products developed<br><br>**Monitoring and Evaluation**<br>• M&E system audited based on DCED standard<br>• Impact assessment reports or issue briefs on lessons learned published | **Macro**<br>• Number of buyers to which SMEs can sell<br>• Number or % of buyers that are satisfied with the quality of products or services supplied by SMEs<br>• Change in market shares<br>• Number of new markets reached<br>• Export volumes<br>• Number of new policies, laws, or regulatory and administrative changes enacted<br><br>**Intermediaries**<br>• No of enterprises/clients reached, Income from fees charged for services, increased cost recovery rate, No of repeat clients<br>• Amount of additional resources mobilized from donors, sponsors, or local government<br><br>**Individual Enterprises**<br>• Number of trained enterprises that report an increased ability to analyze and solve problems<br>• Number and type of better business practices established (e.g. accounting, costing, workplace practices)<br>• Upgraded status given to SMEs as suppliers<br>• New products/business models introduced<br>• Number of new start-ups in the sector<br>• Performance indicator of existing enterprises, e.g. sales per employee<br>• Number of formally registered enterprises<br>• Number and % of employees that are satisfied with working conditions<br>• Number of enterprises complying with international labour standards | • Net additional jobs created (= jobs created - jobs lost, a full time equivalent job comprises 240 working days), alternatively: number of jobs saved or sustained<br>• Additional net income of targeted enterprises (additional sales- additional costs)<br>• Indicator for quality of jobs created (consult also ILO Decent Work Indicators), e.g.<br>• Adequate Earning<br>• *Number* of working poor<br>• Low pay rate (% of employees who are below 2/3 of median hourly earnings)<br>• Decent hours<br>• Excessive hours (more than 48 hours per week)<br>• Safe Work Environment<br>• Time lost due to occupational injuries<br>• Social Security<br>• Share of Employees with basic health care provision<br>• Share of Employees contributing to a pension scheme<br>• Indicator of poverty, e.g. % of target group that makes less than 1.25 USD per day |

| | |
|---|---|
| **Step 1: Selection of Indicators and establishing a theory of change** | The selection of indicators for monitoring and evaluation is very closely connected with the criteria that have been used to select a sector for a value chain initiative in the first place such as employment creation potential, known Decent Work deficits or potential for growth. Indicators therefore reflect the overall goals of the implementing organization – i.e. what are we trying to achieve through the intervention?<br>The theory of change explains how the the actions the projet takes will lead to change. What actions is the project taking to facilitate change in the market system (e.g introducing a new financially viable training tool), and through what steps will this move us closer to the desirable development result (e.g. more and better jobs)? The theory of change is established once the first project interventions have been designed.<br>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).<br>The selection of indicators should be SMART:<br>• Specific, related to the conditions the project seeks to change<br>• Measurable, either numerically or in terms of ranking or preferences<br>• Achievable, within limited financial, human and technical resources<br>• Relevant, with regard to the objective concerned<br>• Time-bound, within a certain framework |
| **Step 2: Data collection methods and scale** | Once the team has decided which indicators to monitor, they also need to decide on which methods to use to collect the relevant gender-disaggregated data and informatio n and on what scale this should be done. Methods for data collection need to be linked to the steps of the theory of change and can include questionnaires, interviews and focus group discussions. However, these should be kept 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. |
| **Step 3: Conducting a baseline survey** | It is often useful to capture how market players operate before intervening. This is often done during the value chain analysis, but can also be part of an initial 'market system' baseline (asking about current sales, revenue streams, etc.), meaning a more general baseline study not related to the theory of change.<br>While in the past larger baseline surveys were conducted at the outset of a project, modern standards on monitoring and results measurement like the DCED measurement standard now recommend that instead of a 'big baseline survey' at the outset, a series of carefully timed baselines (which are linked to specific interventions and part of a wider strategy to plausibly attribute changes to these) are usually more suitable.<br>A baseline study provides benchmarks against which progress can be measured and evaluated. Changes can only be measured if there is data for comparison with. It is therefore essential that data is collected once theories of change have been established. |

The Standard for Results Measurement of the Donor Committee for Enterprise Development (DCED Standard) defines eight criteria or control points that every monitoring system should take into account in order for the system to fulfill the above-mentioned objectives. For more information on the DCED Standard and its criteria, please visit the DCED Website here: http://www.enterprise-development.org/page/measuring-and-reporting-results.

# ANNEX 1: Overview of relevant terms and terminologies used in this rough guide:

**BDS** – Business Development Service (s) means all non-financial business services. They may be provided by the private sector, government, business associations or NGOs to SMEs to help them start, sustain and expand their businesses

**Core transactions/ Core value chain** – Core transactions of a value chain, i.e. the core value chain refers to functions that are necessary to bring a product or service from its inception to the end consumer. Typical core transactions are sourcing, production, transport, marketing, etc.

**Decent Work** – Decent work is the ILO's overarching goal and the Decent Work Agenda is its strategy for achieving it. The Decent Work Agenda coordinates four strategic objectives relating to Creating Jobs, Guaranteeing Rights at Work, Extending Social Protection and Promoting Social Dialogue

**Interventions** – A specific package of temporary activities through which facilitators seek to bring about change

**Market** – A set of arrangements by which buyers and sellers are in contact to exchange goods or services

**Market system** – The multi-player, multi-function arrangement comprising three main sets of functions (core, rules and regulations and supporting functions) undertaken by different players, and through which exchanges take place

**Rules and Regulations** – Rules and regulations refer to all sorts of laws, standards and regulations as well as informal rules and norms that govern actions and interactions of market players. Next to the core transactions of a value chain and supporting functions, rules and regulations are an integral part of the market system

**Supporting functions** – Supporting functions are all activities and services offered to support private sector actors in the value chain, such as infrastructure, R&D, training offers, etc. Next to core transactions of the value chain and rules and regulations, supporting functions are an integral part of the market system

**Supply Chain** – The term supply chain, like the term value chain, means the process of bringing a product to the end consumer. However, supply chains are usually analyzed and developed from the perspective of a main buyer and often focus on the logistics of organizing a supply system, while the term value chain is usually used with a developmental connotation.

**Sustainable solutions** – Solutions that lead to sustainable outcomes, meaning that newly created market functions continue to be offered and consumed beyond the period of an intervention

**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 and delivery to final consumers, and final disposal after use. The term value chain is usually used with a developmental connotation addressing productivity, growth and job creation in the market system, as opposed to the term supply chain which looks at the chain from a buyer's perspective.

The bulk of new employment opportunities is generated by small enterprises. Yet, small enterprises frequently face specific constraints that hinder their development prospects. Especially in low-income countries, they are often lacking access to finance and other business services, and suffer from a limited understanding of markets, weak bargaining power and a lack of adequate knowledge of management practices. Unable to harness the potential of their value chain to expand and improve their own competitiveness, they often operate on a precarious basis, with low productivity and poor working conditions.

The ILO Value Chain Development approach looks at market dynamics and relationships between the different actors in the chain with the objective of strengthening the whole market system - enterprises, business relationships, financial networks, supporting functions, rules and norms, and the business environment – in a way that ensures greater benefits for the poor from economic growth and development. This "Rough Guide to Value Chain Development" has been developed for development practitioners, governments and private sector initiatives to give a simplified overview of the Value Chain Development approach as applied by the International Labour Organization (ILO).

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