

Value chain research: identifying Decent Work deficits

Box 4.17: Gender issues in the investigation process

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

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

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

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

Several considerations for interviews

In individual interviews it is important to bear in mind the gender of both the interviewer and interviewee. The sex of the researcher is likely to influence the types of responses given³⁸. In general, where possible, male researchers should talk to men and women researchers to women when gender issues are being explicitly discussed. In many societies, it will not be possible for women to openly discuss their gender-related problems with men, even where men are allowed to talk to women on other matters. It will therefore be very important to ensure a gender balance on the research team, and also to take the relative genders of interviewer and interviewee into account when analysing the responses.

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

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Recommended reading on gender in value chain

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

4.3.5 Calculating costs in value chains

Are higher labour wages a threat to competitiveness?

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

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

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

	Sourcing		Production		Delivery		
	Import Dependence	Raw material costs	labour costs / shirt	Over-heads	Out-bound logistics	Speed to market	
Kenya	65%	\$2.30	\$0.40	\$0.62	\$0.28	> 30 days	\$3.60
Honduras	80%	\$0.80	\$0.25	\$0.19	\$0.06	< 15 days	\$1.30
High tariffs: Honduras = 9.6% Kenya = 21.9%		Lower wages Honduras: \$12/ man-day Kenya: \$9.40/ man-day		Lengthy customs clearance for exports: Honduras = 1 day Kenya = 2 days			
High cost of logistics: Honduras = \$ 658 / TEU Kenya = \$1475 /TEU		Lower labour productivity Honduras: 45-50 shirts/day Kenya: 20-25 shirts/day		High incidence of rejects: Honduras: <1% Kenya: >3%			
Lengthy customs clearance for imports: Honduras = 4 days Kenya = 15 days							

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

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

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Competitiveness depends on production costs along the VC

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

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

Singling out operations that cause high costs

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

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

Costs of performing functions in the production of Neang Mali Rice for export, Cambodia (in US dollars/ton)					
Rice production		72.46	Post-harvest operations		23.23
					33.44
					Costs FOB 129.13
• Land preparation	14.19	• Drying	3.35	• Transport to harbour	6.51
• Seeding	4.15	• Milling	12.23	• Port handling	10.23
• Transplanting	20.09	• Packaging	2.16	• Customs clearance	15.30
• Fertilizing	26.00	• Fees & levies	3.43	• Vessel loading	1.40
• Harvesting	8.03	• Interests	2.06	• (Shipping)	(14.88)

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

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Calculating unit costs

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

Difficulty in accessing corporate cost data

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

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

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

Important: identify underlying causes behind cost drivers (interpretation)

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

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

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

Identifying cost drivers by calculating cost distribution

Identification of cost drivers

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

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

Understanding transaction costs within the value chain

Identification of excessive transaction costs

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

Comparing the cost structure to those of competitors (benchmarking)

Competitive benchmarking

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

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

From cost distribution to cost drivers to underlying reasons

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

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Recommended reading on cost calculation in value chains

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

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

Understanding value chains is about understanding relationships

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

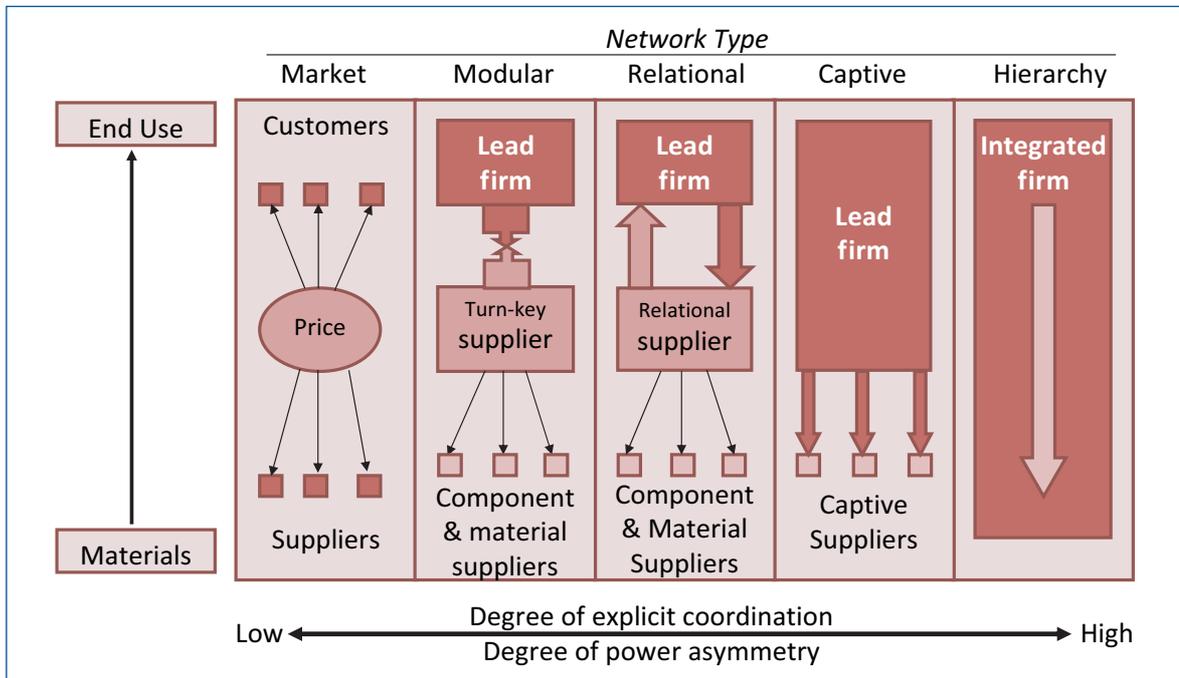
The figure in Box 4.19 illustrates different types of governance that can occur in value chains. The degree of power asymmetry increases from left to right. Loose connections between enterprises are indicated by a thin arrow, as in market-based relationships. The stronger the relationship between enterprises,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

Hierarchical relationships

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

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Box 4.20: Different types of value chain governance



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

Network-type relationships

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

Market-based relationships

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

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Recommended literature on value chain governance:

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

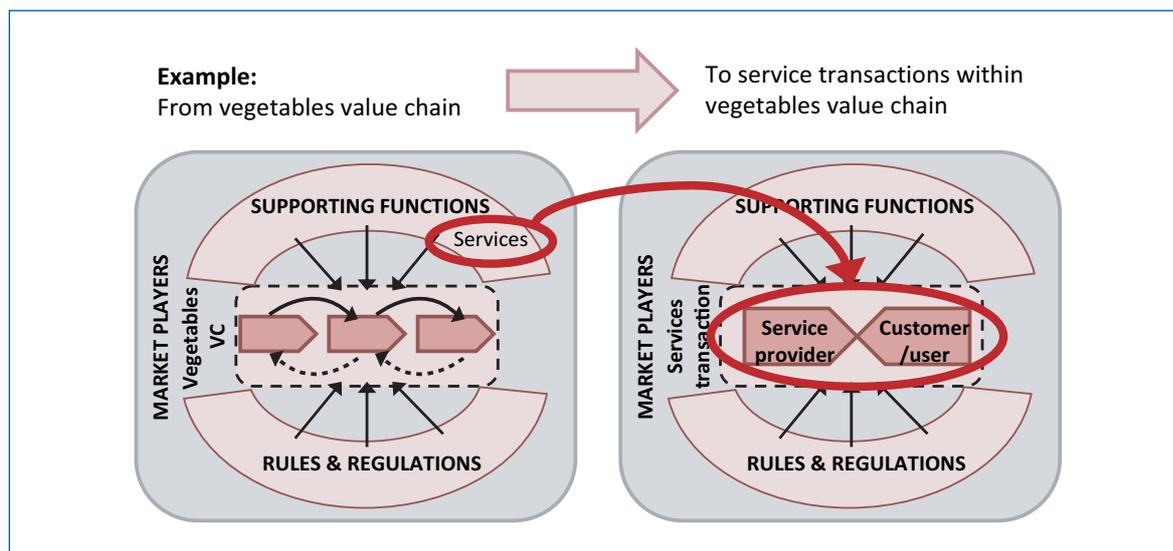
4.3.7 Business services and value chains

Putting services into the core of market systems

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

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

Box 4.21: Putting services into the core of market systems



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

⁴⁰Elliott, David (2006): 14

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VC research: understanding different delivery mechanisms for services

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

Transactional services: “stand-alone” fee-for-service

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

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

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

Embedded services: part of commercial transactions in value chains

2. **Embedded services** are services packaged within or bundled around commercial transactions between a buyer and seller, and are therefore part of core transactions within value chains. They are typically not as visible or as tangible as other service delivery mechanisms and therefore often receive less attention. It is found that lead firms are often the drivers behind embedded services, thereby ensuring that operations along the chain are cost-efficient and effective (i.e. that business partners meet market requirements) and that the competitiveness of the overall value chain is guaranteed. Embedded services are especially characteristic for business models such as franchising⁴², sub-contracting and licensing.

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

⁴²See Henriques and Herr (2005)

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Embedded services compensate for limitations of other service mechanisms

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

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

Embedded services as a precondition to competitiveness

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

The risks and dangers of embedded services

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

Understanding market functions that support embedded services

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

⁴³Elliot, David (2006): 14

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

Cargills Food City	The open-market value chain
<p>Cargills Food City is a major supermarket chain in Sri Lanka. The company supplies fruit and vegetables from a large number of small farmers throughout the country.</p> <p>To offer consumers products of high and consistent quality at competitive prices (i.e. below market average), the company collaborates closely with its suppliers, offering a wide range of services from training on new production technologies, supply of irrigation systems and loans, to quality control mechanisms, etc.</p> <p>The investment in embedded services, not only pays off for Cargills, but also for farmers (win-win):</p> <ul style="list-style-type: none"> • low costs due to short distances and careful handling • higher incomes due to fewer intermediaries • higher quality and productivity due to the training system, embedded services & quality control system 	<p>The open market value chain for fruit and vegetables in Sri Lanka consists of a large number of intermediaries, and is characterized by</p> <ul style="list-style-type: none"> • high costs in terms of price and waste (post-harvest losses between 40 and 60%) • low incomes due to numerous intermediaries • low quality due to inadequate handling • low productivity due to inadequate access to technology, information & services. <p>There is also a clear mismatch between consumer demand and supply, since farmers lack access to market information that gives them planning security.</p>

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

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

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

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Recommended literature on business services in value chains

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

4.3.8 Star diagrams: measuring sector performance against buyer requirements

Definition: Star diagram as performance indicator

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

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

Step 1:

Requirements of buyers with regard to their suppliers

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

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

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

Step 2:

Identifying competitors

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

Step 3:

Assessing buyers' confidence

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

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

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Box 4.23: Constructing a star diagram

Questionnaire						Star diagram example	
On a scale from 1 to 5, how do you assess the performance of your 4 most important suppliers* from different regions with regard to the following business criteria (mark your answer with a cross):						The answers on the left can be put into a diagram as done for two countries below. This can easily be done either in PowerPoint or Excel.	
	1	2	3	4	5	<p>1 = poor, 2 = average, 3 = good, 4 = excellent</p>	
Innovative design		A**	B	C,D			
Regular and reliable product quality		B	C	A	D		
Price		A	D	B,C			
Delivery time		A	B	C,D			
Flexibility: coping with small orders			A,B	C,D			
Flexibility: coping with changes in large orders		A,D	C		B		

* Even if your local target sector is not one of the most important suppliers, include it in this list!

**India: A; Italy: B; Brazil: C; China: D. Could be done for competing national sectors or international sectors (as in example)

Step 4:

Evaluating information and constructing the star diagram

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

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

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Different versions of the star diagram

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

- 1. Buyer preference and actual performance of suppliers:** Instead of asking buyers to compare different and competing suppliers with one another, it might often be easier to ask the buyer to rate the importance of criteria on a scale from 1 to 5, and then to assess the performance of your target group against the same criteria. For example:
 - “How important is delivery time for you? Please rate on a scale from 1 to 5.”
 - “In terms of delivery time, to what extent do dairy farmers from ... (your target region) meet your requirements? Please rate their performance on a scale from 1 to 5.”
 - The result can be used to assess, for example, to what extent small producers meet buyers’ requirements. This version of the star diagram has proved to be more useful where buyers have been reluctant to compare the performance of their various suppliers with one another.
- 2. Instead of suppliers, use other target groups:** the same procedure explained above can of course also be used for different target groups: for example, small retailers in the marketing and distribution channels of large manufacturers, service providers supplying services to small enterprises (their performance could be assessed collectively, for example, by small producers in a focus group discussion), workers working for large companies as well as small enterprises (this could be done to assess the quality of the available work force, for instance).

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

Further reading on Star diagrams

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

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4.4 Methodology: Interviews and focus group discussions

Step 5:

Selecting a methodology for value chain research

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

Preparation for interviews and focus group discussions

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

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

Planning meeting with team

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

Guiding questions for preparation

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

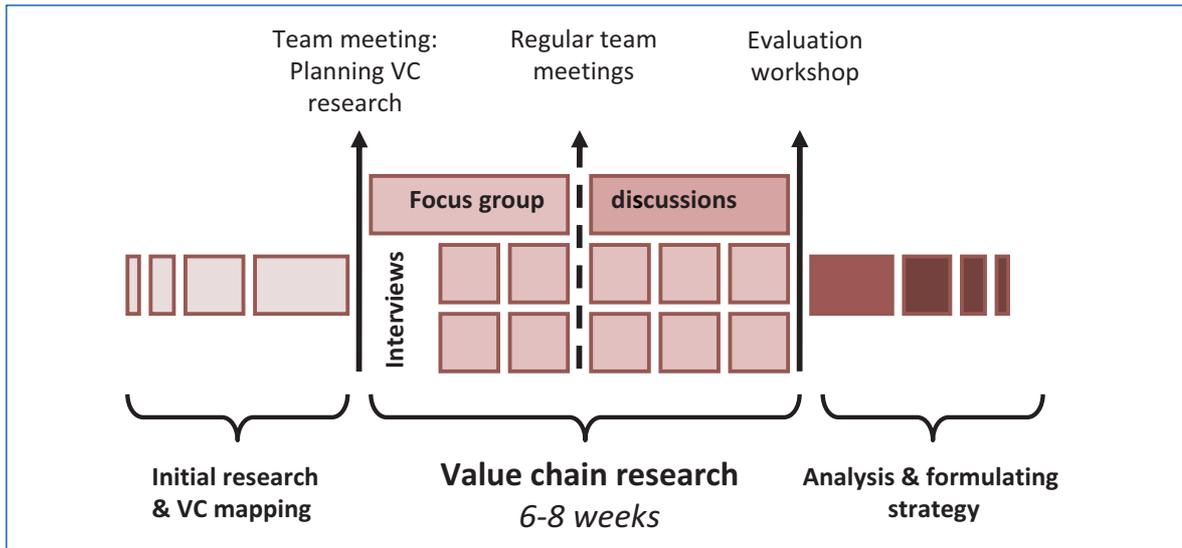
Using the value chain map as orientation

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

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

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



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

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4.4.1 Interviews

Purpose of interviews in value chain research

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

Interview combined with observation for identification of Decent Work deficits

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

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

Definition of open interviews

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

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

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

Definition of closed interviews

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

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

Value chain research: identifying Decent Work deficits

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

Two ILO projects in Madagascar and Sri Lanka used an approach which combines a participatory local economic development approach known as PACA⁴⁴ with the value chain approach.

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

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

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

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

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

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

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

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

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

Value chain research: identifying Decent Work deficits

4.4.2 Focus group discussions

Bringing together market players with the same business background

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

Why focus group discussions are useful

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

Definition of focus group discussion

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

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

The discussion is usually “focused” on a particular area of interest. It does not usually cover a large range of issues, but allows the researcher to explore one or two topics in greater detail.

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

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

Value chain research: identifying Decent Work deficits

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

Box 4.26: Checklist preparation for focus group discussions

Checklist	Answer
<ul style="list-style-type: none"> Before the first session: <p>Membership - Focus groups are usually conducted with 6-10 members. Select members who are likely to be participative and reflective. Try to select members who don't know each other. Select the members of your Focus Group carefully in order to have a representative group for the sector (see <i>Checklist 2.4</i>).</p> 	<p>Done</p> <input type="checkbox"/>
<ul style="list-style-type: none"> Identify the major objective for the meeting 	<input type="checkbox"/>
<ul style="list-style-type: none"> Plan your session: <ul style="list-style-type: none"> Scheduling - Plan meetings to be 1 to 1 1/5 hours long. Setting and refreshments - Hold sessions in a conference room, or other setting with adequate ventilation and lighting. Arrange the chairs so that all members can see each other, and also provide nametags for members. Provide refreshments, especially box lunches if the session is held over lunch. Ground rules - It is essential that all members participate as much as possible. It is useful to have a few, short ground rules that sustain participation. Consider the following three ground rules: a) keep focused, b) maintain momentum and c) get closure on questions. Agenda - Consider the following agenda: welcome, review of agenda, review of goal of the meeting, review of ground rules, introductions, questions and answers, wrap-up. Plan to record the session. Don't rely on your memory. If this is not practical, involve a co-facilitator who is there to take notes (alternative: audio or video recording). 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<ul style="list-style-type: none"> Call (potential) members to invite them to the meeting. 	<input type="checkbox"/>
<ul style="list-style-type: none"> About three days before the meeting, call the members individually to remind them to attend. 	<input type="checkbox"/>

4.5 Further reading on value chain research topics

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

Value chain research: identifying Decent Work deficits

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

Websites:

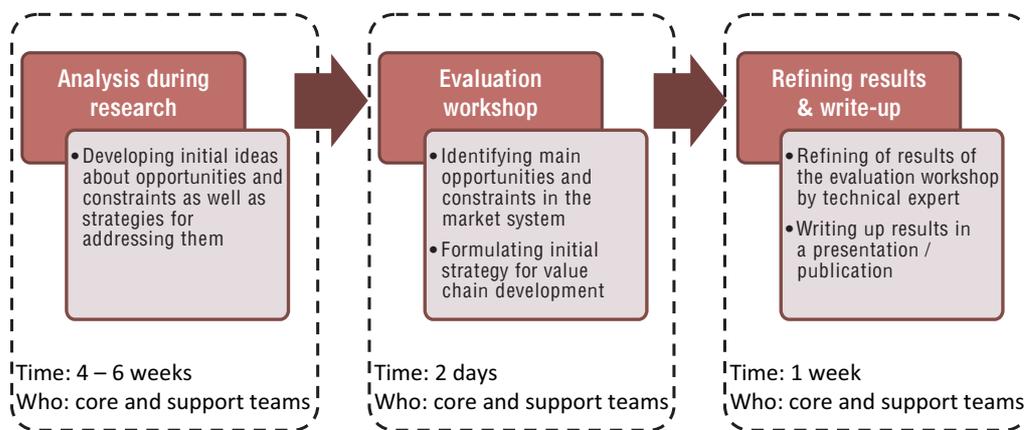
- M4P network: www.m4pnetwork.org
- Global Value Chain Initiative (GVCi), www.ids.ac.uk/globalvaluechains

Chapter 5

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

Summary sheet: value chain analysis and intervention strategies

Timeline and proposed actions:



Summary:

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

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

Outcome:

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

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

Achieving systemic competitiveness for value chains

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

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

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

Decent work as part of systemic competitiveness

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

About this chapter

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

⁴⁵GTZ Value Links Manual – Module 2

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

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

Learning from case examples

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

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

I've got loads of information, what now?

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

Steps of value chain analysis

Section 5.1 introduces a format for value chain analysis that can be used as a step-by-step guide for evaluation workshops (see *Annex 4* for sample format). The operational guide for Local Value Chain Development⁴⁷ published by the ILO Enter-Growth project in Sri Lanka, gives further ideas on the practical organization of such a workshop (see also checklist below in *Box 5.2*). This section takes you through the following steps:

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

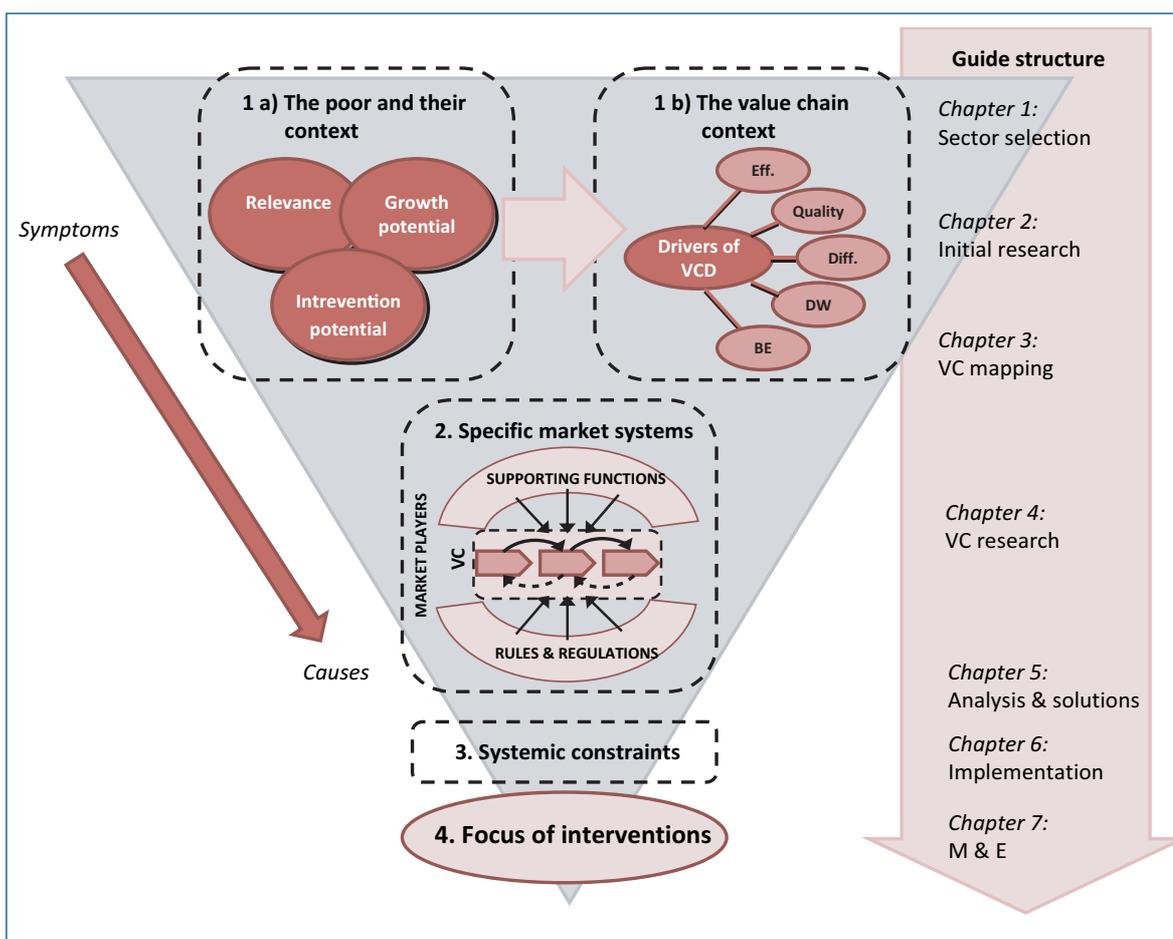
⁴⁷Herr, Matthias (2008): Local Value Chain Development – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth project (Enter-Growth), Colombo (Sri Lanka).

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

VC analysis: linking symptoms to systemic constraints and solutions

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

Box 5.1: Diagnostic process for value chain research and analysis



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

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

Outcomes of the value chain analysis phase

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

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

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

Question	Answer	Check
Who should participate at the evaluation workshop?	The evaluation should be conducted by the core and support teams alone (see Chapter 2.1) – i.e. team members who have actively been involved in conducting interviews and focus group discussions during the previous weeks.	Done <input type="checkbox"/>
Who should NOT participate at the evaluation workshop?	The evaluation workshop is an INTERNAL meeting of the core and support teams. It is a WORKshop and not a presentation event. People who have not been involved in conducting interviews and focus group discussions and VIPs should not be invited, as they could distract from the purpose of the evaluation workshop.	<input type="checkbox"/>
How many people should participate?	As mentioned above, the evaluation workshop should be attended by the core and support teams. Altogether this would be about 10 to 15 people.	<input type="checkbox"/>
How long does an evaluation workshop take?	Experience with ILO value chain initiatives in Sri Lanka and Madagascar has shown that a good evaluation workshop takes up to two days. This time is absolutely necessary in order to produce good quality and presentable results.	<input type="checkbox"/>
Where should the workshop be conducted?	Ideally you would plan for a residential workshop to allow sufficient flexibility in time and commitment of all team members.	<input type="checkbox"/>
What materials are required for an evaluation workshop?	<ul style="list-style-type: none"> • Flipchart • Cards, pin board, pins, wall paper, masking tape (or similar material) • Lap top for documentation purposes • A projector is not necessary, but could be useful. 	<input type="checkbox"/>

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

5.1.1 Identifying constraints and their underlying systemic causes

VC analysis: the critical link between research and intervention

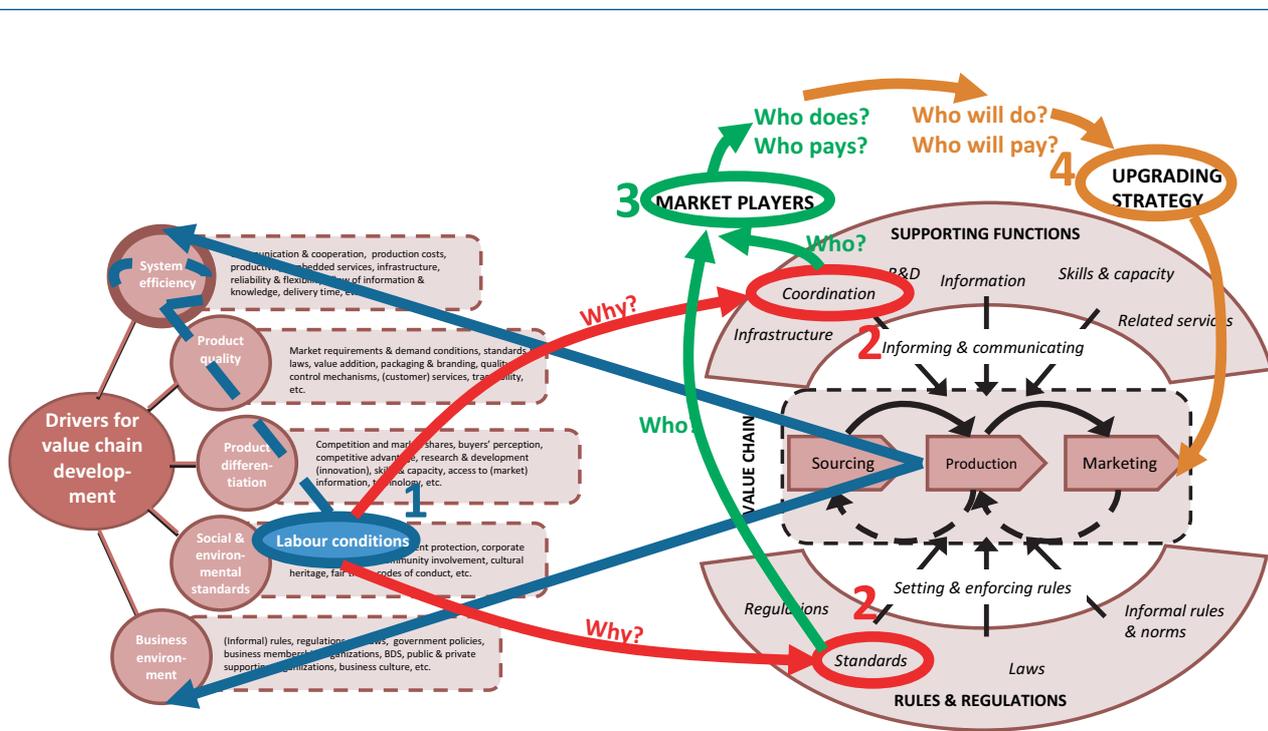
Value chain analysis requires a framework that leads from symptoms to underlying systemic constraints and requires a clear understanding of the role and incentives of market players before appropriate and sustainable intervention strategies are formulated. Value chain analysis also means linking up the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

VC analysis in four main steps

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

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

Box 5.3: Analysis process



Example scenario

- **Step 1:** Poor working conditions of small producers have been identified as a major obstacle to higher productivity and product quality. This again affects the overall performance of the value chain, as exporters find it increasingly difficult to meet global buyers' high quality requirements and increasing demand.
 - **Step 2:** International Labour Standards (rules) regulate minimum requirements; the national labour department makes recommendations (rules) on good workplace practices and occupational health and safety. Small producers are not aware of these recommendations, however; there is a lack of coordination (function) between relevant market players as regards passing on the information (function) and providing training for small producers.
 - **Step 3:** The labour department is the government authority responsible for implementing and enforcing labour regulations; small producer associations represent the interests of their members. However, communication between these two market players is virtually non-existent. What is more, associations are still weak in the advocacy function and are largely dependent on donor and government funding. Some development programmes working on various sectors have also developed good workplace practice guidelines but have so far failed to transfer ownership to market players.
- **Here it is essential to also have a good understanding of market player incentives. Section 5.1.2 provides details.**

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

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

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

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

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

Step 1:

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

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

Guiding questions

Some guiding questions that can be asked are:

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

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

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

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

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

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

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

Driver	Definition	Supporting functions and rules
System efficiency	<p>Functions and rules that ensure that a given target (market demand and requirements) is achieved and that the (economic, social) costs associated with this process are kept low.</p> <ol style="list-style-type: none"> <i>Productive efficiency</i> describes the ratio between costs and benefits (or inputs and output) of certain production activities with regard to specified targets – e.g. labour productivity. <i>Allocate efficiency</i> is characterized by the degree to which supply meets consumer demand and a market price trend towards long-term marginal costs (i.e. costs per unit). 	<p>Communication, cooperation and coordination mechanisms/institutions, price setting/ bargaining mechanisms and information systems, productivity improvement strategies, services embedded in value chains (e.g. loans, training, technical support, monitoring and advice, etc.), infrastructure conditions (delivery time!), export regulations and procedures, contracting mechanisms for ensuring reliability & flexibility, information & knowledge-sharing mechanisms, etc.</p>
Product quality	<p>Functions and rules (or mechanisms) that ensure that production processes along the value chain meet market requirements and demand conditions.</p>	<p>Market research and development functions, quality standards & laws (e.g. ISO norms, HACCP, GAP, GMP, etc.), quality control mechanisms along the chain, marketing strategies (e.g. packaging & branding), (customer) services, traceability systems, informal or cultural rules (e.g. Islamic rules on animal slaughtering), etc.</p>
Product differentiation	<p>Functions and rules that ensure the overall competitiveness of a value chain in terms of price/cost or product quality leadership/ differentiation.</p>	<p>Market research functions for delivering market information (competition and market shares) and finding differentiation strategies, product research and development facilities (innovation!), skills & capacity-building institutions, mechanisms and rules for protecting intellectual property (e.g. patent rules) and preventing industry espionage (e.g. contracts with employees), technology transfer mechanisms, etc.</p>
Social and environmental standards	<p>Functions and rules that reduce the negative external effects on social and ecological environments and also ensure that economic gains along the value chain result in win-win situations for all market players.</p>	<p>International Labour Standards and recommendations (ILO), labour laws and regulations, good workplace practices, environmental protection regulations, law enforcement institutions, corporate social responsibility (CSR) strategies and codes of conduct, community involvement platforms, fair trade agreements and enforcement mechanisms, public lobby and pressure functions, etc.</p>
Business environment	<p>Functions and rules external to the specific value chain (i.e. not directly part of the production process along the chain), which, however, play a crucial role in shaping the political, social and economic environment in which value chains operate, and that therefore have a strong influence on the ability of a sector to compete on world markets as well as generating income and employment.</p>	<p>National legislation procedures at the macro-economic level, monetary policy, advocacy functions (unions and business membership organizations etc.), business development and support services (BDS), (informal) cultural norms and institutions, public-private partnership mechanisms (Social Dialogue), etc.</p>

Step 2:

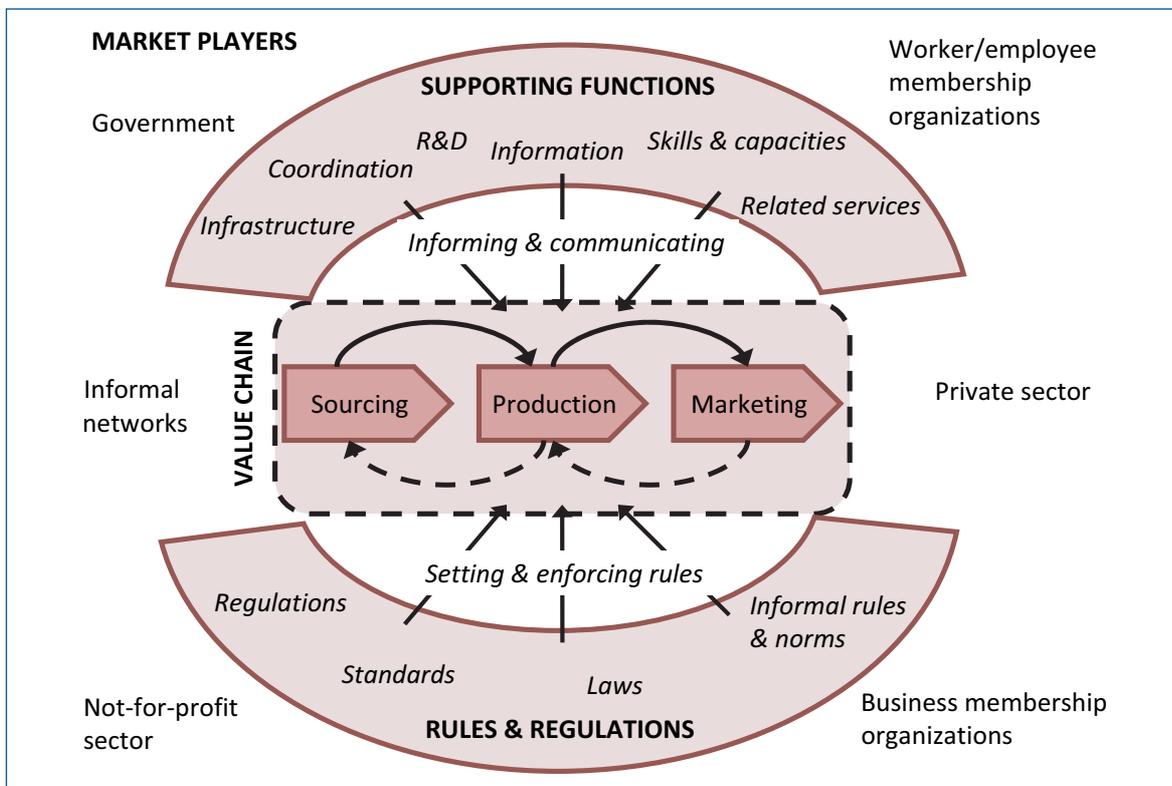
Identifying underlying systemic constraints in market systems

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

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

Definition of key terms

Box 5.5: Defining key terms in market systems



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

Market system

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

Core function (marked as value chain above)

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

Supporting functions

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

Rules

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

Market players

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

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

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

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

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

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

Step 3:

Identifying the current and potential role of market players

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

Guiding questions

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

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

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

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

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

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Box 5.6: Template for key questions in value chain analysis

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

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5.1.2 Identifying incentives of market players and agents of change

Addressing incentives of market players is the key to successful implementation

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

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

Defining incentives

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

Source: www.wikipedia.org (under “incentive”)

Different types of incentives

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

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

⁴⁸The Springfield Centre: M4P operational guide, Module 3C.

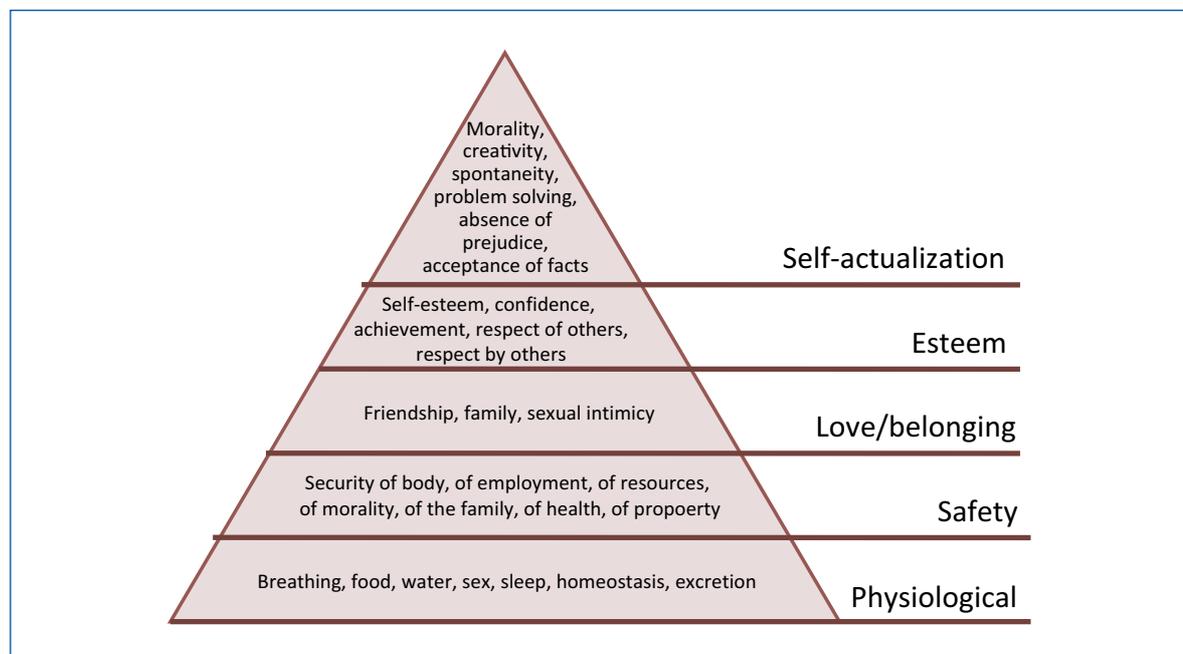
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- 2. Extrinsic versus intrinsic incentives** Extrinsic incentives describe the expected external benefit of actions, for example financial rewards or recognition. Intrinsic incentives refer to an expected positive experience through an action – i.e. it is internal to a person, for example satisfaction or a feeling of accomplishment.
- 3. Economic, social, political, psychological incentives** This distinction reflects the institutional nature or origin of incentives. Social incentives for example could be recognition or an improvement of social status; political incentives are prospects for a political career.
- 4. Maslow's hierarchy of needs** Although this is not exactly a classification of incentives, the hierarchy explains the prioritization of needs, which determines people's actions (motivation). It is often depicted as a diagram consisting of five levels. The lower levels concern basic needs that need to be met first. Once these are met, the search for self-actualization drives personal growth.

The first important lesson to be learnt from these various classifications of incentives is that they go beyond pure economic/monetary incentives: social status, reputation, personal satisfaction, career prospects, recognition, safety concerns (determining risk affinity), etc. are all important incentives to be considered. Value chain research and analysis has to identify these incentives in order to formulate intervention strategies that meet the interests and needs of people and organizations.

The second lesson is that all of these incentives are interconnected: a company, for example, seeks positive recognition of its brand as a marketing strategy for increasing sales.

Box 5.7: An Analogy using Maslow's hierarchy of needs



Source: www.wikipedia.org (under "Maslow hierarchy of needs")

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How to conduct an incentive analysis

If it is so important to understand incentives, then how do I analyse them in a value chain initiative? The following section describes a brief step-by-step approach that can be used within the context of an evaluation work shop.⁴⁹ Start by drawing up the following matrix:

Box 5.8: Stakeholder analysis matrix with examples⁵⁰

1	2	3	4
Market player	Interest in the project and incentives to become involved	Relevance for market player of achieving systemic change and impact at scale	Risk factors and strategies for reducing risk
Local input supply retailers	<ul style="list-style-type: none"> • Increase sales and income • Interest in win-win marketing strategies • etc. 	<ul style="list-style-type: none"> • Individual impact remains low • High relevance for farmers as source of information • etc. 	<ul style="list-style-type: none"> • Lack of control in implementation (could be compensated by internal control systems of supply firm) • etc.
Government extension services	<ul style="list-style-type: none"> • control government budgetary allocations • Negative for the project if these services refuse to become involved • etc. 	<ul style="list-style-type: none"> • Positive if budgetary allocations are increased • Farmers complain about commitment and relevance • etc. 	<ul style="list-style-type: none"> • High dependence on commitment of individual officers • Inefficient resource allocation • etc.
Lead supply firm	<ul style="list-style-type: none"> • Increase market share • etc. 	<ul style="list-style-type: none"> • Thousands of local retailers sub-contracted, therefore high potential outreach • etc. 	<ul style="list-style-type: none"> • Reluctance to invest in improved embedded services • Start with small-scale pilot area; initial cost-sharing agreement • etc.
Your turn now..			

Adapted from: Instituto Nacional de Tecnología Agropecuaria, Argentina.

⁴⁹Adapted from Instituto Nacional de Tecnología Agropecuaria, Argentina. Document undated and no authors mentioned. Title: “Stakeholder Analysis”.

⁵⁰The example refers to the case study mentioned in Section 5.3.1. The lead question here is: How can more knowledge and information be brought to small rural farmers.

Step 1:

Relevant market players

Look at the value chain map in which you have identified market players (see *Chapter 3*). Identify all of the people, groups and organizations that could be potential partners for the implementation, or will affect or be affected by a particular intervention and list them in the “market player” column in the table in *Box 5.8* above.

An example: access to knowledge and information has been identified as a major constraint for rural farmers. During the value chain research you have identified potential sources of information: farmers themselves, extension services, media, local supply retailers, supply companies, buyers and NGOs. These sources can be filled into the first column as potential partners for value chain upgrading solutions.

Also note that a certain degree of differentiation is necessary between groups of market players. It is all too tempting to identify one group as “farmers”. However, farmers in practice consist of different types of farmers: e.g. subsistence smallholders and wealthy commercial farmers. These differences can be crucial for finding the right partners for upgrading solutions.

Step 2:

Identify specific interests of market players

Once you have completed a list of market players relevant to a specific intervention, review the list and identify the specific interests – or incentives – that these market players could have in realizing an intervention. Consider issues such as:

- What are the market players’ expectations of an intervention?
- What are the benefits of the intervention to the market player?
- What resources might the market player wish to commit (or avoid committing) himself to the intervention?
- What changes might the intervention require the market player to make?
- Are there intervention activities that might cause damage or conflict to the market player?
- What other interest does the market player have that could cause conflict with an intervention?
- How does a market player regard the others on your list (relationship to other market players)?

Note that incentives of all market players may be difficult to define, especially if they are “hidden”, or in contradiction to the openly stated aims of the organization or groups involved. This underlines the importance of focusing a great deal of attention of the value chain research on understanding motivations and possible incentives for market players (see *Chapter 4*). Only if value chain upgrading solutions are based on real market incentives will they have a chance of being implemented successfully and sustainably achieving the development targets.

Step 3:

Assessing importance of interests and influence of market players

Review the list of market players in column one again, and ask: how important are the stakeholder's interest in/incentives for the success of a proposed intervention and how strong is their influence? These questions are essential in order to ensure that interventions achieve impact on a large scale (see *Section 5.1.5* below).

- What role does the market player play in the value chain? And what is his power position in relation to other players in the chain? (value chain governance, see *Chapter 4.2.6*)
- What is the role the market player is expected to play in the interventions? And how likely is he to play this role?
- How likely is the market player to play this role?
- What is the potential outreach that can be achieved by cooperating with this market player (potential impact at scale)?

Importance and influence can be combined in a matrix as shown below in *Box 5.9* (fill in the names of market players in the relevant cells). This exercise in positioning market players will indicate the relative risks posed by specific players and the potential coalition of support for the intervention. These findings will inform the project negotiations and design.

Box 5.9: 1) Determinants of market players' relative power and influence, 2) Importance-influence matrix

1. Determinants of market players' relative power and influence	2. Importance and influence combined in a matrix diagram.	
	Low influence	High influence
<p>Within and between formal organizations</p> <ul style="list-style-type: none"> • Legal hierarchy (command and control, budget holders) • Authority of leadership (formal and informal, charisma, political, family or cadre connections) • Control of strategic resources for the intervention (e.g. suppliers of hardware or other inputs) • Possession of specialist knowledge (e.g. engineering staff) • Negotiating position (strength in relation to other stakeholders in the intervention) 	<p>High importance</p>	<p>A: Market players of high importance to the project, but with low influence. This implies that they will require special initiatives if their interests are to be protected (e.g. subsistence farmers)</p> <p>B: Market players appearing to have a high degree of influence on the project, who are also of great importance for its success. The project will need to construct good working relations with these stakeholders in order to ensure an effective coalition of support for the project.</p>
<p>In the case of informal interest groups and primary stakeholders</p> <ul style="list-style-type: none"> • Social, economic and political status • Degree of organization, consensus and leadership in the group • Degree of control of strategic resources significant for the intervention • Informal influence through links with other market players • Degree of dependence on other market players 	<p>Low importance</p>	<p>D: Market players in this box, with low influence on, or importance for the project objectives may require limited monitoring or evaluation, but are of low priority. They are unlikely to be the subject of project activities or management.</p> <p>C: Market players with high influence, who can therefore affect the project outcomes, but whose interests are not the target of the project. The conclusion is that they may be a source of significant risk, and they will need careful monitoring and management.</p>

Source: Instituto Nacional de Tecnologia Agropecuaria, Argentina.

Step 4:

Making assumptions and identifying risks in dealing with market players

In the next step, risks that arise from information asymmetry and conflicting interests (principal-agent problem) need to be identified, and assumptions made on how market players will respond to these risks.

The success of an intervention depends partly on the validity of the assumptions made about its various market players, and the risks facing the intervention. Some of these risks will derive from conflicting interests. Planners must therefore identify (and assess the importance of) the most plausible assumptions about each “key” market player; this is necessary if the intervention is to be successful. These market players and assumptions should be entered into the fourth column (*Box 5.9* above).

By assessing the importance and influence of key market players (step 3), several risks emerge from the matrix diagram. Risks will generally be evident from those market players in Box C which have high influence, but interests which are not in line with the intervention objectives. These “key” market players may be able to block the project and eventually lead to its failure.

The following questions might help to make assumptions about market players and identify risks:

- What is the role or response of the key market player that must be assumed if the intervention is to be successful?
- Are these roles plausible and realistic?
- Are there negative responses which can be expected, given the interests of the market player?
- If responses occur, what impact would they have on the intervention?
- How probable are these negative responses, and are they major risks?

Step 5:

How to get support and reduce opposition

How can you win the support of market players and reduce opposition to interventions? Within the final step, you need to consider how to approach each of the relevant market players.

- What kind of information will they need?
- How important is it to involve market players in the planning and implementation process?
- Are there other groups or individuals that might induce the market player to support your initiative?

It is important to develop a marketing and communication strategy towards market players. In order to implement value chain upgrading strategies you need the cooperation of strong and reliable partners. The ILO Enter-Growth project in Sri Lanka as well as the ILO CEPP project in Madagascar both found that this is a key factor for successfully implementing intervention proposals.⁵¹

Note that in value chain interventions, in order to reach the target group (e.g. small scale farmers), it might actually not be necessary to directly involve them in planning and implementation processes, but working together with a significant market player with influence and outreach in the value chain could make more sense. An example of this type of intervention is given below in *Section 5.4.1*. It is not necessary to always involve *all* market players, but impact could in fact be achieved by cooperating with market players who have an *incentive* for change.

5.1.3 Formulating a vision and strategy for sustainable systemic change: the intervention framework

Formulating a strategy for sustainable systemic change that leads to value chain upgrading through Decent Work is not a simple task and requires a degree of experience and awareness of the nature and purpose of interventions. When one has thought about systemic constraints (*Section 5.1.1*) and the role and incentives of market players in the market system (*Section 5.1.2*), the solutions are often obvious. But how do we ensure that these solutions also lead to the desired sustainable outcomes? ***Four considerations lie at the heart of the process of formulating intervention strategies:***⁵²

⁵¹See reports on coir, dairy, floriculture and packaging value chain initiatives at www.entergrowth.com.

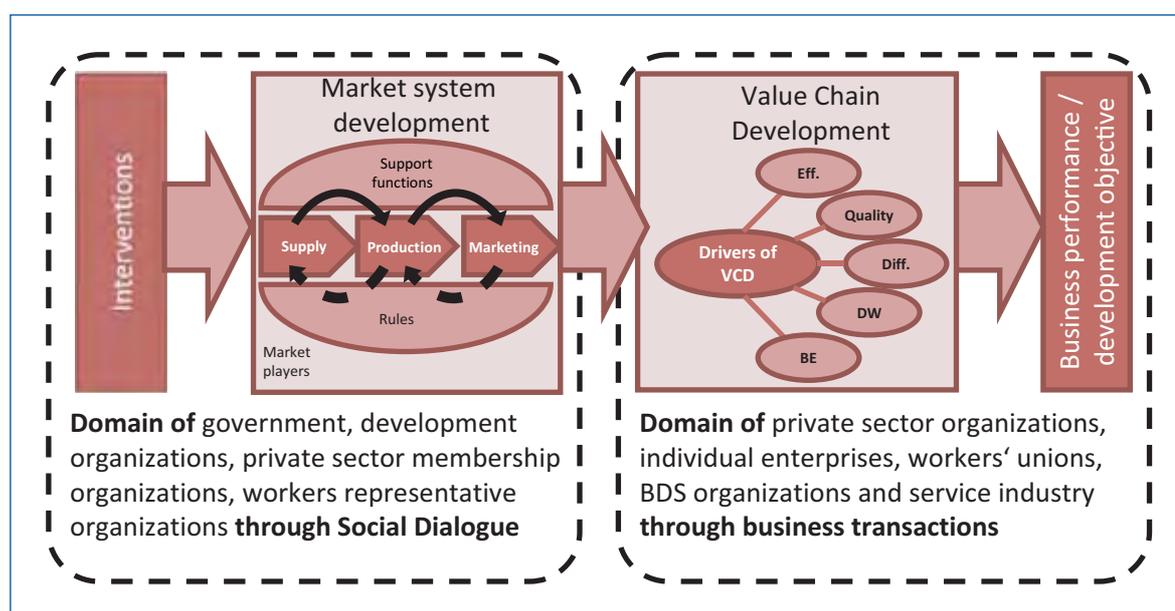
⁵²The following paper provides a more detailed insight into these principles: Albu, Mike (2008): Making markets work for poor – International development cooperation: seeking common principles that underpin a coherent approach to poverty reduction, for the Swiss Agency for Development and Cooperation (SDC), The Springfield Centre, Durham (UK). Available from: www.springfieldcentre.com.

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1. Systemic change leads to value chain development and the realization of Decent Work targets

1. **Systemic/institutional change:** The ultimate purpose of systemic change is to improve the way value chains function and perform on the market (which can be measured on the basis of the five drivers of value chain development) and thus achieve desired Decent Work outcomes. Systemic change is defined as a “change in the underlying causes of market system performance – typically in the rules and supporting functions – that can bring about more effective, sustainable and inclusive functioning of the market system.”⁵³ The causal chain can be illustrated as shown in the figure below.

Box 5.10: From market system development to value chain development



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

How does the market system need to change to benefit the poor?

The key question therefore is: **how does the market system need to change so that it better serves the target group (e.g. the poor)?** “Systemic change objectives obviously vary according to the context [...]. Market system change might include:

- Improved delivery of the market’s core functions (e.g. increase in access or participation rates, improved quality or levels of satisfaction)
- Changes in the practices, roles and performance of players and functions in the market system
- Changes in the attitudes of players

⁵³The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK)

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- Demonstrated dynamism of players (e.g. responsiveness to changed conditions in the system)
- Independent and continuing activity in the system (i.e. the extent to which changes are maintained after direct intervention support has ceased)”⁵⁴.

Institutions – i.e. supporting functions, formal and informal rules, and core functions – are pivotal to poverty reduction because they have such a strong impact on people’s social and economic livelihoods: “In the social realm institutions can shape the experience of marginalized or excluded groups, determine power relations and people’s access to assets and opportunities, strengthen or undermine resilience. While in the economic realm, institutions can reduce the **transactions costs** facing producers and other market actors, with profound implications for incomes, economic viability, prices and competitiveness.

In all these contexts strong institutions matter because they influence the underlying **incentives and capacity** of individuals, groups, and public and private organizations to continue performing important roles.”⁵⁵

For all these reasons and more, interventions for value chain development need to consider the institutional and systemic nature of change in order to achieve sustainable outcomes for Decent Work. When thinking about value chain upgrading strategies we need to think about a) whether strategies are likely to become part of the market system in the long run (as core supporting functions and/or rules) and b) which market players might have an incentive to perform this function.

2. Sustainability means not only maintaining the status quo; it is also about the ability to adapt and innovate in the future

2. **Sustainability**: Sustainability has many different dimensions, for example:⁵⁶

- Environmental sustainability may be said to be achieved when the productivity of life-supporting natural resources (ecological systems) is conserved or enhanced for use by future generations.
- Economic sustainability when market systems are capable of generating incomes and livelihoods for people, and ensuring that relevant, differentiated goods and services continue to be available and accessible.
- Social sustainability when structures, behaviours and networks of relations (the fabric of society) are maintained or continue to evolve in ways which bolster social inclusion, equity and well-being.

⁵⁴The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK).

⁵⁵Albu, Mike (2008): p.11

⁵⁶Quoted from Albu, Mike (2008): p.13

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It is very important to note that sustainability in all of these systems is not just about maintaining the status quo without external support. *It is about the long-term integrity of dynamic processes, the resilience of the system to shock and stresses, and the capacity to evolve or innovate in response to an inevitably changing external environment.*

When formulating intervention strategies for value chain development, we therefore also need to ask ourselves to what extent newly created market functions or rules will be able not only to continue without external support, but also to adapt and innovate in the future.

A simple framework for assessing sustainability

Sustainability requires in particular that development organizations with temporary funding think about exit strategies: is the intervention likely to create a new market function? If so, who will perform this function in the future, and who will pay for it? The *who-does-who-pays framework* is a very simple but effective way to assess the sustainability of interventions (see also Chapter 7 on monitoring and evaluation). It has been found that NGOs and development organizations with temporary funding often take over key functions in the market (whether as actual providers and/or as financiers) and are liable to distort or even destroy markets after exit.

Box 5.11: Who-does-who-pays assessment framework

Current situation			Future situation		
Functions	Players		Functions	Players	
	Who does?	Who pays?		Who will do?	Who will pay?
CORE			CORE		
RULES			Rules		
SUPPORTING FUNCTIONS			SUPPORTING FUNCTIONS		

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

3. Achieving impact at scale through strategies that include “pathways to crowding-in” from the outset

- Impact at scale:** If the value chain initiative is conducted by a government or development organization, then the question of impact at scale becomes vital: how can value chain interventions lead to the improvement of as many livelihoods as possible? How can we ensure that the impact does not remain with a pilot project in a limited area but that as many people as possible benefit? Governments, development organizations, the private sector and other groups are working to achieve the UN Millennium Development Goals (MDG), of which the first is to be reached by 2015:

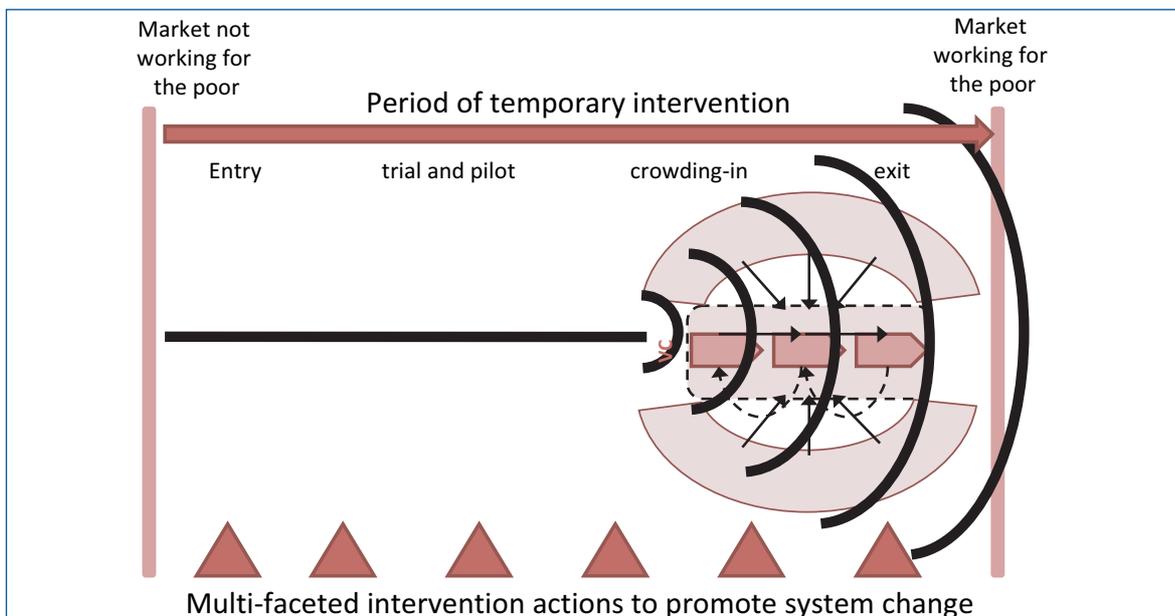
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- Reducing by half the proportion of people living on less than a dollar a day
- Achieving full and productive employment and decent work for all, including women and young people
- Reducing by half the proportion of people who suffer from hunger.

If these goals are to be achieved, significant impact on a large scale is required. Impact at scale should not be confused with project outreach, however – the latter meaning the scaling-up of project activities (and subsequently leading to further dependency). **Impact at scale** refers to sustainable systemic change that leads to an improvement of job and income opportunities and the ability to make informed choices for a large number of people – without necessarily extending the project’s outreach. For this, **value chain analysis needs to identify the right levers and market players that can ensure sufficient scale** (see Section 5.1.2).

Achieving impact at scale is also a matter of opening up “pathways to crowding-in”: by this we mean the central process in and purpose of facilitation, through which interventions catalyze or bring in other parts throughout the market system. Crowding-in can result in enhanced breadth (more transactions in the core of a market), depth (supporting functions) or reach (new areas or markets).⁵⁷ Pathways to crowding-in require us to think about how upgrading strategies will benefit a large number of people rather than just a small target group in a predefined geographic area. This again underlines the importance of institutional/systemic change rather than short-term subsidy-style interventions.

Box 5.12: Pathways to crowding-in



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

⁵⁷The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK).

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The concept of pathways to crowding-in recognizes

- that interventions are limited in terms of time and resources, and that genuinely sustainable Decent Work outcomes can only be achieved if market functions are undertaken by players who are actually part of the market system ;
- the importance of indigenous ownership within the market system. Market systems need to survive and thrive on the basis of the capacity and incentives of market players within the system. Upgrading strategies thus need to be sufficiently innovative to change the status quo but in a way which is consistent with local norms and conditions;
- that large-scale and sustainable action depends on both the breadth of the market (i.e. volume of transactions in the core) and also its depth (i.e. diversity of supporting functions and rules).⁵⁸

Intervention strategies should for these reasons allow other market players who are not part of the initial “pilot phase” to crowd-in at a later stage. Interventions need to be formulated as inclusive strategies from the outset – rather than exclusive with selected market players. This needs to be taken into consideration from the outset when upgrading strategies are being devised.

4. The decision to adopt the participatory process needs to distinguish between means and ends

4 Inclusion: the final point for consideration concerns the degree of inclusion (or participation) of market players. To what extent is it necessary to include all market players in the design and implementation process? To formulate the question more provocatively: is it really necessary for the success of an intervention to include the target group (i.e. the poor, women etc.) in the designing and implementation of interventions, or is it sufficient to cooperate with key market players that possess the necessary leverage to achieve impact at scale? The case example under Section 5.3.1 certainly makes a valid point for the latter.

Experiences of the ILO Enter-Growth project in Sri Lanka with value chain steering groups (see Chapter 6) have shown that achieving systemic change in the market system and at the same time ensuring participation of all market players in the designing and implementation of upgrading strategies often causes delays and can disappoint participants if interventions do not show immediate returns (“quick-wins”) and “tangible results”. ***Systemic change takes time, and participatory processes risk losing the interest and support of participants.***

This is not to say that dialogue mechanisms in general (such as Social Dialogue between government, employers and workers, or value chain steering groups) are bad - on the contrary! Well-functioning communication and coordination functions are often essential, for example, for reaching sector-wide consensus on a joint competitiveness strategy to position the sector on the world market. However, ends should not be confused with means: participation is only a vehicle for achieving a superior goal – and if this goal can be achieved faster and easier through

⁵⁸The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK).

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partnership with selected key market players with sufficient leverage power and outreach a participatory process may only delay implementation.

Whether or not to use a participatory process to design and implement interventions is a context-bound decision that needs to be taken already when value chain upgrading strategies are being formulated.

Box 5.13: Think it through!

Value chain development is essentially about enabling the target group to make informed choices on their own. Remember the value chain grid chart introduced in Chapter 3 – the one that illustrates the various individual market channels within a value chain? Very often development organizations and governments select one particular market channel and take over market functions themselves – e.g. the role of a mediator between buyers and small producers, or they fund the provision of equipment and services directly. A project in Sri Lanka has, for example, paid a large amount of money to one of the biggest export firms in the country to train 120 farmers in tomato, gherkin and pineapple production and provide them with the necessary equipment.

But does this really help small producers? What about the thousands of other small producers that have not had the privilege of being selected for a subsidy scheme? What about the crowding-in strategy? What happens if suddenly all the other farmers also start producing tomatoes, gherkins and pineapples? Will they be less poor then? What about the market for input supply that has been replaced by direct subsidies or the provision of equipment? What about the resilience of the service markets that provide training?

Again, value chain development is not about making choices FOR the target group, but it is about ENABLING informed choices; giving people the liberty to decide for themselves within a market system that responds to their needs and aspirations. This is why systemic/institutional change is so important. We do not want to make people dependent on aid; we want to take them more seriously as active market players. It is not up to us to decide for the poor and disadvantaged which of the market channels in our grid chart they need to access. The value chain grid chart reminds us, however, that there are several options for our target groups to choose from, and with a good value chain upgrading strategy we can facilitate this choice sustainably.

How to find upgrading solutions in actual practice

This all sounds fine, but how do I find value chain upgrading solutions in actual practice? As was mentioned at the beginning of this section, the task of finding value chain upgrading strategies for Decent Work is not a simple one. Experiences with ILO value chain initiatives in Sri Lanka, Madagascar and elsewhere have shown that the process of designing upgrading strategies usually consists of several steps in which the strategies are refined in negotiations between relevant market players and possible participatory processes.

Step 1:

Brainstorming upgrading solutions and formulating initial action plan (team work)

Within the format of an evaluation workshop – having determined systemic constraints and understood the role and incentives of market players ? team members (i.e. core and support teams – see *Chapter 2*) should brainstorm on possible solutions. This should also be based on what they have found in interviews and focus group discussions with market players during the value chain research. A few tips:

- Group similar constraints (and/opportunities) and brainstorm solutions for each category individually.
- The constraints can also be prioritized by using a simple voting system before brainstorming on solutions. When doing so, you should prioritize according to your findings in the value chain research.
- Use cards for this exercise. Distribute cards and ask each member to write down their ideas and suggestions on the cards. Collect these cards and pin them to a board; group the cards and ask your team members to prioritize.
- Discuss the findings of the brainstorming session in order to clarify the proposals made.

The findings of the group brainstorming session can be filled into a simple action plan matrix:⁵⁹

Box 5.14: Action plan matrix

Functions	Systemic constraints	Upgrading proposal	Specific activities	Suggested market player	Expected outcome
Value chain (core)					
Supporting functions					
Rules					

⁵⁹For further details see Herr, Matthias (2008): Local value chain development for decent work – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth, Colombo (Sri Lanka). Available from www.entergrowth.com.

Step 2:

Consultation with market players and target groups; prioritization of interventions

What do relevant market players think of your proposals? What does the target group think? Various participatory approaches can be used to present your findings and proposals and get feedback in order to further refine them. For example:

- a presentation event to which all market players are invited. At this presentation event you could present your findings and proposals and give participants the opportunity to express their views on them, make additional suggestions and come up with ideas on the way forward.
- a value chain steering group could be elected (see *Chapter 6.2*), which would meet to prioritize intervention proposals, provide ideas on specific activities for their implementation and advise and support the team in the implementation.
- Follow-up meetings and workshops with specific market players to discuss their feedback and also follow-up activities to implement proposals.

These points have been implemented in this order in ILO projects in Sri Lanka and Madagascar, which both use a participatory and local approach to value chain development. However, keep in mind the risks of processes with overemphasis on participation mentioned above. For further details see *Herr, Matthias (2008): Local value chain development – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo, Sri Lanka (available from www.enter-growth.com)*.

Step 3:

Refining upgrading solutions and formulating detailed intervention framework (expert driven)

Value chain initiatives that rely entirely on a participatory approach will almost certainly fail to generate upgrading strategies that address underlying systemic causes. Small producers and other target groups usually cannot see beyond their immediate needs due to information asymmetry. This information gap can be bridged, however, by development organizations, governments and private sector organizations which have capacities and have knowledge of value chain and market system development.

From a certain point onwards, it will therefore be necessary to take intervention proposals and revise them in the light of the above-mentioned four criteria. The project manager does not need to do this on his/her own; the core team (see *Chapter 2.1.1*) can work on it together. An intervention framework such as the one below in Box 5.14 is a useful format for bringing interventions into a comprehensive format. This can also be done in consultation with a value chain steering group (see *Chapter 6.2*). The intervention framework will at the same time provide the basis for a monitoring and evaluation system (see *Chapter 7*).

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Box 5.15: Intervention framework

1	2	3	4	5	6	7	8		
Intervention Area (in prioritized order)	Interventions	Activities	Outputs (products, services, tools, etc.)	Time frame for outputs	Responsibilities	Expected outcomes (change in practices, incomes, etc.)	Resource allocation		
							Human	Materials	Financing
Intervention Area 1									

Step 4:

Adaptation during implementation

It is important to bear in mind that interventions are seldom written in stone once they have been put into an intervention framework. Just as market realities frequently change and require market players to adapt, value chain interventions also need to be able to adapt and react flexibly. In the worst case, intervention strategies need to be abandoned rather than forcefully implemented (e.g. where none of the market players is willing to take over a new market function and thus guarantee sustainability).

Successful value chain interventions have shown that strategies need to change with the market system they are trying to form. Project documents for development programmes should therefore allow project managers a degree of flexibility which even allows them to pull out of a sector completely and reorient resources towards other sectors that are more promising for income and employment creation (or in general: Decent Work outcomes).

Possible issues and answers in value chain development

To facilitate thinking about value chain strategies, the following table summarizes some typical issues and possible answers. This should not be seen as an exhaustive list, however, but as stimulation. *Section 5.2* also provides case examples that also fulfil this purpose and hopefully give you an idea of what Value Chain Development for Decent Work can look like.

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Box 5.16: Exercise on typical issues in value chain development and solutions. Complete the table.

Issue	Description	Possible answers
Linkages	Linkages between (informal) and main stream economy	
Formal/informal divide	Formalization of relationships (contracts, sub-contracting, micro franchising)	Micro franchising, sub-contracting agreements,
Voice and participation	Voice and participation (system integrators)	
Communication and learning	Communication – information-sharing along the chain	
Market requirements	Standards, certifications and formal/legal norms	
	Working conditions	
	Fair trade	
	Access to knowledge and information (also media)	
	Business development services Promoting embedded services Social dialogue and other public-private partnership mechanisms	
	Market research, information and development	
	Technology transfer (esp. to rural areas)	
	Value addition	

5.1.4 Defining sustainable outcomes and indicators for monitoring

Strategy design lays the foundation for monitoring and evaluation

Without going into too much detail here, it should be mentioned that the design of value chain upgrading strategies is directly connected to the monitoring and evaluation of Decent Work outcomes. When formulating upgrading strategies, thought must thus be devoted to the following questions:

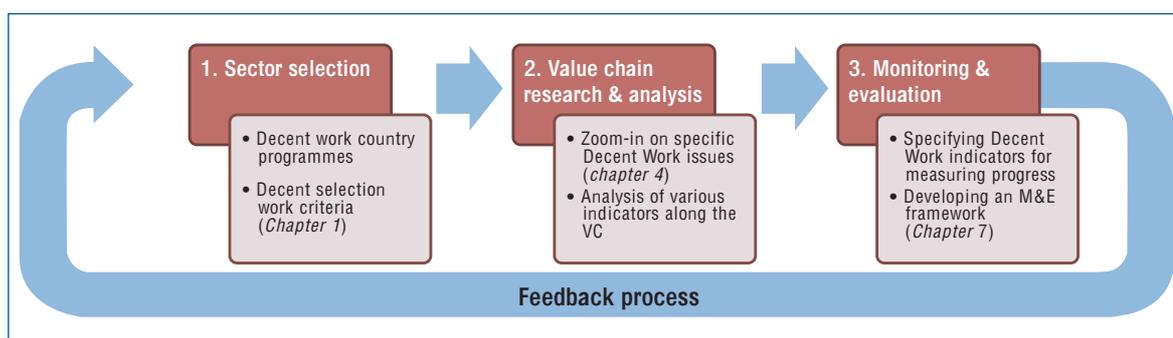
- What are the desired Decent Work outcomes of your value chain upgrading strategy?
- How will interventions lead to value chain development in terms of the five drivers?
- How does the market system need to change to lead to these desired outcomes?
- What kind of indicators are necessary to measure a) short-term outcomes and b) long-term impact?

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- How can you ensure that these indicators are directly attributable to your intervention (causality)?
- How exactly can you measure these indicators?
- Etc.

Chapter 7 provides detailed information on how to select indicators to measure Decent Work outcomes. The chapter also provides guidance on how to monitor and evaluate these indicators.

Box 5.17: Evolution of indicators for value chain development for Decent Work.



5.1.5 Key reading material on the analytical framework

Recommended literature on business services in value chains

The M4P approach had significant influence on developing the ILO's approach to value chain development in Sri Lanka, Madagascar and Vietnam. Elements of the M4P approach were already adapted to the ILO Local-VCD operational guide⁶⁰ in Sri Lanka after a strategic review conducted by Rob Hitchens of The Springfield Centre. The following two documents contain the essence of the M4P approach:

- **DFID/SDC (2008):** A synthesis of the Making Market Work for Poor (M4P) approach, for DFID and SDC, Durham (UK)
- **DFID/SDC (2008):** The M4P operational guide, for DFID and SDC, Durham (UK).

Both documents are available from www.m4pnetwork.org.

⁶⁰Herr, Matthias (2008): Local value chain development for Decent Work – an operational guide, International Labour Organization, Enterprise for Pro-Poor Growth (Enter-Growth), Colombo (Sri Lanka). See www.entergrowth.com

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5.2 Supporting and strengthening embedded services

5.2.1 Case Study: Bringing knowledge and skills to rural vegetable farmers: strengthening embedded services

An example from the Katalyst project in Bangladesh

The following example from Bangladesh is meanwhile widely used as an example of how to develop and utilize embedded services in value chains for bringing knowledge and information to small producers in rural areas. It further shows how development agencies can cooperate with private sector companies (i.e. lead firms) without becoming part of the market system, but ensuring that development goals are still achieved. The text is largely quoted from project sources⁶¹ (shaded in red).

The vegetable sector

The performance of Bangladesh's important vegetable sector is undermined by very low productivity. Early evidence from this 2-year pilot project in Rangpur suggests that improving knowledge and information services embedded within the supply chain offers one means of addressing this problem. Focusing on training retailers of agricultural inputs, the results of the project - instigated by KATALYST in collaboration with Syngenta, an input supplier - hold the promise of improvements in the competitiveness and poverty-reducing benefits of the sector.

The project followed a market development approach

In undertaking the project, KATALYST followed its market development approach to business services characterized by:

- **Identification of the underlying cause:** low levels of knowledge and information in the market (a key cause of poor productivity) can be attributed to weak private sector capacities.
- **A clear strategic focus:** developing the capacities of retailers – with whom farmers interact regularly ? and input suppliers (retailers' main source of information) within the market system was therefore the main project goal
- **Operational flexibility:** within these strategic boundaries, engaging with appropriate players in an entrepreneurial manner that builds ownership with them. Indeed, the idea of retailer training emerged from such discussions.
- **Scaling up with other players:** in order to promote change throughout the market system, encouraging other input providers to invest in knowledge and information.

Cooperation with a lead supply company

Under KATALYST's agreement with Syngenta, costs were shared for the development and delivery of a 3-day residential training programme for retailers on a range of generic and product-specific issues, reflecting both wider development as well as narrow commercial goals. In addition, KATALYST made significant technical inputs regarding training content and process. However, the organization and delivery of training – the main part of the project – was managed directly by Syngenta.

⁶¹See the KATALYST project website: www.kaatalystbd.com

480 retailers, accounting for 20% of all Rangpur retailers and serving approximately 200,000-350,000 farmers, were trained over the 2-year period. Taking account of both direct financial costs and staff time, overall cost per (retailer) trainee was \$ 90-100, the effective Syngenta: KATALYST share of costs being estimated at around 60:40.

The benefits of cooperation

Early results from the project show positive impacts on each of the market players:

- **Farmers'** perception of their experience with retailers' service has improved.
- **Retailers** have greater self-confidence, place more emphasis on advice and information, have better customer relations and, in most cases, increased sales.
- **Syngenta's** sales have grown 3-4 times faster than in other regions. The strategic importance of knowledge and information in the supply-chain has been re-emphasized. Syngenta is planning to invest in retailer training throughout the country.
- **Other input suppliers**, who have often lost out competitively in the short term, are now showing positive signs of interest in retailer training. This is the critical issue – “crowding in” - in determining wider market change.

The case highlights the importance of knowledge and information in improving agricultural performance? and the opportunity this presents – and poses challenges for agencies as to how to intervene effectively to stimulate more effective and large-scale market development.

The project started by trying to identify the most relevant information sources for farmers

Why did KATALYST decide to work with supply industries?

A number of potential sources of information related to productivity became evident from a combination of consumer research surveys, interviews and document analysis:

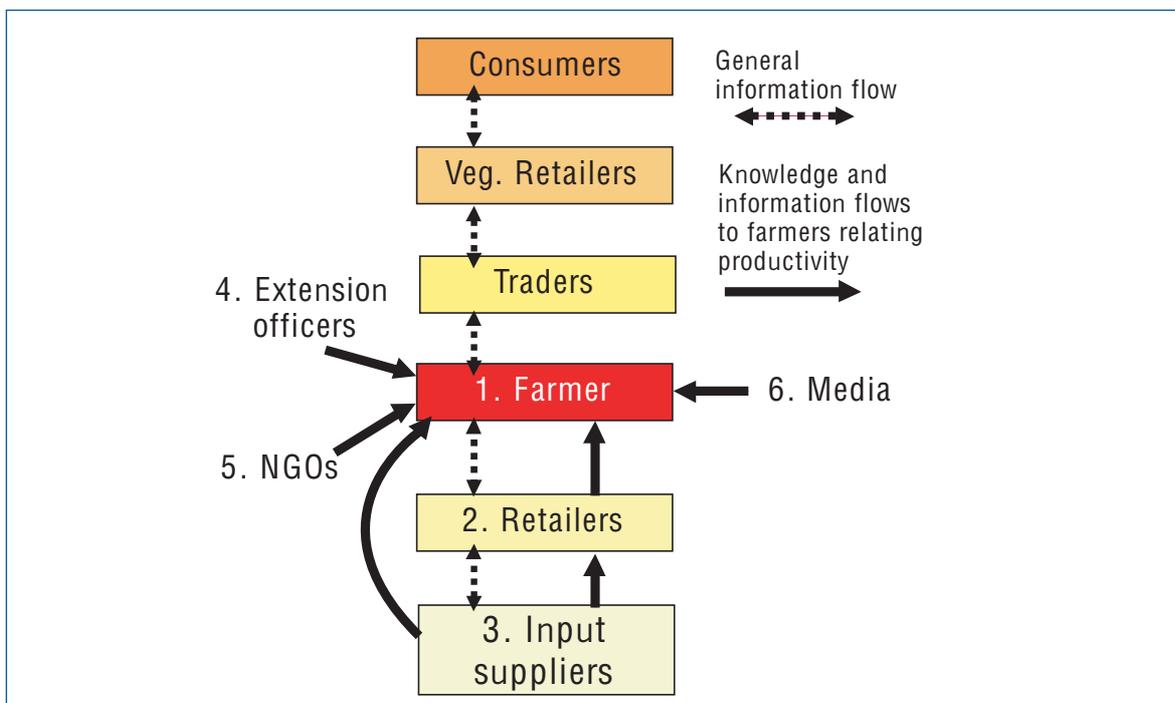
1. **Farmers:** farmers like to go to other farmers for information. Over one-third (figure 3) say that this is their preferred source and certainly within every farming community, there are respected “lead” farmers available locally, who are perceived to be practical. Advice offered here is in the context of wider social relationships and structures. However, progressive and influential farmers still need to be able to access new information (on new approaches, products, etc), raising the question of where this can be sourced.
2. **Retailers:** along with farmers, the main and most regularly used source of information is retailers. Retailers are, typically, independent owner-managed small businesses, located in simple shop premises in rural villages and towns. Typically, they sell a combination of fertilizers, pesticides and seeds (and often other non-agricultural household items as well) and information is offered as a service *embedded* within these commercial transactions as a means of adding value to customer relationships. They are likely to stock the products of a number of input suppliers, although sometimes favouring one supplier over another.

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Some are sole stockists for one company. Retailers have a number of features as sources of knowledge and information:

- They are used widely and regularly. Like farmers, their closeness to and frequent interaction with farmers offers a real opportunity for influence.
- 60% of farmers going to a retailer do so in search of a solution to a farming problem rather than to buy a specific product (or brand)
- yet, despite this, most retailers undervalue the importance of the embedded information service they provide to farmers. They are often reactive in their approach to customers, don't know how to deal with them positively and lack technical knowledge. More commonly they see themselves as sellers of products rather than providers of solutions.
- and they have a "mixed" record and image with farmers. While survey data indicates that a reasonable proportion of farmers regard retailer advice favourably, tales of retailer "cheating", product adulteration and wrong advice are widespread in farming communities.

Reliance on input suppliers for information: input suppliers give retailers a variety of promotional material on their product, and retailers' opinions are formed to a considerable extent by the that material and by their experience with those products. There is certainly no independent "neutral" view to guide them.



3. **Input supply companies:** these fall into three main categories – seed, fertilizer and pesticide suppliers (with some overlap between them). The seed supply sector is the most disparate sector, where a vast array of informal suppliers, NGOs and large emerging parastatal corporate ventures co-exist. Pesticide suppliers, on the other hand, totalling around 8-10 main players, are relatively large-scale firms, both Bangladeshi and multinational, with the latter predominating. While input suppliers do occasionally organize product demonstrations for farmers direct, their route to their final consumers is mainly through retailers.
4. **Government extension officers:** the role of the Department of Agricultural Extension (DAE) is to advise farmers direct and to organize fairs to bring different actors together. In Rangpur there are believed to be around 200-300 *block supervisors* (i.e. officers with responsibility for a particular “block” of land). Although most farmers are aware of the government extension service and respect block supervisors’ technical knowledge, few are regular users of their services. The main beneficiaries tend to be larger farmers. This level of weak outreach and impact comes after a long history of substantial donor support. Many donors have concluded that the DAE cannot be an effective deliverer of knowledge and information due to its ingrained incentives and culture.
5. **NGOs:** like many parts of Bangladesh, there is an extensive NGO presence in rural Rangpur. They work with groups of low-income “beneficiaries/clients” and provide a range of advisory and more tangible (seed) support. Their coverage is limited and they depend on further external funding for their continuance.
6. **Media:** beyond these sources, farmers may also gather relevant information from the wider media. However, newspapers are not widely read, and while they contain relevant advertisements there are few user-friendly articles on vegetable production. Similarly, radio and television coverage is poor and programme content is of limited relevance.

Further reading on the case

Gibson, Alan (2005): Bringing knowledge to vegetable farmers: improving embedded information in the distribution system, The Springfield Centre, Durham (UK). Available from www.katalystbd.com

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5.2.2 Business membership organizations as “system integrators”

Business membership organizations address key constraints in value chains

The term ‘business membership organization’ is used here to describe organizations such as cooperatives or small producer associations. It refers in particular to sector-specific organizations such as associations of dairy farmers. Business membership organizations address key constraints often found in value chains (i.e. transactions between businesses) and the policy and regulatory environment due to lack of organization:

- **Bargaining power:** low prices for products – high prices for inputs; individual SMEs find it hard to bargain for better deals, as suppliers and buyers face high delivery/collection costs.
- **Mistrust and unequal relationships** between buyers and sellers either because there are no communication and coordination channels or because such channels are not working well.
- **Dependency on intermediaries:** buyers and suppliers rely on intermediaries in order to achieve the necessary bulk and to dilute risks.
- **Information gaps** (concerning quality requirements, new technology, etc.) resulting from the lack of communication channels enabling effective flow of information along the value chain. SMEs thus lack essential market information.
- **Lack of recognition:** SMEs in particular have no means of expressing their interests and concerns to policy-makers and authorities.

It is important for all players in a value chain to understand that these constraints affect the overall performance and competitiveness of a sector. One weak link in the chain often results in other levels – including large companies – facing severe problems such as supply shortage, lack of quality, lost markets for products and services, etc. Strong business membership organizations are therefore a means of overcoming these constraints.

Business membership organizations as system integrators in value chains

Business membership organizations address the common interests of their members that go beyond individual competition between member businesses. Taking our market system model from Box 5.5 above, business membership organizations can be seen to address two dimensions of the market system:

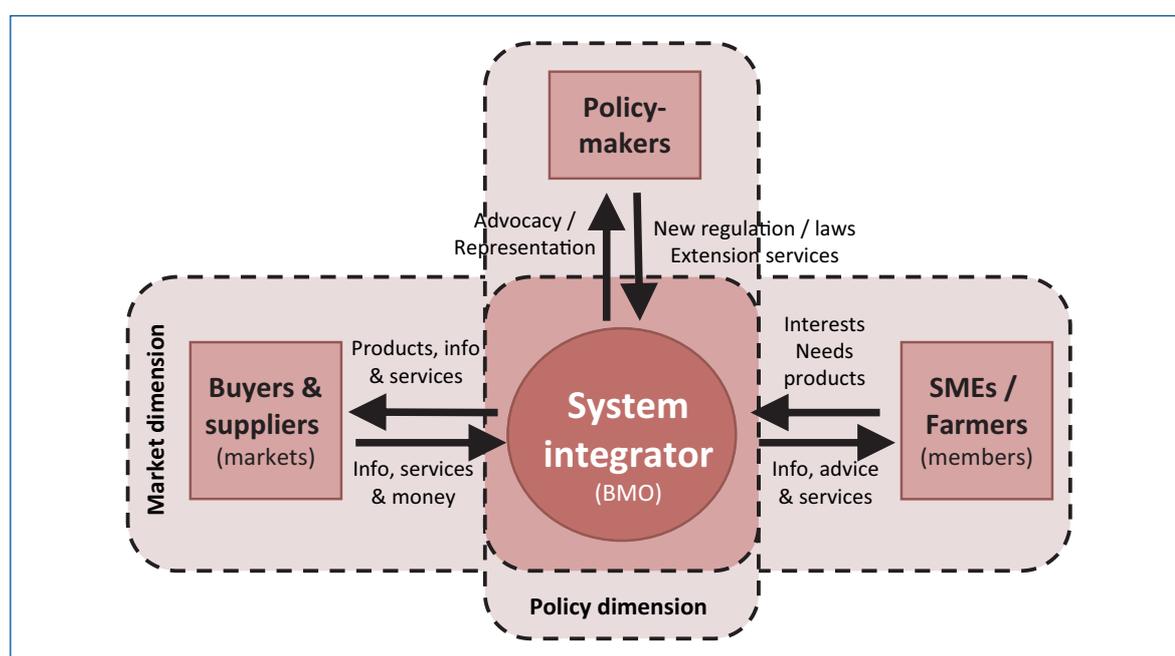
1. **Core transactions in the value chain (market dimension):** in terms of the five drivers of value chain development, business membership organizations can be instrumental in increasing the efficiency of operations between businesses along the chain, communicating strategies and information relevant to product quality and market requirements, etc. Most importantly, they can achieve economies of scale through collective bargaining – thus ensuring a better deal for members as well as making markets accessible to suppliers and buyers. Business membership organizations can therefore act as linkage points to buyers and suppliers in the chain.

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2. **Communication and interaction with relevant supporting organizations (policy dimension):** rules and regulations, institutions such as training and standards and other supporting functions in the market system are often controlled by formal public and private organizations. Business membership organizations therefore give SMEs a chance to participate in decision-making processes that affect the particular sector. They also help to enforce new regulations, etc. – i.e. translating information from the policy level to members.

These two dimensions can be illustrated as follows:

Box 5.18: Business membership organizations as “system integrators”



Supporting functions that can be performed by business membership organizations

Some of the market functions that business membership organizations can perform:

- Setting formal/informal rules and regulations for quality and business conduct of members
- Representation and lobbying to decision-makers, development organizations and other (larger) market players
- Collective bargaining with suppliers and buyers
- Effective management of joint resources (e.g. internal collection and quality control system, jointly used machines and equipment, etc.)
- Dissemination of information on market requirements, demand conditions, new products and technology, laws and standards, etc.
- Additional services to members (e.g. training, loans, information events, exhibitions, joint marketing, branding etc.).

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Further reading on system integrators and business membership organizations

Lamotte, David and Herr, Matthias (2005): Challenges and opportunities for giving voice and participation to entrepreneurs in business environment reforms, International Labour Office, EMP/ENTERPRISE Department, Geneva (Switzerland).

5.2.3 Implementing International Labour Standards along the value chain

International Labour Standards are gaining increasing importance in markets

International Labour Standards are gaining increasing importance as consumers, media, governments, and rights groups are demanding higher social and environmental standards along the supply and retail chains of multinational companies. The costs associated with damage to image through negative campaigning that exposes violations of labour standards are putting multinational companies under enormous pressure to react. Corporate Social Responsibility strategies have been implemented in most companies in response.

However, given the complexity of value chain systems, lead firms often find it difficult to control supply and retail chains – especially where many anonymous small enterprises are involved. Product traceability is essential not only for controlling product quality, but also for ensuring that CSR standards (or codes of conduct) are implemented along the chain. The following example of the *Ethical Tea Partnership* shows that large private sector initiatives are increasingly investing resources in upgrading labour standards along their supply (or marketing) chains:⁶²

ETP is a private sector non-commercial initiative

The Ethical Tea Partnership (ETP) is a non-commercial and non-competitive alliance of tea packing companies, working to monitor conditions of tea production around the world and to seek and encourage improvement where needed. ETP is entirely funded by its members, who together invest over US\$ 3.2 million a year in the organization and its work. The 22 members of the ETP range from large multinationals to small privately owned companies. Over 50 brands, fully packed and blended by our members, are included in this initiative.

⁶²Largely quoted from www.ethicalteapartnership.org.

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Box 5.19: Members of the Ethical Tea Partnership

Accord Tea Services Ltd, Matthew Algie & Co Ltd, Bell Tea Company, Bettys & Taylors of Harrogate Ltd., DJ Miles & Co Ltd, Drie Mollen, Finlay Beverages Limited, Imporient UK Ltd, Jing Tea, Keith Spicer Ltd, Metropolitan Tea Co Ltd, The Nambarrie Tea Company Limited, Newby Teas, Republic of Tea, Sara Lee, Tazo Tea . TEAZ Tea Boutique (also trading as Herbal Republic), The Tetley Group, R Twining & Company Ltd, Unilever (Europe), Williamson Fine Teas Ltd, The Windmill Tea Co Ltd.

ILO Labour standards are at the heart of ETP's codes of conduct

Many tea producers already recognize that social responsibility is good business practice and are actively committed to ensure the right standard of living and working life on their estates. However, challenges remain. The long-term aim is to demonstrate that everything the tea ETP members buy is produced in a socially responsible way. Working in close partnership with tea producers ensures that problems can be targeted and issues resolved.

At the core of ETP is the independent monitoring carried out by a global network of independent monitors who check living and working standards on tea estates (in collaboration with PricewaterhouseCoopers). They look at six key areas of estate life: Employment (including minimum age and wage levels), Education, Maternity, Health & Safety, Housing and some areas of Basic Rights. ETP has recently revised its monitoring system and developed a new Standard which provides robust provisions in all key areas of labour practices in the tea industry and is based on the Ethical Trading Initiative (ETI) Base Code, which is itself drawn from ILO Conventions. Monitoring to the new standard will shortly be rolled out in all the countries in which ETP is active.

Codes of conduct are implemented through an independent monitoring system

ETP monitoring is free to all estates which take part. ETP is unique in this respect as no other initiative offers free monitoring to producers.

ETP is also developing a network of Regional Managers who are able to represent the in-country initiative and manage and coordinate relationships with producers and other key stakeholders locally. They now have Regional Managers in East Africa, Sri Lanka and the Far East and plan to recruit additional representatives in other key tea producing regions. The ETP also aims to champion the whole issue of the ethical trading of tea with tea producers, consumers and all of its other stakeholders, through a real dialogue and open exchange of ideas.

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Codes of conduct affect all levels in the supply chain – including smallholder farmers

The tea value chain

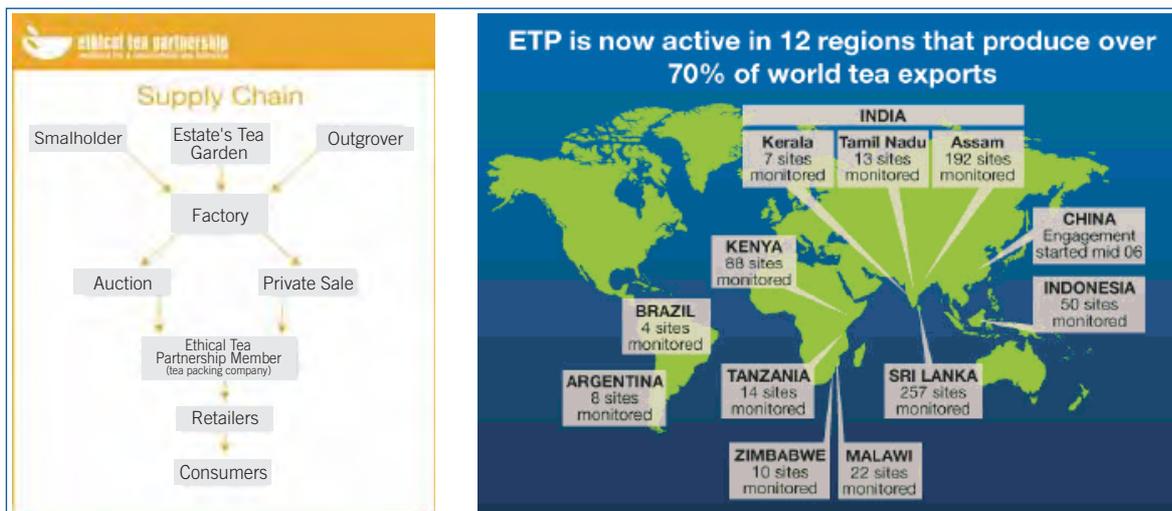
It starts with the grower. Tea may be grown by:

- **a tea estate**, which will have a garden or a number of gardens. The estate will have a factory unit for processing the raw leaf and putting it into sacks or chests. ETP currently monitors 1,200 estates, which supply their members in seven tea producing countries. Tea produced on an estate is given a 'selling mark', which identifies the estate and country where the tea was produced. Sacks or chests of tea that leave the estate will carry the selling mark. When ETP monitors an estate they check correspondence between the estate and the selling marks it produces.
- **an outgrower**, who will usually have more land available - perhaps 10 hectares or more - and a regular arrangement to supply a factory unit. Outgrowers usually employ people outside the family circle to pick the tea. ETP plans to eventually include outgrowers in their monitoring, but they are not included at the present time.
- **a smallholder**, often a family, who will usually have a small amount of land dedicated to growing produce, including tea. Smallholders supply their tea to a factory. They are not currently part of the Ethical Tea Partnership scheme. ETP has been working with other members of the Ethical Trading Initiative to understand the issues and help devise guidelines. These guidelines have now been published and ETP is looking at how they can develop them into a practical tool.

This tea is then sold to the tea packing company, either direct, through an auction, or via an agent or broker. The tea packing company produces brands of tea that are sold to the retailer and to the consumer.

Box 5.20: Tea value chain

ETP member countries



Source: www.ethicalteapartnership.org

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First signs of improvement: Improvement Actions on Tea Estates

As a result of ETP's monitoring and tracking of remedial work, the organization logged over 400 improvement actions in 2006.

Over 270 of these were in Health & Safety, for example, improvements in general workplace conditions (including dust removal, lighting); fire safety; protective clothing; first aid availability and provision; hygiene (including drinking water, latrines, refuse disposal); worker accommodation (including painting, electricity, toilets) and in the provision of crèches, including milk/food provisions, toys, hammocks, etc.

The balance covered employment issues such as improvements in record-keeping; provision of medical examinations; ensuring that hours were kept within legal limits; ensuring that overtime was correctly calculated and paid in a timely manner; calculation and payment of maternity benefits, housing allowances and sick leave.

In a number of instances information on workers' rights is now being prominently displayed on estates and plantations and correct disciplinary/grievance procedures are now in place.

Further reading

- **Ethical Trading Initiative:** www.ethicaltrade.org
- **The Ethical Tea Partnership:** www.ethicalteapartnership.org
- **Ivanka Mamic:** "Implementing Codes of Conduct: How Business Manage Social Performance in Global Supply Chains", International Labour Office and Greenleaf Publishing UK, 2004.

5.2.4 Market requirements and quality standards: preconditions for market access

Compliance with market requirements and demand conditions is essential for job and income creation

As markets become more globally interconnected, market requirements and demand conditions play an increasingly important role and small enterprises are also having to adopt them as part of global value chains. Failure to comply with market requirements and demand conditions can result in loss of markets to competitors, resulting in turn in fewer employment and income opportunities.

By **market requirements**, we mean the formal and informal rules set by the industry or public agencies. These could be specific health laws and regulations for the food industry (e.g. HACCP), formal quality standards (such as ISO norms, GAP, etc.), customer requirements in terms of quantity and product specifications, normed designs, copyrights, etc.

By demand conditions we refer to changing patterns in consumer demand. In the fashion industry, for example, these would be seasonal changes in designs but also changes in taste. They could also be social and environmental norms (e.g. fair trade and organic food) required by end consumers.

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If SMEs in emerging markets fail to meet market requirements and demand conditions, their access to high value markets will remain restricted, and opportunities for creating jobs and income will be lost. It is therefore imperative that information on market requirements and demand conditions should also reach the smallest businesses in the value chain. The following example from the toy industry in China illustrates the huge economic costs for the overall value chain caused by non-compliance with market requirements on the part of several medium-sized and anonymous suppliers.

Box 5.21: Why quality standards matter for employment and income creation – From an article in 'The Economist': China's toxic toymakers, Aug 16th 2007

Until a brief notice appeared in China's state-run *People's Daily* on August 14th announcing that Zhang Shuhong had hanged himself, almost no one had ever heard of him. *The Economist* could not find a picture of him. Even in Foshan, a manufacturing centre in southern China, where he owned part of a factory that produced dolls for Mattel, a big American toy-maker, he was an obscure figure.

That is not unusual. There are legions of equally faceless sub-contractors, who are collectively responsible for much of the astonishing growth in Chinese exports. But when Mattel announced a recall of the flawed toys Mr Zhang had made, and especially after he took his own life in response, he became one of China's most famous businessmen—and the embodiment of all the world's misgivings about what comes out of its factories.

The same day that he died, Mattel recalled 436,000 cars daubed with lead-based paint and more than 18m toys containing small magnets which could come loose and be swallowed by children, with dire medical consequences. The recall was Mattel's second of the month. Earlier, the company's Fisher-Price unit had found lead paint on its toys, at least some of which came from Mr Zhang's factory. All of the flawed items were made in China, where 65% of Mattel's products are sourced. The first recall will cost the firm about \$30m, and the second might prove more expensive still.

The consequences might have been even worse, were it not for the fact that Mattel is hardly the only company to have been caught selling sub-standard Chinese goods of late. Pet food, lorry tyres and toothpaste have all suffered recent product recalls. Nokia has just warned that some of its mobile-phone batteries made in China are prone to overheating, although the factory at fault belonged to Japan's Matsushita.

Some of America's more populist politicians are taking this list as proof that anonymous Chinese sub-contractors are not to be trusted, that America needs much more elaborate safeguards against tainted goods and that firms that had outsourced manufacturing to faraway lands would have done better to keep their factories closer to home. Charles Schumer, a tub-thumping senator from New York, has called for the creation of an "import tsar" to police foreign goods.

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No doubt many importers will examine their supply chains more carefully, if only for fear that they will be sued by customers who have bought poisonous furniture or explosive mobile telephones, and shunned by others who hear about such fiascos. This sudden scrutiny will probably bring other scandals to light. Mr Zhang's problems, after all, appear to have stemmed from the contaminated paint he bought from another, as yet unidentified, local industrialist. On the assumption that Mr Zhang was not the local industrialist's only customer, there must be other firms that have not yet disclosed their own shortcomings, or are not yet aware of them.

There are several ironies in this. One is that in China it is often said that sub-contractors making electronics or trainers or toys are not the worst violators when it comes to safety and labour standards. Their products are typically bought by big firms like Mattel, and the order is large enough for the purchaser to set standards and carry out regular inspections. Smaller foreign firms ordering smaller lots, in luxury goods for example, have a far weaker negotiating position.

Monitoring contract manufacturers from abroad is not easy. Visits to factories are hard to arrange, are often cancelled, and, when they do occur, are sometimes elaborately stage-managed. Reporters are particularly unwelcome, but even customers do not always know what is going on. Mattel, for example, had done business with Mr Zhang for 15 years.

The other irony is that, broadly speaking, quality is improving (something that worries the Japanese). The Chinese authorities are aware of and embarrassed by the recent string of scare stories, and are anxious to revive China's faltering reputation. They have started a high-profile campaign to raise standards and punish slapdash manufacturers.

Getting to know you

What Chinese manufacturing lacks is not so much quality control as accountability. Foreign firms feel obliged to use contractors like Mr Zhang to cope with capricious and corrupt local officials, and the arbitrary justice they mete out. Yet firms like Mr Zhang's are inscrutable and transient, with no brand or reputation to speak of. When Japan was industrializing, ambitious companies did some contract manufacturing, but they also worked hard to build their own brands, as Matsushita did with Panasonic. In South Korea Samsung has prospered by keeping both production and marketing in house. Yet in China, firms like Mr Zhang's eschew their own brands and keep a low profile in order to win contracts from several competing foreign firms.

Until now, this anonymous arrangement suited both the contractors and their clients. It would undermine the brands that Adidas, Puma and Nike have spent so much to promote if their customers knew that a Taiwanese contractor called Yue Yuen produced shoes for all of them in China. Likewise, Hewlett Packard, Dell and Apple do not advertise that they all make use of a firm called Hon Hai. Conversely, it is only by keeping the lowest of low profiles that the likes of Yue Yuen and Hon Hai can sell to several competitors.

But this whole system might founder on the question of quality control. To distinguish themselves from their dodgier rivals, Chinese contractors will have to become better known. In that sense, the suicide of a faceless figure like Mr Zhang, and the furore it has prompted, might prove the death-knell of all China's anonymous industrialists.

Source: *The Economist* (2007): *China's toxic toymakers*, August 16.

5.3 Documentation and presentation

Publications of value chain research and analysis need to consider the purpose

There is one rule that the documentation of value chain research and analysis should always follow, and that is:

Form follows function!

Whether you publish your findings in an extensive research paper, summarize them in illustrative booklets or brochures, make flashy PowerPoint presentations or just fill out data sheets for internal use depends on the purpose of the value chain initiative. Often short, easy-to-read and informative publications have proved to be more effective in reaching a wide target audience than long research papers (i.e. value chain analysis and research as described in this guide is not done out of academic interest!). However, findings do not necessarily need to be published: value chain research and analysis can also be used as a means of making strategic planning decisions within a project.

Some questions to ask yourself before publishing

Before you plan to publish your findings, think about the following questions:

- What is the purpose of the value chain analysis?
- Does this purpose require you to publish your findings?
- If so, who would be the intended target audience?
- What further action do you expect to result from the publication?
- Which form of publication would best suit your purpose?

The following box provides different examples of publications on value chain initiatives:

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

Extensive value chain studies for technical experts:

- **Hultquist, Ingrid (2007):** Binh Phuoc – Cashew value chain, International Labour Organization, PRISED project Hanoi, Vietnam.
- **Ewasechko, Ann (2005):** Upgrading the Central Java Wood Furniture Industry: a value chain approach, International Labour Organization, Manila.

Somewhere in between:

- **Sinkala, Thomson and Chitembo, Andrew (2007):** An analysis of the global jatropha industry and a case study of the local value chain in Zambia, International Labour Organization, BDS Zambia project, Lusaka.
- **Pandey, G.S., Mukumbuta, Likando and Banda, Gulam (2007):** Analysis of dairy subsector industry and value chain in Zambia, International Labour Organization, BDS Zambia project, Lusaka.

Short and easy-to-read publications for broader audience (result of participatory approach):

- **ILO (2008):** Developing the packaging sector in North-Western and North Central Provinces – value chain development for more competitiveness and decent work, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka).
- **ILO (2008):** Developing the floriculture sector in North-Western and North-Central Provinces – value chain development for more competitiveness and decent work, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka).
- **ILO (2008):** Developing the dairy sector in North-Western and North-Central Provinces – value chain development for more competitiveness and decent work, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka).
- **ILO (2008):** Developing the coir sector in North-Western Province – value chain development for more competitiveness and decent work, International Labour Organization, Enterprise for Pro-Poor Growth project, Colombo (Sri Lanka).

Value chain initiatives do not always have to result in publications, but rather produce a number of presentations. For example

- ILO CEPP project in Madagascar
- ILO in Ethiopia: Women weavers Ethiopia

5.4 Further reading on value chain analysis and upgrading strategies for value chain development

Case examples:

- ILO Enter-Growth: Coir, floriculture, dairy and packaging
- ILO BDS Zambia: Dairy and Jatropha
- ILO Madagascar: Embroidery
- ILO Ethiopia: Women weavers
- ILO India: Moradabad brassware sector
- Katalyst (Swiss Contact): Vegetable sector, pond fish and maize

Useful resources on strategy formulation

- **Albu, Mike (2008):** Making markets work for poor – International development cooperation: seeking common principles that underpin a coherent approach to poverty reduction, for the Swiss Agency for Development and Cooperation (SDC), The Springfield Centre, Durham (UK).
- **Albu, Mike (2008):** Making markets work for poor – Comparing M4P and SLA frameworks: complementarities, divergences and synergies, for the Swiss Agency for Development and Cooperation (SDC), The Springfield Centre, Durham (UK).
- **Albu, Mike and Schneider (2008):** Making markets work for poor – Comparing M4P and SLA frameworks: case studies, for the Swiss Agency for Development and Cooperation (SDC), The Springfield Centre, Durham (UK).

All three papers are available from www.springfieldcentre.com.

- **Schmitz, Hubert (2005):** Value chain analysis for policy-makers and practitioners, International Labour Office, Geneva.
- **Springer-Heinze, Andreas (2007):** Value Links Manual – The methodology of value chain promotion, German Technical Cooperation Agency (GTZ), first edition, Eschborn (Germany). Available from www.value-links.org – see especially the following modules:
 - **Module 3:** Determining the value chain upgrading strategy
 - **Module 4:** Facilitating the chain development process
 - **Module 5:** Strengthening private business linkages
 - **Module 6:** Engaging in public-private partnership
 - **Module 7:** Strengthening services in value chains
 - **Module 8:** Financing value chains
 - **Module 9:** Introducing social, ecological and product quality standards,
 - **Module 10:** Improving the business environment of value chains

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

- **DFID/SDC (2008):** Three documents on the “Making Markets Work for the Poor” (M4P) approach, available from www.m4pnetwork.org:
- The M4P operational guide
- A synthesis of the M4P approach
- Perspectives on the M4P approach, particularly the following chapters are of interest:
 - Labour market
 - Political markets
 - Land markets
 - Economic markets

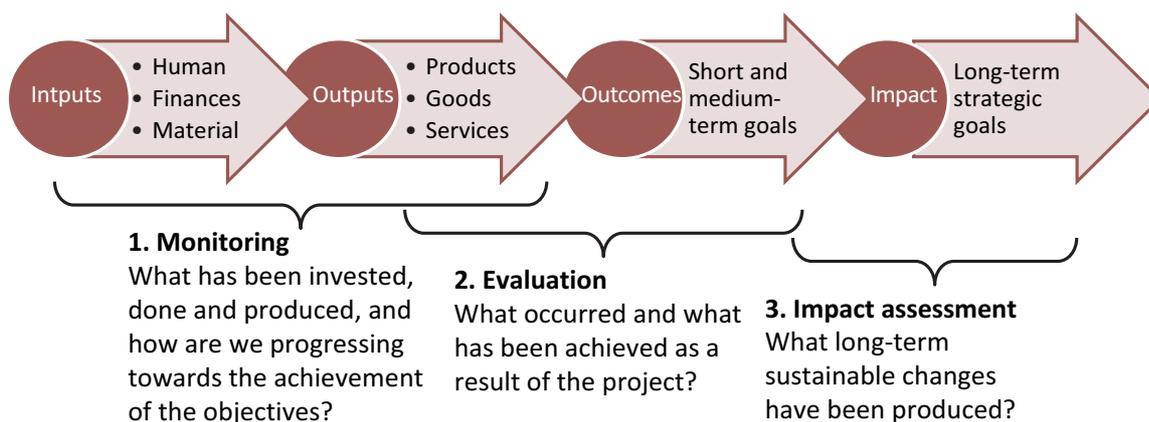
Chapter

6

Monitoring & evaluation for value chain development

Summary sheet: monitoring and evaluation

Process for monitoring and evaluation:



Source: ILOEVAL Unit (2005)

Summary:

Monitoring and Evaluation are interdependent and the distinction is primarily of analytical depth. *Monitoring* is the continuous follow-up of activities and results in relation to pre-set targets and objectives. The levels of monitoring are inputs, outputs, outcomes and impacts.

An *Evaluation* is a careful and systematic retrospective assessment of the design, implementation, and results of private or public sector project⁶³ activities. For example, a private sector company may be seeking to improve its systems and processes so that efficiency is enhanced through the establishment of project management⁶⁴ as a core competency throughout the business and projects can be terminated, owned or transferred to another party. The principal evaluation criteria by which the merit or worth of the project is assessed include effectiveness, impact, relevance, sustainability and efficiency.⁶⁵

The aim of development assistance is not just to help solve immediate development problems of a pressing kind but to strengthen the capacity of developing countries to deal with such problems using their own resources. And as such, one key aspect of evaluation, particularly for donor interventions, is sustainability – the continuation or longevity of benefits from a development intervention after cessation of development assistance⁶⁶.

⁶³A project is “any series of activities and tasks that: have a specific objective to be completed within certain specifications, have start and end dates, have funding limits (if applicable) and consume resources (money, people, equipment).” (Kerzner, 1998).

⁶⁴Project management is the application of knowledge, skills, tools and techniques to project activities in order to meet stakeholders needs and expectations from a project. It is the process by which projects are defined, planned, monitored, controlled and delivered so that agreed benefits are realized.” (APM, 2006): APMBOK.

⁶⁵See ILOEVAL Guidelines.

⁶⁶See Sida Evaluation Manual: Looking back Moving forward. www.sida.se/publications

In this respect, the definition of sustainability is broadened from financial, management and organizational factors and exit strategy to include the extent to which the project reflects partner country priorities, partner country ownership and participation, institutional and cultural factors, technological and environmental factors. These are ring-fencing parameters for Decent Work Country Programmes, which are the focus of this guide.

The basis for monitoring and evaluation is already set in the very beginning of a value chain initiative by defining selection criteria and setting objectives (strategic framework). This impacts the choice of indicators selected for monitoring and evaluation. In some countries the monitoring and evaluation indicators are often better derived from those already set for national development frameworks such as private sector development programmes. In other words, indicators should be project-specific⁶⁷ but the project contribution or impact must be clearly linked to national development frameworks such as Decent Work Country Programmes.

This section discusses monitoring at project management level understood here as a management tool that enables project managers to track activities for the implementation of a value chain development strategy and see whether development targets are achieved. The guide discusses several aspects of evaluation, arguing that both monitoring and evaluation should also feed into a learning process that enables the project to further deepen its understanding of the value chain system and refine its strategy with a view to addressing systemic constraints.

Outcomes:

- An intervention framework outlining intervention areas, activities, expected outcomes, responsibilities, etc.
- Selection of indicators for monitoring the progress of interventions
- A format for tracking activities and immediate outputs
- A format for evaluating outcomes with a view to achieving development targets

⁶⁷See also www.itcilo.org/marketdev

Monitoring & evaluation for value chain development

Definition of a monitoring system

Monitoring is concerned about measuring the progress of development against targets. A good monitoring system allows the manager to see whether the project is still on track, or whether correcting measures are needed. It is a management tool, and generally a function that is part of any development intervention, whether it targets value chain development for Decent Work or any other development objectives. However, the choice of indicators to be monitored allows the project manager to look at some more specific factors related to value chain development. We could therefore say that the framework is generic but the contents are specific.

A monitoring system looks at progress in four areas:⁶⁸

Inputs

1. **Inputs:** the financial, human and material resources used for development intervention (i.e. the resources needed in order to achieve the outputs).

Outputs

2. **Outputs:** the products, goods and services which result from a development intervention. Outputs are services or products which the project is responsible for delivering. Examples are manuals, publications, training programmes, exhibitions, public-private forums, etc.

Outcomes

3. **Outcomes:** the likely or achieved short and medium-term effects of an intervention's outputs. Examples are increased awareness for income and employment opportunities in a particular business sector, provision of BDS by providers previously trained in a TOT programme, revision of regulations that pose an obstacle to SMEs, banks increasingly providing loans to small producers due to better awareness of needs, etc. Outcomes serve the achievement of long-term development objectives (impact).

Impact

4. **Impact:** although not only part of a monitoring, impact looks at the achievement of overall long-term and strategic development objectives, such as poverty alleviation, income and employment creation, increased competitiveness of a sector with a view to maintaining and increasing the number of jobs, gender equity at work, better working conditions, eradication of child and forced labour, etc. There are four types of impact – expected positive, unexpected positive, expected negative and unexpected negative impact. Negative unintended or perverse effects include, for example, substitution and displacement.

⁶⁸ILO (2005): A Handbook for Planning Impact Assessment (draft version), Job Creation and Enterprise Department, Geneva.

Monitoring & evaluation for value chain development

Figure 6.1: A more extensive list of contracts defining the relationship between monitoring and evaluation (both of which process and impact evaluation)

Monitoring	Evaluation
1. Continuous or periodic	Episodic, ad hoc
2. Project or programme objectives accepted as defined	Objectives assessed in relation to higher-level goals or national development frameworks
3. Pre-defined indicators of progress assumed to be appropriate	Validity and relevance of pre-defined indicators open to question
4. Tracks progress against a small number of pre-defined indicators	Deals with a wide range of issues Identifies both intended and unintended results
5. Focuses on intended results	
6. Quantitative methods normally based on baseline studies	Quantitative and qualitative methods
7. Data routinely collected	Multiple sources of data
8. Does not answer casual questions	Provides answers to casual questions
9. Usually an internal management function	Often done by external evaluators and often initiated by external agents
10. Based on good practice for example UNEG and ILOEVAL	Based on good practice and quality standards such as OECD, 3ie (International Initiative for Impact Evaluation www.3ieimpact.org)

Adapted from Sida Evaluation Manual: Looking back, moving forward. www.sida.se/publications

Indicators / proxies for measuring outcomes

Outputs, outcome and objectives are measured through **indicators (or proxies)**. These are qualitative and quantitative factors or variables that provide a simple and reliable means of measuring achievement and reflecting the changes connected with an intervention. The choice of indicators depends essentially on the overall development objectives of the project.

On the basis of the above definitions, a good monitoring and evaluation (M&E) system can be divided into three components:⁶⁹

Developing a three-step monitoring and evaluation system

- 1. Appraisal:** the assessment of a project when it is in the planning stage, before implementation (i.e. it is *prospective*).
- 2. Monitoring:** the routine collection and analysis of information to enable the assessment of a project's progress during the course of implementation (i.e. it is *current*).
- 3. Evaluation:** the assessment of a project's performance conducted after a period of implementation (i.e. it is *retrospective*).

⁶⁹The Springfield Centre: Making Markets Work, Durham, 2007.

Monitoring & evaluation for value chain development

Box 6.1: A tool for monitoring and evaluation

Monitoring and evaluation template:

the ILO BDS project in Zambia has developed a monitoring and evaluation system that has been used for jatropha and dairy value chain interventions. This M&E system serves as a basis for this chapter and is available as template on *CD/website*. The examples on dairy and jatropha can be downloaded from *www.bdszambia.com*.

The system consists of three easy-to-use Excel sheets, which reflect the overall M&E process: a) appraisal (intervention framework), b) continuous monitoring of outputs, and c) periodic monitoring of outcomes. The three sheets are interconnected and provide the basis for a detailed evaluation of interventions later on. The project manager can fill out the sheets without spending too much time on it.

The following sections explain how to use this particular M&E system.

6.1 Appraisal of interventions

Definition of appraisal: prospective assessment of interventions

As mentioned above, appraisal is the assessment of a project when it is in the planning stage, before implementation (i.e. prospective). This includes

- capturing intervention strategies into a comprehensive intervention framework (action plan),
- assessing financial, human and material resources required for an intervention (inputs),
- deciding on indicators/proxies to monitor,
- and conducting a baseline survey against which to measure progress.

This will help the project manager to decide whether an intervention is feasible or not and whether it serves the overall development objectives.

Appraisal should be done after researching and analysing a value chain and before beginning to implement the interventions that have been proposed. It is essentially important to assess the feasibility of interventions in terms of input requirements as well as contribution to development targets. It does not need to be a complicated and time-consuming affair, but can be done fairly quickly within a day or two.

Doing appraisal in a participatory way

Capturing intervention strategies into a comprehensive framework, formulating specific activities and prioritizing them, is best done in a participatory manner. By including stakeholders from the target sector, the project will create a sense of transparency and local ownership. This is especially important when the project aims at mobilizing also local resources for the implementation. *Box 2* gives an example of how this has been achieved by an ILO project in Sri Lanka.

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Box 6.2: Using the value chain steering group for appraisal

The ILO's Enterprise for Pro-Poor Growth Project (short: Enter-Growth) in Sri Lanka conducted a participatory value chain research and analysis for the coir (coconut fibre) industry in the North-Western Province. The findings and proposals were presented to public and private sector stakeholders at a presentation event, at which also a steering group was elected.

The steering group is a temporary and sector-specific public-private dialogue forum (covering only that province) that meets regularly once per month. The purpose of the group is to discuss and prioritize proposals, and to support their implementation through networking, advice and personal commitment.

The findings and proposals presented to all stakeholders were separately discussed in more details at the first steering group meeting. Rather than presenting a completed action plan, the members were asked to answer the following questions:

- a) which of the proposals/interventions did they think were most important? (prioritization)
- b) starting with the most important proposal/intervention, how exactly could they be implemented? (activities)
- c) and finally: who should be responsible for implementing the interventions, and who could provide support?

Ideas were initially gathered on a flipchart and later written up in a summary report on the meeting. The ideas the project team got from the steering group allowed the team to fill out and complete an intervention framework, which was then discussed again at the next steering group meeting and presented to other stakeholders (e.g. the provincial government for budget allocation).

Deciding on expected outcome and indicators

Apart from using participatory means, the appraisal of interventions will also require decisions within the project team (or by the project manager). These decisions include the choice of indicators/proxies to be monitored, the assessment of required resources and the conducting of a baseline survey.

The monitoring and evaluation system developed by the BDS project in Zambia serves as basis for this chapter. Within this system, the first Excel sheet ("Intervention Framework (Appraisal)") can be used by the project team to capture the necessary information for appraisal. Outcome indicators and baseline data are entered into the third sheet ("Periodic monitoring of outcomes"). The use of these sheets will be explained in the following two sections.

6.1.1 Intervention framework (log frame)

Definition of intervention framework

An intervention framework is a tool used for capturing and summarizing intervention strategies and specific activities for their implementation. This will help the project manager to have all the neces-

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sary information about planned interventions in one comprehensive table, and will allow him to keep track of the overall strategy. The intervention framework provides information on

Intervention area

- **Intervention area:** this gives the heading under which several interventions are planned. It does not give specific details but provides an idea of the objective/outcome of a group of interventions. Examples are: “improving the policy and regulatory framework”, or “access to knowledge and information for small farmers”, or “improving quality of work”, etc.

Interventions

- **Interventions:** under one intervention area, several interventions give further details on the strategies through which the project intends to achieve the overall objective. Interventions already give an idea on possible outputs – i.e. are more specific as regards targets/outputs. Examples for interventions are: “facilitating public-private dialogue for better policies”, or “conducting and publishing a market survey to enable farmers to make informed choices”, or “building media capacities for SME-relevant programme content”, etc.

Activities

- **Activities:** as a tree further splits from the trunk (intervention area) into several branches (interventions) and twigs, activities give further details on exactly how the implementation of a particular intervention is planned. The formulation of activities should be as specific and practical as possible, reflecting the steps of implementation. An example:

Example

Intervention area	Intervention	Activity
1. Creating an enabling regulatory and policy environment	1.1 Enhancing public private dialogue	1.1.1 Electing a steering group with members from public and private sector at results presentation
		1.1.2 Developing a joint action plan for interventions and responsibilities
	1.2 Stimulating public awareness for income and employment opportunities	1.2.1 Publishing findings and proposals of the value chain research and analysis as a booklet
		1.2.2 Organizing a press conference to provide information on the opportunities and needs of the sector

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Outputs

- **Outputs:** once the activities are implemented, what kind of specific outputs would the project expect? These are important indicators for the project manager to ensure that partner organization, consultants or the project team do what they are supposed to do and that these outputs contribute to the overall development objectives.

Time frame

- **Time frame for outputs:** this gives information on deadlines for producing certain outcomes, or time frames within which certain activities are to be implemented. It is important to be realistic when setting time frames, i.e. also allowing time for overcoming any obstacles that might crop up.

Responsibilities

- **Responsibilities:** who is going to implement specific activities? To enhance local ownership of interventions, most development projects cooperate with local partner organizations. The project would usually provide technical or financial support, whereas the partner organization is responsible for the actual implementation. The intervention framework should therefore also indicate responsibilities for certain interventions.

Example

Outputs	Time frame	Responsibilities	Outcomes
1.1.1 PPP Forum that meets on a regular basis	Start: 14 Feb 2008, monthly, initial period: 6 months	Chamber of commerce (assisted by project)	Better coordination of intervention by government and development partners
1.1.2 Action Plan	14 to 21 Feb	Chamber of commerce (together with PPP forum)	Comprehensive sector development strategy supported by all relevant stakeholders
1.2.1 Booklet	By end March 2008	Project	Increased awareness of the opportunities and needs of the sector
1.2.2 Press conference, media coverage	31.March 2008	Chamber, project, ministry, industry association	Media support for development strategy; taking into account information needs of SMEs

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Expected outcomes

- **Expected outcomes:** How do specific activities and outputs contribute to short and medium-term development objectives? The intervention framework includes a column into which the project manager can fill in expected outcomes, such as “change of perception of dairy farming as viable business opportunity”, or “better access to and availability of information on BDS”, or “better coordination of stakeholders through public-private dialogue forum”, etc.

Resource allocation

- **Resource allocation:** what is needed in terms of human, material and financial resources to implement interventions (not necessarily specific activities)? This probably requires an educated guess by the project manager/team, based on previous experiences and the country-specific financial situation (i.e. cost of living, inflation, etc.). The Zambian intervention framework allows the project manager to make a distinction between the three resource factors: human resources, materials and financing.

The above mentioned components together form the intervention framework, which can be put into an easy-to-use Excel table as developed by the Zambian BDS project of the ILO (see *Table 6.1* below). It requires a project manager and his team a day or two to fill out the framework – perhaps within a planning workshop, before starting with the implementation of interventions.

The intervention framework as tool for daily management

The intervention framework is not a purpose in itself, but can be used for various purposes: a) the assessment of the feasibility of intervention; b) as controlling instrument for the project manager to ensure that targets are achieved; c) to “market” interventions to potential partner organization and convincing them to take responsibilities.

Table 6.1: Intervention framework developed by the ILO BDS project in Zambia

1	2	3	4	5	6	7	8		
Intervention Area (in prioritized order)	Interventions	Activities	Outputs (products, services, tools, etc.)	Time frame for outputs	Responsibilities	Expected outcomes (change in practices, incomes, etc.)	Resource allocation		
							Human resources	Materials	Financing
Intervention Area 1									

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6.1.2 Assessing the feasibility of interventions

Checklist for feasibility assessment

Several important questions need to be asked in order to assess feasibility. The checklist below provides some ideas. However, the feasibility of interventions also depends to a large extent on the project's overall targets and mission, which is why the project manager will also have to consider further feasibility criteria that are more specific to his project situation.

No.	Question	Answer
1	Do the interventions reflect the needs of local target stakeholders, or are they your own idea about what is the right thing to do? (Strategy ownership)	
2	Are local partners available to implement interventions and activities? (Implementation ownership)	
3	Can the intervention be carried out in the given time frame of the project? (Time frame)	
4	Will implementing partners have sufficient time, commitment and motivation? (Human resources)	
5	Are the available material and financial resources sufficient? (Costs and logistics)	
6	Who will pay? Are local and other development partners contributing to the costs? (Cost sharing)	
7	What are the chances that the intervention will have a lasting impact and will be continued after project expiry? (Impact sustainability)	