

Value Chain Development for Decent Work





2009

Value Chain Development for Decent Work

A guide for development practitioners,
government and private sector
initiatives

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International Labour Office

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Foreword

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

Tilman Altenburg,
German Development Institute
(Peer reviewer)

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

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

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

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

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

The guide provides a systemic perspective, addressing not only value chain issues in the narrow sense but also important framework conditions, such as the relevance of the duration and cost of customs clearance, tariffs etc. Likewise, it addresses all relevant aspects that donors and other value chain facilitators need to take into account, including the need for institutional reform and its underlying incentive systems; issues of sustainability; the need to upscale project experiences; gender issues; etc. The chapters addressing these issues show that the authors have an excellent overview of good practices in private sector development.

It is worth noting that the focus on markets, e.g. for the provision of business development services, reflects the state of the art in PSD; for example, the authors show the relevance of different sources of service provision (other than public agencies) including private consultants, business associations, NGOs, and embedded services. The guide rightly highlights the need to address *underlying causes* (failure in the performance of market systems) rather than *symptoms* in individual chains. Likewise, the notion of grids of intersecting value chains is closer to reality than common “linear” chain concepts.

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

Contents

Prologue: It's the stupid cows!	ix
Introduction: What it's all about	1
Chapter 1	
Sector selection for Decent Work	23
Summary sheet: sector selection	24
1.1 Defining sectors as socio-economic system frameworks	25
1.2 Why is sector selection an important decision?	27
1.3 Who selects sectors?	28
1.4 How to select sectors using Decent Work criteria	29
1.5 Further reading on sector selection	39
Chapter 2	
Project setup and initial research & evaluation	41
Summary sheet: project setup and initial research	42
2.1 Setup of a value chain initiative	43
2.1.1 <i>Team building and organization</i>	44
2.1.2 <i>Team workshops and events during the setup phase</i>	47
2.2 Initial research and networking with market players	56
2.3 Identifying core objectives for value chain research (problem definition)	60
2.4 Further reading on project setup and initial research	62
Chapter 3	
Value chain mapping: understanding relationships	63
Summary sheet: value chain mapping	64
3.1 What is a value chain map and why is it useful?	64
3.2 How to map value chains	66
3.2.1 <i>Value chain map as a flow chart</i>	67
3.2.2 <i>Value chain map as a grid chart</i>	76
3.3 Further reading on value chain mapping	84
Chapter 4	
Value chain research: identifying Decent Work deficits	85
Summary sheet: value chain research	86
4.1 What is value chain research?	87

4.2	Developing a framework for value chain research	92
4.3	Focusing on specific Decent Work deficits and markets in value chain systems	95
4.3.1	<i>Social Dialogue in value chain systems: how market players cooperate</i>	97
4.3.2	<i>Working conditions in value chain systems: more than just CSR</i>	99
4.3.3	<i>Value addition in value chains: understanding who gains most</i>	103
4.3.4	<i>Gender equity in value chain systems: understanding the position of women</i>	107
4.3.5	<i>Calculating costs in value chains</i>	112
4.3.6	<i>Lead firms in value chain systems: understanding power relations</i>	116
4.3.7	<i>Business services and value chains</i>	118
4.3.8	<i>Star diagrams: measuring sector performance against buyer requirements</i>	122
4.4	Methodology: Interviews and focus group discussions	126
4.4.1	<i>Interviews</i>	128
4.4.2	<i>Focus group discussions</i>	130
4.5	Further reading on value chain research topics	132

Chapter 5

Value chain analysis:

developing a vision for sustainable Decent Work outcomes

Summary sheet: value chain analysis and intervention strategies

5.1	A framework for finding sustainable upgrading solutions in value chain systems	138
5.1.1	<i>Identifying constraints and their underlying systemic causes</i>	141
5.1.2	<i>Identifying incentives of market players and agents of change</i>	150
5.1.3	<i>Formulating a vision and strategy for sustainable systemic change: the intervention framework</i>	156
5.1.4	<i>Defining sustainable outcomes and indicators for monitoring</i>	166
5.1.5	<i>Key reading material on the analytical framework</i>	167
5.2	Supporting and strengthening embedded services	168
5.2.1	<i>Case Study: Bringing knowledge and skills to rural vegetable farmers: strengthening embedded services</i>	168
5.2.2	<i>Business membership organizations as “system integrators”</i>	172
5.2.3	<i>Implementing International Labour Standards along the value chain</i>	174
5.2.4	<i>Market requirements and quality standards: preconditions for market access</i>	177
5.3	Documentation and presentation	180
5.4	Further reading on value chain analysis and upgrading strategies for value chain development	182

Chapter 6

Monitoring & evaluation for value chain development	185
Summary sheet: monitoring and evaluation	186
6.1 Appraisal of interventions	190
6.1.1 <i>Intervention framework (log frame)</i>	191
6.1.2 <i>Assessing the feasibility of interventions</i>	195
6.1.3 <i>Baseline (and periodic) surveys</i>	196
6.1.4 <i>Selecting indicators for monitoring Decent Work impact</i>	198
6.2 Monitoring implementation	207
6.2.1 <i>Monitoring outputs and the implementation activities involved</i>	208
6.2.2 <i>Monitoring outcomes (first signs of impact)</i>	209
6.2.3 <i>Sustainability check</i>	211
6.3 Evaluating VC outcomes and impact	212
6.4 Further reading	214
Annex	215
A1: Format for RVCD Floriculture start-up workshop	216
A2: Example of interview guidelines (Floriculture sector, Sri Lanka)	219
A3: Example of a focus group discussion format (Floriculture sector Sri Lanka)	222
A4: Example of an evaluation workshop format	227

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

Prologue: It's the stupid cows!

Example: the Colombian leather industry value chain

The following story¹ is told by a monitoring company that worked for the government and private sector leaders in Colombia to study and provide recommendations on how the leather producers of that Andean nation could become more prosperous by exporting to the United States, and how the leather industry could thus create employment and income opportunities for many people in both urban and rural areas of the country:

Retailers and consumers: quality bad, price too high!

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

Manufacturers: "No es nuestra culpa!"

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

Tanneries: it's the mataderos!

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

Slaughterhouses: the ranchers don't care!

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

Ranches: it's the stupid cows!

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

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

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

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

Prologue: It's the stupid cows!

The need to understand underlying systemic constraints

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

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

So what should the team have asked instead?

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

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

Moving from symptoms to underlying systemic constraints

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

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

Prologue: It's the stupid cows!

particular on Decent Work issues within the value chains. Poor and disadvantaged groups are always part of value chains, whether as producers, workers or consumers². The essential question is thus: *how can we achieve competitiveness while creating new jobs and income opportunities for men and women and promoting better working standards in value chains?*

Decent Work

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

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

Introduction:

What it's all about

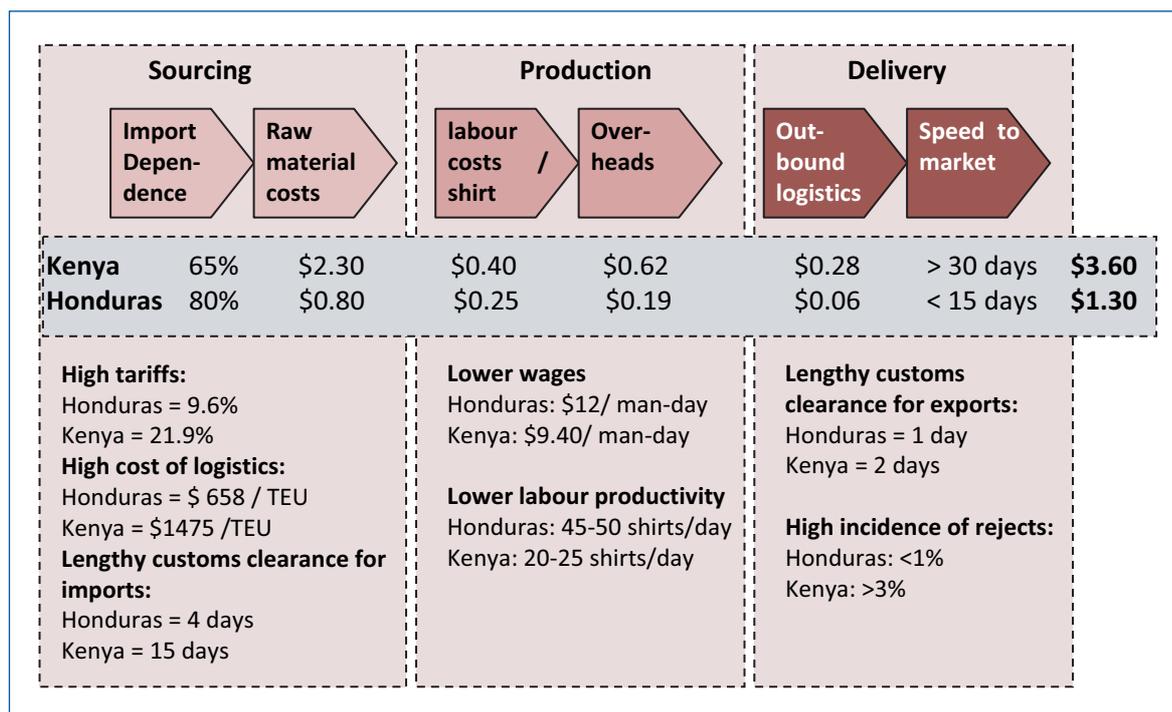
Introduction: What it's all about

Growing competitive pressure and need for better integration

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

At the same time, sectors in emerging markets³ are increasingly finding themselves competing against companies from other countries operating in the same sector – not only for export market shares, but also increasingly for shares on their own domestic markets. Where competition is about price and reducing costs of production, small enterprises and workers/employees are often at the losing end. Small producers find it difficult to meet market requirements because they do not possess the necessary technology and skills – or they do not have access to sufficient market information in the first place.

Box 0.1: Competing T-shirt value chains



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

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

Introduction: What it's all about

Disconnect between formal and informal economy

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

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

Box 0.2: Definition of value chains

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

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

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

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

Price	Rs 25.-/l	Rs 40.-/l	Rs 45.-/l	Rs 75.-/l	Rs 80.-/l	Rs 95.-/l
INPUT SUPPLY	FARM	COLLECT CHILLING	TRANSPORT	FACTORY	RETAIL	CONSUMER
Costs	Labour Land Feed Equipment Cowshed Animal care	Testing Chilling tank Building Electricity Labour	Vehicle Fuel Repair Driver	Machines Building Electricity Packaging Marketing Admin.	Shop rent Storage Labour Advertising Admin. VAT	Consumer pays for all costs added

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

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

Introduction: What it's all about

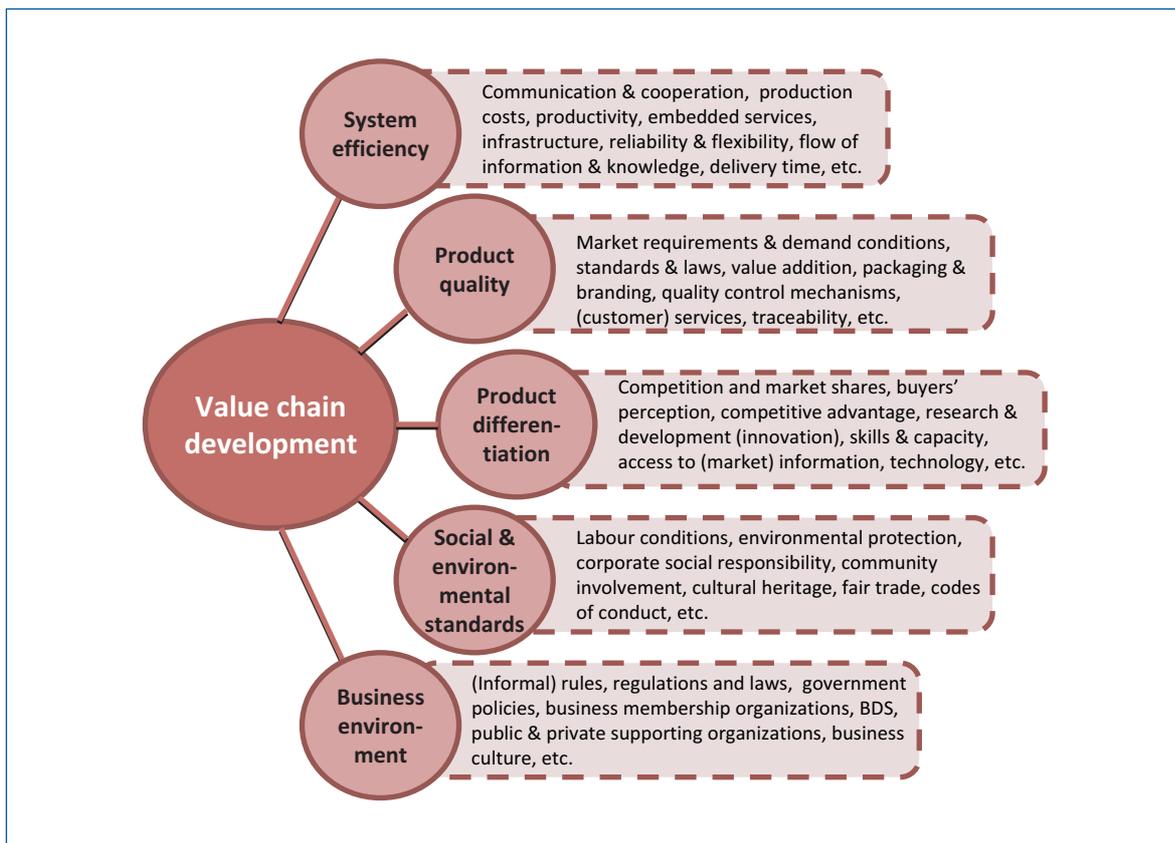
Drivers of change that prompt value chain development

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

1. System efficiency

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

Figure 0.3: Five drivers of change for value chain development



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

Introduction: What it's all about

2. Product quality

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

3. Product differentiation

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

4. Social & environmental standards

Consumers are becoming increasingly aware of **social and environmental standards** and are increasingly demanding products that fulfil these requirements. Retail and multinational companies are feeling pressure from consumer organizations, media, governments and NGOs to improve social standards in their supply/retail chains and to minimize environmental impact. The ILO's *International Labour Standards* are playing an increasingly important role and are being included in codes of conduct of private sector CSR initiatives – such as the global Ethical Tea Partnership⁷. Here again, it is more than a matter of doing business in a socially responsible way: it is in the commercial interests of companies to react to this consumer demand. Ensuring good social and environmental standards also means being able to trace products and services all the way back to their origin. This requires that businesses along the value chain cooperate.

5. Enabling business environment

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

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

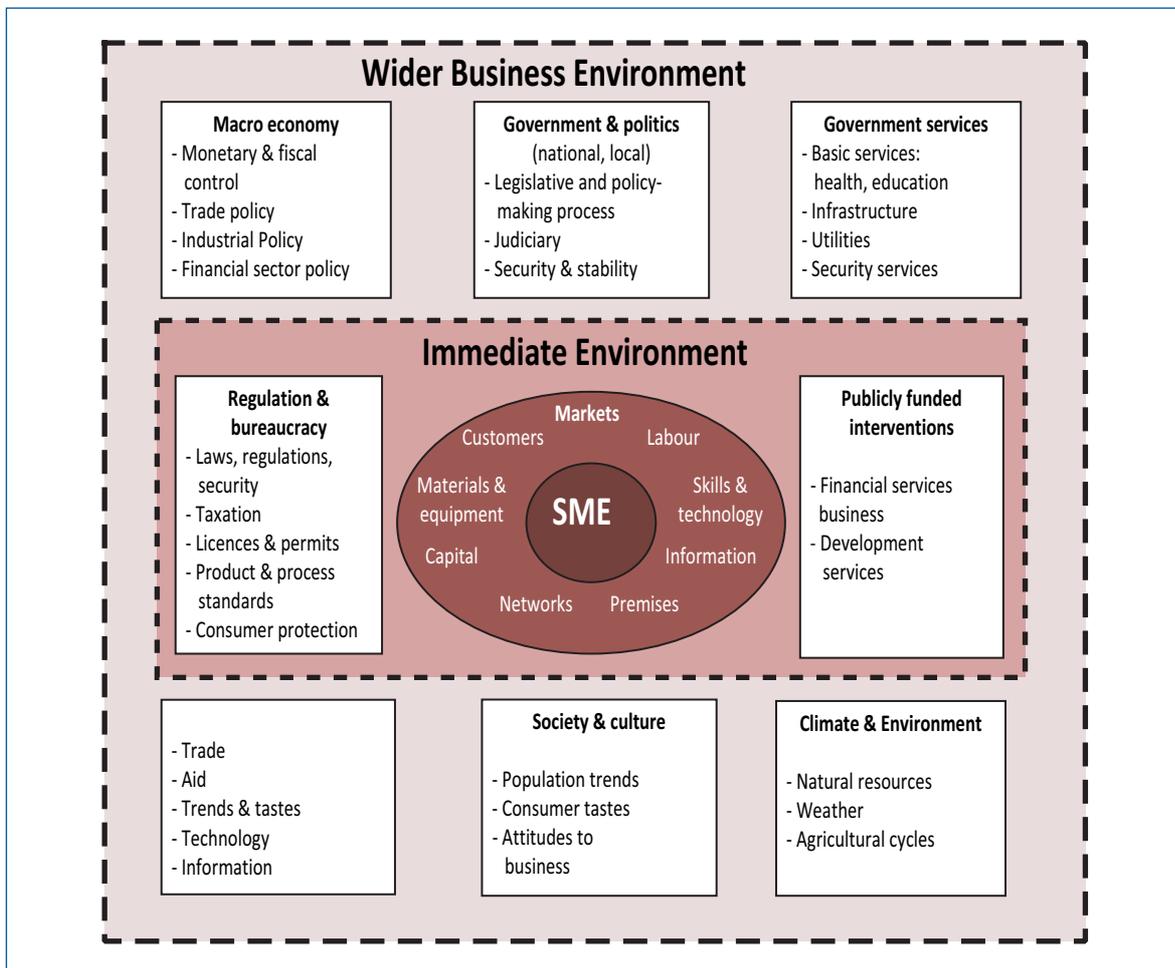
⁷ See www.ethicalteapartnership.com

Introduction: What it's all about

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

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

Box 0.4: Business environment



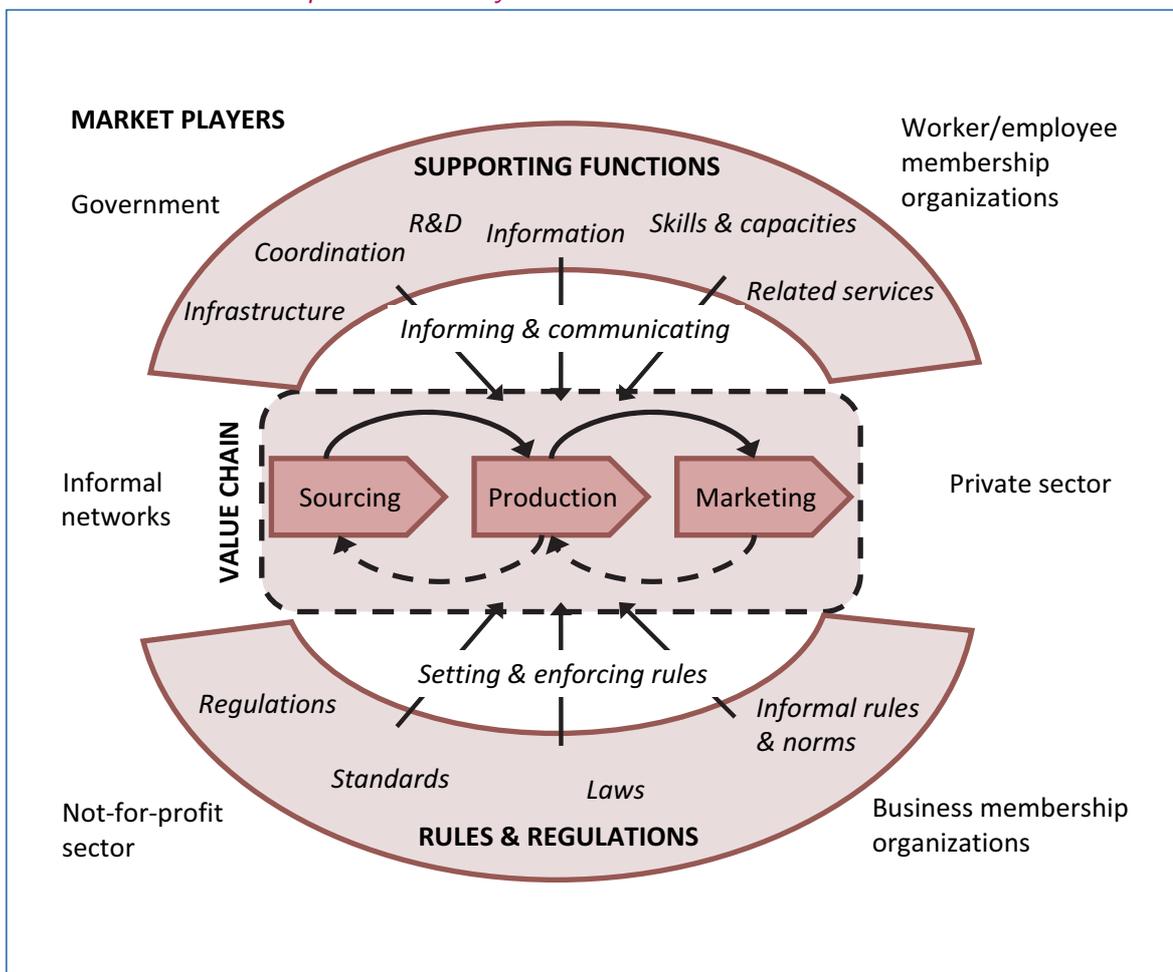
Source: The Springfield Centre, www.springfieldcentre.com

Introduction: What it's all about

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

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

Box 0.5: Value chains as part of market system framework



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

Introduction: What it's all about

Value chain transactions

A few terms mentioned above require clarification:

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

Supporting functions

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

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

Rules and regulations

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

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

Introduction: What it's all about

Market players

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

Developing a strategy for sustainable change

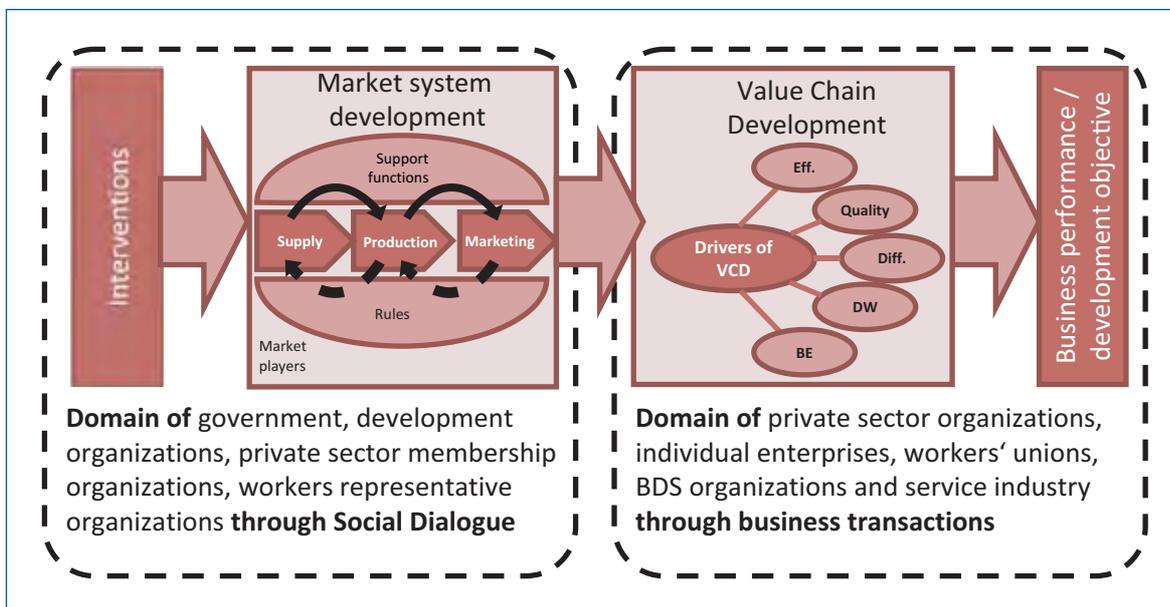
Value chains are developed by developing the systems into which they are embedded. Solutions for sustainable sector competitiveness and inclusive growth can be found by analysing the system in which enterprises of a particular value chain operate. In other words: ***the goal is to ensure that institutions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

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

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

Introduction: What it's all about

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



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

Facilitating inclusive markets in value chain development

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

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

Introduction: What it's all about

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

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

Being clear on who does what for sustainable development

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

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

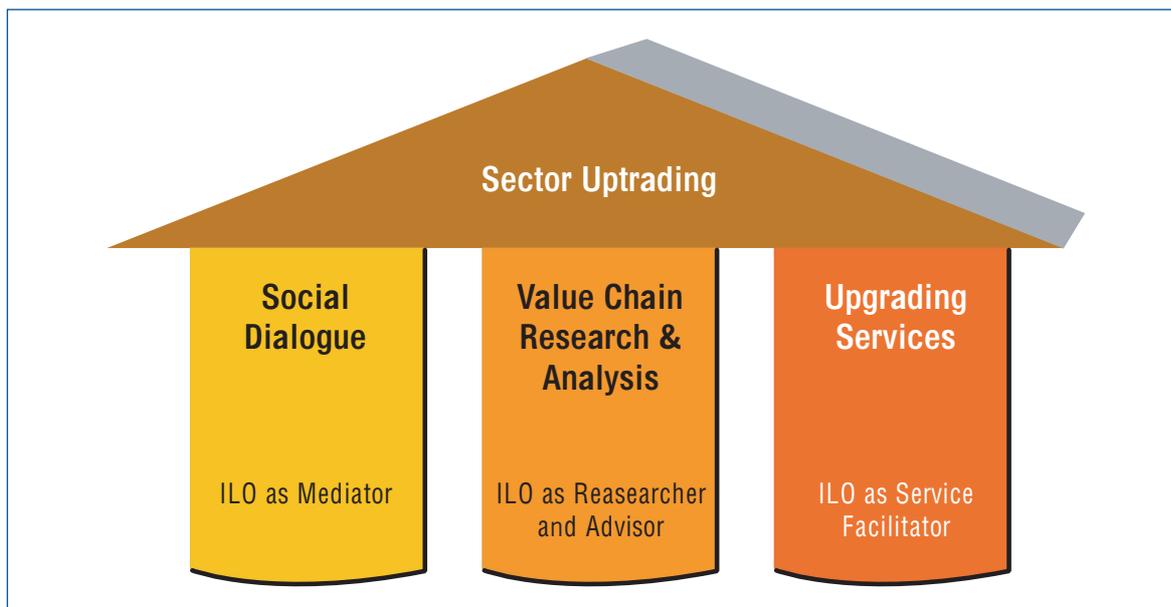
More often than not, the Market (industry) and Micro (organizational) environment in a value chain is governed mainly by the private sector firms and their socio-economic relationships in the value chain. It reflects the strengths, weaknesses, opportunities and threats for each player in the chain, which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

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

Introduction: What it's all about

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

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



Introduction: What it's all about

An exercise: Facilitation

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

Example: a possible facilitator role of the ILO

- 1. Mediator:** The tripartite structure consisting of governments and employers' and workers' organizations gives the ILO a competitive advantage in identifying the main stakeholders in a sector and initiating a *Social Dialogue* amongst them. Upgrading activities aiming at sectors and global value chains can only be socially sustainable and successfully implemented if *all* major stakeholders are involved. It must be borne in mind, however, that mediation through an external and temporary facilitator must not become a permanent fixture in the market; rather, systemic solutions must be sought that will perform this role after project exit.
- 2. Researcher and Advisor:** high quality research on and analysis of value chains, the sector and its specific business environment, constitute the basis for the ILO as advisor in upgrading processes. ILO experts can take on a facilitative role, not only bringing stakeholders together, but also providing them with the information they need in order to find upgrading solutions in the specific local context. As part of an international network, ILO experts will also be able to provide information on best practices from other countries and regions.
- 3. Service Facilitator:** the ILO has a range of programmes that can be used to address specific needs at different levels of the business environment (see above). Stakeholders can draw from years of experience and a continuously updated pool of programmes and tools. International experts could be bought in to implement these programmes. Programmes that have operated only in loose connection with each other in the past can now be combined and focused on upgrading sectors in global value chains.

Introduction: What it's all about

“Internal facilitators”: an example

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

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

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

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

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

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

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

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

Introduction: What it's all about

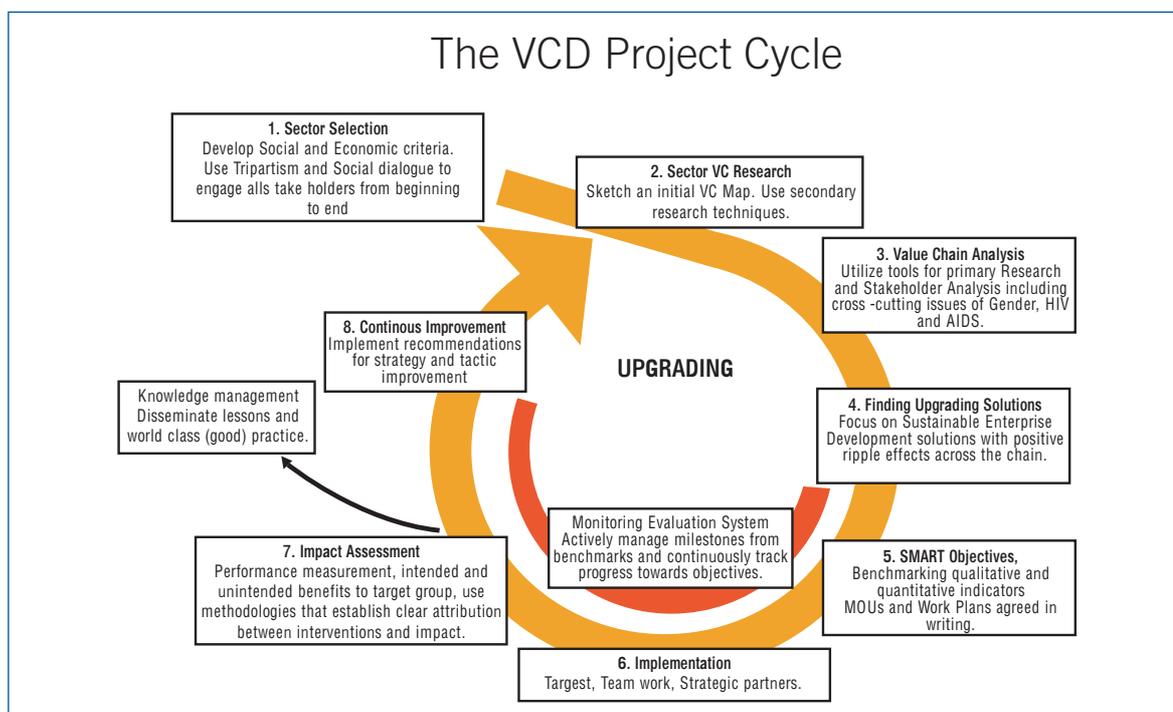
Introducing the VCD project cycle

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

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

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

Box 0.7: Organizing a VCD initiative



Introduction: What it's all about

Sector selection

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

Getting started

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

Value chain mapping

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

VC research⁹: Interviews and focus group discussions

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

Finding sustainable market solutions for value chain development

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

⁹ <http://www.meda.org/WhatWeDo/ProductionMarketingLinkages/Resources/Publications.html>

Introduction: What it's all about

point with precision. Evidence from recent research¹⁰ shows that in addition to broader issues relating to macroeconomic stability and general business enabling environments, sector-specific issues affecting product market competition are collectively the most important impediments to faster economic growth and poverty reduction. The majority of such impediments concern sector-specific policy and enforcement issues and bottlenecks that prevent the forming and integration of inclusive product and service value chains, limiting the access of poor local producers to value chain finance¹¹ and markets and stifling the creation of new opportunities for wage employment. It is therefore essential to understand these constraints and bottlenecks and to respond to them effectively in order to ensure that cross-cutting inclusive market development policies and related institutional strengthening measures are incorporated into PRSPs and other national planning frameworks. Emerging best practices and a rapidly growing body of advisory literature¹² confirm that there are no 'one-size-fits-all' approaches to successful pro-poor market facilitation; tailor-made packages 'packages' of interventions need to be built around local market realities. *Chapter 5* is about value chain analysis and provides guidance and ideas for finding upgrading strategies.

Implementation: facilitating value chain development

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

M & E: enabling continuous learning and innovation

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

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

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

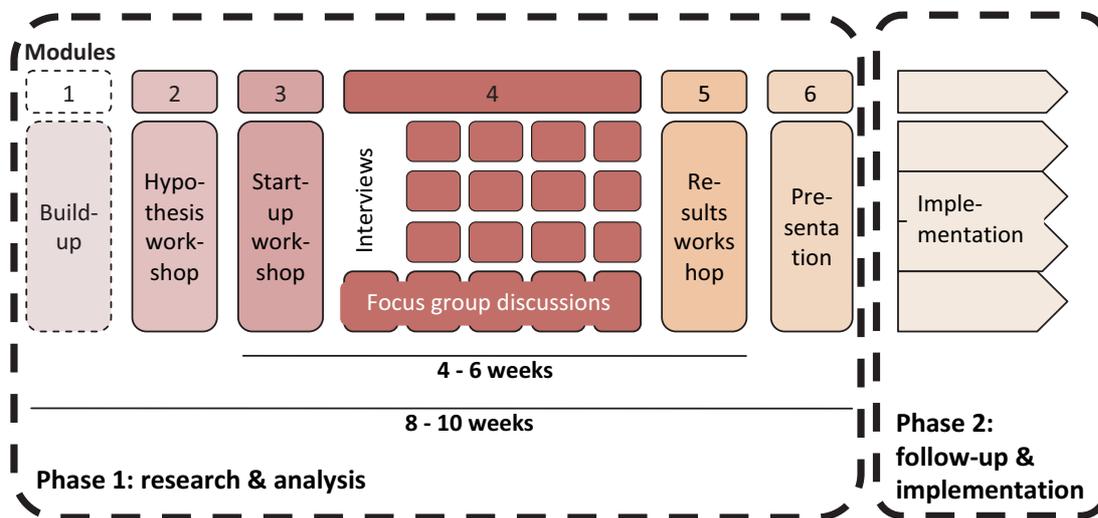
¹²See DFID/SDC (2008): The M4P operational guide, available from www.m4pnetwork.org

Introduction: What it's all about

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

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

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



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

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

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

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

Introduction: What it's all about

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

Characteristics of this value chain approach

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

Value chain development for Decent Work

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

Going beyond research towards value chain development

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

A participatory approach for local ownership

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

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

Introduction: What it's all about

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

Looking at market and supply

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

Value chains as an integral part of the market system framework

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

Who can use the guide?

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

Private sector initiatives

- *By private sector initiatives* which are planning to upgrade their supply or retail chains – in order to integrate small enterprises more effectively, for example, or to upgrade labour conditions in their small and medium-sized suppliers. The Ethical Tea Partnership¹⁵ provides an example of a collective private initiative. The guide can also be used by multinationals for developing codes of conduct and implementation strategies for CSR initiatives.

Business membership organizations and unions

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

¹⁵See www.ethicalteapartnership.org

Introduction: What it's all about

Government

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

Business support organizations

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

Development organizations

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

Introduction: What it's all about

Box 0.9: Essential publications and websites for further reading

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

Websites:

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

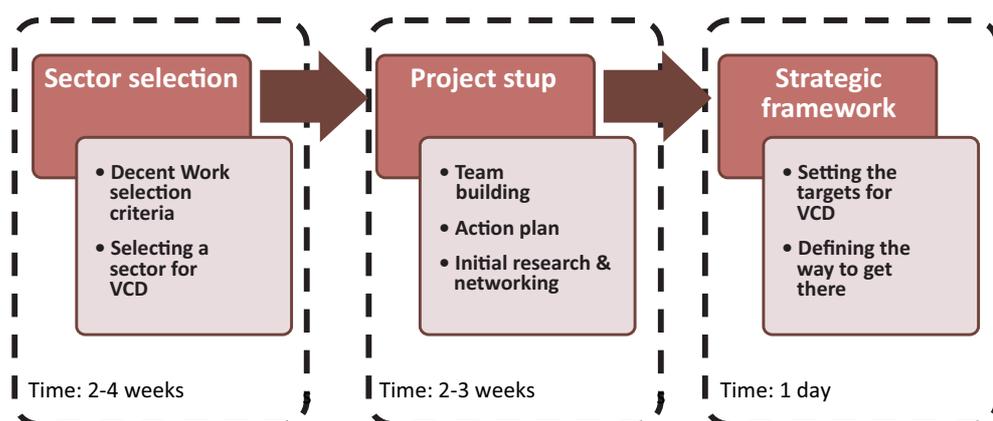
Chapter

1

Sector selection for Decent Work

Summary sheet: sector selection

Timeline and proposed actions:



Summary

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

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

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

Outcomes:

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

Sector selection for Decent Work

Sector selection requires justification

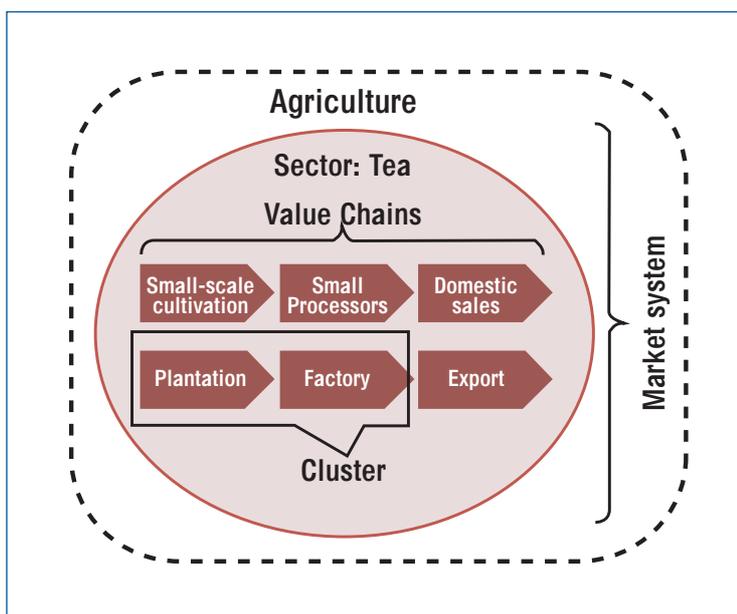
Sector selection is a delicate issue: why do we select the garment industry and not fruit and vegetable processing? Or spices rather than paddy/rice cultivation? Such a decision requires careful consideration of the social and economic factors which shape the sector.

1.1 Defining sectors as socio-economic system frameworks

Definition of sectors

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

Box 1.1: Definition of sectors



Sector selection for Decent Work

Defining sectors as socio-economic market system frameworks

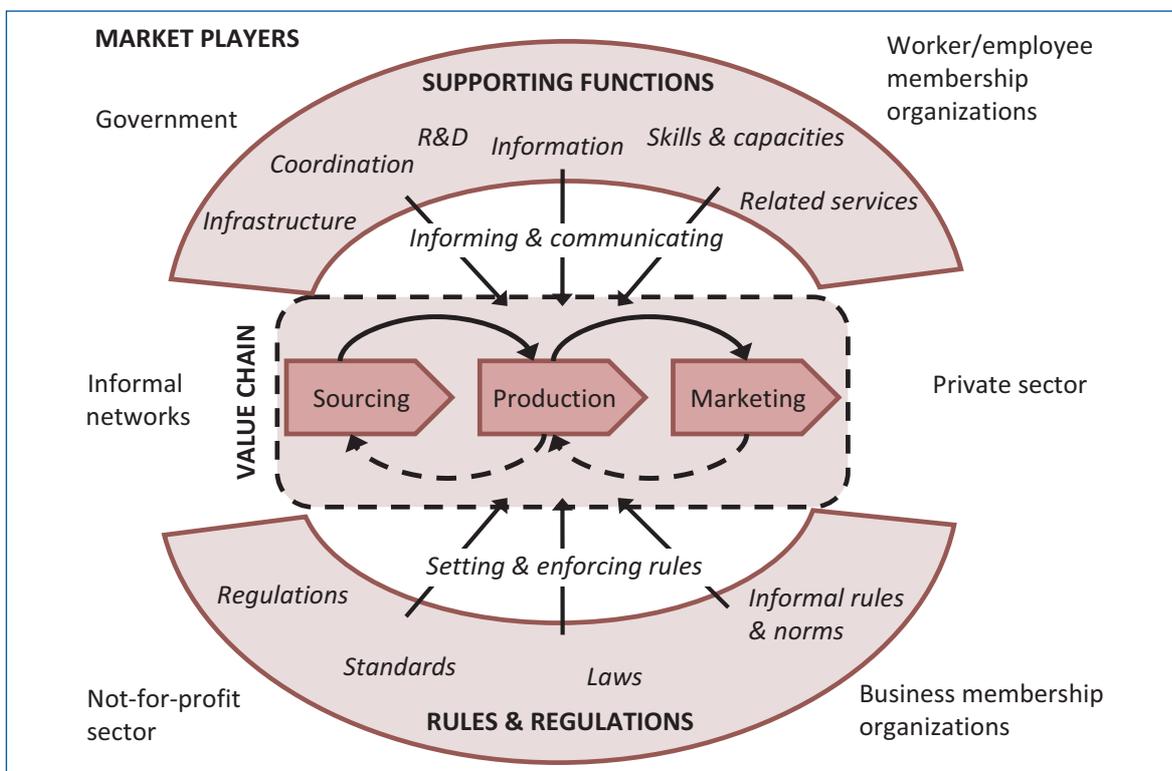
The definition of the above sectors has been taken from the definition of *market systems* as defined in the introduction to this guide and reflects the complexity of structures within the sector and the different roles of market players (businesses, service providers, government, associations, unions,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

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

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

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

Box 1.2: Sectors as market system frameworks



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

Sector selection for Decent Work

The value chain approach is a sector-specific approach

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

1.2 Why is sector selection an important decision?

Why is careful sector selection so important?

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

Changing market realities have strong implications for jobs and incomes

Changing market realities not only have implications for individual businesses, but also for entire sectors. Take, for example, the *Multi-Fibre Agreement* (MFA) in the global textile industry: with the dismantling of trade barriers, Chinese manufacturers – who enjoy a competitive advantage through cheap labour combined with modern technology and economies of scale – are massively entering markets worldwide, causing many manufacturers in other countries to close down their factories. The changing textile market realities are putting enormous competitive pressure on other countries, which need to find innovative strategies to either remain on the market, or find other market opportunities. The restructuring of entire sectors often goes hand in hand with the reduction of the workforce (*downsizing* strategies), but has much more far-reaching implications than merely the decrease in workforce size.¹⁷ However, the pressure on the labour market alone is enormous, forcing government and public and private sector development partners to look for employment alternatives¹⁸.

Restructuring sectors often means looking for alternatives

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

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

¹⁷ibid.

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

Sector selection for Decent Work

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

Sector selection determines contribution towards Decent Work in value chains

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

1.3 Who selects sectors?

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

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

Involving local stakeholders in selection for ownership and support

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

1.4 How to select sectors using Decent Work criteria

So how do we select sectors?

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

Step 1:

Defining objectives (Decent Work) and target group

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

Putting sector selection in the context of Decent Work Country Programmes

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

The target group

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

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

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

²⁰For a definition of Decent Work, see chapter 8

Sector selection for Decent Work

Defining characteristics of the target group

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

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

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

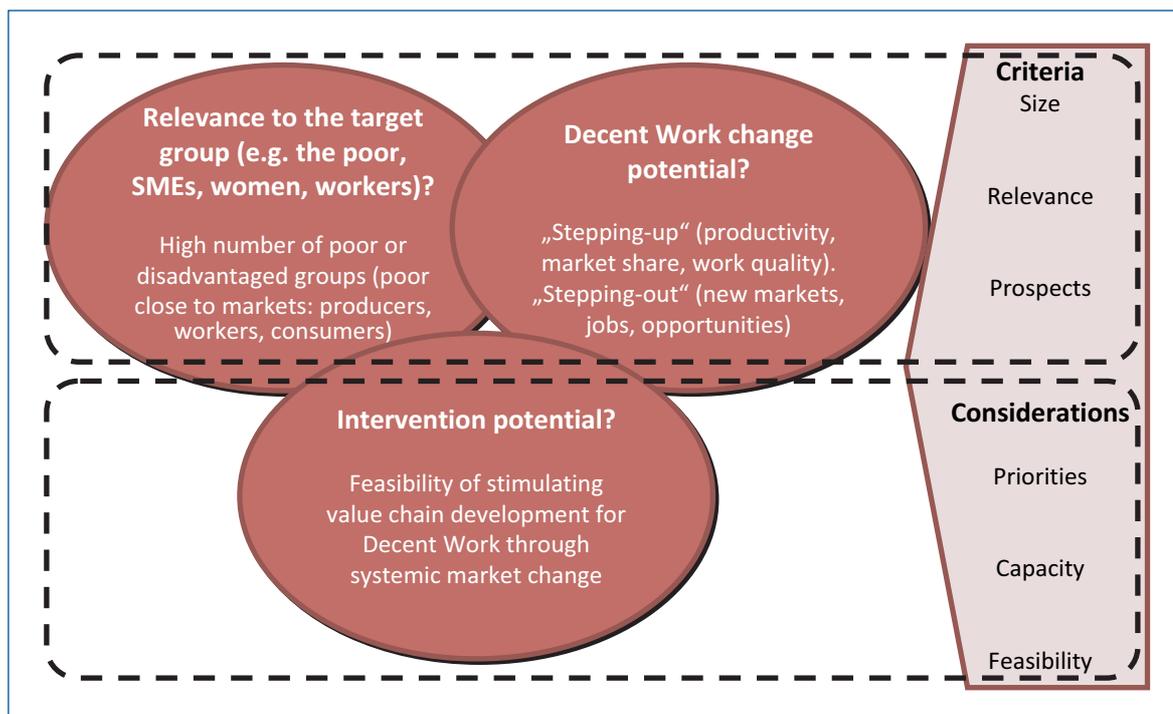
What are your objective(s)?	Who is your target group?	What are their defining characteristics?
Create job opportunities national and higher incomes	Micro and small enterprises in rural areas	<ul style="list-style-type: none">• Incomes below the poverty line (they are poor)• Lack of voice and legal recognition• Poor working conditions and health risks• Low productivity and product quality• Etc.
Now it's your turn...		

Step 2:

Setting up selection criteria

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

Box 1.4: Decent Work potential selection criteria



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

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

Sector selection for Decent Work

Criteria 1: size and relevance to target group

1. *RELEVANCE to the target group:*

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

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

Criteria 2: Decent Work change potential

2. *Decent Work change potential:*

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

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

- a) “*Stepping-up*” strategies involve doing things better. This could mean, for example, increasing productivity, improving product quality and specifications, increasing the market share by perhaps adopting a better marketing strategy, or adding value to products at lower levels of the value chain. All these could be achieved by technical innovation, better management practices, improved workplace conditions, etc.
- b) “*Stepping out*” strategies²² involve a more fundamental shift: this could involve exploring completely new markets, changing towards new products, seeking employment opportunities in other/related sectors, etc. Value chain development does not mean focusing on one single chain (stepping-up strategy), but it also means enabling market players to make choices between different opportunities. Stepping-out strategies are often important when a sector comes under too much competitive pressure and lay off workers and small businesses need to look for alternative income sources.

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

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

Criteria 3: Feasibility of stimulating change

3. *Intervention potential*:

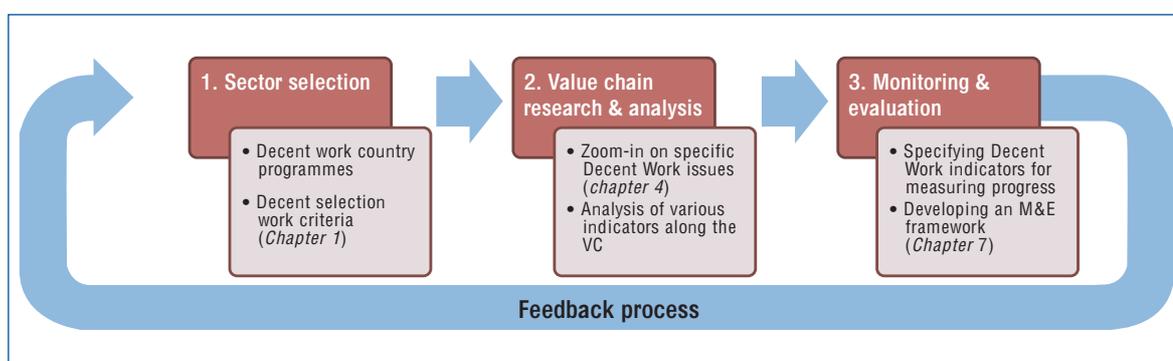
and lastly, we need to assess the feasibility of actually stimulating change in a sector. Change depends on a variety of internal and external factors. By *internal factors*, we mean the priorities and capacities of your organization: First, having assessed criteria 1 (size and relevance) and 2 (change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

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

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

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

Box 1.5: Evolution of indicators for monitoring and evaluation



Sector selection for Decent Work

Checklist for Decent Work selection criteria

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

Box 1.6 Checklist – Decent Work selection criteria

Criteria 1: Relevance to target group and size	
Questions/indicators	Answer
<p>Size (to assess the potential scale of outreach and impact of interventions)</p> <p>1.1 How big is the sector? Look at the following indicators:</p> <ul style="list-style-type: none"> • Contribution to national GDP and growth over the past 5 years • Contribution to total employment over the past 5 years • Development of total investments (also FDI) <p>1.2 Has the sector shown signs of growth or decline over the past few years?</p> <p>1.3 What is the size of the market?</p> <ul style="list-style-type: none"> • Development of market share (i.e. compared to competitors) • Main competitors • Development of export volume and value • Current markets and their share of total sales <p>1.4 Has employment in the sector grown or declined in recent years?</p> <p>Relevance to the target group</p> <p>1.5 What is the estimated number of SMEs (or your target group, e.g. women) in the sector?</p> <ul style="list-style-type: none"> • Number of SMEs/small producers • Number of people working in SMEs in the sector <p>1.6 What is the income situation of SMEs in the sector?</p> <ul style="list-style-type: none"> • Average enterprise income per month (net profits) • Price per product unit • Average household income per month • Diversification (i.e. is it a main income source or just a side income?) <p>1.7 What is the level of productivity and product quality of SMEs in the sector?</p> <ul style="list-style-type: none"> • Output or sales volume per day/week/month • Number of rejects from buyers <p>1.8 How much does the sector contribute to employment of the target group?</p> <p><i>Final conclusion: is your target group sufficiently represented in the sector? And: is the sector relevant enough to your target group as a source of income and job opportunities?</i></p>	

Sector selection for Decent Work

Criteria 2: Decent Work change potential	
Questions/indicators	Answer
<p>Stepping-up potential</p> <p>2.1 Are there opportunities for your target group to increase its market share?</p> <p>2.2 Can the productivity of your target group (small producers/SMEs) be increased in any way (e.g. through technical innovation, better knowledge and information, better working conditions, etc.)?</p> <p>2.3 Is there potential for increasing incomes and the number of jobs in the target sector? This is also very much related to market pa</p> <p>2.4 What is the current situation of workplace quality (safety at work, comfort, payment, organization, EPF/ETF, etc.) and can this be improved through simple and low-cost innovations?</p> <p>Stepping-out potential</p> <p>2.5 Are there markets which have yet not been explored and which could provide an opportunity for local producers (i.e. new markets)?</p> <p>2.6 Are there other sectors in which similar skills are required and which could absorb workforce from the sector in question?</p> <p>2.7 Would changing the specifications of the product have a positive impact on market opportunities for local producers (e.g. value-addition, or complete change of product portfolio)?</p> <p>2.8 Are there opportunities for local market players to step out of existing chains and join other more lucrative value chains?</p>	
Criteria 3: Intervention potential	
Questions/indicators	Answer
<p>Internal factors</p> <p>3.1 Does the sector match your organizations' objectives and priorities?</p> <p>3.2 Will you be able to bring in your technical expertise and your organization's capacities to a sufficient extent?</p> <p>3.3 How many team members will be required to start a value chain initiative on the sector?</p> <p>3.4 How many of this team can your own organization contribute?</p> <p>3.5 Do the (potential) team members have a clear understanding of the objectives and methodology of a value chain initiative?</p> <p>3.6 Do you need to train team members (perhaps from partner organizations) before starting the value chain initiative?</p> <p>3.7 How much financial resources will be required to start a value chain initiative in the sector?</p> <p>3.8 Does your organization have these financial resources or do you need to find funding partners?</p>	

Sector selection for Decent Work

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

Step 3:

Rapid assessment of available economic sectors

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

Information sources

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

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

Outcome: shortlist of sectors fulfilling DW selection criteria

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

Sector selection for Decent Work

Box 1.7: Shortlist of sectors for selection

Sectors	Strong presence of target group? (relevance)?		Potential for Decent Work change?		Intervention potential?	
	Yes	No	Yes	No	Yes	No
1. e.g. dairy sector	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
2.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
3.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
4.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>

Step 4:

Organizing a consultative meeting with stakeholders

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

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

Whom to invite

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

Proposed agenda for sector selection meeting

The agenda for such a meeting could be as follows:

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

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

1.5 Further reading on sector selection

- **Anker, Richard et al. (2002):** Measuring Decent Work with statistical indicators, International Labour Office, Policy Integration Department, Working Paper No.2, Geneva.
- **Chataignier, Anne (2005):** Statistical indicators relating to Social Dialogue – A compilation of multiple country databases, International Labour Office, Policy Integration Department, Working Paper No.56, Geneva.
- **Decent Work Country Programmes:** www.ilo.org/public/english/bureau/program/dwcp
- **Hamre, Chad (2008):** Selecting pro-poor value chains: a useable framework, London School of Economics, London.
- **ILO (2006):** From pilot to Decent Work pilot programme – lessons from the Decent Work pilot programme, Policy Integration Department, Geneva.
- **Mujeri, Mustafa K. (2004):** Bangladesh Decent Work statistical indicators – a fact-finding study, International Labour Office, Geneva.
- **Oldsmann and Hallberg (undated):** Framework for evaluating the impact of small enterprise initiatives, World Bank, Washington D.C.
- **SIDA (2004):** Looking back, moving forward – SIDA evaluation manual, Stockholm
- **The Springfield Centre (2007):** Making Markets Work, Assessing market level change, Durham (UK).
- **Van den Berg, Michael et al. (undated):** Making value chains work better for the poor: A tool book for practitioners of value chain analysis. Available from www.markets4poor.org
- **Zarka-Martres, Monique and Guichard-Kelly, Monique (2005):** Decent Work, standards and indicators, International Labour Office, Policy Integration Department, Working Paper No.58, Geneva.

Chapter

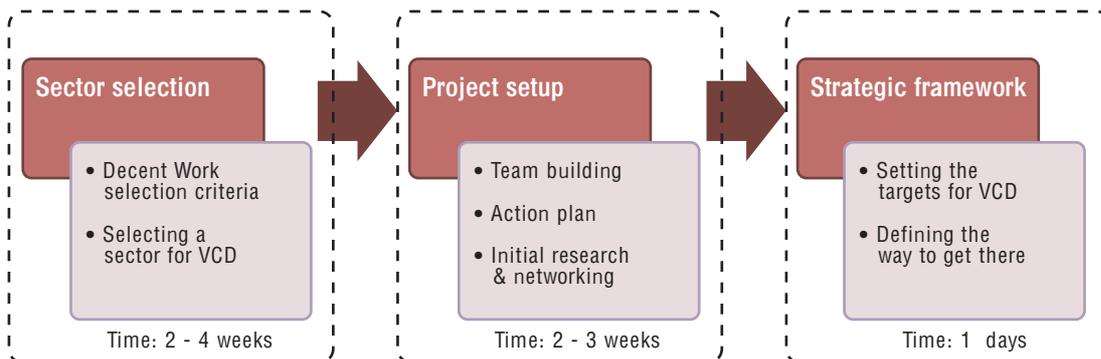
2

Project setup and initial research & evaluation

Project setup and initial research & evaluation

Summary sheet: project setup and initial research

Timeline and proposed actions:



Summary:

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

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

Outcomes:

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

Project setup and initial research & evaluation

2.1 Setup of a value chain initiative

How do I start?

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

Purposes of project setup

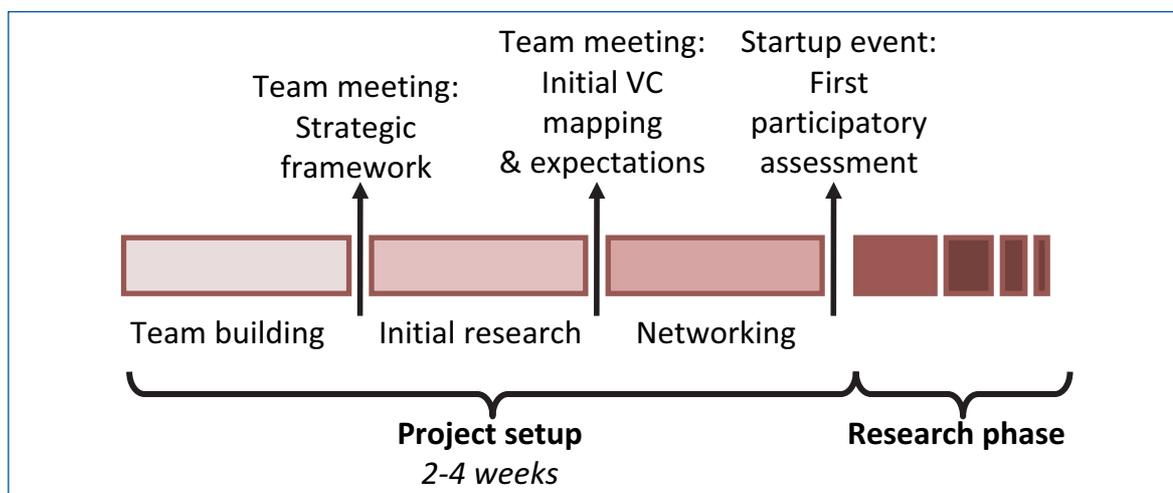
Project setup is in the first place about getting the organization and logistics for a value chain initiative positioned, but also already sets a basis for understanding the sector. In particular, project setup serves the following purposes:

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

Time frame and landmarks

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

Box 2.1: Setup phase – landmarks and time frame



Project setup and initial research & evaluation

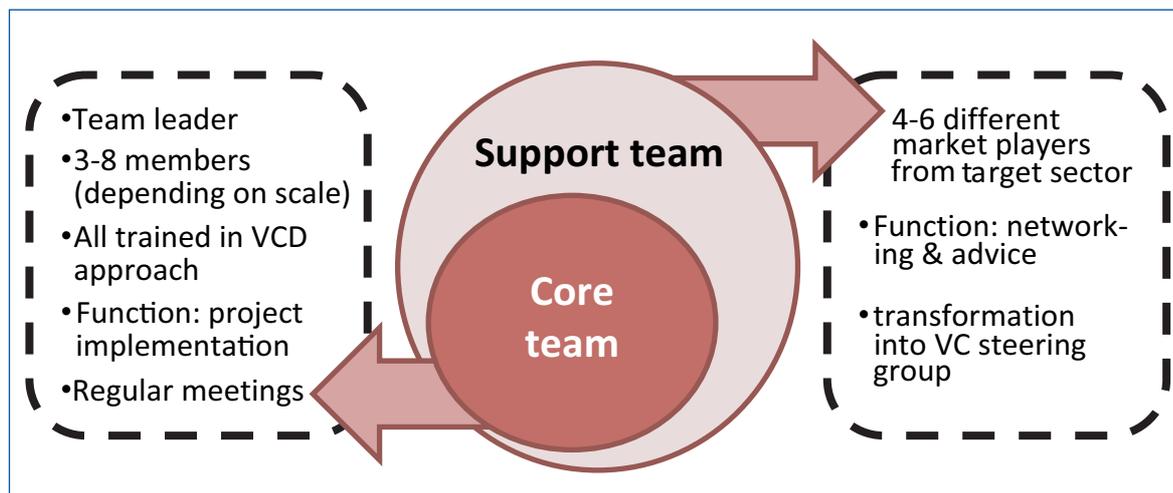
2.1.1 Team building and organization

Selecting a good team is of paramount importance for success

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

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

Box 2.2: Team building for a VCD initiative



Team leader

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

Core team

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

Project setup and initial research & evaluation

Support team

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

Important: team consistency and continuity

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

Organization: working with/through a local partner organization

Building the capacities of local organizations and institutions (e.g. government or BDS organizations) is one of the objectives of most development organizations, and organizing a value chain initiative with/through a local partner organization is a very effective way of achieving this target. The same applies to multinational companies seeking to upgrade their supply/retail chains in Emerging Markets: they often rely on local business partners and service providers such as consultancy firms or business membership organizations.

Multinational companies, development organizations and government ministries/departments can therefore assign a local partner organization to organize a value chain initiative, whereas the company/ministry/ development organization can stay in the background, only providing technical guidance for the local partner organization on the basis of this value chain guide. **Role allocation between organization and logistical implementation on the one hand and technical VCD capacity on the other** would therefore be clearly separated (perhaps with a view to transferring this capacity throughout the VCD initiative); the communication basis and terms of references between the two partners would be defined by this value chain guide.

Project setup and initial research & evaluation

Box 2.3: Case example of team building and organization

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

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

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

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

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

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

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

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

2.1.2 Team workshops and events during the setup phase

The three landmark events in project setup stage

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

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

...and of course regular core team meetings

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

Event 1:

Strategic framework and action plan

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

Introduction

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

Strategic framework

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

Action Plan

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

Project setup and initial research & evaluation

Box 2.4: Action plan for the overall VCD initiative

Value chain stage	Landmark events	Tasks	Responsibility	Date/ Time frame
Project setup & initial research	1. Mapping & expectations team workshop	<ul style="list-style-type: none"> Initial research Stakeholder list Etc.
	2. Start-up event	<ul style="list-style-type: none"> Hotel & Catering Invitations Etc. 		
Value chain research	1. Team planning workshop			
	2. Developing questionnaires & FGD guidelines			
	3. Interviews and FGDs			
Value chain analysis & presentation	1. Team evaluation workshop			
	2. Documentation of findings and proposals			
	3. Presentation event			
Implementation (monitoring & evaluation)	1. First steering group meeting			
	Etc.			

Event 2:

Initial VC mapping and expectations

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

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

A half-day workshop for core and support teams

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

Initial VC mapping

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

Expectations

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

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

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

Preparation for start-up event

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

Project setup and initial research & evaluation

Box 2.5: Card exercises workshop tool

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

Required equipment and materials

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



Procedure

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

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

“Clustering”

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

Event 3:

Start-up event

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

Main purpose: first participatory assessment

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

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

Networking amongst market players

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

Publicity

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

Refining the initial VC map

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

Project setup and initial research & evaluation

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

Tasks	Answer
<p>Time frame 2-3 hours max. (Remember you don't want to waste participants' time! They are running businesses and have daily work to attend to.)</p>	<p>Done</p> <input type="checkbox"/>
<p>Participants Depending on the scale of the value chain initiative (i.e. also the size of the target area), between 30 and 70 participants from</p> <ul style="list-style-type: none"> • Private sector businesses involved in transactions in the value chain – ranging from large companies (buyers/suppliers) to small enterprises, • Relevant government departments, extension services, R&D facilities, training institutions, local authorities, • Service providers such as BDS organizations, consultants, banks and insurances, training and skills, • Public sector organizations such as relevant NGOs and development foundations, • The media 	<p>Done</p> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Organization & logistics The start-up event requires preparation in order to create a professional impression with market players:</p> <ul style="list-style-type: none"> • Invitations: personal invitation combined with a casual chat and the handing over of a letter has always proved to be most effective. Start planning for this in time. Getting the invitation signed by a prominent personality is often very helpful. • Venue: hotel conference hall or any other hall with enough space • Catering: market players often come from quite some distance, so it might be good to provide lunch or snacks. This will also enhance networking. • Equipment: cards in different colours (about 300 per colour), brown wall paper, markers, pins, boards, masking tape, flipchart and board, projector and laptop. 	<p>Done</p> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

Project setup and initial research & evaluation

Proposed structure for the start-up event

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

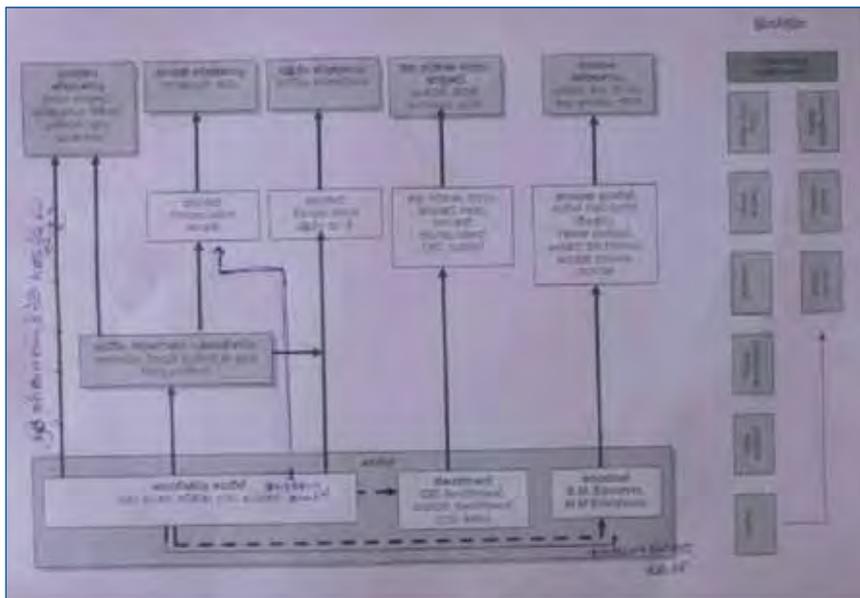
Introduction

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

Validation of initial value chain map

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

Box 2.7: Corrected initial VC map



Assessment of opportunities and constraints

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

Solutions

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

Closing

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

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

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

Project setup and initial research & evaluation

2.2 Initial research and networking with market players

Purpose of initial research depends on your objectives and background

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

Understanding the poor and their context

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

Understanding value chains and their context

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

Networking opportunity

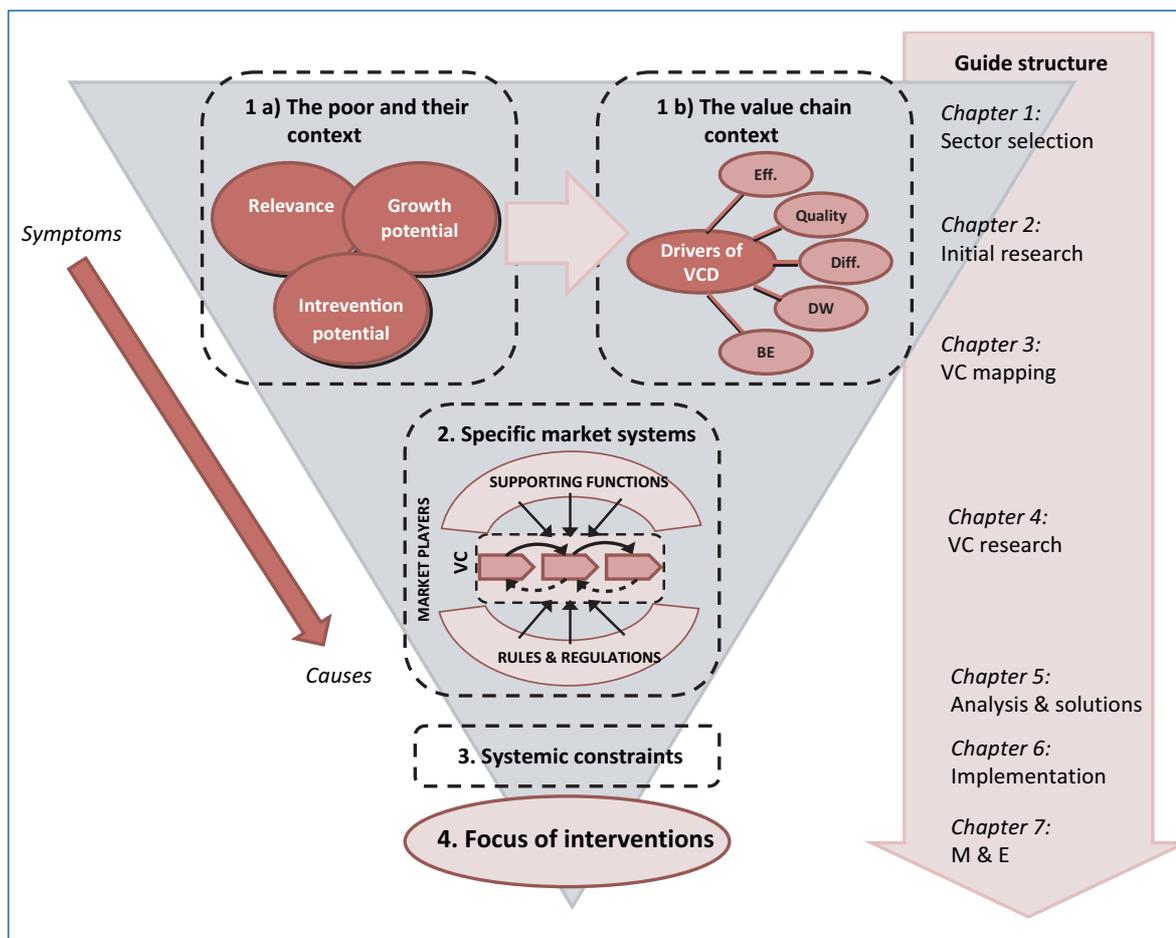
The initial research also serves as an ***opportunity to network*** with market players: informing them about the value chain initiative and introducing the project team, holding informal discussions to develop an initial picture of the sector, expanding the network, getting support from key market players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

Initial research as an entry point for identifying systemic constraints

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

Project setup and initial research & evaluation

Box 2.8: Diagnostic cone taken from M4P guide



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

Project setup and initial research & evaluation

Participatory approaches

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

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

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

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

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

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

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

Project setup and initial research & evaluation

Box 2.9: Example of Information collected in initial research

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

²⁴The Springfield Centre (2008): M4P operational guide

Project setup and initial research & evaluation

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

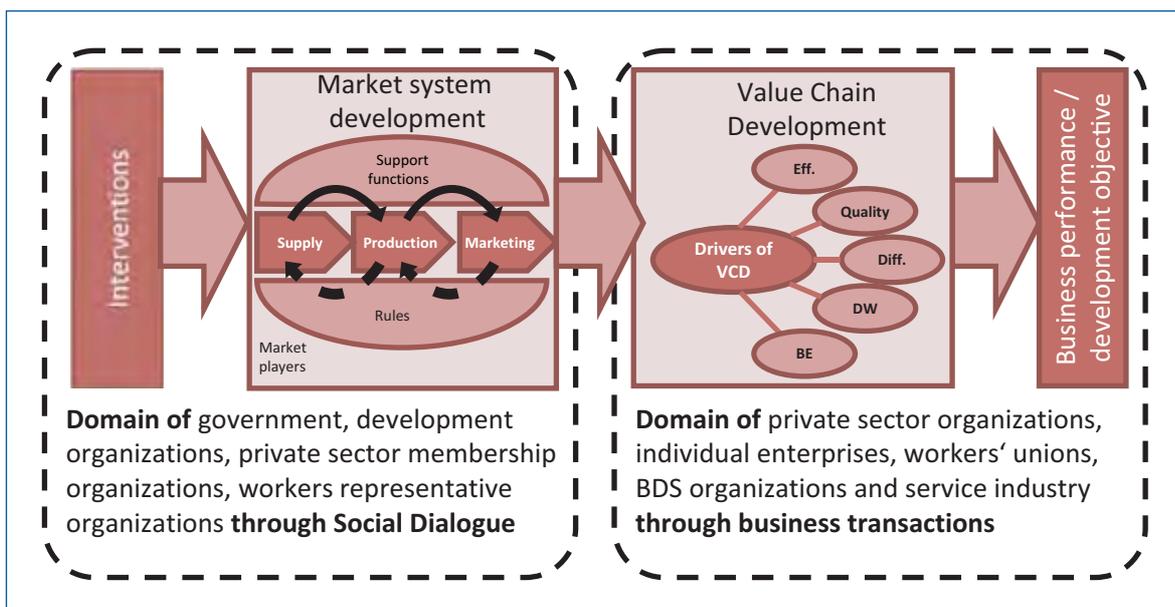
Starting a VC initiative with a vision of change

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

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

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

Box 2.10: General strategic framework



Project setup and initial research & evaluation

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

Sustainability

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

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

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

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

Project setup and initial research & evaluation

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

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

2.4 Further reading on project setup and initial research

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

Chapter

3

Value chain mapping: understanding relationships

Value chain mapping: understanding relationships

Summary sheet: value chain mapping

Summary:

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

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

Outcomes

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

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

Value chain mapping, research and development: the context

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

Value chain mapping: understanding relationships

Definition of value chain mapping

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

What a value chain map is useful for

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

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

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

Value chain mapping: understanding relationships

Box 3.1: Attempts to standardize value chain maps

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

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

3.2 How to map value chains

Constructing two value chain maps:

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

1. Flow chart

1. A simple **flow chart** that illustrates different levels in the value chain and serves as a basis for an inventory of market players as well as an analysis of opportunities and constraints by value chain level²⁷, or for showing key information for each level (e.g. prices).

2. Grid chart

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

Value chain maps evolve during the value chain research

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

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

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

²⁶McCormick and Schmitz (2001): p. 39

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

Value chain mapping: understanding relationships

3.2.1 Value chain map as a flow chart

Definition of a flow chart for value chains

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

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

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

Adding information to the flow chart after value chain research

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

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

Value chain mapping: understanding relationships

Step 1:

Mapping value chains through a simple flow chart

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

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

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

Keep it simple!

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

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

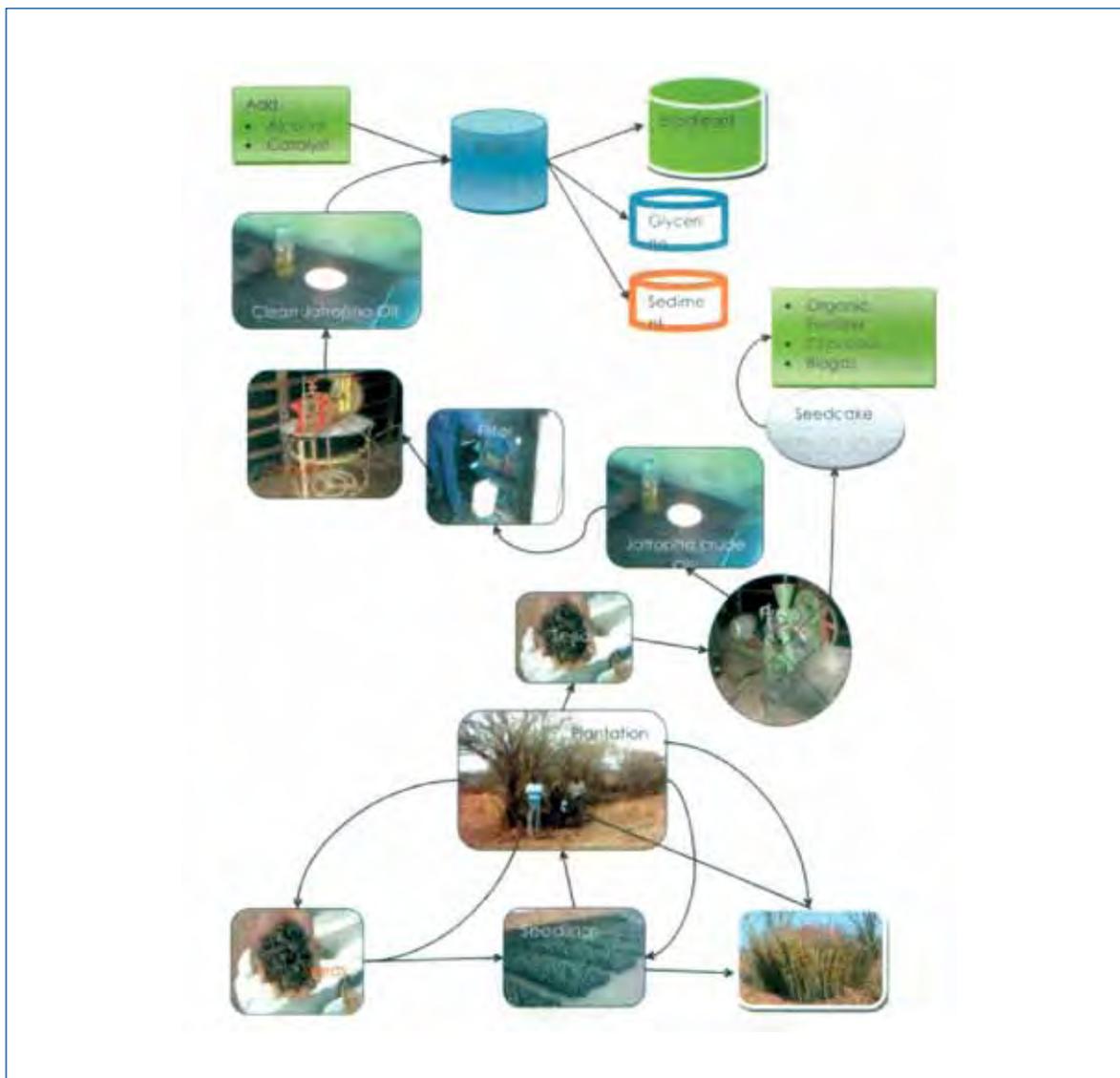
End product/ market	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Etc.
Cheese, Yoghurt, etc.	Retail	Wholesale	Dairy Processing	Fresh milk collection	Dairy farming	Agricultural input supply	
Your turn...							

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

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

Value chain mapping: understanding relationships

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



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

Step 2:

Creating an inventory of market players

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

1. Identify names of businesses in core transactions

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

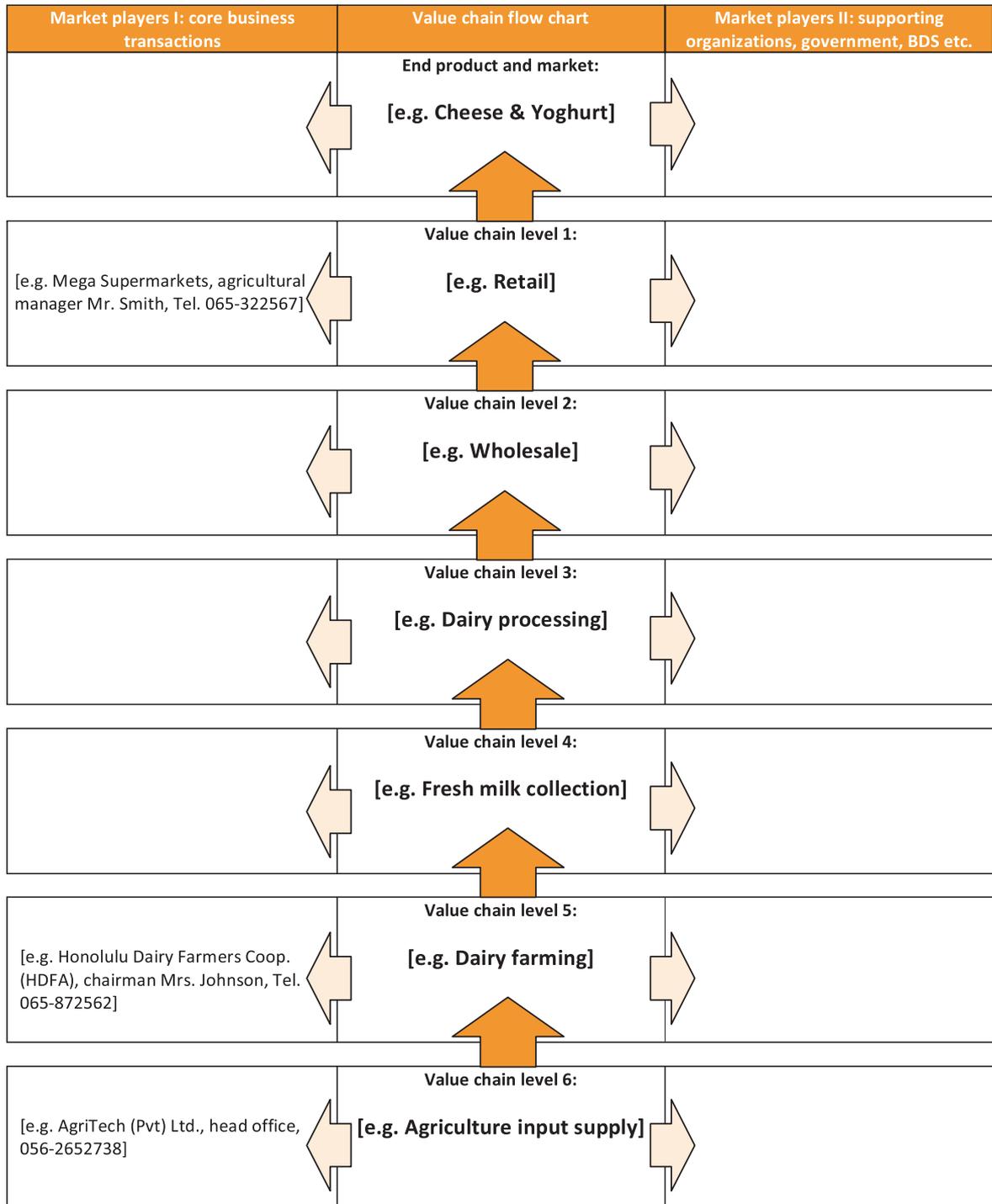
If contact persons and addresses are known, then add them to the name of the enterprise. Examples are given below. Together with your core and support teams (see *Chapter 1*) try to find names for every level of the value chain.

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

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

Value chain mapping: understanding relationships

Box 3.4: Inventory of key market players



Value chain mapping: understanding relationships

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

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

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

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

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

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

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

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

Value chain mapping: understanding relationships

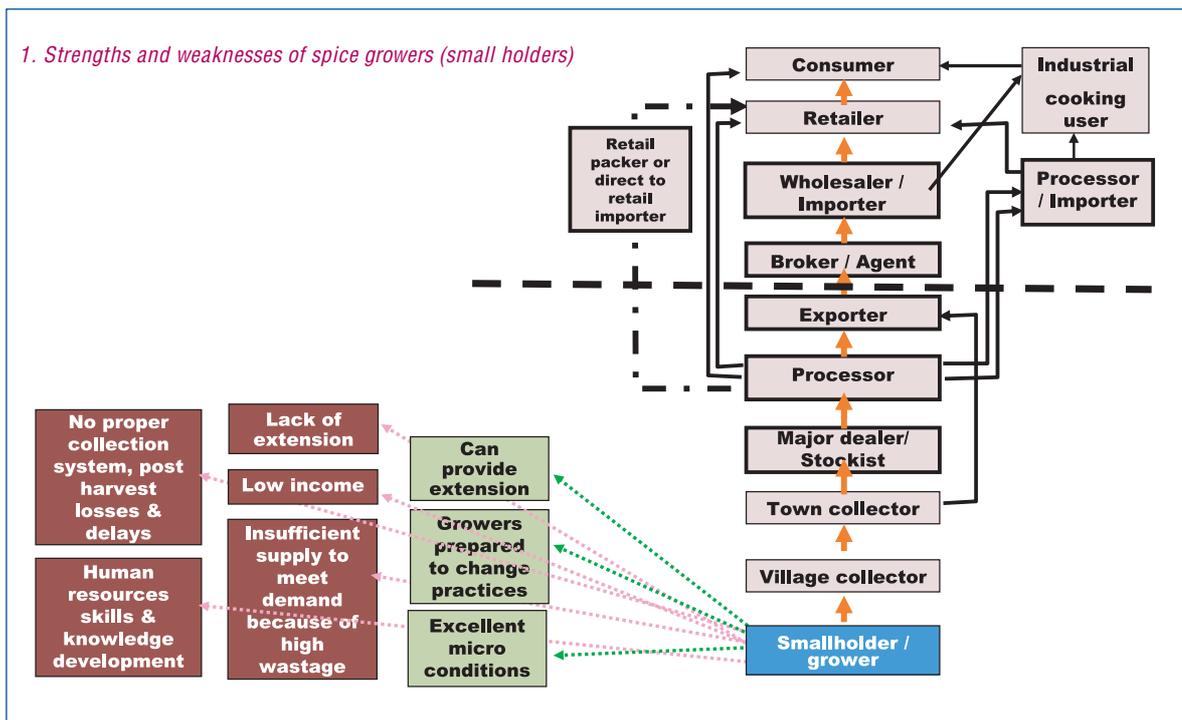
Step 3:

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

A simple flow chart of a value chain can also serve as an illustration for opportunities and constraints (or SWOT) identified at each value chain level. This method has been used by the GTZ in Sri Lanka, summarizing the main findings of a GAP analysis²⁸ for the value chain. Adding this information to your value chain flow chart will require some research – i.e. you will only be able to complete the chart after conducting thorough value chain research (see *Chapter 4*).

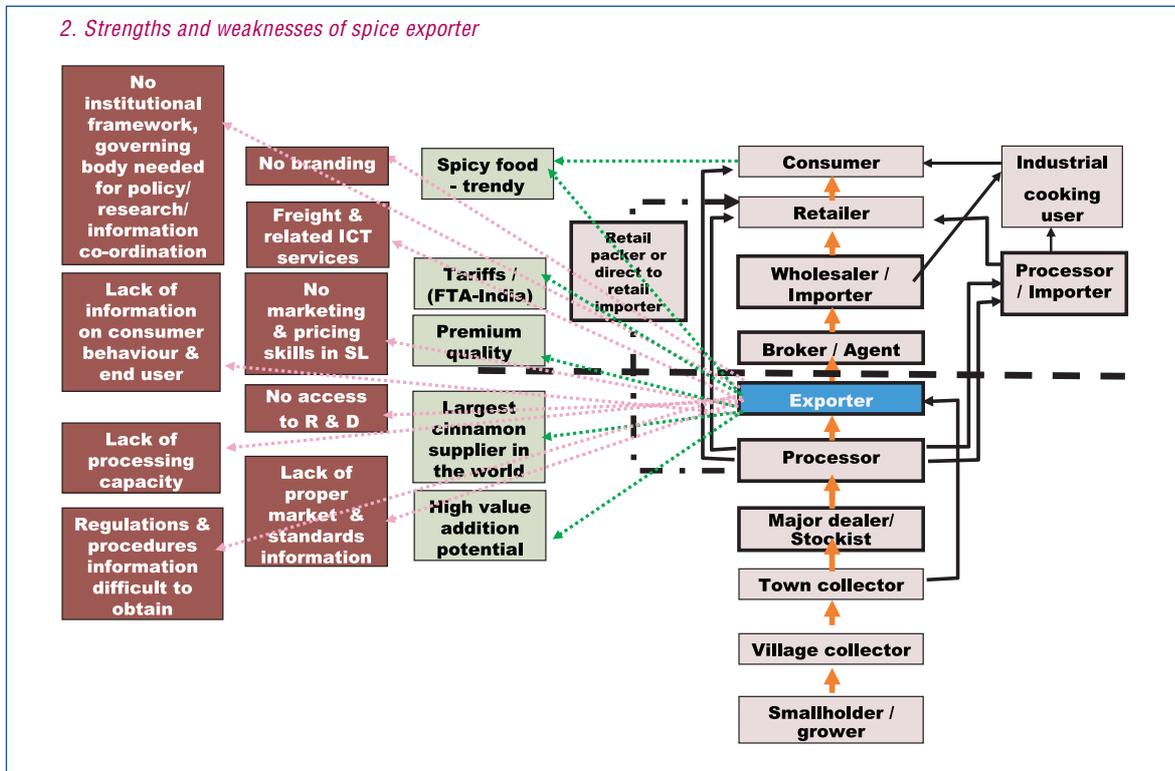
Box 3.6 below gives you an example of a flow chart showing the strengths and weaknesses of two particular levels in the Sri Lankan spice sector value chain.

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



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

Value chain mapping: understanding relationships



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

Step 4:

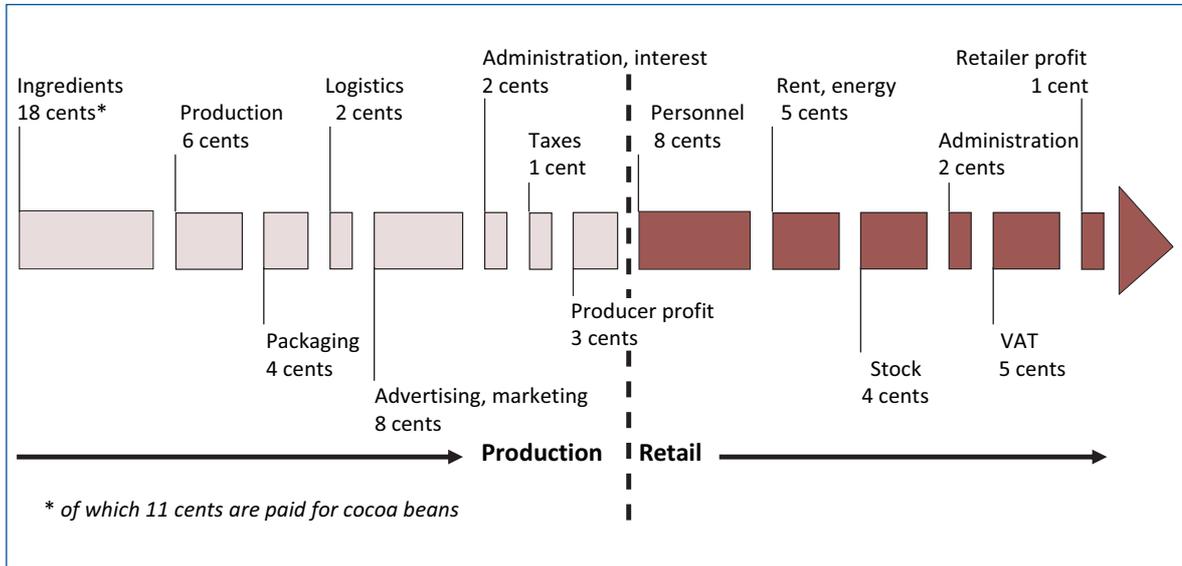
Using the flow chart to illustrate relevant information

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

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

Value chain mapping: understanding relationships

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



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

A flow chart is a simplification of the value chain process

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

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

Value chain mapping: understanding relationships

3.2.2 Value chain map as a grid chart

Definition: Value chain map as grid chart

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

Away from linear value chains towards multidimensional grids

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

Seeing sectors as “value grids” enhances choices and innovation

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

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

Purposes of a grid chart for value chains

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

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

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

Step 1:

Identifying the different markets for a product/service

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

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

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

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

Value chain mapping: understanding relationships

Box 3.8: Checklist for end products and markets

Questions	Answers
<p>1. End products</p> <p>If your product/service is a preliminary product (i.e. used to produce further, more sophisticated, products): for which products is it used as an input? In other words: what are the final products sold to the end consumer?</p> <ul style="list-style-type: none"> • Which end products does your target sector currently produce? • Which products are NOT currently produced by your target sector but have high potential for job and income creation? 	
<p>2. End markets/final consumers</p> <p>Who are the end consumers and where are these markets located?</p> <ul style="list-style-type: none"> • Location/scale: common distinction between export, national, regional and local/rural markets • Are you dealing with domestic and/or export markets? • Which of these markets are relevant to your target group? 	

When to construct a grid chart

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

Starting with an initial map

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

Using card methodology in team meetings

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

Value chain mapping: understanding relationships

Step 2:

Identifying the way by which products and services reach end markets

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

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

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

Value chain mapping: understanding relationships

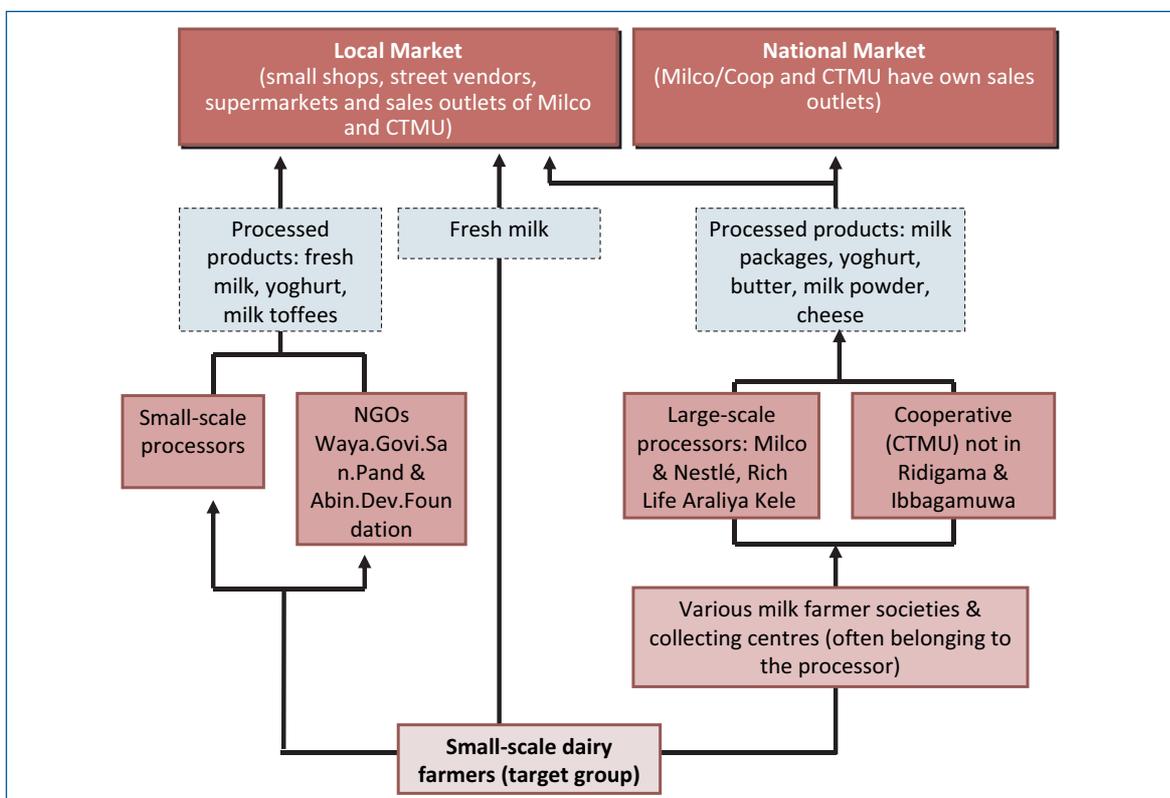
Dividing the sector into several market channels

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

An example from Sri Lanka: dairy sector

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

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



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

Value chain mapping: understanding relationships

The value chain grid chart helps to identify market opportunities

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

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

Step 3:

Adding information to the grid chart

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

Using the value chain grid chart to illustrate value chain governance

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

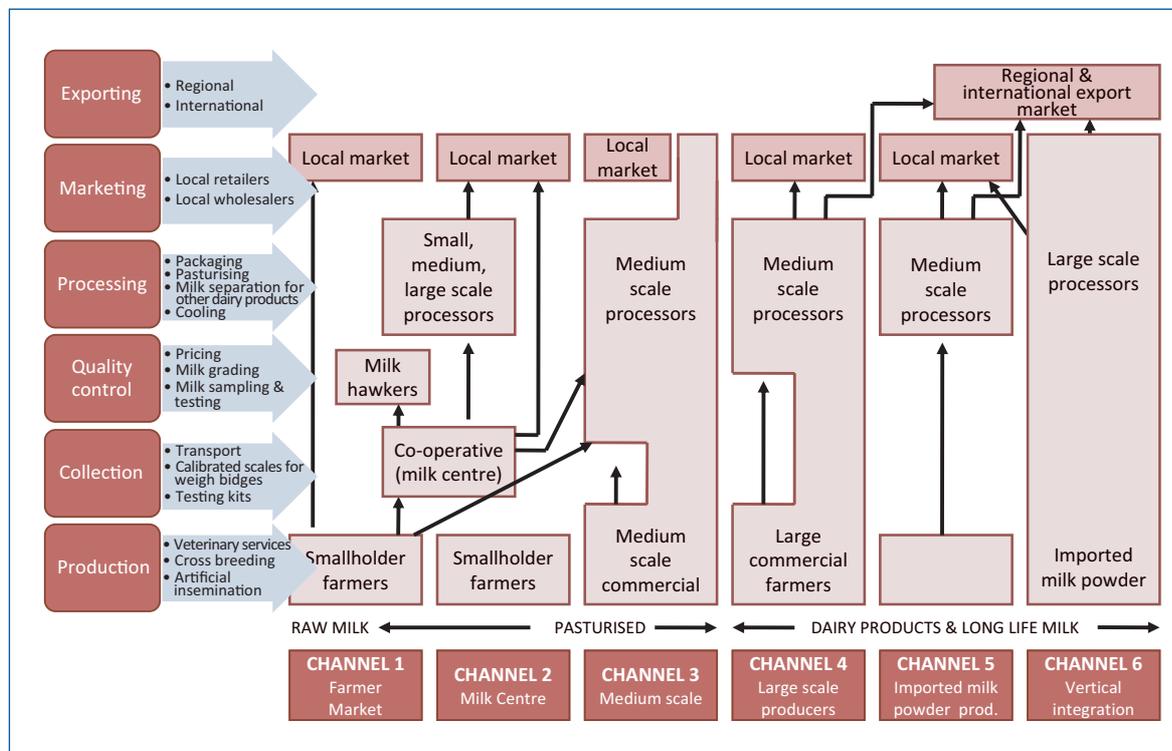
Knowing about governance is crucial for intervention strategies

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

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

Value chain mapping: understanding relationships

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



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

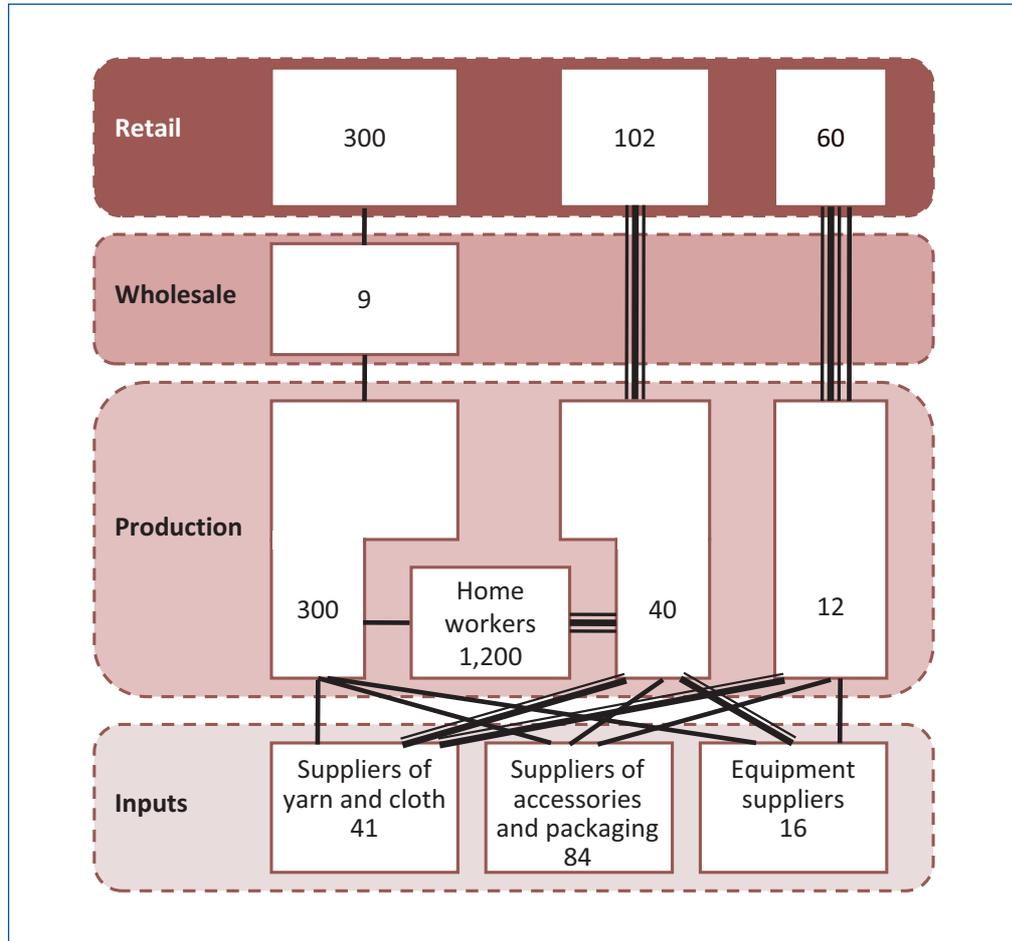
Adding information to the value chain grid chart – an example

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

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

Value chain mapping: understanding relationships

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



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

Rule for value chain maps: form follows function!

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

3.3 Further reading on value chain mapping

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

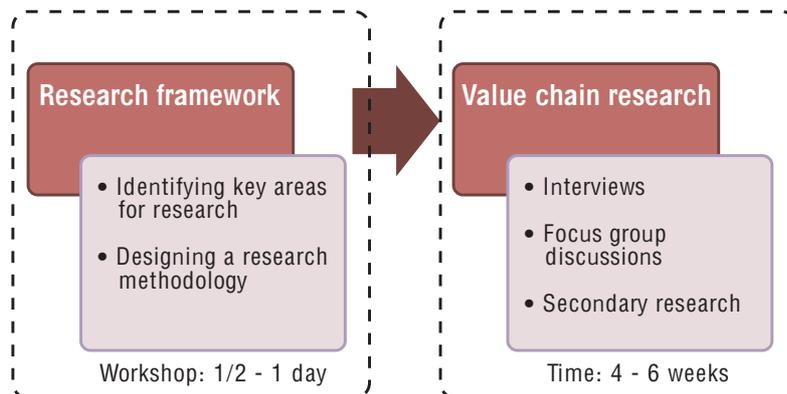
Chapter

4

Value chain research:
identifying Decent Work
deficits

Summary sheet: value chain research

Timeline and proposed actions:



Summary:

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

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

- 1. *Developing a research framework:*** before commencing research on a value chain, you should know your objectives and the key area that you want to analyse. This is crucial for formulating questions in interviews and focus group discussions. Rather than merely scratching the surface, value chain research goes deeper: it tries to identify the root of a specific problem. “Why?” is therefore the most important question to ask in value chain research.
- 1. *Value chain research*** itself consists of several interviews and focus group discussions as well as observations and secondary research. It is recommended that about 4-6 weeks be allocated to the research (depending on the scale of the value chain initiative) – not any longer. Value chain research should not be seen as an academic exercise, but as a contribution to value chain development itself: by bringing together market players in workshops and interviews, the value chain initiative can already at this stage substantially contribute to better cooperation and coordination in the sector. A participatory approach within a limited time frame is therefore essential for creating momentum and generating support from market players.

Value chain research: identifying Decent Work deficits

4.1 What is value chain research?

Defining value chain research

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

Focusing on relationships helps to understand incentives of market players

The particular focus of value chain research on and analysis of relationships helps to identify bottlenecks that are preventing a sector from achieving certain economic and social targets as well as market players’ incentives to engage in transactions and contribute to Decent Work solutions³¹. We could find, for example, that the problems facing small enterprises in rural areas are often connected with other value chain levels: lack of knowledge and information provided by input supply companies and their local retailers, for example; or insufficient knowledge of market requirements and lack of embedded services provided by buyers in order to communicate these requirements. Contrary to other business development tools that focus on the internal performance of businesses (e.g. management), value chain research is about understanding the external networks in which businesses are embedded.

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

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

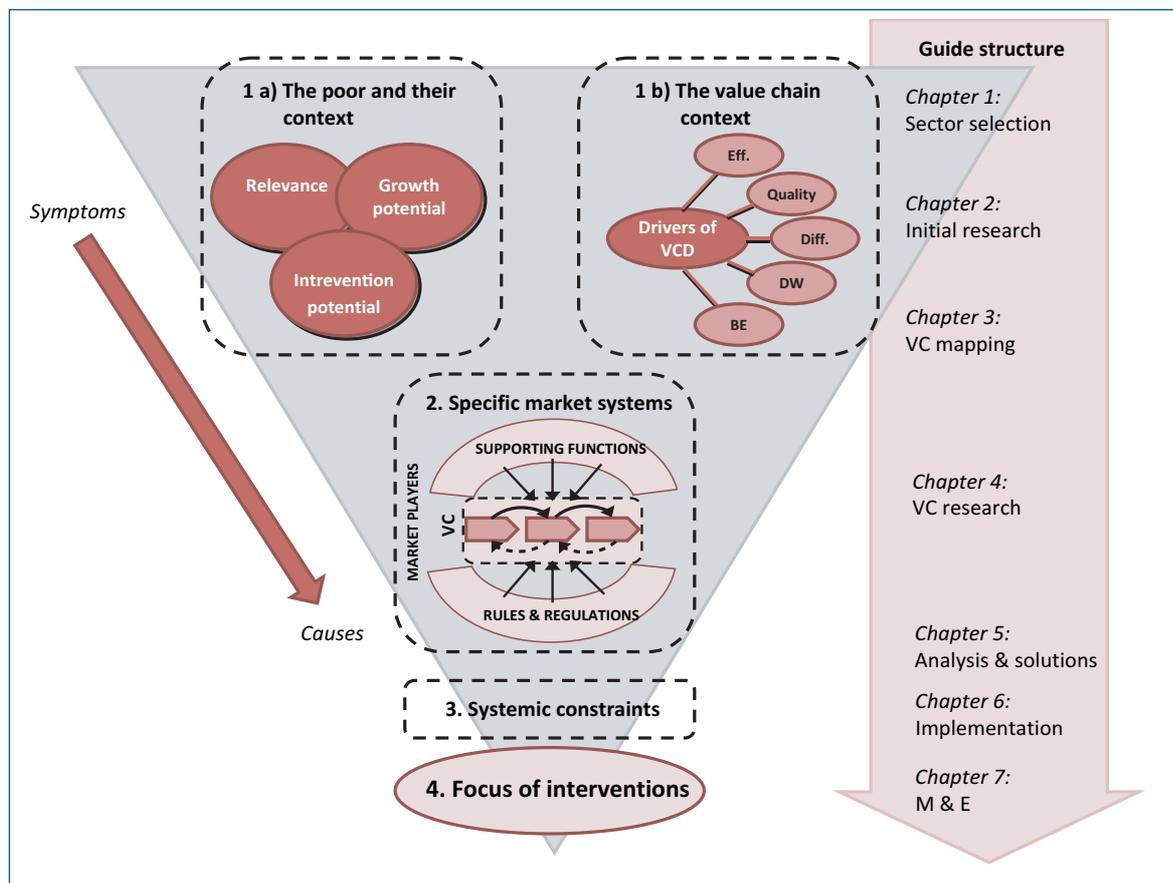
Value chain research: moving from symptoms to underlying systemic constraints

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

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

Value chain research: identifying Decent Work deficits

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



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

Seeing constraints in the context of a value chain system

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

Relationships matter!

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

Value chain research: identifying Decent Work deficits

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

Value chain research therefore

- 1 serves to identify the underlying reasons for Decent Work deficits that are preventing the value chain from achieving certain economic and social targets (systemic constraints);
- 2 helps to understand incentives of private and public market players to engage in transactions and contribute to Decent Work solutions;
- 3 highlights pathways to sustainable change for Decent Work by focusing on market opportunities and relationships and helps to identify leverage points for intervention strategies.

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

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

Participatory research: interviews, focus group discussions, observations and facilitators

The participatory nature of value chain research is realized is through

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

Value chain research: identifying Decent Work deficits

Limitations of participatory approaches

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

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

Experiences with participation in Sri Lanka

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

Avoid falling into the participation trap

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

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

Value chain research: identifying Decent Work deficits

Box 4.2: Some logistical aspects of value chain research

<p>Who should carry out the value chain research?</p>	<p>The research should be carried out by the core and support teams (see <i>Chapter 1</i>). It is strongly recommended that local facilitators be used in the core team to create a sense of local ownership. This requires training them on the value chain approach in advance. The support team can assist by organizing focus group discussions or arranging appointments for interviews.</p>
<p>How long should research on a value chain take?</p>	<p>Research on a value chain should not exceed 4-6 weeks (depending on the degree of the initial, as well as the geographic, scope of the initiative). Keeping the value chain research short and concise will secure support by market players (the longer it takes, the more market players will wonder whether the value chain initiative is really useful).</p>
<p>What is the scope of research on a value chain?</p>	<p>Value chains are often part of markets with varying scope: export markets, domestic markets, or even more limited local and regional markets. It is therefore often hard to say where value chain research begins and where it ends. The research on and analysis of global value chains is often a very academic exercise that is remote from local market realities – although they provide useful information about market requirements and demand conditions. For most bottom-up value chain initiatives what is feasible ends at the national boundaries. Interviews and focus group discussions would therefore include market players up to the exporter level. Top-down value chain initiatives – e.g. by multinational companies seeking to improve their supply chains – have the advantage that they can cross national borders. Depending on the nature of your organization as well as your objectives, value chain research therefore varies in scope. Despite this rather vague advice, you should always keep the usefulness of information for your target group in mind.</p>
<p>How much do I need to travel?</p>	<p>Value chain research always requires some degree of travelling to conduct interviews and focus group discussions with market players. Most (if not all) travelling would be done within national boundaries. You therefore need to allow enough time and resources (vehicle) for this purpose.</p>
<p>What resources are required for researching a value chain?</p>	<p>The following resources are typically needed to conduct research on a value chain:</p> <ul style="list-style-type: none"> • Card equipment for focus group discussions (boards, cards, pins, marker pens, wall paper) • Vehicle and fuel for transport to and from interviews / focus group discussions • Probably contracts for local facilitators from partner organizations to conduct interviews / focus group discussions • Communication and IT facilities: phone, fax, computer, Internet access <p>Before starting to research a value chain, the following is recommended as preparation:</p>
<p>What do I need to prepare before starting my value chain research?</p>	<ul style="list-style-type: none"> • Designing a framework for VC research: key objectives and questions • Depending on the type of interview: questionnaires or guidelines for interviews with market players from different VC levels • Guidelines for focus group discussions • Making appointments for interviews and focus group discussions (though not all appointments need to be made before starting the VC research) • A work plan for the next 4-6 weeks, with schedule and names of interviewees and participants in focus group discussions, as well as the persons/facilitators responsible • A team meeting in which the core and support teams are briefed on the research methodology, and interviews and focus group discussions are practised • Designing a documentation strategy to ensure that no information gets lost within the VC research

4.2 Developing a framework for value chain research

Essential questions to start with

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

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

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

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

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

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

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

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

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

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

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

Step 1:

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

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

What were the main constraints (symptoms)?

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

VC analysis is like a framework with different lenses

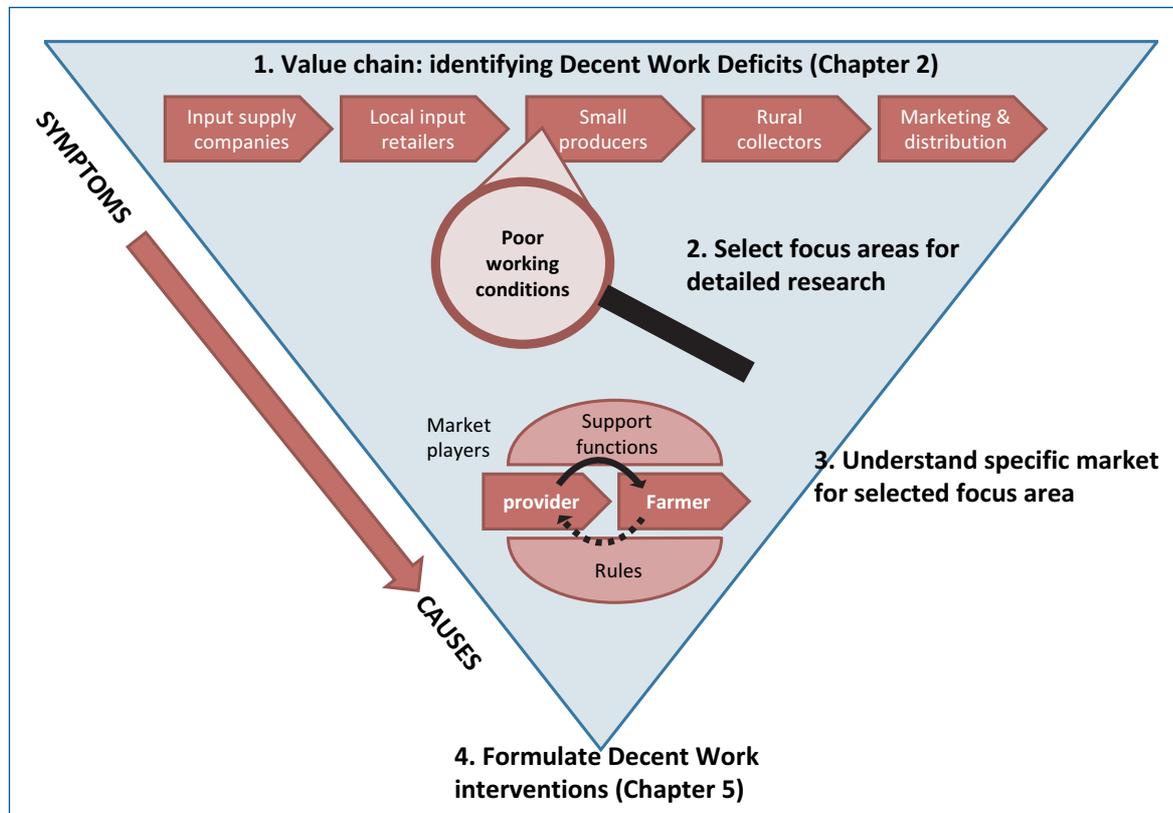
It is important to bear in mind at this point that value chain research and analysis is not a specific tool, but rather a framework into which you can put different lenses. You can look at value chains from a gender perspective, for example – i.e. try to identify the position of women in value chains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

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

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

Value chain research: identifying Decent Work deficits

Box 4.4: “Zooming in” on specific markets within the value chain



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

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

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

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

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

Step 2:

Deciding on the contents of value chain research

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

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

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

The importance of market player incentives³⁴

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

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

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

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

³⁴ibid.

Value chain research: identifying Decent Work deficits

Box 4.6: Application example

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

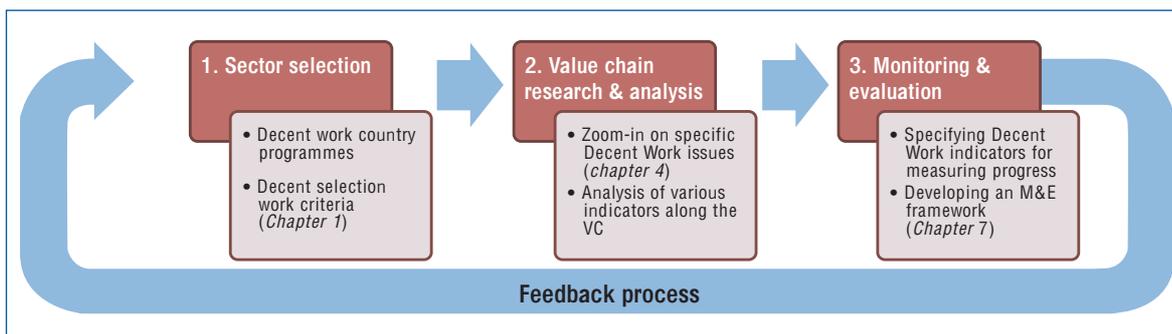
Source: *The Springfield Centre: M4P operational guide* (www.springfieldcentre.com). See also Gibson, Alan (2007): *Bringing knowledge and information to vegetable farmers, KATALYST project, Bangladesh* (www.katalystbd.com).

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

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

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

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



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

Value chain research: identifying Decent Work deficits

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

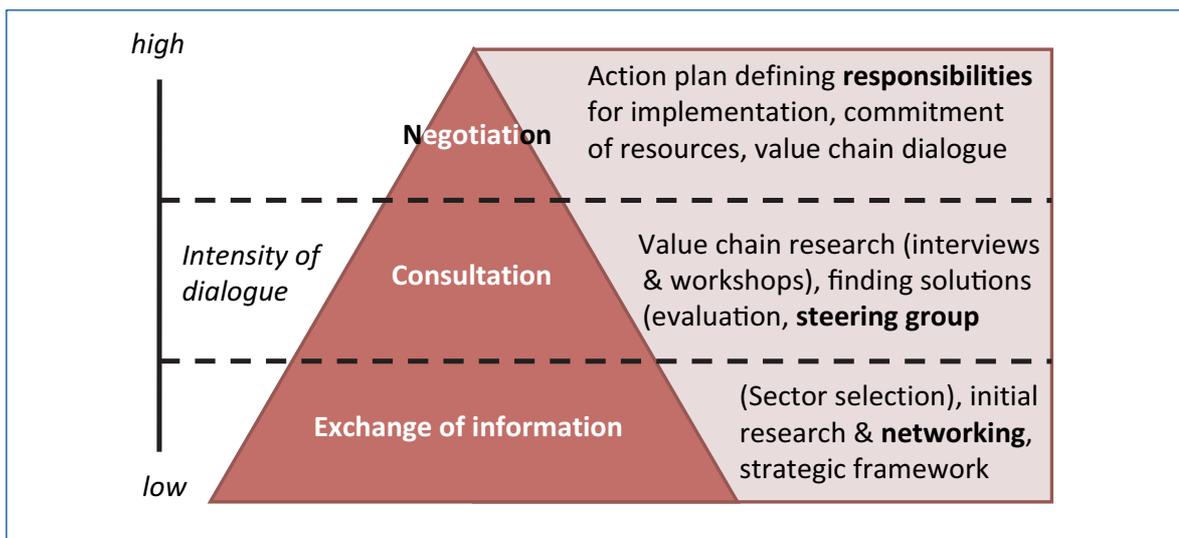
Definition of Social Dialogue

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

Three stages of intensity

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

Box 4.8: Intensification of Social Dialogue



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

Using Social Dialogue as a tool for value chain development activities

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

Value chain research: identifying Decent Work deficits

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

Assessing the degree of Social Dialogue in value chain research

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

Understanding why existing dialogue mechanisms under-perform

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

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

Recommended reading on Social Dialogue

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

Value chain research: identifying Decent Work deficits

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

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

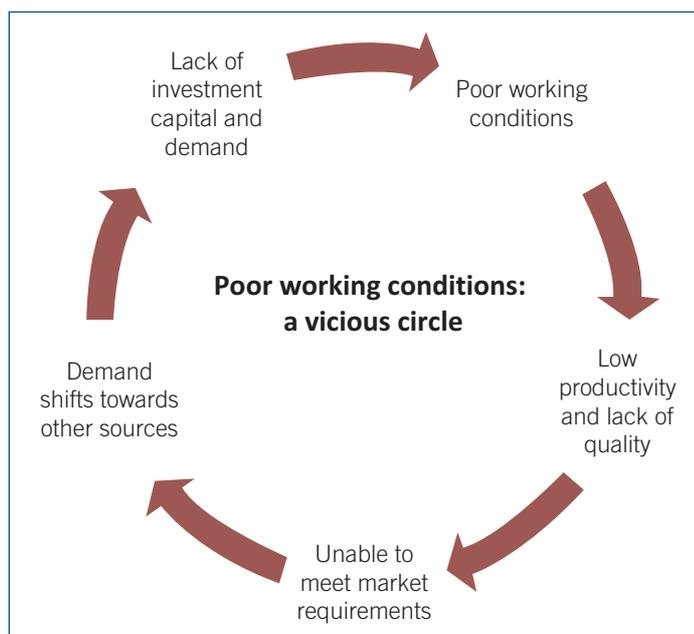
Poor and disadvantaged people are part of value chain systems at various levels: as producers, service providers, workers and consumers. A symptom of poverty is poor working and living conditions affecting not only the health of people but also their social and economic status and recognition, their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

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

Poor working conditions perpetuate a vicious circle

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

Box 4.9: Poor working conditions – a vicious circle



Value chain research: identifying Decent Work deficits

Poor working conditions undermine the ability of large companies to compete

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

Increasing consumer/ market pressure

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

Bad working conditions affect output and performance

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

Example

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

Value chain research: identifying Decent Work deficits

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

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

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

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

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

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

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

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

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

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

Value chain research: identifying Decent Work deficits

Understanding incentives and using the ILO's authority

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

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

Box 4.11: Conditions of work in sustainable enterprise³⁵

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

From indicators of symptoms to underlying systemic causes

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

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

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

³⁵“Conclusions concerning the promotion of sustainable enterprises”, International Labour Conference, June 2007, ILO, Geneva, p. 6

Value chain research: identifying Decent Work deficits

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

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

Recommended reading on working conditions

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

4.3.3 Value addition in value chains: understanding who gains most

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

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

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

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

Value chain research: identifying Decent Work deficits

Definition of value addition

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

Value is created through transactions in the value chain

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

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

Box 4.12: Concept of value addition calculation

Components of total value generated by a value chain:

(Value-added) = (total sales value) – (value of intermediate goods)

TOTAL VALUE generated by the value chain = price x volume of final product sold	VALUE ADDED <ul style="list-style-type: none"> • Wages • Interests and rents • Depreciation • Direct taxes • Profit 	Used to pay claims of the owners of production factors (capital, labour, land) + taxes
	INTERMEDIATE GOODS <ul style="list-style-type: none"> • Raw material, inputs • Finished products • Operational services 	Transferred to suppliers of intermediate goods

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

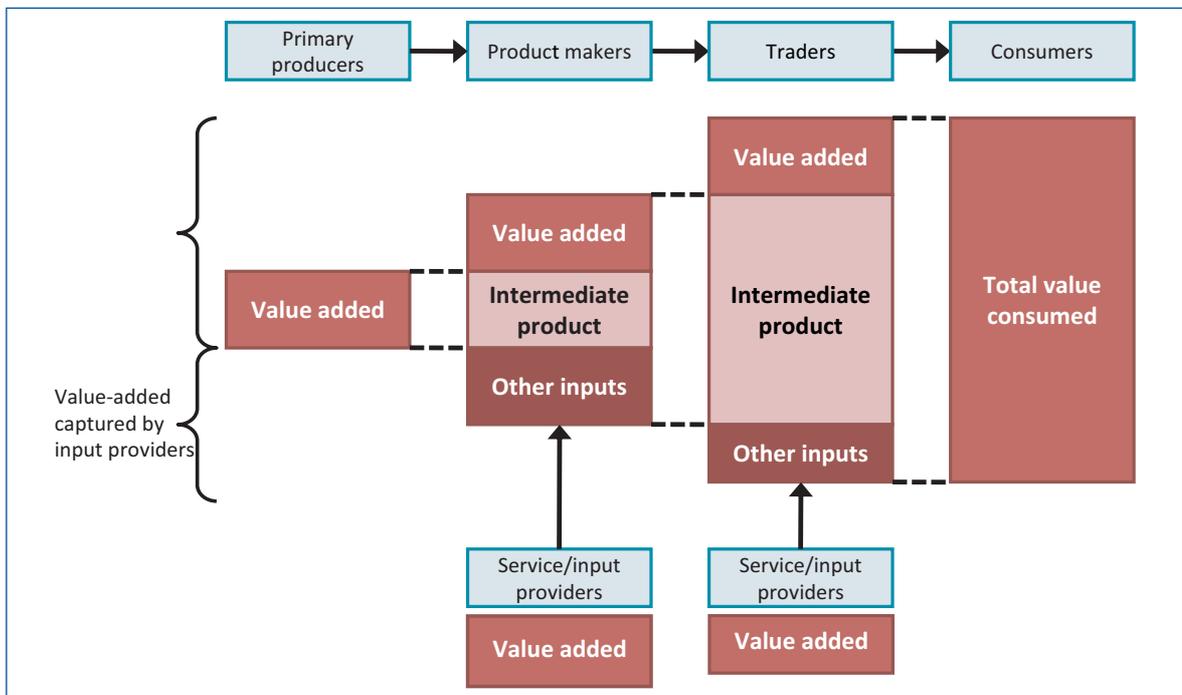
Value chain research: identifying Decent Work deficits

Calculating value addition

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

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

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



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

Creating more jobs and higher incomes by adding value

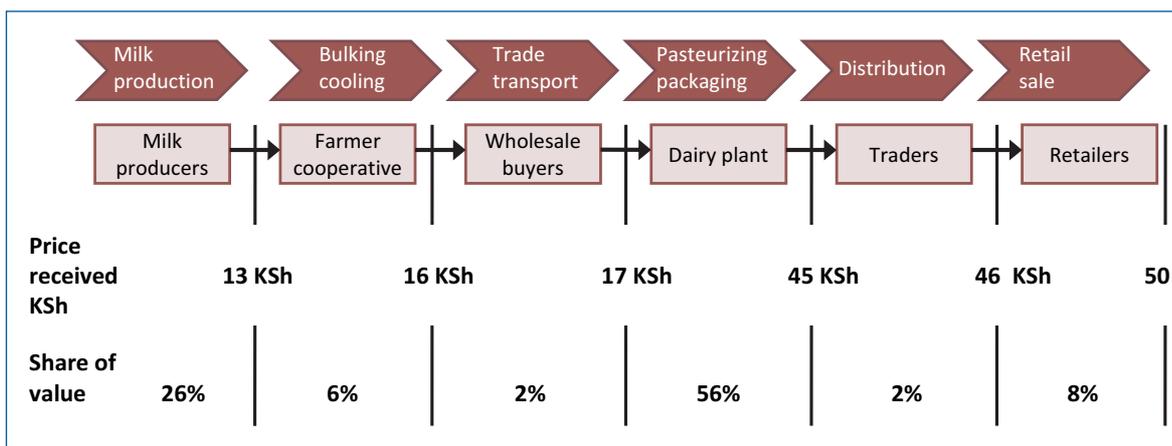
The sum of the five small blocks ('Value added' and 'Other inputs') indicating value-added is equal to the total value-added consumed. Income or profits make up only part of the value-added. A large share of value-added does not automatically imply high income. However, from a macro-economic point of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

Value chain research: identifying Decent Work deficits

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

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

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



Source: Hoeffler / Ogana: “Experiences with Kenya’s Dairy Value Chain Analysis”, 2006

Capturing value through efficiency gains

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

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

Value chain research: identifying Decent Work deficits

Warning: knowing about value distribution is not enough!

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

Recommended reading on value distribution

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

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

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

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

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

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

Value chain research: identifying Decent Work deficits

Where women work in value chains

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

Box 4.15: Understanding women's role in value chains

Equality of opportunity
<p>Are gender inequalities in the value chain perpetuated by:</p> <ul style="list-style-type: none">• Gender segregation of tasks/markets/products?• Gender discrimination within the production process?• Gender discrimination in markets?• Individual differences in skills, resources, time between men and women?• Gender constraints at household/family/kinship level? e.g. lack of control over income, unpaid household work, restrictions on movements outside the home and relations with men.• Gender constraints at community level? e.g. social sanctions and violence, withdrawal of social support, lack of business networks.• Gender discrimination within development institutions? e.g. business development services, training, financial services.• Gender discrimination in national legislation and policy-making?• Gender discrimination in international agreements? e.g. on trade, aid and development programmes.• Gender blindness/bias in the underlying conceptualization of issues and policies?
Empowerment analysis
<ul style="list-style-type: none">• What are women's own strategies for coping with constraints and maximizing opportunities?• How far do these perpetuate or challenge inequalities at the different levels?• What are women's priorities for change?• How do these compare with those of men?

Value chain research: identifying Decent Work deficits

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

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

Box 4.16: Women in Smallholder Dairy Farming in Zambia

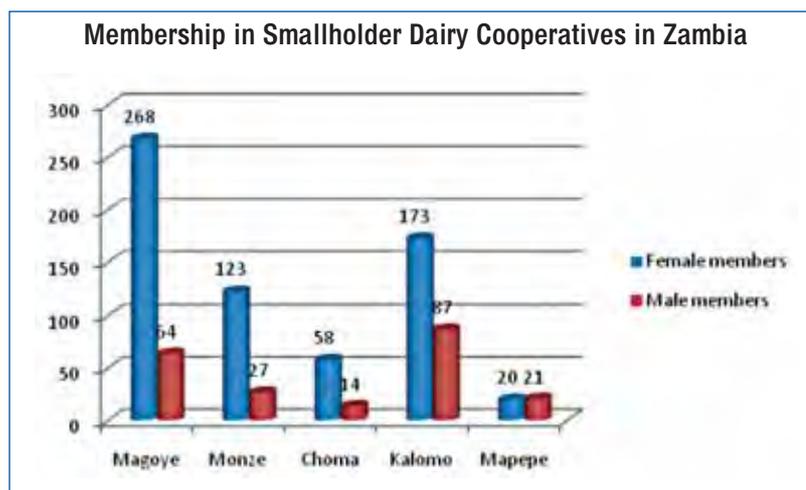


FIG 1: An analysis of the membership of smallholder dairy milk cooperatives in five rural districts in Zambia's Southern Province. Source: A Gender Analysis of the Dairy Sub-sector Local Value Chain for Smallholder Farmers in Zambia. Zambia Association for Research and Development (ZARD) for the ILO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

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

Value chain research: identifying Decent Work deficits

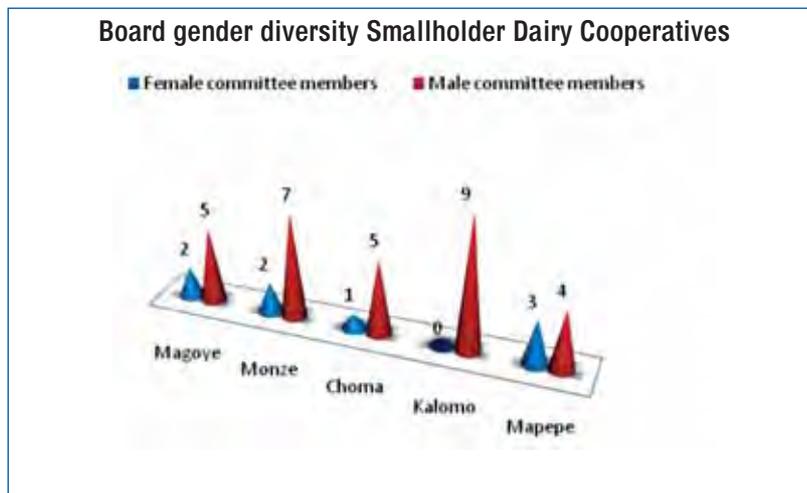


FIG 2: A gender analysis of the management boards of smallholder dairy milk cooperatives in five rural districts in Zambia's Southern Province.

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

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

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

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

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