ACTION
AGAINST
HUNGER

VALUE CHAIN
METHODOLOGY
ACTION AGAINST HUNGER TOOLKIT

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Acknowledgements

This guideline has been developed with the external support of SIC4 CHANGE. Special thanks to SIC4 CHANGE team for their helpful work.

Acronyms

AAH: Action Against Hunger

BDS: Bussines development services

BEE: Business enabling environment

CIAT: International Center for Tropical Agriculture

KM: Knowledge management

KPI: Key Performance Indicators

M4P: Market for the poor

MSMEs: Micro, Small or Medium Enterprises

M&E: Monitoring and Evaluation System

NSVC: Nutrition sensitive Value Chains

PIRS: Performance Indicator Reference sheets

RCM: Reciprocal Control Mechanism

RMA: Rapid market appraisal

VC: Value Chain

Table of symbols

SYMBOL	MEANING
	Toolbox
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INTRODUCTION:

Why Value Chain?

The current model of economic development has generated a series of persistent social problems which can not be exclusively solved through the traditional roles of the state, private sector or third sector. Given this changing context, Development Organizations face the challenge of transforming the paradigms under which they operate, in order to achieve impact.

Markets have the capacity to allocate costs and benefits among society, but that distribution does not necessarily, and most commonly does not, respond to the social needs of the most vulnerable people. Generally, poor people face different barriers, such as power asymmetries, access to capital or social class, which prevent them from earning a fair share from those markets, proportionate to their contribution.

The Value Chain (VC) Approach is a tool that has the potential of helping to understand how markets work, identify the main barriers its actors face and understand how these barriers can be solved in order to achieve a fairer distribution of costs and benefits and to build up a more inclusive economic structure. Hence, a VC methodology is important as a development strategy because:

1. It helps to understand how poor people are engaged, can engage or may improve their engagement with domestic, regional or international trade.

2. Allows VC interventions to localize bottlenecks impeding a better engagement of poor population into the Value Chain.

3. Allows decision-makers to have a better understanding of the whole production chain of a certain product, focusing not only on the supply side, but also relating it with markets and final customers.

4. It is a powerful, evidence-based and action-oriented tool to design and define interventions that are cost-saving and made to scale impact.

Why this manual?

The goal of this document is to offer Action Against Hunger´s (AAH) staff and other field practioners an extensive but "easy to use" set of concepts, tools and best practices for the design and implementation of development programs with a VC approach.

The document is organized in seven (7) chapters. The first one (INTRO) explains what is understood by Value Chain methodology and its main principles, whereas the following sections are organized according to the theoretical life cycle of the VC methodology: what is to be considered in the starting line (PHASE 1) and how to map, analyse and identify opportunites for VC upgrading (PHASE 2). The next chapters offer key elements for designing and implementing VC interventions (PHASE 3), and describe an Evaluation, Monitoring and Learning framework for the whole intervention (PHASE 4). The document is completed with an additional chapter (MORE TO BE CONSIDERED) which aims to deepen on certain key and transversal aspects of the Value Chain methodology, such as partnerships, participation, governance, gender equity. Finally the last chapter is the bibliography including all documents cited in the document.

All tools that are recommended in the different chapters are available throughout the document in an Excel format for being directly filled out by the users of this guideline. This compilation of tools, aimed at AAH staff and other field practicioners, will constitute a useful and effective toolkit to implement all the phases of the VC methodology.

The tools have been selected according to three (3) main criteria: 1) tools that respond to the specific needs of each phase and 2) tools that have been developed by reference organizations on this field and 3) tools that are simple and easy to use.

What is Value Chain methodology?

Value Chains do not exist in a tangible reality: they are simply a framework for trying to understand how production networks function and how the different stakeholders relate to each other and capture value along the different stages of production.

To do so, Value Chain describes the full range of activities required to bring a product or service from conception, through the different 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 (Kaplinsky and Morris 2001).

There are uncountable definitions and approaches to what a Value Chain methodology is. Common to all these definitions is the fact that they are based on the premise that disadvantaged groups are active subjects of the economical dynamics and market systems in which they are embedded, and that by improving these systems it is also possible to improve opportunities for them (USAID, n.d).

Departing from that premise, the **Value Chain methodologies** comprise an extended focus on the analysis of the economic, social and environmental characteristics of the Value Chain, identifying gaps which prevent it from performing adequately. Furthermore, and based on the identified gaps, this approach also focuses on the design and implementation of strategies for Value Chain upgrading.

The following graph summarizes the phases of a typical Value Chain approach:

The Value Chain methodology

STEP 1.1: ASSESS BASELINE CONDITIONS
STEP 1.2: DEFINE SCOPE OF THE PROGRAM
STEP 1.3: VC SELECTION
  STAGE 1. SELECTION CRITERIA
  STAGE 2. DATA GATHERING AND ANALYSIS
  STAGE 3. CONSULTATIVE PROCESS & FINAL DECISION

STEP 2.4: SET VC BOUNDARIES
STEP 2.5: MAP VALUE CHAIN
  STAGE 1. MAPPING STRUCTURAL COMPONENTS
  STAGE 2. ANALYSE COMMERCIAL FIGURES
  STAGE 3. ANALYSE OTHER SOCIAL, ENVIRONMENTAL OR INSTITUTIONAL FACTORS RELEVANT TO THE VC
STEP 2.6: GAPS IDENTIFICATION

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PHASE 3. UPGRADING STRATEGIES

STEP 4.10: MONITORING AND EVALUATION
STEP 4.11: KNOWLEDGE MANAGEMENT

STEP 3.7: UNDERSTAND & SELECT THE UPGRADING STRATEGY
STEP 3.8: MANAGE RISKS
STEP 3.9: DESIGN RCMS FRAMEWORK

Source: Own elaboration
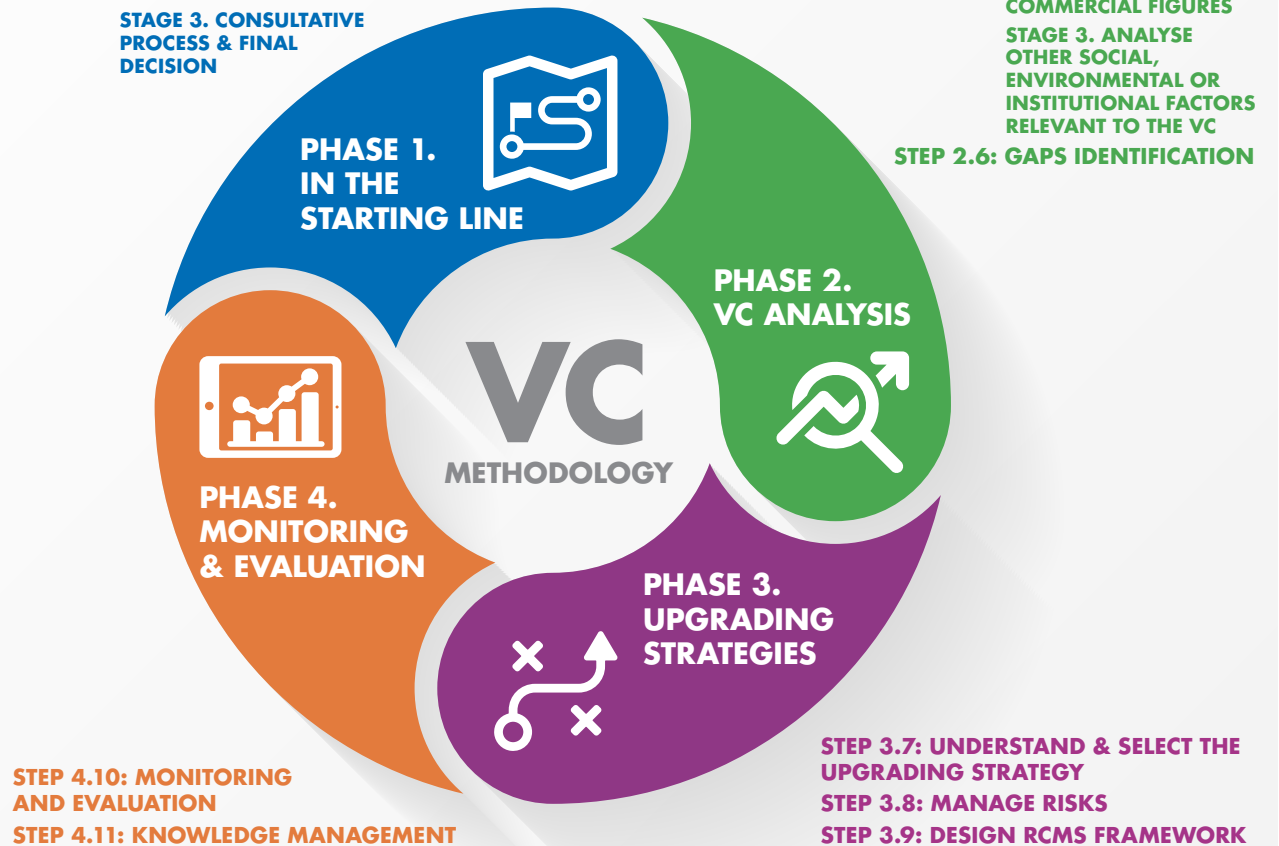
What are the Value Chain methodology's main principles?

VC methodogy is sustained by some key principles and concepts:

- **Inclusivity:** Improving Value Chains can bring numerous results in different dimensions, however, the focus of the Value Chain methodology – understood as a development strategy - is improving Value Chain performance for the target group (poor, women, ..), in order to better their lives.

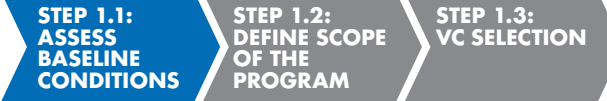- **Focus on end markets (demand):** while traditional VC interventions mainly focus on the supply side, VC methodology approaches propose to focus more on the demand side. End markets should be the main source of information to determine product end characteristics, identify main competitors and risks, understand local or global trends, etc.

- **Partnerships:** Alliance building among stakeholders is a mandatory principle of Value Chain methodology. It boosts a coordinated effort to achieve common goals and overcome constraints.

- **Stakeholders** are the actors that are directly or indirectly linked to the Value Chain. It includes actors from producers to end buyers, as well as development organizations or donors.

- **Governance:** Value Chains are composed by human and organizational relationships. The quality of these relations determines the competiveness and access to information, skills and service flows. Therefore, the VC methodology has a strong focus on building capacity and strengthening relationships.

- **Facilitate changes in stakeholder's behaviours:** Organizational behaviours also determine VC performance. Nevertherless, to promote any change in behaviours, it is necessary to understand the economic and non-economic incentives that support them. The VC methodology proposes to analyse these incentives along with the willingness to change behaviour.

- **Empowering the private sector:** The VC methodology seeks to empower and capacitate Micro, Small or Medium Entreprises (MSMEs), as well as producer associations or any other private stakeholders, to be active players in transforming the VC by adding value (whether in the product, structures or in the processes).

- **The role of donors and implementing partners** is to facilitate and support the private sector's implementation of competitiveness strategies, in a way that ensures that development objectives are met, while, on the other hand, not replacing roles that should be played by market actors.

- **Learning and Adaptive Management:** VC are embedded in dynamic systems, thus they are subject to a high degree of uncertainty. In order to achieve final goals, promoters should keep aware to changes and keep a permanent learning and adaptation attitude.

PHASE 1: IN THE STARTING LINE

The promotion of value chains is a complex challenge and VC interventions might not be appropriate in some contexts. That is the reason why it is important to carefully study the potential of such interventions beforehand. That is the purpose of that section.

- **STEP 1.1: ASSESS BASELINE CONDITIONS**
- **STEP 1.2: DEFINE SCOPE OF THE PROGRAM**
- **STEP 1.3: VC SELECTION**
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PHASE 1. IN THE STARTING LINE

| STEP 1.1: ASSESS BASELINE CONDITIONS | STEP 1.2: DEFINE SCOPE OF THE PROGRAM | STEP 1.3: VC SELECTION |

Source: Own elaboration based in CODESPA, 2011 (J. Lanuosse)

Step 1.1.
Assessing Baseline conditions

Is a Value Chain methodolgy (VC) the most adequate strategy to tackle poverty or other social and environmental challenges, in a specific context?

The starting point for answering this question is to acknowledge that a Value Chain approach is based on market premises. It is based on the assumption that increasing the market power and economic capacities of poor people will improve their living conditions. Thus, in assessing its appropiateness, there are three main questions that implementers will have to answer:

1. Is the territory ready to allow a market-based approach?

2. Is the situation (that we want to solve or improve) an economical issue?

3. Is the target group ready to be involved in market dynamics?

Value Chain development aims at strengthening the functioning of markets for the benefit of marginal and poor people, improving their access to jobs and by influencing the distributive outcome of market processes (GIZ, 2017).

If implementers find an adequate context to tackle a VC strategy, then there is a a fourth question to be answered:

4. Does the AAH mission have enough capacity to adopt a VC approach?

Designing and implementing a Value Chain development program requires experience and a set of skills. According to MEDA (MEDA, 2007), implementers need at least the following capabilities:

- Strong research skills and knowledge on gathering and analyzing information through primary and secondary sources.

- Report writing experience with a special ability in organizing and synthesizing information.

- Ability to understand market dynamics and trends, including the role of each actor in interconnected markets, product competitiveness, and value comprehension.

- Business assessment experience, especially in the target Value Chain, and ability to evaluate basic business performance indicators.

- Knowledge and experience on local culture and, specifically, on the target groups culture and value systems.

- Creativity and ability to think entrepreneurially when developing solutions and interventions.

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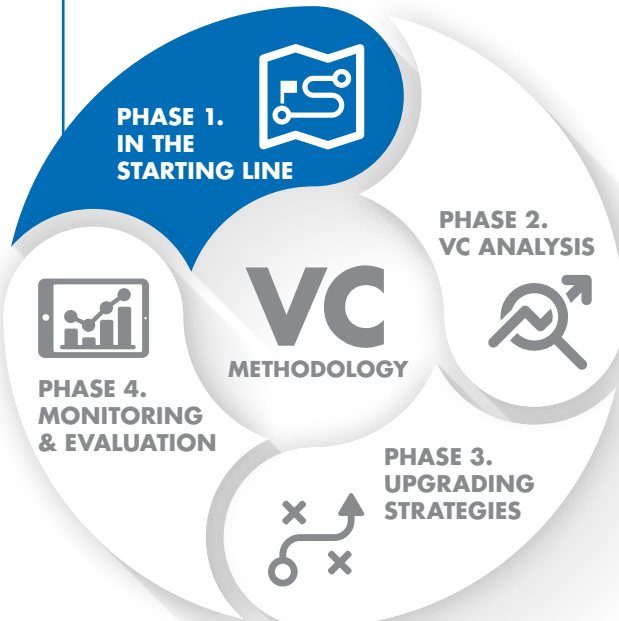
Usually, the previous skills set will come from a team of people. If implementers do not have these sets of capabilities, they should consider hiring external consultants to guide and coordinate the first VC programs, in order to get the necessary knowledge to implement further programs under a VC methodology.

Finally, implementers are to consider the cost-effectiveness of adopting a VC approach: what is the available budget? Does the team have knowledge on the specific geographic areas? What are the equipments, vehicles and other available resourcers? How much will the staff cost? Etc.

There are no specific tools to assess these baseline conditions, however the following box aims to offer a guide to help implementers throughout the decision process:

Guiding questions

Question Box 1: Guiding questions to assess whether baseline conditions are adequate to choose a VC approach:

1. Is the territory ready to allow a market based approach?

- Are there basic services and infrastructures in target communities that allow access to markets?
- Is there a growing market to allocate products and services?
- Are geographical locations adequate? (Note: Peripheric locations increase marketing costs, which compromise the VC's competitiveness and prevents investment).
- Is the promotion of VC supported by local governments?
- Can potential partners (public and private) be mobilized to participate in the intervention across the Value Chain?

2. Is the situation (to be solved or improved) an economic issue?

- Can the problem we are dealing with be solved through an improvement of the economic situation of the beneficiaries?

- Do desired outcomes depend on the functioning of the entire Value Chain? Could improvements in certain segments of the VC induce improvements in other groups of actors or segments? Do these improvements depend on other actors or segments?

3. Is the target group ready to be involved in market dynamics?

- Are beneficiaries capable of reaching markets or in a subsistence level?
- Are communities willing and prepared to innovate in their processes?
- Under what conditions would vulnerable groups participate in the VC?
- Are project costs somehow balanced with desired beneficiary gains?

4. Does the implementing agency have enough capacity to adopt a VC approach?

- Is the scope of the required activities beyond the means and resources available for the project?
- Does the agency have expertise or knowledge on implementing VC methodology?

- Does the agency count with a multidisciplinary team? (market dynamics knowledge, productive knowledge: agricultural, farming, others..., legal frames, etc.)?
- Does the agency staff have knowledge on local market dynamics and local VC?
- Does the agency mission have the possibility to complement their knowledge with other partners?
- Does the mission possess expertise on facilitation of participation processes?
- What is the cost-effectiveness of a VC approach in this specific case?

In this case, is a VC approach a cost-effective strategy?

- What is the available budget?
- Does the team have knowledge on the specific geographic areas?
- What are the equipments, vehicles and other available resources?
- How much will the staff cost?

Source: Own elaboration

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Tips and lessons learnt

Answering the question of whether Value Chain development is the right approach may require a substantial amount of information not usually available at the beginning of a project. The choice of the approach could possibly be postponed until a stage where more information on the Value Chain becomes available (e.g. through a Value Chain diagnostic study). However, often substantial information already exists on the conditions in a given Value Chain. Experience and discussions with well-informed stakeholders may complement this information and enable the analyst to determine at an early stage if the Value Chain approach is useful or necessary.

(UNIDO, 2010)

Toolbox

Toolbox 1: Step 1.1: Assessing Baseline conditions

There are no specific tools to assess baseline conditions for the adoption of a VC approach, however questions included in Box 1, could be used as a guide to assess its appropiateness.

Further information on regional economic development can be found in:

- UNIDO, 2011, Pro-poor Value Chain Development Practitioner's. Guide 25: Guiding questions for designing and implementing agroindustry projects https://www.diis.dk/node/1695

- CODESPA, 2011, Metodología de análisis de cadenas productivas bajo el enfoque de cadenas de valor (only available in Spanish) https://www.codespa.org/app/uploads/metodologias-analisis-bajo-enfoque-cadenas-de-valor.pdf

- CIAT, 2007, Participatory Market Chain Analysis for Smallholder Producers https://cgspace.cgiar.org/bitstream/handle/10568/54198/Good_Practice_Guide_4.pdf?sequence=2

If all the previous factors constitute a barrier that can not be solved through a VC development strategy and the main goals are hard to achieve, then the implementers should consider other approaches such as local economic or territorial development, enterprise development or upgrading, product or market development services focusing on specific aspects such as targeting new markets, improving the aggregated value, gender equality, etc.

Nevertherless, some of the previous factors could be reinforced by other strategies. For instances, lack of knowledge among the agency staff or the need to constitute multidisciplinary teams, could be compensated by hiring external consultants or establishing partnerships with other agents in the region (other NGO, public administrations, academy and so on).

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| STEP 1.1: ASSESS BASELINE CONDITIONS | STEP 1.2: DEFINE SCOPE OF THE PROGRAM | STEP 1.3: VC SELECTION |

Source: Own elaboration

Step 1.2.
Scope of the program

Once baseline conditions have been assessed and results suggest that the VC methodology is an appropriate approach to achieve the specific goals, implementers must decide what VC or VCs are to be prioritized. This is not an easy task and this decision will define all the intervention design: activities, partnerships, logistics, etc.

To make this decision, it is important to engage stakeholders in the process of clearly defining **the scope of the program**, or, in other words, defining its final goals and who the target group is.

1. **Final goal:** The selection of potential Value Chains to be developed encompasses a series of strategic decisions; implementers are to ensure that the final choice is aligned with organization mission and values and the kind of impact the organization aims to achieve, as well as with the mission of other organizations involved in the program. The VC selection should also be aligned with local market policies and market dynamics and the required intervention should be in accordance with available resources and estimated time. Considering all those aspects, it is important that stakeholders define and agree the goal of the program in a participatory manner since the beginning.

Examples of final goals for a VC program could be: improved nutrition security, improved livelihood security, improved nutritional VC, increased income, poverty alleviation, climate change adaptation, reduced environmental impacts, economic empowerment for women, among others.

2. **Target group:** There is no point on selecting a VC prior to agreeing on the target group the program aims to benefit: women, youth, the poor, casual workers or other minorities. The VC methodology essentially works as a tool to reduce poverty, therefore, once there is clarity on the target group, the program has to be designed to maximize its impact on the selected groups. However, prioritizing a target group does not mean that activities should focus directly on this group, given that interventions might be directed to enhance target groups' participation in markets in different ways, whether as clients, suppliers, employers, etc. In consequence, when defining target groups, implementers should consider:

- Who are the marginalized groups that the agency aims to benefit and what are their main characteristics.

- Which are the micro or small enterprises that could link those groups to markets and what are their main characteristics.

- Which are the businesses, at different levels of the Value Chain, which could enhance MSMEs´ performance and participation in markets.

Programs can consider working with any of the previous groups in order to enhance and stabilize their market performance and ultimately benefit marginalized groups.

Tips and lessons learnt

Implementers could also consider enterprises (small or medium) or other organizations as the target group, in order to ultimately benefit more vulnerable groups.

The definition and characteristics of the target groups must be clear, to avoid further confusions and unnecessary tensions among key players. For example, the program's definition of "poor" or "vulnerability" should be clear.

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Tips and lessons learnt

There are often trade-offs between impact and target clients.

For example, a program may reach more people and offer more significant benefits by targeting urban producers who are closer to the market, have access to credit, and are more highly trained. But, such a program may not reach isolated or marginalized rural producers where the same scale of impact would require greater investment of program funds. One role of the program designer is to help the implementing agency identify and navigate these choices.

MEDA, 2010

Tips and lessons learnt

For the application of Value Chain approach to the achievement of nutrition goals, please always consider the following:

"Nutrition sensitive Value Chains (NSVC) can be defined as the process of developing a strategy that addresses a set of nutrition problems through interventions within specific Value Chains. To do so, it is key first to set explicit nutrition goals and to clearly identify the nutrition problem you want to address.

(Action Against Hunger, 2017)

3. Finally, the **VC methodology is built on a participatory and partnership basis**, which means that there will be different perspectives and interests at stake. If the final scope of the program is clear to all participants from the beginning, further conflicts or points of friction can be avoided later on. A common understanding of the scope of the program among stakeholders is a basic ingredient for every partnership.

For all these reasons, the firts step is to clarify and reach agreement among all participants on the program's final scope.

Guiding questions

Question Box 2.
Step 1.2: Scope guiding questions:

- What is the main goal of my program? What is the motivation for designing this program?

- Who are the target groups?

- Are there any particular outcomes, partners, activities, or operational methods that should be incorporated into the design?

Toolbox

Toolbox 2. Step 1.2:
Defining scope of the program

Recommended tools (included in the Excel toolkit – please refer to Tools 1 and 2 for filling out the tools):

- MEDA, 2007, Program design for Value Chain initiatives, Checklist of required information, pages 12-15: http://www.fao.org/3/a-at403e.pdf

- MEDA, 2007, Program design for Value Chain initiatives, Worksheet to register goal and purpose articulator, pages 22-23 http://www.fao.org/3/a-at403e.pdf

Further information on how to fulfill these tools can be found in:

- MEDA, 2007, Program design for Value Chain initiatives, pages 12-23 http://www.fao.org/3/a-at403e.pdf

If you want to specifically focus on Nutrition Sensitive Value Chains (NSVC), please refer to the following tool for Nutrition Situation Analysis:

- IFAD, 2018, Nutrition-sensitive Value Chains. A guide for project design Vol II, Step 1: Nutrition Situation Analysis, pages 15-45 https://www.ifad.org/en/web/knowledge/publication/asset/40805038

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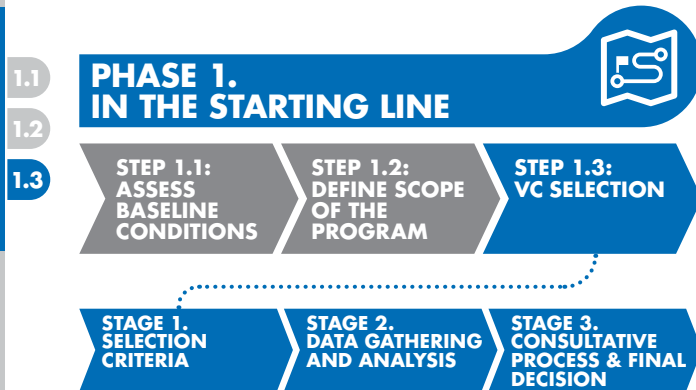
Source: Own elaboration

Step 1.3.
Value Chain selection

Even when the scope of the program has been set, selecting a specific VC over other possible VCs is a process that can be charged with subjectivity, affected by the different stakeholders' particular interests or by a tendency to work on VCs which are more familiar.

The final selection of a VC calls for an objective assessment of the economic, social and environmental factors that are considered as priorities.

Thus, **how should implementers face this step?** An adequate Value Chain selection process should comprise at least three phases:

- Setting sector and VC selection criteria.
- Gathering information about potential VCs.
- Consultative process and final decision.

Stage 1.
Setting sector and VC selection criteria

The selection of those Value Chains (3-4) with greatest potential for change (change as defined by the implementing agency) should be based on **an informed decision relying on a transparent selection method**. This implies formulating criteria that lead the final VC selection towards the impacts stakeholders seek to achieve. Thus, defining selection criteria for sectors and VCs will flow from the definition of the scope of the program set in the previous step.

Moving forward, as GIZ highlights (GIZ, 2015), it is fundamental to set economic criteria as the bottomline. However, social, environmental and institutional criteria can also be favorable and should be included in order to avoid perpetuating social inequalities and environmental damages, creating the possibility of eventually achieving a sustainable development of the selected VC in all its dimensions.

- **Economic criteria:** Economic criteria should ensure that selected sectors/VCs have a strong economic potential. Factors such as employment creation, potential income increase, comparative advantage, added value, etc, are mandatory for a sustainable economic development.

- **Social criteria:** Social criteria include a wide range of aspects, such as human rights aspects, health related aspects, inclusiveness of disadvantaged societal groups, work conditions, livelihood improvements for the poor, etc.

- **Institutional criteria:** Institutional criteria refer to structural aspects, such as regulatory environment, internal and external governance, etc.

- **Environmental criteria:** on one hand, environmental criteria should guarantee that value is created while environment is preserved. In this sense, implementers should consider the complete life cycle of the Value Chain. On the other hand, implementers can take advantage of the increasing new market opportunities for "green products" (those which are developed without damaging the environment).

What criteria to establish, whether qualitative or quantitave, to select a VC depends on many factors, such as the local context, the goal of the program, priorities of different stakeholders, etc, and must be established in a participatory manner. The GIZ guidelines presented in the Toolbox 3. includes examples of criteria and guiding questions. In order to prioritize the criteria that are more important to stakeholders, they have to be weighted. In the following phase, information on the different VC will be gathered and the ranking of criteria in a simple scoring matrix will facilitate the comparison and choice between the VCs at stake.

Tips and lessons learnt

Implementers have a certain tendency to work on VC they have some previous knowledge on. To avoid this, it is highly recommended to keep an open mind and be willing to work on new products or services that, ultimately, better fulfil the established criteria

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Tips and lessons learnt

When choosing a VC whithin a Nutrition- sensitive program, remember:

"Nutrition-sensitive Value Chains (NSVC) are mostly based on a food commodity that has the potential to reduce malnutrition. As a result, NSVC should offer a food commodity that is safe, nutrient dense, easily accessible and affordable to populations that are destitute and vulnerable to undernutrition"

(Action Against Hunger, 2017)

Toolbox

Toolbox 3. Step 1.3: VC selection criteria

Recommended tools, also available in the Excel toolkit – please refer to Tools 3a and 3b for filling out the tools:

● Scoring matrix (adapted from GIZ, 2015)

Further information on how to fill-in these tools can be found in: GIZ, 2015, Guidelines for Value Chain selection: Integrating economic GIZ´s examples of guiding questions and criteria https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/instructionalmaterial/wcms_416392.pdf

Refer to the guiding questions from pages 16 to 20 as an example to set selection criteria.

● Scoring matrix (DFID, 2008)

Further information on how to fill in these tools can be found in: DFID, 2008, Making Value Chain work better for the poor. Pages 19-27 https://youtheconomicopportunities.org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413.pdf

Also, for the selection of nutrition-sensitive commodities, you can consult:

● IFAD, 2018, Nutrition-sensitive Value Chains. A guide for project design Vol II, Step 2: Commodity Selection, page 55-56 https://www.ifad.org/en/web/knowledge/publication/asset/40805038

Stage 2.
Data gathering and analysis

Once criteria have been set, implementers should gather and analyse information on the 3-4 potential VCs at stake, in order to select one to be promoted. This phase could range from a few days to several weeks, depending on the number of Value Chains under consideration, the number of criteria, the available information, etc.

To avoid an overly detailed, costly and complex process without adding significant value, one option is to carry out a rapid market appraisal (RMA). The results of the RMA will also be used later on as quality input to design the action plan for the selected VC.

When undertaking a RMA, data (both qualitative and quantitative) will primarily be collected from secondary sources. However, as pointed out by GIZ (GIZ, 2015), when carrying out this process, two scenarios will open up:

- When there is clear evidence and well-documented information available: In this case, a quick review and validation may be sufficient. It can be done in a participatory manner with other interested stakeholders.

- When there isn´t enough information or reliable data: In this case, it is very important to promote participation of other market key players. The aim is to fill information gaps while screening the long list of Value Chains against exclusion and inclusion criteria and end up with a strong shortlist.

Once the information has been gathered and analysed, it will serve to feed the **scoring matrix or final decision matrix** (previously designed) and score the VC at stake. Please refer to the Tools 3a and 3b of the Excel Toolkit.

🛠 **Toolbox**

Toolbox 4. Step 1.3:
Data Gathering and analysis

The Tool 4 available in the Excel toolkit includes examples of different areas a RMA should look at (adapted from ILO, 2006).

Other useful resources:

- ILO, 2006, Rapid Market Appraisal: A manual for Entrepreneurs A Guide to Rapid Market Appraisal (RMA) for Agricultural Products (Helvetas, CRS, CIAT) https://www.crs.org/sites/default/files/tools-research/guide-to-rapid-market-appraisal-for-agricultural-products.pdf

- MEDA, 2007, Value Chain Selection, in https://www.meda.org/market-systems-publications/the-care-meda-e-course-on-market-analysis-and-value-chain-project-design/492-vc-project-design-guide-step-2-value-chain-selection/file

When NSVC analysis: for nutritional value analysis, you can refer to:

- IFAD, Nutrition-sensitive Value Chains. A guide for project design Vol II, Step 3, Tool 3.3. Commodity tables (page 80), Tool 3.4. Nutrition value (page 81-82) https://www.ifad.org/en/web/knowledge/publication/asset/40805038

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Stage 3.
Consultative process and final decision

While selecting the VC to be prioritized, implementers face several challenges: one is to define and agree upon criteria for selection, another is the limitation in available time and funds to collect and analyse all the information. Another challenge is that information is not always reliable. Moreover, in the absence of information, implementers must rely on primary sources which, in many cases, introduce political or personal perspectives and interests.

Regardless of all these challenges, implementers should seek to engage stakeholders (producers, donors, MSMEs, etc.) in the final decision process. There are different methodologies to motivate this participation: interviews, questionnaires, etc. However, if promoters seek an integrated participation rather than a disseminated one, **workshops** appear as an adequate methodology. This common space for reflection allows to share and discuss the information included in the score matrix (or final decision matrix), contributing to the achievement of a consensus and ownership over the VC selection. More information about participation and tools can be found on section "more to be considered".

Despite bringing many positive advantages, the involvement of stakeholders in the final decision also opens new challenges and risks. For instance, processes can become unnecessarily timeconsuming, consensus among different parties can be hard or impossible to achieve and partipants can have contradicting interests or be biased (GIZ, 2017).

The final decision should be based on the gathered information and on the selection matrix, in order to keep as much objectivity as possible.

Once the final VC has been selected, implementers will proceed to analyse it.

Tips and lessons learnt

"Stakeholders should represent interests across different Value Chains and have a broad overview on the range of alternatives from which the selection is made. It also does not have much sense to let different interest groups fight for the access to funds. Thus, the final decision making should be left to major stakeholders who are in a neutral position and able to compare the different Value Chain alternatives without fear or favour"

UNIDO, n.d.

PHASE 2: VALUE CHAIN ANALYSIS

Value Chain analysis consists in the analysis of the dynamics of a specific Value Chain to identify opportunities and constraints for upgrading. This analysis should review the full range of activities, services and actors (suppliers, producers, processors, buyers, services providers, etc.) involved in all the activities needed to bring a product or service to the end market.

The findings resulting from this analysis will provide the baseline for the design of the action plan or development strategies.

There is not a unique methodology for VC analysis, as it depends on the purpose of the research. However, there are three main phases to be highlighted: 1) Setting Value Chain Boundaries, 2) Value Chain mapping and 3) Gaps identification.

Tips and lessons learnt

"To avoid that Value Chain studies end up being shelved, the utilization of the study has to be clear beforehand. Chain actors have to specify their data needs before they commission a study, keep control of Value Chain diagnosis and follow up actively on studies conducted by external consultants"
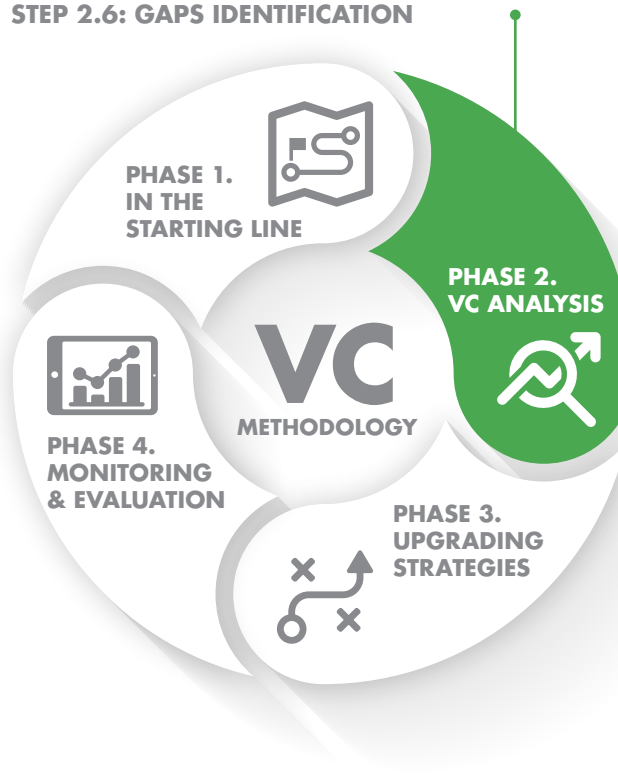
(GIZ, 2017)

STEP 2.4: SET VC BOUNDARIES

STEP 2.5: MAP VALUE CHAIN

> **STAGE 1. MAPPING STRUCTURAL COMPONENTS**
>
> **STAGE 2. ANALYSE COMMERCIAL FIGURES**
>
> **STAGE 3. ANALYSE OTHER SOCIAL, ENVIRONMENTAL OR INSTITUTIONAL FACTORS RELEVANT TO THE VC**

STEP 2.6: GAPS IDENTIFICATION

PHASE 2. VC ANALYSIS

STEP 2.4: SET VC BOUNDARIES	STEP 2.5: MAP VALUE CHAIN	STEP 2.6: GAPS IDENTIFICATION

Source: Own elaboration

Step 2.4: Setting Value Chain Boundaries

Value Chains revolve around a particular product or service and are therefore embebbed in a market system. At the same time, this market system is affected by other systems. In consequence, there could be a huge amount of information about suppliers, end markets, transversal services, innovations, producer associations and a long etcetera that could be analysed and considered for a further development effort when facing this phase.

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MORE TO BE CONSIDERED

BIBLIO.

Interconnected Value Chains and systems

Multiplier effects

Value chain

Value chain

System

System

TARGET GROUP(S)
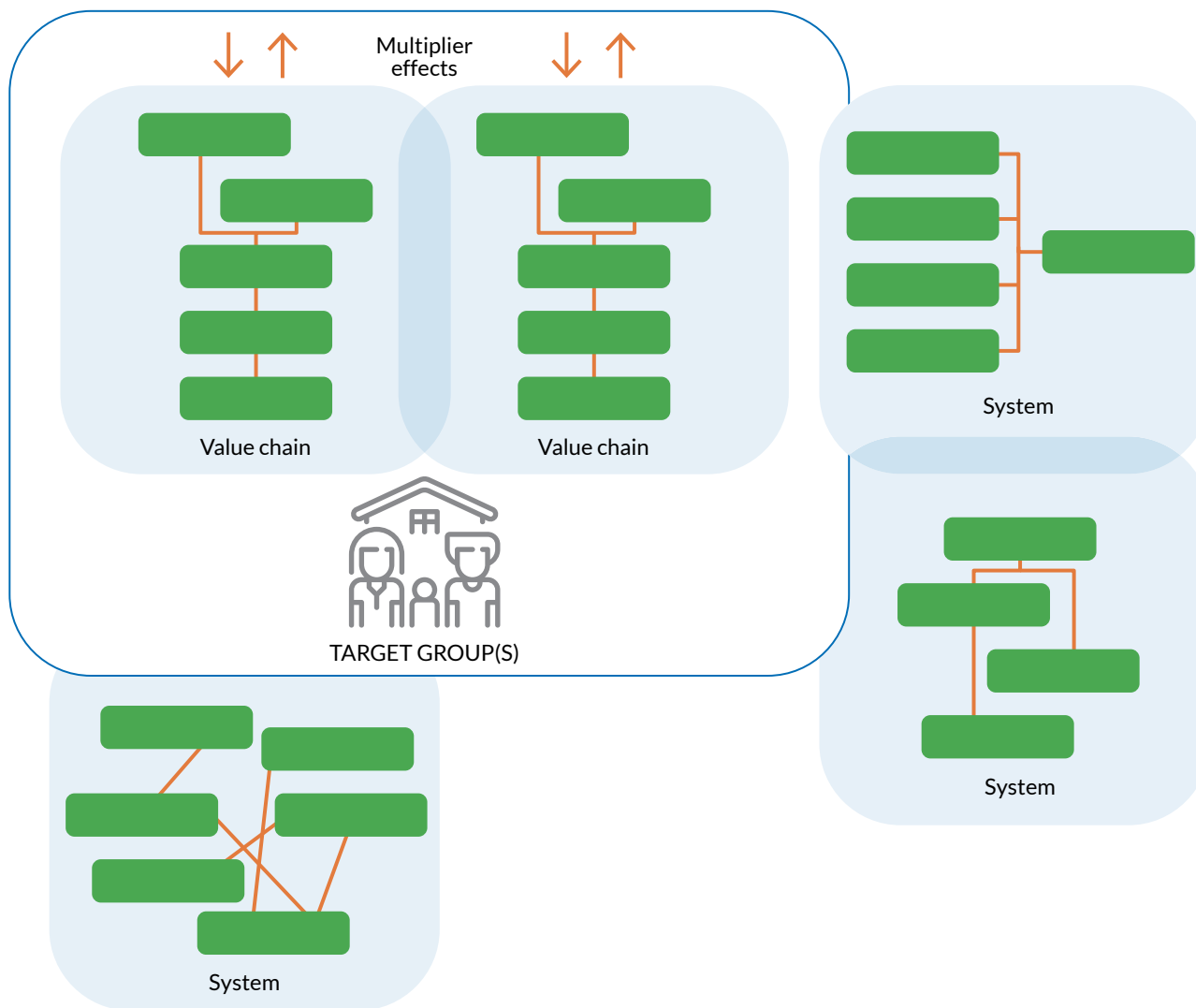
System

Source: A Framework for Inclusive Market System Development, USAID

Hence, it is important to draw certain **boundaries to limit the scope of this analysis**.

As GIZ indicates (GIZ, 2017), there are three main possibilities to set boundaries around a Value Chain:

- Horizontal boundary: types of products or services and markets served by the Value Chain.

- Outreach towards end markets: The 'length' of the Value Chain, as it does not necessarily need to reach end-markets.

- Spatial reach of the chain: Its geographical boundaries. Pragmatic considerations or local governments´ priorities might lead to establishing geographical limits whithin a certain region. Existing economic linkages should be the primary guide to set the spatial delimitation of the Value Chain.

There is not a specific tool to set VC boundaries. A first step is to understand **the causal model or theory of change of the program**. The analysis and intervention space should be defined by the actors who need to be directly or indirectly affected by the processes and activities of the intervention.

Textbox

Textbox 1: Theory of change

"The theory of change identifies the main constraints in the Value Chain and the market system in which it is embedded, which must be addressed for that VC and system to become competitive, inclusive, resilient and sustainable. The theory of change describes the underlying assumptions behind the change process and the expected changes leading from interventions to outcomes to impact. It is important that the theory of change reflects market actors' view of how change occurs and will occur.

Articulating a theory of change is helpful in creating a shared vision of the project objectives, how these will be achieved, and what will be used to measure progress.

[...] This theory of change will be adapted and updated periodically throughout the entire project in response to changing system dynamics and project learning, and the actors and institutions considered important to the development of the market system will similarly need to be adjusted".

(USAID, n.d.)

After clarifying the theory of change, the following questions should help implementers to narrow down a VC boundary frame, facilitating an effective analysis:

Guiding questions

Question Box 3. Step 2.4: VC Boundary frame guiding questions:

- What are the links and who are the key players, directly or indirectly related to these VCs that can be inferred from the theory of change?

- What other key elements can be inferred from the program´s Theory of Change?

- What are local and regional main priorities and policies that could affect the program?

- Who could be affected by changes in these VCs? How? How could other regions or groups be affected by improving certain VCs?

- What is the geographical distribution of affected actors/regions? Where are they?

- Are the intervention's timeframe and resources enough to address all the aspects considered?

Toolbox

Toolbox 5. Step 2.4: Setting VC boundaries

Recommended tools to define theory of change included in the Tool 5 of the Excel toolkit (ready to be filled out).

- Nesta, 2017, Theory of change. Define your goals and how you will achieve them: Stage 2 - Spark (Find and test new ideas) https://www.nesta.org.uk/toolkit/theory-change/

More information on Boundaries VC framing:

- GIZ, 2007. Page 21 http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-1-January-2018.pdf

PHASE 2. VC ANALYSIS

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Stage 1. Mapping structural components → Stage 2. Analyse commercial figures → Stage 3. Analyse other social, environmental or institutional factors relevant to the VC
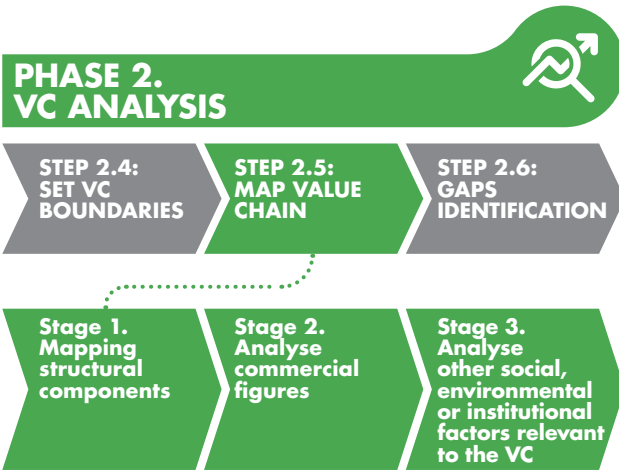
Source: Own elaboration

Step 2.5.
VC mapping & gaps identification

The following step, Value Chain mapping, is important in order to gain a basic overview of the Value Chain and the market system in which it is embedded in, while better understanding the connections between its actors and processes.

As CIAT (CIAT, 2008) explains it, Value Chain mapping aims to:

• Define relationships and interconnections between the Value Chain actors;

• Understand the flow of products, services, information and payment;

• Enhance communication between different actors and;

• Identify entry points or key leverage points to improve

the Value Chain.

Now, there is not a unique methodology to map the VC, as there is none that includes all the aspects that could be analysed. Thus, while methodologies are a useful guide to go through the mapping process, implementers should be aware that the final decision on what elements to analyse, and to what extent, depends on different factors, such as the program's goal, available information, etc.

For the purposes of this document, three (3) stages are proposed for the mapping and analysis process:
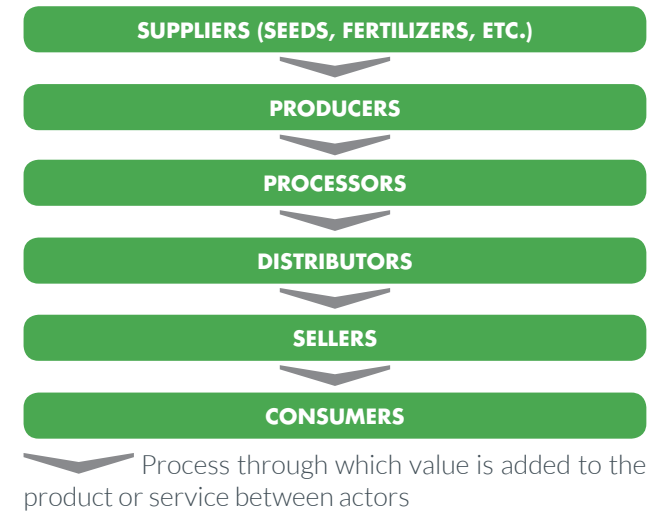
Stages for VC mapping

Stage 1:
Mapping structural components

On structural components, USAID basically point out five aspects:

a. **Vertical linkages:** Vertical linkages refer to the variety of business contracts or other forms of coordination between actors (individuals, groups, MSMEs, end markets, etc.) at different stages of the VC. These linkages imply that the partners involved adjust and coordinate their activities, complementing each other and thus adding value to the product or service, necessary to bring it to the end market. Vertical linkages could include producers, processors, wholesalers, retailers, exporters, traders, middlemen, input dealers, suppliers, service providers and others.

Example of vertical linkages between actors that add value to the final product or service

SUPPLIERS (SEEDS, FERTILIZERS, ETC.)
↓
PRODUCERS
↓
PROCESSORS
↓
DISTRIBUTORS
↓
SELLERS
↓
CONSUMERS

⌄ Process through which value is added to the product or service between actors

Source: Own elaboration

b. **Horizontal linkages:** Horizontal linkages refer to those linkages through which individuals, groups or MSEs at the same level are organized and related.

Through a higher level of organization, it becomes easier to achieve the volume, quality, technology or information required by sellers, possibilitating economies of scale and collective learning processes. These processes increase the competitiveness of the Value Chain and, thus, increase the negotiation power of producers.

Example of horizontal linkages

PRODUCER || PRODUCERS || PRODUCERS || PRODUCERS

PRODUCERS ORGANIZATIONS, COOPERATIVES...

Source: Own elaboration

c. **End markets:** End markets are understood as the final consumers. Their opinions and perspectives determine the success of a product or service and the conditions under which it can be placed into the market (product, price, place and promotion).

Textbox

Textbox 2: The 4 P´s of Marketing

- **Product:** A product can be either a tangible good or an intangible service that fulfills a need or want of consumers. It is imperative that you have a clear grasp of exactly what your product is and what makes it unique before you can successfully market it.

- **Price:** Price determinations will impact profit margins, supply, demand and marketing strategy. Similar (in concept) products and brands may need to be positioned differently based on varying price points, while price elasticity considerations may influence the next two Ps.

- **Promotion:** Promotion looks at the many ways relevant product information is disseminated to consumers while also differentiating a particular product or service. Promotion includes elements like: advertising, public relations, social media marketing, email marketing, search engine marketing, video marketing and more.

- **Place:** Often you will hear marketers saying that marketing is about putting the right product, at the right price, at the right place, at the right time. It is critical then, to evaluate what the ideal locations are to convert potential clients into actual clients.
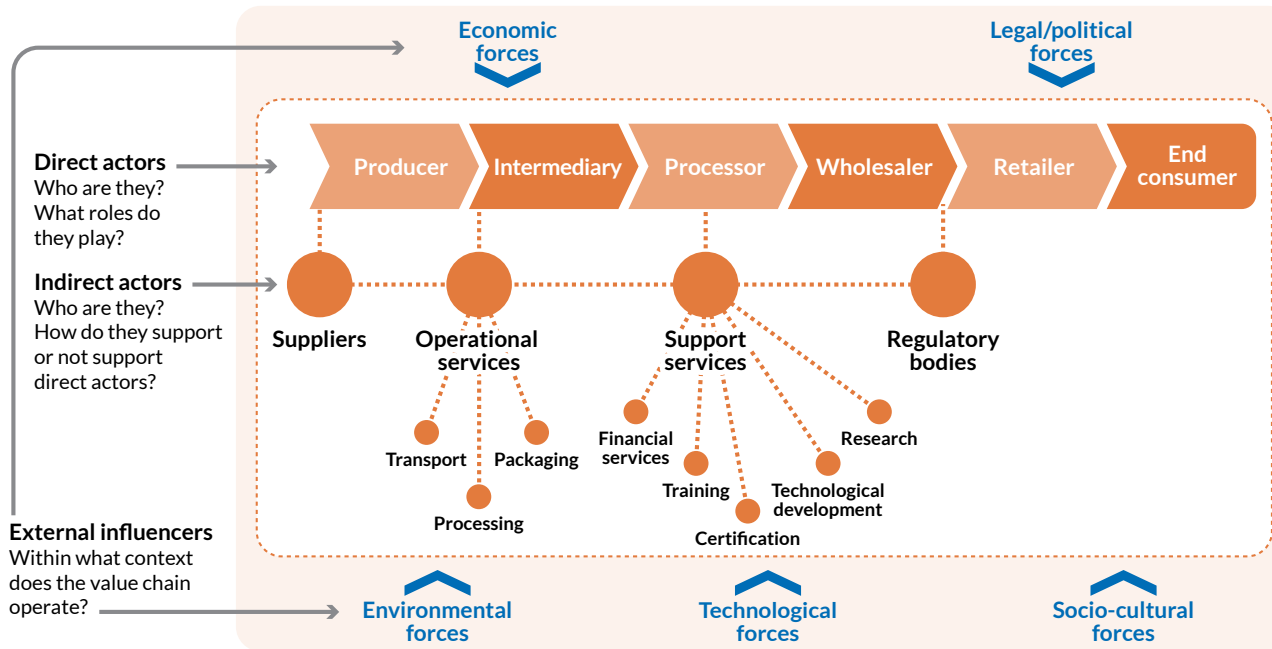
(Purely Brandly, 2017)

Mapping end-markets entails including final consumers´ perspectives. This information can be gathered through interviews, questionnaires, etc.

d. **Business enabling environment (BEE):** BEE refers mainly to three (3) dimensions:

- The macro-level context, including the political environment or norms and customs, laws, regulations, policies, international trade agreements and public infrastructure (roads, electricity, etc.) at a local, regional, national or global level;

- The sociocultural environment;

- Climatic and other environmental conditions (FAO, 2013).

e. **Supporting markets:** Supporting markets include:

- Cross-cutting services: Financial services, communication, legal and management services, etc.

- Sector-specific services: supply services, technical advice, etc.

Some of these services might already be operating whithin the Value Chain and others, if weak or missing, should be identified as opportunities to strengthen the Value Chain.

When mapping the structural components of the VC, it is very important to pay special attention to their relations and the **governance of the VC** (for more information see section "more to be considered".)

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BIBLIO.

Example of a VC map template

Direct actors
Who are they?
What roles do they play?

Indirect actors
Who are they?
How do they support or not support direct actors?

External influencers
Within what context does the value chain operate?

Economic forces

Legal/political forces

Producer | Intermediary | Processor | Wholesaler | Retailer | End consumer

Suppliers | Operational services | Support services | Regulatory bodies

Transport | Packaging | Financial services | Research

Processing | Training | Technological development

Certification

Environmental forces | Technological forces | Socio-cultural forces

Source: CIAT, 2014

Stage 3.
Mapping other social, environmental or institutional factors relevant to the VC

As it has been stated along the whole document, social, environmental and institutional factors do also have a high influence on the performance of the VC. Furthermore, aspects such as gender equity (see section "more to be considered"), climate change adaptation and mitigation or a special focus on social or technological innovation processes, can also be central to the intervention. Hence, it is necessary to map and analyse these aspects and their influence on the VC.

Tools included in the Toolbox 6 offer a guide on what aspects to be analysed in all three stages, and how to do so.

Stage 2.
Mapping commercial figures

After having defined the structural map, it is time to map and analyse economic and commercial data.

In this stage it is important to analyse the actual costs, margins, revenues, income distribution, employment and scaling-up potential of the selected VC, on its own and in comparison to other VCs. When looking at all these aspects in a pro-poor program, it is important to identify the potential for growth that can *generate relatively greater improvements in income and wealth for the poor (DFID, 2008)"*.

Toolbox

Toolbox 6. Step 2.5: VC mapping

Recommended tools are available in the Excel toolkit, please refer to Tool 6 (Guide for VC mapping), Tool 7 (Value Chain mapping), Tool 8 (Value Chain mapping matrix) and Tool 9 (VC actors analysis).

Stage 1: Mapping structural elements

- CIAT, 2014, page 36. Tool 1 The Value Chain map. https://hdl.handle.net/10568/49606

- DFID, 2008, pages 30-40 https://youtheconomicopportunities.org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413.pdf

Assessing end markets

- USAID, 2010 Conducting an end Market Analysis. https://www.marketlinks.org/good-practice-center/value-chain-wiki/end-market-analysis

Stage 2. Mapping commercial figures

- CIAT, 2014, page 8. Tool 2 The Value Chain map. (included in Annex 4) https://hdl.handle.net/10568/49606

- DFID, 2008, page 49: Analyse the demand and supply conditions of the Value Chain https://youtheconomicopportunities.org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413.pdf

- DFID, 2008, pages 91-106, Tool 6. Analysing costs and margins, https://youtheconomicopportunities.org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413.pdf

- DFID, 2008, pages 109-124, Tool 7. Analysing income distribution https://youtheconomicopportunities.org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413.pdf

- DFID, 2008, pages 127-142, Tool 8. Analysing employment distribution https://youtheconomicopportunities.org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413.pdf

Stage 3. Mapping external influences

- CIAT, 2014, page 41, Tool 3 The Value Chain map. https://hdl.handle.net/10568/49606

- DFID, 2008, pages 34, 51, 53-59: Analyse the demand and supply conditions of the Value Chain https://youtheconomicopportunities.org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413.pdf

For mapping poverty and gender issues

- GIZ, 2017: page 147, Box 2.5.8: Tool – Harvard matrix determining who does what in the Value Chain http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-1-January-2018.pdf

- GIZ, 2017, page 148, Box 2.5.9 Assessing power differences of men and women in a Value Chain http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-1-January-2018.pdf

Mapping environmental impacts

For further information on environmental impacts see

- GIZ, 2018, page 105- http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-1-January-2018.pdf

When applying the NSVC framework, you can refer more specifically to the tools from IFAD to identify critical points for nutrition value along the VC.

- IFAD, 2018, Nutrition-sensitive Value Chains. A guide for project design Vol II, Step 3, Tool 3.3. Commodity tables (page 80), Tool 3.4. Nutrition value (page 81-82) https://www.ifad.org/en/web/knowledge/publication/asset/40805038

Basic information regarding the Value Chain should be depicted in a one-page map, further information can and should be included in separated pages.

Tips and lessons learnt

Quality criteria for Value Chain maps. A good Value Chain map:

- Has a clear purpose and message;
- Respects the recommendations laid out in the subsequent sections;
- Avoids information overload, does not try to include all data in one large map;
- Is comprehensible to people who were not involved in drawing it up".

(GIZ, 2017)

While depicting the VC map, the gathered information will be analysed and implementers will start to identify gaps that prevent an optimal performance, as explained in the next section.

PHASE 2. VC ANALYSIS

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Source: Own elaboration

Step 2.6: Gaps identification

When mapping the VC, implementers should identify gaps or barriers that prevent the Value Chains from an optimal performance.

In the following table, MEDA, in "Program design for Value Chain initiatives", gives an overview of the most common constraints in Value Chains:

General constrains in VCs

End Market	Business Environment, Socio-Economic Context	Value Chain Relationships		Support Products and Services (embedded and fee-based)	Business Performance
		Among different kinds of enterprises	Among like-enterprises		

Competitive position weak because of:
• High cost
• Poor customer link
• Inadequate communications
• Slow delivery (erratic)
• Low quality
• Outdated designs
• Poor marketing
• Limited market awareness
These are the main constraints the program should focus on and are often elaborated on in the other columns.
	• Unfavourable global, national and local policy and regulations. corruption
	• Weak infrastructure (transportation, telecomunications, etc.)
	• Physical isolation, environmental and vulnerability
	• Political instability. limited democracy, dominance by one group, threat or history of conflict
	• Limiting socio-economic, cultural, or gender conditions
	• Weak institutions
		• General way of doing business is exploitative, or price based and short-term
		• Limited information availabilty and flow
		• Low trust, high social barriers
		• Monopoly
		• Disorganized/ informal/ inefficient
		• Missing market functions
		• SEs produce insufficient quantity
		• SEs produce is of low value or unreliable
		• No/weak flow of embedded products and services (see Support Products and Services column)
			• Lack of cooperatives, networks, trade associations
			• Corrupt cooperatives or associations
			• Associations have limited role or inappropriate services
			• Cooperatives and associations have a monopoly
			(Applies to groups of SEs and other Value Chain enterprises)
				• Supply:
				  • Few support products or services, none relevant to particular problems
				  • Support products and services exist but not targeting SEs
				  • Low quality
				  • Wrong offer
				  • Poor marketplace
				  • Inferior management
				  • High cost structures
				• Demand:
				  • Limited awareness
				  • Low purchasing power
				  • Risk aversion
				• Transaction:
				  • Lack of cash flow for SEs and providers
				  • Limited knowledge of embedded services or bundled produces/ services
					• Poor performance as measured by:
					  • Low production volume
					  • Inefficiency
					  • High costs
					  • Low profitabiliry
					  • Inferior product quality
					  • Lack of new designs
					• That is due in some measure to:
					  • Weak management, technical market, financial skills
					  • Obsolete technology
					  • Lack of capital
					  • Inadequate communications
					  • No access to market information, weak business linkages. insufficient access to services.

Source: MEDA, 2007

From the previous table it is possible to infer that, when mapping a VC, many constraints may arise at the different levels. Therefore, it is necessary to list, organize and prioritize, in order to select the constraints to be addressed through an action plan. See the Toolbox 7.

Toolbox

Toolbox 7. Step 2.6: Gaps identification

You can directly refer to the Tool 10 of the Excel Toolkit:

- MEDA, 2007, pag 30-35: Strengths and Constraints Analyser Worksheets http://www.fao.org/3/a-at403e.pdf

Further steps towards a more sustainable Value Chain require a **targeted collective** effort. It is therefore very important to achieve a shared vision and a joint strategic orientation, so that all actors who are committed to support the ulterior action plan enhance the Value Chain at stake (GIZ, 2017).

Thus, at this stage it is necessary to open a joint reflection process on current and potential local market dynamics and also on economic, social, environmental and institutional tradeoffs of each of the possible upgrading opportunities. This reflection process should enable a **consensus on the specific strategic options to promote** in the particular VC intervention. Further information on participation can be found in section "more to be considered".

In the following chapter we will go in depth into different upgrading strategies and key aspects to take into consideration when implementing them.

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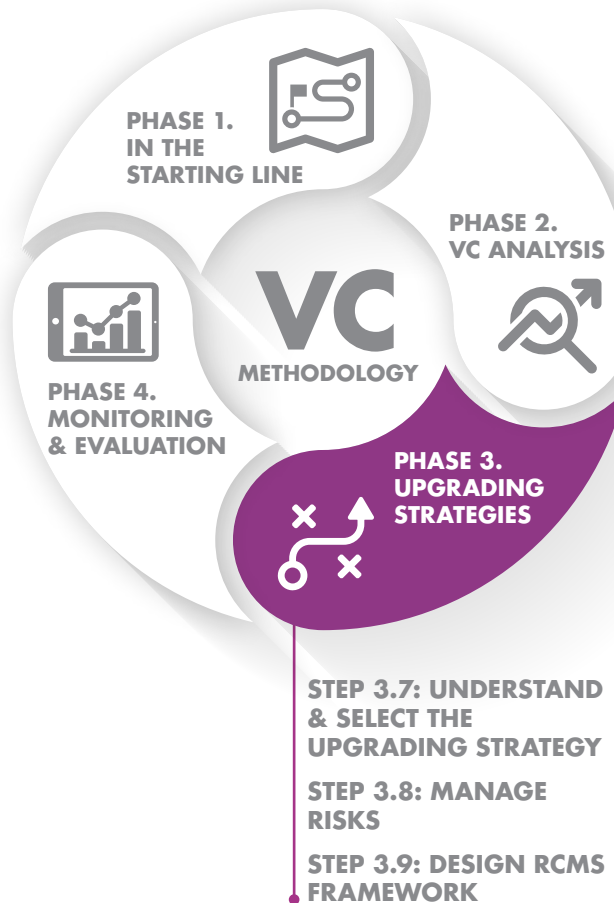UPGRADING STRATEGIES

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PHASE 3: UPGRADING STRATEGIES

Upgrading strategies focus on acquiring the technological, institutional, social and market capabilities that allow resource-poor communities to improve their competitiveness and move into higher-value activities. In short, upgrading is the process of trading up (ODI 2016).

This section will describe different phases considered key to succesfully manage a Value Chain intervention strategy, as well as give some suggestions on what aspects to focus on when working with VC upgrading.

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STEP 3.8: MANAGE RISKS

STEP 3.9: DESIGN RCMS FRAMEWORK

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| STEP 3.7: UNDERSTANDING & SELECTING THE STRATEGY | STEP 3.8: MANAGING RISKS | STEP 3.9: DESIGNING THE RCMS FRAMEWORK |

Source: Own elaboration

Step 3.7: Understanding and selecting the strategy

As described in previous chapters, Value Chain mapping and analysis must help stakeholders to identify those aspects that, if solved, would provide conditions for the target population to capture a higher value in their economic activities with the final goal of improving their livelihoods. Every upgrading strategy is purely contextual and must be clearly adapted to the environment and conditions in which it is going to be implemented, and it is therefore impossible to design very concrete tools for generic interventions.

The following classification is useful to understand where to center the effort in order to improve the target populations' position within the Value Chain and how to minimize risk and improve the chances of success.

1. **Value Chain Engaging Strategies:** these strategies are pertinent when target groups are not yet engaged or are informally engaged along the Value Chain. This means that their linkages are not repre-

sentative or stable and the risk to be involved into the Value Chain exceeds their potential gains (or at least, so it is perceived by small-scale actors).

The main challenge of these programs is the organizational setting of the system: how can producers organize themselves, aligning individual incentives with the promotion of a collective goal, and how the governance structure of this organization is going to be managed. Traditionally, cooperative programs are focused on a particular style of structures and formal organization, but there could be different approaches to horizontal integration based on traditional norms or rules that can minimize the risk of a cooperative without a formal structure and without centralised money. More information on organizational programs is offered in Section "more to be considered".

2. **Value Shared Gaining Strategies:** these strategies apply when target groups are actively engaged into the Value Chain, but their share of the profits is not proportional with the risk they assume and the effort and means they put into it. In this case, an increase in the profit of certain actors will probably suppose a decline in the profit of other actors.

Tips and lessons learnt

These interventions intend to substitute the activity developed by other actors in the chain. Therefore, those stakeholders normally adopt strategies to resist, in order to slowdown or boycott the project. In these situations, a successful intervention depends on the capacity to understand the power dynamics in the chain and foresee possible reactions from these actors.

SIC4Change, 2018

3. **Value Addition Strategies:** these strategies apply when there is a barrier or a link which is missing or insufficiently developed. In this case, smallholders start by developing new processes, products or interlinkages between Value Chains. Generally, these strategies combine the introduction of new activities that could potentially gain in shared value for target groups.

The table presented in page 29 shows different types of strategies and when and how they should be applied for all the different strategies listed here.

Tips and lessons learnt

All the strategies based on value addition demand a certain degree of innovation from the beneficiary. This degree of innovation will only be adopted if the risk profile of the beneficiary is high enough to assume it. As a general rule, the intervention should avoid making beneficiaries in vulnerable situations bear the risk. Firstly, because it can endanger their livelihood. Secondly, because beneficiaries with such a profile will usually opt not to divert their livelihoods in favour of a new strategy, if they consider that it can put their survival at risk.

When any actor is setting out a new activity, it could place some pressure on the wages and, therefore, downgrade the social position of some of the most vulnerable people engaged into the Value Chain. To prevent this from happening, it is important to monitor key social indicators along the chain.

SIC4Change, 2018

The Solution Tree and a Sustainable Solutions Finder (see Toolbox 8) are structured tools that can help design upgrading strategies, in accordance with the identified problems.

ACTION AGAINST HUNGER

? Guiding questions

Question Box 4.
Step 3.7: Understanding and selecting the appropriate strategy

- What can the project do – on a temporary basis – to stimulate enterprises to supply the support products and services, and to encourage target MSMEs to apply them?

- What might be the best "entry points" to start engaging with enterprises in the Value Chain?

- Which businesses are most open and committed to sustainable solutions?

- How could you support a few pilot initiatives to test the viability of the intervention and the solution, before exposing target SEs and other business partners to undue risk?

- What incentives might be necessary at this stage?

- How might the program strengthen learning systems that would spread viable new business models throughout the market?

- Are there trade associations, media, commercial service markets, training institutes, etc.?

From MEDA, 2007

Toolbox Toolbox 8. PHASE 3. Upgrading strategies

Recommended tools have been included in the Excel Toolkit, please refer to Tools 11, 12a, 12b, 13, 14, 15 and 16.

To gain a joint vision on overall strategy orientation:

- MEDA, 2007. Pages 45-48. Develop a solution tree http://www.fao.org/3/a-at403e.pdf

- MEDA, 2007. Pages 50. Sustainable solutions finder http://www.fao.org/3/a-at403e.pdf

- GIZ, 2017. Swot analysis page 248 http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-1-final-draft-July-2017.pdf

- GIZ, 2017. Tool – Template for the formulation of a Value Chain development objective page 251 http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-1-final-draft-July-2017.pdf

- GIZ. Tool – Overview of strategic options for Value Chain development. Page 254 http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-1-final-draft-July-2017.pdf

Strategies on vertical orientation:

- GIZ, 2013, Contract Farming Handbook GIZ http://www.fao.org/sustainable-food-value-chains/training-and-learning-center/details-materials/en/c/275385/

Strategies on horizontal orientation:

- ILO, 2018, MyCoop Handbook by ILO. https://www.itcilo.org/en/areas-of-expertise/rural-development/my-coop-manging-your-agricultural-cooperative/my-coop-training-package

The following table summarizes a description of each strategy and offers an example of interventions, as well as examples of gaps that these can solve.

When designing the final plan, implementers can consider combining several strategies.

Gaps & Upgrading strategies

	Type of upgrading strategies	Description	Examples of Gaps	Examples of strategies
1- Value Chain Engaging	**Vertical Integration:** Consolidate long-term relationship between producers and their distributors.	Process based in analysing the quality needs of the commercialization channel, the periodicity and amount of production that demands and, what is more important a long period of trust relations between the buyer and the seller	Lack of working capital: Small holders are strangulated by the working capital of their activity.	Contract Farming projects / Financial tool adapation.
	Horizontal Coordination	Process based on fostering organization/Associativity to satisfy market demands	Individual producers are unable to respond to markets requirements (Volume, quality, time, etc.)	Cooperative strengthening project
	Clustering: Geographical concentration of interconnected businesses, suppliers, and associated institutions in a particular field	It can foster the creation of new businesses, the reduction of transaction and production cost. It can enhance the spill over effects over small holders and can be an opportunity to engage them into Value Chain. Moreover, clusters have the capacity to reduce cost, enhance productivity and foster interchain upgrading	Lack of technical assistance to producers.	Any project linked to technical assistance to the producers.
2. Value Shared gaining	**Functional upgrading**	The approach aims to achieve the development of new activities by smallholders normally linked to capture more value along the chain	There is a lack of quality inputs that constrains the capacity to expand/improve the production phase	Seed production project to foster a new seed market in rural areas.
3. Value addition	**Product Upgrading**	This strategy applies when the chain is buyer-driven and the value in the chain is conducted by buyer demands and preferences.	Low product demand	Adaptation to new consumer demands as fair trade, organic or environmentally respectful products
	Process Upgrading	Strategy linked to foster the production or productivity through the change in the way the activity is managed	Quality of product/service is low and, therfore, prices paid for it are low and do not allow to achieve higher market segments.	Enhancing new standards of production
	Interchain Upgrading	These strategies are developed when, using the skills and technical capabilities developed in one activity, the producer jumps to a different one with a higher value	The product or service produced or provided by small holders do not have a value that justify its production.	From maize production to maize seed production.
	Enabling environment strategy	When there are activities that are a bottleneck in the VC or in the supporting services and can not be solved by small scale holders in their own. Other actors must be engaged to provide those services.	Smallholders do not have enough capital to carry on with their activities.	Micro-credit program / Communal Banks…

Source: Own elaboration

Now, once the strategy has been selected, it has to be translated into concrete activities to fight the particular weaknesses that have been identified. The Interventions Table Worksheet, developed by GIZ, is a useful tool to plan these activities (see Toolbox 8).

The following table offers some examples of typical activities implemented in a VC intervention:

Generic intervention table

Broad program strategies:

- Develop competitiveness of the Value Chain (through a value addition strategy, i.e. increasing efficiency, enhancing quality, updating design)
- Improve MSMEs' access to markets and increase SE' benefits from market integration (through a Value Chain engaging strategy)

Entry point (to launch intervention)	Piloting (to validate viability & impact)	Replication & learning	Exit strategy (to exit the intervention)	Overall intervention strategies
Identify potential suppliers; Assess and develop support products and services, new technologies, etc. Share information, dialogue with stakeholders; Pinpoint geographic areas and clusters of clients; Identify early adopters; Negotiate deals for pilot activities;	Offer matching grants; Provide training and; Technical assistance; Create or strengthen business linkages; Model contracts; Introductions; Troubleshooting; Model sales pitches and marketing material; Model samples, training curricula, technologies; Link to finance and model financial arrangements;	Enhance and expand trade association development; Stimulate fee based support products and service markets; Strengthen media/information service markets; Promote the concept of embedded services to key lead firms; Ascertain and support appropriate roles for institutions, universities/government agencies/NGOs;	Plan ahead or develop a strategy at the mid-point of the program. Gradually withdraw subsidies. Transfer project activities to private sector. Identify and build capacity of leaders (associations, lead firms, institutions) to take over Value Chain development	Conduct market research and encourage information sharing, strengthening information services; Support research and development of technology, support products and services; Offer cost-sharing or matching grants for pilots and market stimulation (gradual withdrawal); Strengthening lead firms; Direct training, technical assistance and business linkages; Provide association or institutional capacity building; Simulate markets for support products and services.

Other Program Activities: Market research, planning, monitoring and evaluation, staff and partner capacity building, learning.

Source: Adapted from MEDA, 2007

PHASE 3.
UPGRADING STRATEGIES

STEP 3.7: UNDERSTANDING & SELECTING THE STRATEGY → STEP 3.8: MANAGING RISKS → STEP 3.9: DESIGNING THE RCMS FRAMEWORK

Source: Own elaboration

Step 3.8: Managing risks

Every intervention will face unexpected events and dynamics. To minimize negative effects, it is important to identify from the beginning as many potential risks as possible, and anticipate possible responses. Risks must be reassessed periodically along the implementation.

Examples of risks are: Political instability, corruption, market fluctuations, lack of supplies or access to assets, cultural barriers, conflicts among stakeholders, climate crisis (droughts, floods, etc.), lack of infrastructures, etc.

Tips and lessons learnt

To identify risks: Consider a stakeholder discussion, potentially including a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis to identify risks and mitigation strategies.

MEDA, 2007

To identify and assess general risks, MEDA recommends to use a Risk Manager Worksheet (see Toolbox 9).

The incentive analysis is crucial to success in a Value Chain approach project. In this regard, it is important to develop a **risk management analysis** based not only on internal or external factors, as done traditionally, but also on a special focus on the resistance that different stakeholders affected by our strategies can potentially develop to slowdown or simply block the upgrading strategy. It is important to keep in mind that the Value Chain approach is a framework to understand markets and market power dynamics, so it is crucial to understand competition and how actors will react to new production strategies.

To do so, we can use an "Incentive risk management tool" (see Toolbox 9), based on the different stakeholders that participate in the Value Chain and that, in one way or another, can affect its work. In this regard, it is important to identify concrete stakeholders according to their importance in the Value Chain and their capacity to control it. Think about how the modifications the project intends to introduce might affect a given stakeholder and evaluate possible strategies to conduct, mitigate or take advantage of this situation.

The goal of this phase is to link the incentives of every stakeholder with possible strategies, in order to align them with the goals of the project.

As an example, if we improve horizontal coordination in a cooperative as to jump over intermediaries, it is possible that those intermediaries react against our strategy. If intermediaries are small and atomized, they will probably not have the capacity to influence or slow down the project. However, if the intermediaries are linked or vertically integrated with final consumers, they might be capable of controlling the producers' distribution channel, for which reason it will be necessary to design a strategy to tackle this problem.

All this information should also be included in the M&E, plan as explained in the next chapter.

Toolbox

Toolbox 9. PHASE 3. Step 3.8: Managing risks

You can refer to Tools 17 and 18 in the Excel toolkit in order to directly fill out the tools.

To manage VC general risks:

- MEDA, 2007. Pages 64-70. Risk manager worksheet http://www.fao.org/3/a-at403e.pdf

To manage VC incentive risks:

- SIC4Change, 2018 (Tool 18)

**PHASE 3.
UPGRADING STRATEGIES**

| STEP 3.7: UNDERSTANDING & SELECTING THE STRATEGY | STEP 3.8: MANAGING RISKS | STEP 3.9: DESIGNING THE RCMS FRAMEWORK |

Source: Own elaboration

Step 3.9:
Designing the Reciprocal Control Mechanism (RCMs) Framework

A mayor challenge when designing an upgrading strategy is to design an incentive framework which fosters the inclusion or the added value of smallholders into the chain. Another one is to achieve the expectations of those stakeholders which must respond to those incentives.

To do so, successful experiences of governments fostering industrialization and Value Chain interventions, show the benefits of using Reciprocal Control Mechanisms (RCMs). This entails establishing conditional state/organization support (subsidies and incentives), which guarantees that firms receiving such support 'reciprocate', through appropriate investment behaviour and performance. These RCMs are a detailed roadmap that show the commitments that each stakeholder has to achieve in order to continue to benefit from the incentive framework.

Textbox

Textbox 3: Recommendations to design a proper RCMs

1. **The RCM should be shared and public, when possible:** both the incentives set up by the NGO and the outcomes and commitments that should be achieved by target actors must be clearly agreed upon and shared and signed by both parties.

   If the agreement is public, social pressure might be used to enhance the accomplishment of the targets.

2. RCM has to include **quality indicators** (see textbox 4)

3. The RCM has to foresee **clear rules in case of non-fulfilment** of any of the aspects agreed upon: both parties must have a common understanding about what happens if the roadmap is not accomplished.

4. **Trust building:** RCMs is a tool to control an intervention, build trust, and share a common understanding of the agreement achieved by the parties. It is recommended to start with low-ambitions and short-term targets, in order to facilitate its control and accomplishment and to build the necessary trust for more ambitious objectives.

PHASE 4: MONITORING & EVALUATION
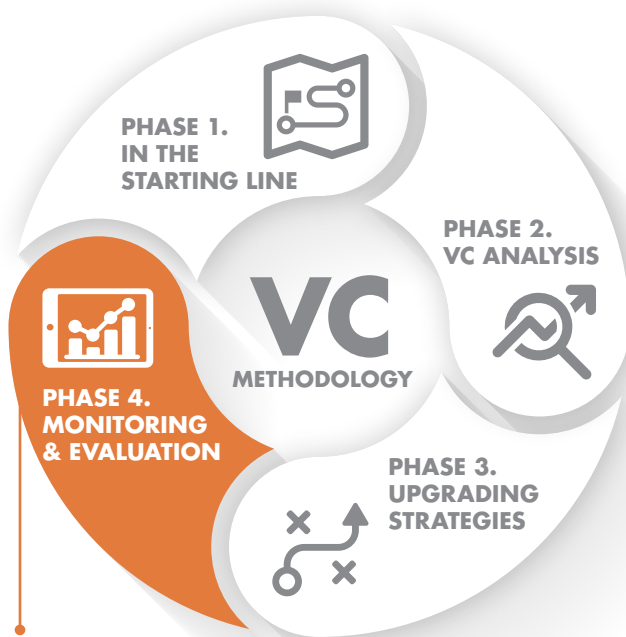
PHASE 1.
IN THE STARTING LINE

VC
METHODOLOGY

PHASE 2.
VC ANALYSIS

PHASE 4.
MONITORING & EVALUATION

PHASE 3.
UPGRADING STRATEGIES

STEP 4.10:
MONITORING AND EVALUATION

STEP 4.11:
KNOWLEDGE MANAGEMENT

PHASE 4: MONITORING AND EVALUATION

| STEP 4.10: MONITORING AND EVALUATION | STEP 4.11: KNOWLEDGE MANAGEMENT |

Source: Own elaboration

Step 4.10: Monitoring and evaluation

As explained in previous chapters, Value Chains are not independent pieces, but rather they are embedded in complex market systems and socieconomic dynamics. Hence, VC development is subject to a high degree of uncertainty and implementers should stay aware of any unexpected change. Also, as there are many actors and relations involved in a VC development, it is critical to design an adequate monitoring and evaluation system (M&E) framework, which allows stakeholders to have reliable information on the most important factors, in a timely manner for their decision-making process.

So, what characteristics conform a quality M&E?

1. **Relevant information:** First of all, the M&E should include only the information that is critical to judge the effectiveness of the intervention and improve decision making processes at all levels (from field-level to donor-level). If too much information is included, managers run the risk of losing the path to the final goals or of developing an overly costly process.

   What aspects are most critical in a VC program?

   - **The objectives, outputs and outcomes of the program**. As well as any additional critical causal relationship underlying in the project design (this information should be inferred from the theoretical causal model or theory of change). It is important to also assess these aspects at the intermediate levels of the results chain.

   - Any potential risk identified during the **risk management analysis** (Step 3.8).

   - Main items of the **reciprocal control mechanism** (RCM).

2. In order to make relevant information manageable, it needs to be tracked in form of indicators **(key performance indicators, KPI)**. This key performance indicators will constitute the road map that should guide implementers over time.

3. **A combination of qualitative and quantitative data:** Keeping in mind the idea of complex market systems, as stated by USAID, KPI alone do not provide sufficient information to evaluate and assess project performance. Other quantitative and qualitative data collection methods should complement the use of KPI, helping to understand the background drivers for results revealed by the monitoring system.

4. **Triangulation of information systems:** A combination of quantitative and qualitative data gathering methodologies also allows implementers to triangulate information. Triangulate information is fundamental to ensure the quality and reliability, while gaining a greater understanding of the intervention.

5. **Stakeholders involvement at different levels:** M&E managers must involve stakeholders in the system. This participation can take place in different ways, such as:

   - In the data gathering process: Managers can design dots of data gathering at different levels (producers, extensions, MSMEs, etc.). This will allow promoters to gather extended information while significantly reducing its cost and empowering stakeholders.

   - In reflection processes: Stakeholders can reflect in a jointly manner about data forthcoming from the M&E.

   Nevertheless, any actor involved in the monitoring system **should be trained** to collect and report performance data, guaranteeing its quality and reliability. Also, it is highly recommended to design protocols and plans to validate information.

6. **Consideration of the M&E system in its whole cycle:** There are several cases of information being gathered but implementers failing to process, analyse, manage or communicate the information, thus compromising the validity of the whole monitoring system. Therefore, managers should carefully consider the whole M&E cycle.

7. **Simple data capture tools:** Tools for data gathering and management (Performance Indicator Reference Sheets - PIRS) should be simple, especially when there are different stakeholders involved at different levels.

Textbox

Textbox 4: Desirable Characteristics of Key Performance Indicators

- **Direct:** The indicator should measure as directly as possible what it is intended to measure. For example, if the result being measured is an increase in youth employment, then the best indicator is the number and percentage of young people finding employment. The number and percent of youth that receive job or life skills trainings does not directly measure the result of interest. Nonetheless, sometimes we do not have direct measures, or we are constrained by time, resources, or technical capacity from getting direct indicators. In these cases, proxy indicators must suffice.

- **Specific:** Indicators need to be defined so that everyone understands them in the same way. Instructions on how to operationalize (put into practice) the indicator and definitions of all key terms should be explicit and clear.

- **Useful:** Indicators need to help the project understand what it is measuring. The indicators should provide information that helps the project understand and improve its operations and results.

- **Practical:** Costs and time involved in data collection and analysis are important considerations. Although difficult to estimate, the cost to collect indicators should not exceed their usefulness.

- **Culturaly appropriate:** Indicators must be relevant to the cultural context. What makes sense or is appropriate in one culture may not be in another. Make sure that the indicators are reviewed and approved by persons familiar with the cultural context.

- **Adequate:** There is no "correct" number of indicators. The number selected depends on the underlying result being measured and the resources and technical capacity of the project and its implementing partners. The project needs to balance its need for information with the resource, time, and technical demands of data collection, management, analysis, reporting, and usage.

Marketlinks, USAID

Tips and lessons learnt

There is no point in establishing a good M&E if it is not embedded in a permanent reflected attitude. In order to do so:

1. Assess baseline conditions: This information will flow from Step 2.5:VC mapping.

2. Establish a periodicity to measure each KPI according to its characteristics and possess proper tools to gather information.

3. Compare results at any measuring point and reflect about the evolution and possible causes.

4. Create reflective spaces with other stakeholders.

SIC4Change

Guiding questions

Question Box 5. Monitoring and evaluation guiding questions

- Has key information been included: Objectives, outputs, outcomes? What about other elements inferred from the theory of change? And risks related to incentives whithin the VC? Other risks?

- Have the other previous aspects that conform a quality M&E been considered?

Also, the value initiative (The Seep Network, 2012) considers that in a pilot phase, in order to inform the decision of whether scaling or not the intervention and, if so, what aspects to promote or adapt, the M&E should answer the following critical questions:

- Do target groups benefit as expected?

- Is the new way of working in the Value Chain sustainable?

- (If so) What are the critical factors that make a new way of working effective and sustainable?

During the scaling up phase, the critical aspects to be followed shift to:

- What is the outreach of the intervention?

- How is the intervention expanding its outreach?

- How are sanctioning actors and sanctioning tools growing (expanding)?

- Are the new ways of working in the Value Chain becoming the norm?

- Are target enterprises or other target beneficiary groups still benefiting as expected?

Toolbox

Toolbox 10. Step 4.10. M&E

Performance Indicator Reference sheets (PIRS)

USAID, MarketLinks. https://www.marketlinks.org/good-practice-center/value-chain-wiki/performance-indicator-reference-sheet

Also available in the Excel toolkit, please refer to Tool 19.

Complete information on M&E:

Better evaluation: https://www.betterevaluation.org/

PHASE 4: MONITORING AND EVALUATION

STEP 4.10: MONITORING AND EVALUATION → STEP 4.11: KNOWLEDGE MANAGEMENT

Source: Own elaboration

Step 4.11: Knowledge management

Collecting and analysing information to enable informed decision-making processes present a wide range of challenges. These challenges could be summarized in one: How to design an integrated knowledge management system embedded throughout the project cycle that can deliver both, the reporting requirements set by donors, and real time knowledge of behavior change to inform decision making processes (USAID, n.d.).

Textbox

Textbox 5: Knowledge management

Regarding how information is captured, USAID identifies two types of information:

- Tacit information: referring to information that is informally captured (through observation, chats, experiences, etc.) and therefore, is usually not communicated. Due to its nature, it is critical to design specific instruments to capture this knowledge.

- Explicit information: referring to the information that is pre-defined as critical and included in the M&E system.

Regarding how the information could be used, RAP-ID, in its guide "Tools for Knowledge and Learning. A Guide for Development and Humanitarian Organisations", offers a full range of tools for knowledge management, which are classified into five main categories:

- **Strategy Development:** Tools aimed to use knowkedge and learning to improve and guide the overall strategy of the organization.

  These tools are designed, as said, to improve the overall strategy of an organization. However, they can also be used to systematically gather and organize agency's knowledge and experience on VC programs to improve its strategy on this specific area.

- **Management Techniques:** Tools and techniques aiming to assess managerial responses to different situations, such as organizational changes, mistakes, etc., based on the organizational learning.

  The inclusion of these tools has been done with the aim of helping implementers throughout the VC methodology interiorization process.

- **Collaboration Mechanisms:** These sets of tools are used to strengthen collaboration and develop shared thinking and knowledge. These tools are of high importance in VC programs, since they are built on a participatory basis.

  These tools can also help to jointly solve complex situations or issues which are very frequent on VC programs.

- **Knowledge Sharing and Learning Processes:** Tools aimed at reflecting and building knowledge based on past and present experiences. Some of these tools help parties to think outside their traditional thought frame.

- **Knowledge Capture and Storage:** Tools to capture the knowledge that is continously generated through formal or informal spaces.

Guiding questions

Question Box 6: Guiding questions to guide organizational knowledge management

Knowledge management (KM)

- What are the core tasks and processes carried out by different groups and divisions within a VC program?
- What constitutes useful and applicable knowledge for the execution of these tasks and processes?
- How is this knowledge generated, identified, shared, stored and applied in core operations?
- How might improved generation, sharing, storing and application of knowledge be monitored?

Relationships and processes

- What existing and planned systems and processes can support the knowledge sharing and learning strategy, and how should they be deployed?
- What existing and planned organisational initiatives might influence and support the generation, sharing, storing and application of knowledge?
- What is the nature of key relationships within the organisation? How formal/informal are these relationships? How do they impact issues of knowledge and learning?

Organisational contexts

- How can human resources, information technology, information management and other support functions be better integrated to support the knowledge and learning 'vision'?
- How might existing institutional structures support the KM strategy?
- How might leadership and governance support the KM strategy?

Tools for Knowledge and Learning

- What are the perceived costs and benefits of improved knowledge and learning?

Here, we offer a selection of tools which apply best to a VC program and to organizational changes to internalize this methodology

Toolbox 11. Step 4.11. Knowledge management

Tools to capture tacit and explicit knowledge (based in Marketlinks of USAID):

- Tacit knowledge capture: Foster social cohesion using working team, staff-to-staff or project-to-project exchanges, internal small group workshops (participatory trainings, regular all staff meetings).

- Explicit knowledge capture: Tracking reports, quarterly and annual reports, targeted evaluation or formal impact assessment.

Tools according to the use of the information:

Agency Strategy Development:

- (ODI, 2006) Knowledge Audits, page 13 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

Management Techniques:

- (ODI, 2006) Force Field Analysis, page 32 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

Collaboration Mechanisms

- (ODI, 2006) Teams: Virtual and face to face, page. 42 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

- (ODI, 2006) Communities of practices, page 44 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

- (ODI, 2006) Action learning sets, page 48 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

- (ODI, 2006) Six thinking hats, page 50 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

- (ODI, 2006) Mind maps, page 52 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

Knowledge Sharing and Learning Processes

- (ODI, 2006) Peer assissts, page 60 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

- (ODI, 2006) Challenge sessions, page 62 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

- (ODI, 2006) After Action Reviews and Retrospects, page 64 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

Knowledge Capture and Storage

- (ODI, 2006) How to guides, page 78 https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/188.pdf

MORE TO BE CONSIDERED

The previous sections explored the theoretical life cycle of the VC methodology, giving insights and suggestions on how to approach the different phases and steps comprising the VC methodology. The present section aims to offer additional information on different topics which are considered to be key to build more inclusive and sustainable VCs, and which are transversal to all phases of the VC approach. The different aspects are here approached separately, but when implementing VC interventions, they should be seen as a whole: many of these topics are interrelated, and it is not possible to, in an abstract manner, define which are more relevant or should be prioritized.
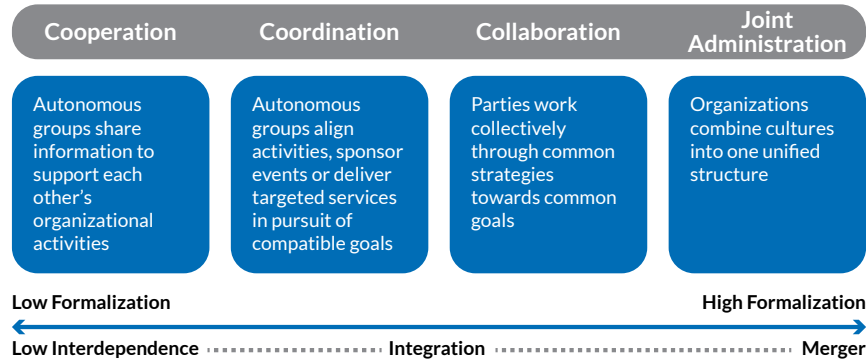
Alliance building

Improving linkages between VC actors is central to VC development. Creating and strengthening alliances help the coordination and trust between agents on the chain, creating win-win scenarios and facilitating the involved actors to add value to their segment.

Alliances among VC actors allow better communication of market information, facilitate logistics, exchange of technology, access to finance and the organization of support services, thus strengthening the VC and facilitating innovation processes.

As the next figure shows, there can be different degrees of alliance formalization. Alliances might start as informal agreements, which do not require contracting and carry few obligations and little risk for both sides. However, as cooperation develops, more stable coordination mechanisms help to create ownership, coordinate actions and regulate issues of common interest. It is recommended that these mechanisms are defined in a written partnership, which brings clarity about expectations and responsibilities.

Degrees of strategic alliances

Cooperation	Coordination	Collaboration	Joint Administration
Autonomous groups share information to support each other's organizational activities	Autonomous groups align activities, sponsor events or deliver targeted services in pursuit of compatible goals	Parties work collectively through common strategies towards common goals	Organizations combine cultures into one unified structure

Low Formalization · · · · · · · · · · · · · · · High Formalization

Low Interdependence · · · · · · · · Integration · · · · · · · · Merger

Source: Own elaboration

VC implementers wishing to strengthen a VC can play an important role in identifying alliance opportunities and promoting, building and managing partnerships of different types and with levels of complexity. The Guide to Partnership Building (UNDP, 2010) is a useful source to gain insight on the different steps and tools linked to the promotion of alliances between VC actors.

Overall, it is possible to identify three (3) phases of alliance building, as shown in this figure.

ALLIANCE BUILDING

1) IDENTIFICATION OF OPPORTUNITIES	2) AGREEMENT FACILITATION	3) PHASE OUT

Source: Own elaboration

Promoting alliances along the VC intervention.

1. Identification of opportunities

Facilitators should start by undertaking an analysis of existing organisations and actors – internal and external to the VC - and identify areas where their interests overlap. Here, it is important to identify what resources each potential partner might contribute with, what incentives they might have in building an alliance and what role they might play in the partnership. The Tool 2 of the Guide to Partnership Building (UNDP, 2010) indicates

different indicators to consider when assessing the potential of a possible partner actor (see Toolbox 12).

Thereafter, the focus of facilitators should be on engaging, rather than forcing, potential partners on the idea of partnering. Most VC actors will naturally engage into alliances once they are presented with a range of arguments supporting the benefits of building partnerships to achieve benefits, inclusive markets or sustainable businesses. One way of guaranteeing engagement is to encourage all parties to assess different aspects of the other actors, so that all sides get to know each other and recognize the advantages of an alliance, prior to agreeing on a partnership.

2. Agreement facilitation

Facilitators should then move on to lead the involved actors to engage into an interest-based negotiation, enabling all parties to reveal their underlying interests. This negotiation should be used to move from positions of immediate and inflexible demands to a position with focus on the common needs, drivers and goals. The Tool 5 of the Guide to Partnership Building (UNDP, 2010) includes a useful overview of the key differences between adversarial and consensual forms of negotiation (see Toolbox 12).

Facilitators have to make sure they remain neutral, never becoming a party of the contract arrangement, and treat all parts equally in order to avoid distortions and breaches of trust. For this purpose, facilitators might find it useful to remember to:

1. Build trust through mutual understanding and meaningful communication;

2. Focus on revealing underlying interests rather than positions;

3. Widen the options for a solution through the creativity and lateral thinking that comes from joint problem solving;

4. Reach agreement that satisfies interests and adds value for all parties.

It is a key task of a facilitator to help partners reach consensus and agreement – leading them from exploratory talks to making tangible commitments. Often, this moment proves challenging, as insufficient trust might lead the different actors back into non-negotiable stands and demands, leaving aside the shared needs and priorities.

When formalising alliances, implementers should keep in mind a list of basic premises that help create clear governance arrangements:

- It is recommended to raise potential conflicts of interest at an early stage, dealing with them in an open and transparent way, to prevent future conflicts;

- Agree on a joint intervention model, materialized in a contract defining clear objectives and responsibilities;

- Define metrics and reciprocal control mechanisms;

- Define mechanisms for interaction among members, as well as procedures for exiting or entering the alliance;

- Create formal coordination structures.

3. Phase out

It is important that facilitators work with partners so that the latter take increasing responsibility for managing the partnering process, either directly or through an agreed handover to a sub-group. Failure to do so successfully might lead to the partnership becoming increasingly dependent on the facilitator and possibly becoming dysfunctional.

The list of basic premises, mentioned above, aims to ensure that the alliance functions smoothly, without over-reliance on just one or two individuals.

When planning to pass on the coordinating role, facilitators should:

- Plan their departures carefully and in advance;

- Make their plans clear and transparent to the partners;

- Increase focus on coaching and mentoring well in advance of their leaving;

- Continuously transfer activities and roles to others (especially partners or project managers);

- Ensure arrangements are in place for covering any remaining tasks.

INTRO

PHASE 1

IN THE STARTING LINE

PHASE 2

VALUE CHAIN ANALYSIS

PHASE 3

UPGRADING STRATEGIES

PHASE 4

MONITORING AND EVALUATION

MORE TO BE CONSIDERED

BIBLIO.

Guiding questions

Question Box 7:
Key questions to assess preconditions for successful alliances:

Identification of opportunities:

- Will a partnership approach help bring about sustainability and inclusive VCs?
- What are the possibilities of creating alliances that will be sustainable medium to long term in this particular context?
- How do each of the potential partners understand / interpret the concept of sustainability? Are they committed to promote activities leading to sustainable outcomes?
- Are there examples of collaborations that have been successful in achieving sustainable outcomes that provide good learning?

Agreement facilitation:

- Do all partners accept the norms and rules coordinating the alliance?
- How can partners embed the principle of sustainable outcomes into the partnership and partner relationships? How will these outcomes be measured?

- How can the partnership be structured to promote greater local self-reliance and build capacity to sustain programmes medium to long term?
- If there is slippage in meeting sustainability goals (when measured against agreed development indicators), how will partners ensure time is spent revising the partnership's activities and ways of working to get back on track?

Phase Out:

- Does the progress of the partnership justify the continued participation of the external promoter?
- What does the market potential study show as the most appropriate course of action?

UNDP, 2010

Toolbox

Toolbox 12:
Toolbox for alliance building

UNDP, 2010: https://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Private%20Sector/undp-psd-Guide_to_Partnership_Building-en-2010

- Page 7: Brokering activities.
- Page 11: Tool 1: Making the case.
- Page 14: Tool 2: Assessing potential partners.
- Page 16: Tool 3: Mapping.
- Page 18: Tool 4: Facilitation.
- Page 20: Tool 5: Negotiation.
- Page 22: Tool 6: Reaching agreement.
- Page 24: Tool 7: Process Management.
- Page 27: Tool 8: Communications.
- Page 31: Tool 9: Reviewing & Revising
- Page 33: Tool 10: Moving on

Governance structure

Governance is another critical aspect of VCs. The governance structure of a VC refers to the institutional mechanisms which define the relationship between the different VC actors. These mechanisms include both formal contracts and regulatory or legal requirements as well as informal norms or power relations.

As a concept, governance structure recognizes that the power is unevenly distributed between VC members, with actors who are capable of setting prices, quality standards or minimum delivery quantities or, in sum, being more capable than others in defining the mechanisms ruling the chain. As a result, poor actors are usually in a lower competitive advantage.

By understanding the governance structure of a given VC, it becomes easier to identify possible barriers which are excluding smallholders from benefiting from the VC. This understanding facilitates the following task of identifying what aspects to work on in order to create greater inclusiveness for poor VC actors, either by accommodating to existing governance structures or by attempting to create a new set of norms and rules.

? Guiding questions

Question Box 8: Key questions to understand a VC governance structure:

- What are the formal and informal rules and standards that actors involved in the VC must comply with in order to participate? Where do they originate? How are they enforced?

- What are the effects of each rule on the participation (economic activities) of the poor?

- Do disadvantaged participants have access to information about rules shaping their participation?

- How is information about applicable rules, standards and services to support "compliance" transmitted through the VC, particularly through the lead firm or its coordination system?

- Does the inability of poor producers to comply with these rules, due to either lack of capacity or lack of information, limit participation in higher-end activities? Or does it prevent upgrading of the VC as a whole?

- Are there systems to support participants in meeting the rules and requirements of the VC?

A VC governance analysis is best done by separating three (3) dimensions:

1. Coordination structures

This refers to the structure of coordination that defines the formal and informal arrangements between actors, in order to meet requirements of the market. These structures may range from more loosely to more intensely coordinated structures, such as vertically integrated systems.

The implementers of the VC intervention should focus on identifying the rules and norms which regulate the VC. For this purpose, key actors of the VC (lead firms, major processors or exporters, etc) should be interviewed, as they often are more aware of these issues. In smaller VCs, it might be more appropriate to interview intermediaries, as they usually are the actors connecting the informal sector – often dominant in smaller VCs – with the formal market.

Secondary sources of information, such as websites, legal documents, reports, etc, are also important to understand coordination structures.

Textbox

Textbox 6. Tips to interview on governance structure

- Ask about all the rules and norms (formal and informal) that the actors must follow to participate in the VC, and what happens if failing to comply to these rules.

- Ask interviewed persons to list rules that they require their suppliers to follow. Ask them to list all actors with whom they directly stipulate arrangements according to each rule. As how these rules are communicated.

- For each rule or regulation, ask to explain main advantages and disadvantages of compliance.

- For each rule or regulation, ask why it is necessary and how it helps to maximise the efficiency and coordination within the VC.

- For each rule or regulation, ask how the rule was set, by whom and when. Also, ask if there have been major changes to the rule, and how those changes have affected business.

- For poor participants in the VC, pay attention to whether they understand the rules affecting them, particularly when formalized.

DFID, 2008

2. Control mechanisms (transmission of information and services)

It means to identify who monitors compliance to these rules and also the existing systems of sanctions and incentives for those who apply the rules. Depending on the coordination structure, the enforcement authority might be the government or lead firms. In cases where the rules are unclear or leading firms evaluate compliance with the rules, it is easier for power asymmetries to result in a monitoring system that disadvantages the poor. To avoid this, it might help to clearly identify who are the actors and tools involved in the monitoring system, who are the sanctioning actors and what tools they use and set it clear and public for all those actors involved in the VC.

3. Awareness of rules and norms

Besides understanding the structure, it is important for VC implementers to understand the target population's awareness of this structure. Producers and other poor VC participants might be subject to this governance structure, but not be aware of its implications or empowered to respond. Also, many of these rules might not be written down, but rather subject to specific market contexts.

For this purpose interviews or focus groups can be used to assess awareness.

On this note, it is also important to understand how actors within or outside the VC are providing assistance to less advantaged participants in understanding and complying with commercial and regulatory requirements.

DFID, 2008 includes a guide of the steps needed to make VC governance analysis. As it delays with qualitative information, it is mainly carried out through open format interviews.

Toolbox

Toolbox 13: VC governance analysis

DFID, 2008: https://youtheconomicopportunities. org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413. pdf

- Page 49: Determine the demand and supply conditions of the VC;

- Page 51: Determine the dominant coordination arrangements in the VC;

- Page 55: Types of rules and standards affecting VC;

- Page 57: Table 10: Examples of matrix for actors and regulations.

Participation

Active participation and engagement of stakeholders in VC related decision-making is a fundamental aspect of the VC methodology. When working towards building alliances or reducing power asymmetries along the chain, guaranteeing an active and equal participation of all stakeholders is essential, and it should thus be promoted along all the steps described along this document.

VC implementers aiming at achieving an active participation should focus on:

- Including all stakeholders relevant to the VC development.

  In large VCs, it might be difficult to include all actors involved. In order to attempt to include all stakeholders´ interests in the various VC segments, it might be necessary to work with meso level organizations, such as farmer or business associations, for representation.

- Create sufficient incentives for participation.

If the risks linked to an active participation are larger than the rewards, actors will not actively engage and the VC may not function.

One could thus think of strategies to assure stakeholder participation along different phases of the VC intervention:

Ensuring stakeholder participation along the VC intervention.

Source: Own elaboration

1. VC Selection

In this phase, stakeholders participation is important to ensure that the final VC selection is aligned with the impacts stakeholders seek to achieve, thus creating ownership among stakeholders and guaranteeing their support for the initiative. Participation is thus a corner-stone of all three phases pointed out in Step 1.3.

There are different methodologies to motivate participation. Consultative **stakeholders roundtable meetings** are very useful to establish a dialogue between stakeholders and to develop mutual understanding and respect for different positions and interests. However, at this early stage, opinions and interests can also prove to be too varied and difficult to coordinate, for which implementers can promote **separate meetings**, dealing with certain issues. Alternatively, **interviews** and **questionnaires** can be useful in order to register stakeholders' interests.

2. VC Analysis

Phase 2 explains the importance of joint reflection processes that allow for a collective understanding of the different economic, social, environmental and institutional trade-offs of each of the discussed upgrading possibilities. For this purpose, **stakeholder roundtable meetings** are once again a useful tool.

As seen above, it can be difficult to include all VC actors. A common mistake in VC analysis is to focus on few VC groups, which often means missing to include smaller or less powerful actors, who nonetheless play an important role in the chain. Achieving their participation may provide important information that can orient the design of the project into being more sensitive to the poor.

> **Tips and lessons learnt**
>
> *While it may be easier to identify the number of actors involved in functions such as processing or exporting (because the number is small or the government monitors activities), in other sectors such as informal trading, backyard processing or retailing, identifying the number of actors engaged is much more difficult. Nonetheless, the analyst may want to interview some of these actors and make assumptions about the total number based on the information retrieved.*
>
> *(UNIDO, 2011)*

3. Upgrading Strategies

Stakeholders participation is essential to capture available competencies and capacities to identify implementation options. Stakeholders participation can also bring in capacities and knowledge which would otherwise be brought in at higher costs. Moreover, the interaction between stakeholders and experts allows for creative processes in which new development opportunities are identified. Participatory forums can also facilitate the development of new linkages, and foster ownership of the strategies and activities to be implemented.

A series of **workshops** can be held to:

- Refine the information;
- Reflect upon the identified opportunities and constraints;
- Define strategy options;
- Develop implementation activities.

The Field Guide to Human-Centered Design (Ideo.org, 2015) includes useful tools to use when carrying out these workshops, such as the Co-Creation Sessions.

4. M&E – Continuous Participation

It is very important for the VC implementer – or who takes over the VC coordination - to maintain a continuous communication effort, in order to keep stakeholders engaged beyond the initial phase. Important messages to be communicated include the progress made in the VC development efforts, the benefits resulting from participation in the VC and the role of each actor, creating clarity on the responsibilities of each stakeholder.

There are different ways of guaranteeing this communication flow:

- Stakeholders meetings;
- Demonstration days;
- Newsletters;
- Advertisements in the media;
- Project documentation.

Tips and lessons learnt

The task of building trust and setting up business links in a Value Chain is often underestimated. Lack of trust can affect both horizontal and vertical relationships in the Value Chain.

An effective way to minimize distrust is by reducing information asymmetries and uncertainty, organizing meetings where stakeholders learn about each others' interests, rationales and behaviour and organize reciprocal visits between actors in the chain.

Once established, stakeholders' relationships should be carefully monitored by the project or independent brokers.

(UNIDO, 2011)

Guiding questions

Question Box 9:
Key questions to achieve an active stakeholder participation:

- Do smallholders and MSMEs have an effective voice and representation in the VC?
- What incentives can guarantee an active participation of the VC's stakeholders?
- What methods can help identify new development opportunities during stakeholder meetings?
- How to keep all VC stakeholders engaged after the initial phase?

Toolbox

Toolbox 14:
Tools to promote participation

Ideo.org, 2015: http://www.designkit.org/resources/1?utm_medium=ApproachPage&utm_source=www.ideo.org&utm_campaign=FGButton

- Page 35: Build a Team.
- Page 36: Recruiting Tools.
- Page 109: Co-Creation Sessions.
- Page 126: Get Feedback.
- Page 140: Build Partnerships.

UNIDO, 2011: https://www.diis.dk/node/1696

- [Page 54: How to build trust among Value Chain actors.](Page 54)

Financing the VC

VC financing refers to how to finance the business model solutions and upgrading strategies identified for each VC actor. This is a crucial aspect of VC interventions, as, on one hand, any upgrade of productive capacity calls for capital investment, while, on the other hand, many small-scale operators have great difficulties in accessing adequate financial services.
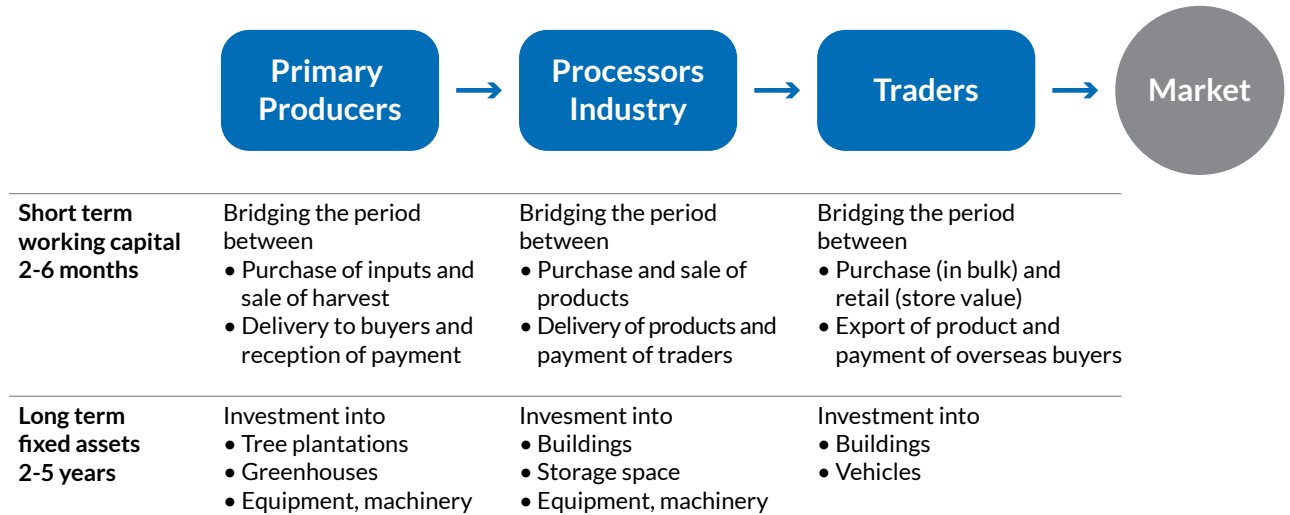
Creating inclusive financial services involves ensuring that the most vulnerable and resource-scarce segments of the VC can access financial products. Here, the role of VC implementers is to analyse the VC and bring forward realistic, accessible, and sustainable solutions that are adequate to the needs of the actors of each VC segment.

The process of developing a finance solution for vulnerable VC members' innovation and upgrade strategies can be divided into three (3) steps:

1. Analysing the financing needs and gaps

The first step is to complement the Value Chain analysis by estimating financial needs and identifying financial gaps on the VC. A financing gap exists wherever the VC actors cannot adequately cover the costs of their activities or of their upgrading strategies. The reference to the VC helps to see the connections between financing needs at different points of the chain.

Typical financing needs along a VC

| Primary Producers | → | Processors Industry | → | Traders | → | Market |

	Primary Producers	**Processors Industry**	**Traders**
Short term working capital 2-6 months	Bridging the period between • Purchase of inputs and sale of harvest • Delivery to buyers and reception of payment	Bridging the period between • Purchase and sale of products • Delivery of products and payment of traders	Bridging the period between • Purchase (in bulk) and retail (store value) • Export of product and payment of overseas buyers
Long term fixed assets 2-5 years	Investment into • Tree plantations • Greenhouses • Equipment, machinery	Invesment into • Buildings • Storage space • Equipment, machinery	Investment into • Buildings • Vehicles

Source: adapted from GIZ, 2017b.

When analysing financial needs of a given VC actor, it is important to understand several factors, such as the main gap in access to financing, but also the level of yearly income, the flows of revenues and expenses, the type and amount of investment required for the specific upgrading need and the needed financing frequency (yearly or seasonal).

It is also important to understand the origin of the constraints vulnerable VC actors face when trying to access financial products. These constraints are often linked to:

- Risk and cost of lending to small farmers and micro-enterprises;

- Weak Value Chain structure and governance;

- Underdeveloped financial system;

- Lacking knowledge from financial institutions on the VC at stake.

The challenge of VC development is to work around these constraints around obtaining finance. Identifying business development possibilities and quantifying financial needs of the target group is a first step to developing adequate financial products and solutions.

2. Identifying financial instruments and arrangements to solve the financing needs

Based on the specific financial needs identified in the previous step, the appropriate financial product for actors within a specific segment of the VC may vary from credit services, to savings, insurance or others. Usually, inclusive financing arrangements include a mix of both financial instruments and non-financial services.

Furthermore, the provision of a financial product can be found both internally within the VC, embedded in commercial transactions and the flow of product between VC actors, or externally, in the formal financial system – such as commercial banks, saving banks, public funds.

Tips and lessons learnt

Besides external financial solutions and VC integrated solutions, access to finance can also be obtained through local savings and credit managed by community-based financial institutions. These include various forms of community finance: Community Credit Institutions, community savings and credit cooperatives, self-help groups, etc.

(Fundación CODESPA, 2010)

3. Enhancing the mutual understanding of financial institutions and vulnerable VC actors.

Development organizations should refrain from getting directly involved in the financing arrangements and should not provide financial or finance-related business services themselves.

However, implementers can play a role in supporting financial literacy among weak VC actors and provide orientation on how to identify and describe potential sources and financial instruments.

As in the case of financial institutions, VC interventions should promote a better knowledge of the Value Chain strategy. This will give them a stronger incentive to grant loans, both in their own commercial interest and in the public interest.

Furthermore, VC implementers can provide additional security to lenders, by stimulating services which affect transaction cost and reduce the risk of lending to the weak partners in the chain. These services include:

- Facilitating actors' access to information.
- Support to contracting and inclusive business models.
- Organizing cooperative ventures and associations.
- Capacity development for informal businesses and smallholders.
- Technical assistance services.

Finally, external development organizations can also play the role of a broker. This includes matchmaking, mediation and supervisory functions.

There are no standard models of such arrangements. Every solution will be defined in accordance to the specific context and the respective constraints of the sector in question.

Toolbox

Toolbox 15: Financing Toolbox

GIZ, 2017b: http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-2-final-draft-July-2017.pdf

- Page 141: Calculating financing needs and gaps
- Page 146: Analyzing the constraints in obtaining financing
- Page 150: The choice of financing instruments and arrangements
- Page 168: Tools to facilitate financing solutions

Gender-sensitive VC

As improvements in gender equality and economic growth can be mutually reinforcing, while gender inequalities tend to be costly and inefficient (FAO, 2016), it is important to include women as important stakeholders when building inclusive VCs. By explicitly taking gender dynamics into account, inclusive VC can empower women, leading to wide-ranging development dividends for both women and men, their families, and wider society.

Gender issues are complex and implementers aiming at developing gender sensitive VC should understand the root causes underlying Value Chain inefficiencies related to gender inequalities and discrimination. A gender analysis helps to identify gender-based differences in access to resources and control over benefits and to predict how different actors integrated in the VC will be affected by the predicted intervention.

> **Tips and lessons learnt**
>
> *When faced with women's lack of active participation in a producer organization, a VC practitioner might choose to address the symptom by raising the quota for membership of women. However, if the practitioner focuses instead on identifying and understanding the underlying constraints (e.g. lack of time, mobility or public speaking skills) that may be inhibiting women's participation, it is far likelier that a more effective intervention will be implemented, and stronger results will be achieved.*
>
> *(FAO, 2016)*

The first step of a VC gender-sensitive analysis consists of engaging stakeholders to draw a map of the VC, while simultaneously integrating gender issues. Besides helping identify relevant actors and processes along the VC, this exercise is useful to raise awareness to the stakeholders of the complexities of gender relations.

The mapping process should contribute to:

- Obtaining a gender-sensitive picture of the Value Chain, the actors involved, their linkages, and the percentages of men and women in each chain segment.

- Gaining insights into the differences between men and women in terms of their activities and their access to and control over resources.

- Understanding the actors' level of awareness on gender equality issues.

- Identifying opportunities for women to upgrade their position.

- Identifying constraints and opportunities for women to participate in the Value Chain as well as analyse power differences in the Value Chain governance.

Following the gender mapping, an in-depth analysis of the multiple dimensions in which gender inequalities and opportunities operate along the macro, meso and micro level must be done. Tools such as gender empowerment grid help in undertaking this analysis.

- Macro level: cultural, policy and regulatory environment; enabling environment

- Meso level: delivering pro poor development services; local performances

- Micro level: outreach and impacts at household level household

Following the gender-based analysis, opportunities of empowering women within the VC must be identified, determining what segment and what actors of the VC should be targeted.

Strategies aiming at women's empowerment are often related to:

- Equitable access to productive resources;

- Equitable control over benefits.

- Increased power and agency.

Interventions aiming at the micro level in favour of greater gender equality will in turn have an impact on the meso and macro levels, as individuals will influence organisations and the delivery of gender sensitive services and the overall institutional and regulatory environment. Changes at the macro level will have an impact on institutions and organisations to make them more responsive, inclusive, equitable and accountable at all levels.

Toolbox

Toolbox 16: Toolbox for gender sensitive VC analysis

Agri-ProFocus & IIR, 2012 https://www.cordaid.org/en/wp-content/uploads/sites/3/2013/02/Challenging_chains_to_change.pdf

- Tool 3: Gender mapping.
- Tool 2: Analysing the chain from a gender perspective at the macro, meso and micro levels.

AgroProFocus, n.d. https://agriprofocus.com/toolkit

- Tool 3.1: Data collection for Value Chain analysis at macro-, meso- and micro-level.
- Tool 3.2a: Making a gender-sensitive Value Chain map.
- Tool 3.3b Formulating gender-based constraints and assessing the consequences of gender-based constraints.

Strengthening associativity

Individual small producers usually face several barriers when trying to integrate a VC. While often being unable to meet market requirements (due to lack of innovation capacity, high transaction costs and incapacity to achieve a certain production volume), individual producers also find themselves in a weak bargaining position towards other actors, such as buyers, policy makers or creditors.

The VC approach offers an opportunity to understand how individual producers' link to the market and gives insight into how to structure and strengthen horizontal links along the VC. By organizing themselves in collective organizations, such producers' associations, cooperatives or networks, producers can participate in the VC as a single actor, qualifying as business partners and increasing their bargaining power towards buyers.

In a Value Chain promotion context, strengthening associations between producers and small enterprises is a key intervention to facilitate a greater participation of vunerable producers in the VC, thus ensuring that chain upgrading delivers pro-poor effects. Furthermore, gathering producers into collective organizations might lead to stronger social cohesion levels and a stronger voice - through greater trust and increased cooperation habits - to vulnerable individuals, which might strengthen their position as a group beyond VC related aspects.

Cooperation can assume differents aspects. It often starts at local level, when individual producers, usually driven by an economic incentive, create groups for joint production, marketing, access to credit or access to support services and information. As these groups grow, they have an incentive to find a legal organization which performs functions on behalf of its members, becoming an actor of the VC itself. When well structured, similar organizations can ultimately also collaborate at inter-regional or international level, defending common interests.

Horizontal links vs Vertical links
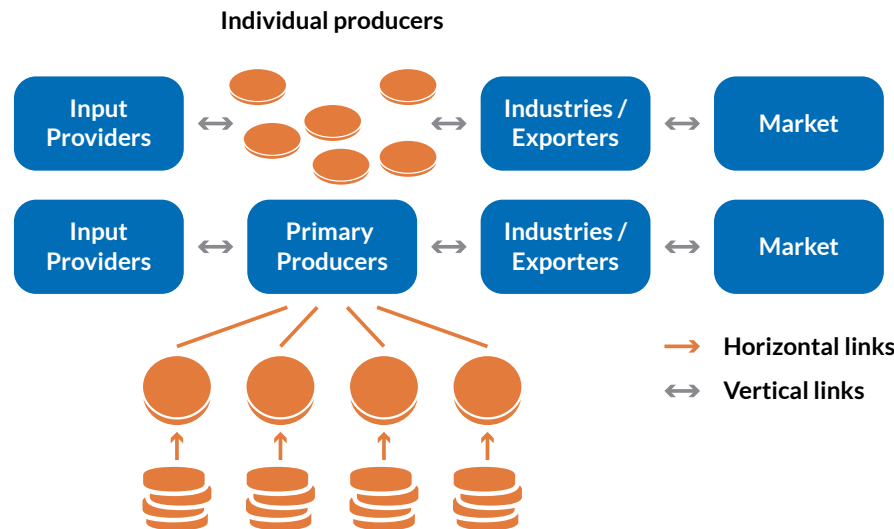
Source: Adapted from CODESPA, 2010.

Support to the establishment of horizontal links are often related to:

1. Foundation of collective producers' organizations

In order to determine whether or not and what type of cooperation could be a solution, the first step is to analyse the VC structure in order to assess what benefit horizontal cooperation might bring, what specific cooperation model might work and what investments are necessary (GIZ, 2017b). For instance, in large and dispersed VC where producers are not organized, it can be useful to promote informal groups that cover as many individual producers as possible, achieving a greater scale. However, supporting small informal groups individually, village by village, is costly. Another possible strategy for VC implementers can be to interfere to get a favourable policy framework, strengthening second-tier cooperative organizations and public extension services.

> **Tips and lessons learnt**
>
> *At least 50% of small producers in each chain stage should be represented, preferably in one (or a few) associations. A high degree of organization is required in order to reach as many producers as possible and to minimize unfair competition with unorganized producers.*
>
> *(GIZ, 2007)*

Implementers must assess whether there is willingness among individual producers to cooperate. While it is crucial that producers perceive the economic and social benefits of collaborating in collective organizations, it is important to create efficient and viable forms of organization which guarantee that the incentive for cooperation outweighs the cost and risks. At this level, VC implementers aiming at strengthening associativity should focus on enabling small producers to organize themselves, rather than creating collective groups.

2. Development and capacity building

In the long term, success of associations is defined by their internal stability, which is often determined by the extent to which these organizations are capable of (1) establishing solid market links, (2) implementing good and strong governance practices and social cohesion, (3) adopting efficient management system and developing strategic alliances with other VC actors and (4) generating social, economic and environmental benefits. Toolbox 9 provides examples on how implementers can strengthen these dimension-promoting activities to support:

- Market orientation;
- Technical and business performance;
- Organizational development and social coherence.

> **Tips and lessons learnt**
>
> *Major lessons and recommendations regarding support to associative organizations are:*
>
> *1) Good governance and ownership of an association and legitimate representation of members is crucial. Facilitators must encourage members to articulate concerns and to build up trust and willingness to cooperate.*
>
> *2) While people commonly agree that horizontal collaboration has advantages, the desire for individual autonomy often prevails. Hence, benefits (economic, voice, social cohesion or others) have to be demonstrated directly and fast enough. Unless people invest in collaboration, the support by development agencies should be reconsidered.*
>
> *3) Illiteracy is a common problem which must be addressed adequately.*
>
> *(GIZ, 2007)*

> **Toolbox**
>
> ## Toolbox 17: Toolbox to promote horizontal linkages
>
> Further information on support to the creation and consolidation of collective producer organizations can be found in: http://valuelinks.org/wp-content/uploads/2015/09/ValueLinks-Manual-2.0-Vol-2-final-draft-July-2017.pdf
>
> - GIZ, 2017b, p. 91: Key activities supporting formal producer cooperatives
> - GIZ, 2017b, p.87: Criteria to assess the viability of a cooperative.
> - GIZ, 2007, p.10: Checklist of factors determining the interest in commercial cooperation.

Innovation

In highly competitive markets, the process of innovation is a necessity needed in order to maintain competitive advantages and profitability. Thus, innovation is critical to add overall value to a given segment within the VC, increasing the benefits which can be shared among its actors. However, when attempting to innovate, VC implementers should include vulnerable producers in the innovation process (rather than innovate for them) and pay attention to what impact different options have on vulnerable communities or producers.

As seen in previous chapters, VC interventions aiming at innovating should:

1. Map different processes and technology used along the VC, focusing mainly on the poor users.

2. Analyse the different market channels present in the VC and understand what processes and technologies are used in these channels. This will help assess what the best options are for poor VC participants seeking to innovate their technology or processes, while helping to understand how innovation on a certain VC segment might affect other VC actors.

3. Finally, selected innovation strategies should make sure that they are within reach of the poor's capacities. Innovation in knowledge and technology often comes from external service providers, to which the poor have not always had the capacity to access. Therefore, it is important to adopt inclusive innovation processes, in which innovation is developed with the poor, and not for the poor. Participatory processes - in which communities and vulnerable VC members cooperate with private or public service providers - ensure that innovations are tailored to specific needs and capacities of the poor.

Guiding questions

Question Box 10: Key questions for inclusive innovation:

- Are smaller VC actors aware of existing policies and incentives for innovation and technology development?

- Are innovation processes carried out collaboratively?

- What benefits do the poor get from the innovation process? Does the innovation allow small producers to overcome identified barriers or bottlenecks?

- Are there profit-sharing mechanisms in place?

- Are small-scale producers encouraged to participate in inclusive innovation? Are the new services offered suitable to the capacity-level of the poor?

Tips and lessons learnt

For people living in precarious situations or having very limited investment capacity, engaging in an innovation process can represent a risk they are unwilling to take. Small-scale trial and error pilots are a cost-effective way for participants to share their own views on what the risks are, the degree of risk that is acceptable to them, and how these risks might be mitigated and thus quickly finding sustainable solutions.

"Failing forward" is an approach in which failure is seen as a natural part of the innovation process and is handled constructively, becoming a form of knowledge capital which is used to reach successful solutions which can be scaled-up.

SIC4Change

Toolbox

Toolbox 18: Innovation Toolbox

- **DFID, 2008, p. 86:** Table 23 - Important issues to consider when selecting the best potential upgrading options for the poor https://youtheconomi-copportunities.org/sites/default/files/uploads/resource/making_value_chains_work_better_for_the_poor_a_to_14413.pdf

- **ENDEVA, n.d., p.54:** Test the model http://www.endeva.org/wp-content/uploads/2014/11/IBG_final.pdf

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