

Chapter 1. Two dimensions of value chain analysing tools: The different tools and approaches presented and discussed during the first cycle can be compared in two dimensions: Rapid vs. In-depth; and External vs. Participatory.

Chapter 2. Entry points for VC analysis: We have different possibilities of deciding whether we investigate a specific value chain or not. This decision is supported through a set of criteria and different entry points.

Chapter 3. Different actors – different roles: The goal of a value chain analysis is always to get to know the relations, processes, functioning etc. of a specific chain; but the motivation or driving force can be different from one actor to the other.

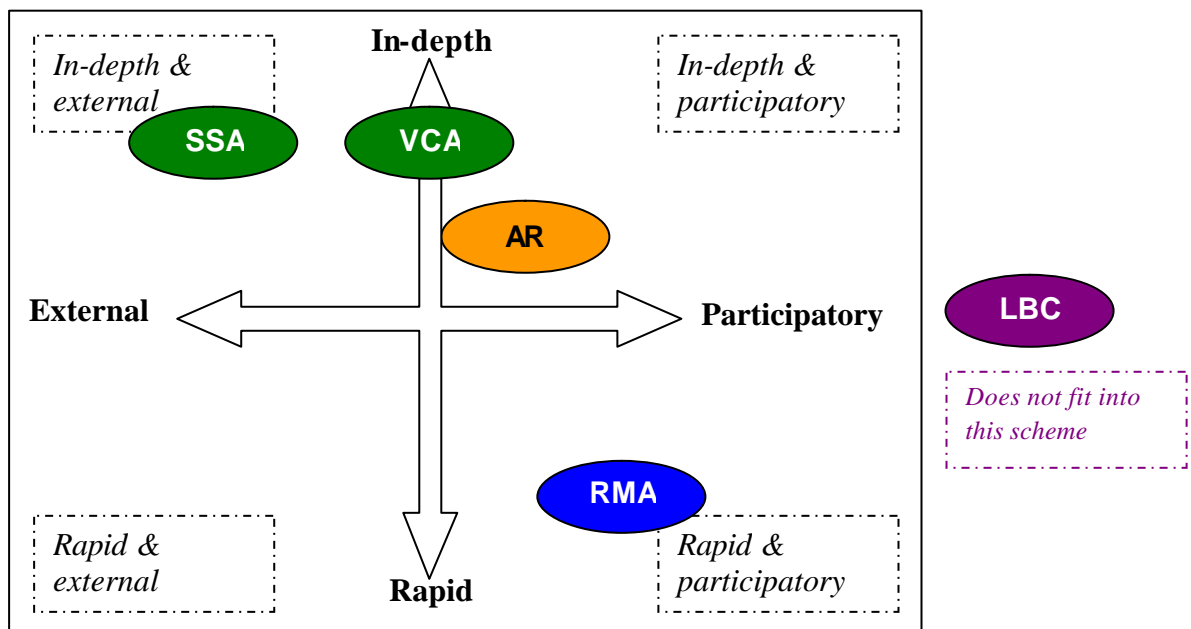
Chapter 4. Governance in VC: 'Governance' is a term used in value chain analysis (VCA) for describing the power-relations in a value chain. The conclusion of VCRD is to separate two types of Governance: Intrinsic and exogenous governance.

Chapter 5. Differences and similarities of VCA and SSA: Tools, methods and procedures for subsector analysis can be very similar to those of VC analysis. The difference lies within the focus. The VC analysis looks at one market channel only, while the subsector analysis identifies the different channels within the overall subsector and then looks at the competitive relationships between those channels.

Chapter 6. Other insights and issues for further debate cycle.

Chapter 1: Two dimensions of value chain analysing tools

Please note: the following scheme visualizes the two different dimensions for VC analysis. The different approaches **can shift** inside this frame, depending on their application.



VCA: In depth value chain study
 RMA: (Participatory) rapid market appraisal
 LBC: Local business support centers

SSA: Sub-sector analysis
 AR: Action research / R&D

In depth VC study (& Sub-sector study)

A traditional approach for knowing what is going on within a specific market is a combined sub-sector and value chain analysis. As this approach needs considerable amounts of time, money and particular capacities, this sort of VCA is often donor financed and implemented by specialized international or urban based organisations. Nevertheless a participation of local actors is sought for information gathering, it remains in most cases a typical external led in-depth study.

What does a VC study include?	What key criteria must be met?
<ul style="list-style-type: none"> - Economic costs along a chain - Determination of where the most value added is occurring - Importance of different actors / Governance structure (who decides on what, how and when has to be done); how strong are the different actors and what "drives" the different actors - Institutional framework - Political framework - Identification and analysis of bottlenecks 	<ul style="list-style-type: none"> - Potential for growth / Market potential - Size of sub sector (with a fairly large sub sector even a small change per person could lead to a large overall economic gain) - Specific target characteristics depending on desires of the client (gender etc.) / Potential to contribute for equity - Does the producer group fulfil the required (market) standards? Or are they willing and able to fulfil them? - Potential for rural income generation - Potential for poverty reduction - Potential for return on investment / Effort-impact ratio - Synergies with other initiatives - Potential for upgrading
Sources of information	Available Tools
<ul style="list-style-type: none"> - Interviews with key actors - Literature review - Statistical reviews - Governmental offices - Associations - International sources of market information 	<ul style="list-style-type: none"> - Mapping: Economic Mapping / Mapping of the functions of actors / Mapping of performing and value added at each stage - Trend analysis - Competitiveness analyses - Participatory Rapid Appraisals (RMA)

Differences and similarities of value-chain-analysis (VCA) and sub-sector analysis (SSA) were also discussed during this cycle; please find a summary at the end of this synthesis.

(Participatory) Rapid Market Appraisal (RMA)

The RMA approach is based on findings in PRA / PLA experiences. The importance of trust building and therefore including key actors since the very beginning lies in the center of this approach. The key criteria, available tools and sources of information are basically the same as in an 'in-depth-study', but the implementation practice is different: The information is generated and gathered through local stakeholders. One of the critical key challenges remains the same in both approaches: reliability of information.

Steps in RMA	Key challenges
<ul style="list-style-type: none"> - Get to know key actors and understand the (socio-economic) rationale of each segment - Mapping the main functions in a VC - Checklist of critical success factors (including: Economic rent seeking; Governance; Potential for upgrading) - Leverage is what you look for: What innovation from outside has the most effect on generating value in rural areas. - Consider all the competing market channels (Even when focused on a specific part of a country, you must follow the product through to its end markets and analyse the competition in those markets) 	<ul style="list-style-type: none"> - In most cases it is very difficult to get proper, reliable data, particularly in rural areas - A big challenge is to distinguish between nonsense and information that hold some truth (private entrepreneurs have better access and know better) - Building trust between the market chain actors - VCA must be done by VC actors
	The focus of the study

The RMA, is based on a diagnostic survey interviewing around 20-30 different market chain actors. RMA is a participative approach that initiates the joint action of value chain actors. Donors or NGOs working on behalf of donors can create a space for fruitful interaction, but the analysis should be done by VC actors. In most cases these actors have been competitors for the product, market or market share, so trust building activities are crucial for a successful collaboration of VC actors. In situations where the VC actors lack (part of) the necessary knowledge, experience and instruments for VC analysis, donors, NGOs, consultants etc. have additional roles: facilitators, supporters and advisors (i.e. know how transfer).

A value chain analysis is about identifying the full set of economic cost along the VC, to determine where the most value addition is occurring and the relative importance of different actors, a good look at the supporting institutional framework, an understanding of the impact of the policy framework, and a good look at the governance of the VC.

Action Research / R&D Program

The hypothesis behind this appraisal is: “The best way the public can make good use of money earmarked for value chain enhancement in rural areas is: Have a highly flexible action research program that allows placing small amounts of money for testing business ideas of various local and international actors.”

An action research is either done for re-assuring or changing findings of previous value chain analysis (in-depths or RMA); or it is done first hand in a trial-and-error approach. The action research or R&D program is usually based on a business idea or a hypothesis how a value chain works. Based on this idea or hypothesis concrete action (support, intervention) is made. This triggers a fast learning process; adjustments can be made quickly and the idea or hypothesis is confirmed or contradicted,

It has been discussed (without reaching an overall consensus) if any disengaged analysis can be trusted; or if it is wiser to trust only the results from action research when these are confirmed or contradicted the findings of any other analysis.

'Just do it approach' – Action research	R&D Program as an Analytical Tool
<ul style="list-style-type: none"> - Set up an hypothesis on how the chain works and what leverages there might be; Then make small deals with various people and see what happens. - A simple survey with traders and producers; then support the sensitive parts and try to introduce a new product in a new market. The bottleneck is with the learning process and the changing of the mentality of a large number of small farmers. - Real costs, problems and bottlenecks appear only when becoming active in a VC. 	<ul style="list-style-type: none"> - Seed money for legitimate actors that have a good business idea or hypothesis: The VCA will provide interesting data and insights, but the success of intervention is mainly in the hands of some key actors. - Seed money for financing rapid market chain appraisals and stakeholder meetings resulting in a more solid “business plan”. - Before funding such a small scale R&D-effort, the funding agency would request a business-hypothesis with defined variables to be tested. The result of such a mini-project then is a fundable business plan that can be submitted to banks for credit. - Donor money to behave as ‘venture capital’ funds

Setting up local business (support) centers

Why intervening in value chains when local actors could do it better? This approach is based on the idea the local business center companies are built and further supported by donor agencies, NGOs and external consultants. All activities from finding value chains (see: entry points) and supporting value chain activities are provided from this business center. This approach of value chain analysis is based on building and supporting local capacity for value chain analysis and intervention.

The support from the 'donor-community' is based on the public interest; i.e. fostering income and employment in the region or country. Donors provide the means (skills, tools, methods, etc.) for analysing value chains to these business centers and ensure that results of the public funded activities are available for the public.

Chapter 2. Entry points for VC analysis

There are many ways to explore and prioritize value chains, but it is the institutions' mandate and (in)-flexibility that conclude where, with whom and on what to work. The distinction of entry points fosters the understanding of how different types of institutions (with their mission, interest and legitimacy) intervene in VCs. Also the type of tools and the problems an institution will face with its interventions will strongly depend from what angle the institution comes in to get a handle on all the key issues of VCs. The principal entry points are:

- [Business Opportunity](#); Start with an existing chain; Interest: to create or expand a market for a specific product with high demand.
- [Commodity](#); Choose a product; or implement R&D for a new product or technology; Interest: to promote a commodity through better collaboration of market chain actors
- [Geography - Local](#); Choose a region; Concentrate on a livelihood system within a specific region and investigate on what this region could produce best for a) being marketed and b) for improving their livelihood.
- [Geography – National](#); Choose a country; Interest: to promote products with good market potential and interesting pro-poor benefits
- [Technology](#); Start with an existing technology or adapt / develop a technology; Interest: to promote a technology through its use in crops that achieve interesting income and make pay off the investment.
- [Consumer interest](#). Choose a product with specific nutritious value or food safety problems; Interest: food security, food safety, consumer protection.
- [Ideas](#). Interests: Analyse and support ideas that were generated in a demand driven way from any VC actor.

For any of these entry points there are key criteria that should be considered for deciding whether we do initiate a VCA or not. In many cases, these key criteria are not (yet) known and are explored during the VC analysis.

Criteria of VC analysis	
<ul style="list-style-type: none"> - Market potential - Potential of the selected commodity to augment sustainably the rural income - Potential to contribute to poverty reduction - Potential contribution to equity (including gender aspects) - The potential return on investment - Synergies with other initiatives - Access to information - Size of personal network 	<ul style="list-style-type: none"> - Potential for growth (domestic or international market) - The size of the subsector / VC; with a fairly large subsector even a small positive change per person could lead to a large overall economic gain - My overall ability to effect change in the VC / SS. This is particularly relevant if it is government policy that is dictating the growth (or limiting growth) opportunities - Capacity of producer to fulfil specific standards (organic, social standards)

Chapter 3: Actors and their roles

The goal of a value chain analysis is to get to know relations between actors, processes and qualities (etc.) of a specific chain; but the motivation or driving force (and in this context also the decision on methods, tools and approaches) can be different from one actor to the other.

The decision on what kind of VCA approach one chooses depends not only on experiences and thinking pattern, but also on the institutional settings (mission, vision, interest). External experts with public funding are more likely to implement in-depth analysis; while NGOs or local consultants (mostly also financed with public money) choose participatory research appraisals; entrepreneurs would most probably do some action research (“just do it and you get to know very well the key actors, the governance structure and upgrading possibilities”).

Based on the active participants on the VCRD COP we distinguished following actors with ‘their motivation’.

Actors on the VCRD COP	Their Motivation
Entrepreneurs aiming for grass-root business	Intend to do business with villagers and to tap VCs from that side
International traders	To explore and develop reliable sources of produce at steady levels of quality (incl. food safety issues). Their income depends on the efficiency and quality of the whole chain
Consultants to the public	To make sure donor agencies can do a good job
NGOs running programs on behalf of the public	Motivation is similar to consultants, except they are directly involved in operations and financial procedures for spending public money in VC-support
Research organisations	To research and develop markets for commodities
Public organisations	Public interest in supporting rural economic development

Different actors – the same interest:

The discussion about the different motivations and interests did not reach a general conclusion or lead to an agreed hypothesis. Generally accepted statements were:

- Different actors may have different motivation, but at the end a VC analysis is undertaken to get to know how a VC works: networks, relations, qualities etc.; this is the same for anyone studying a VC.
- We are all using the same tools; it does not matter ‘where we stand’.
- Not all tools might be available or appropriate for all actors, but all actors can use the same tools – no distinction has to be made.

The roles of donors, entrepreneurs and consultants

The role of donor agencies in VC development

A long debate on the specific role of donors, consultants and entrepreneurs brought interesting insights and a fairly clear picture:

Donors

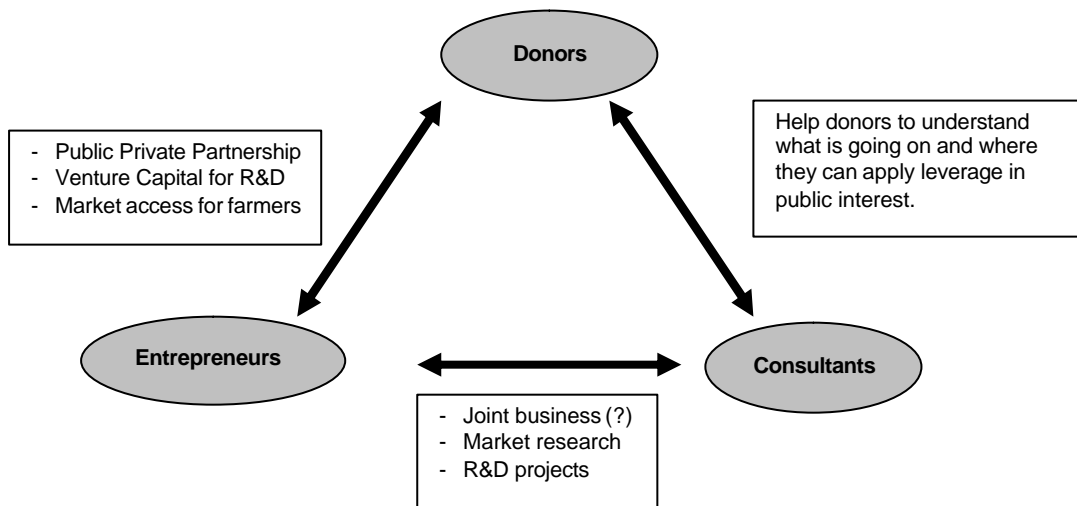
- Support sector, sub-sector and value chain analysis
- Seed money for financing rapid market chain appraisals
- Provide ‘venture capital’ funds for R&D – efforts
- Support small farmers in becoming eligible partners for private value chains; facilitate small farmers’ linkages to markets; Improving market access for local small scale farmers and train the farmers capacities
- Support small and medium enterprises (SMEs) to withstand increasing competition from imported products in local markets and/or access regional or international markets
- The role of TA (*technical assistance*) is to assist the business sector (micro level = value chain participants), institutions (meso level = business-oriented services) and governments (macro level = framework conditions)
- Public Private Partnership - Public money should be used for public interest. With an R&D approach and entrepreneurial know-ledge and capacities, that lead to an idea or an innovation that triggers employment and income in a whole chain

Entrepreneurs

- Sensing, understanding and dealing with markets
- Bridging the insider – outsider gap: Entrepreneurs are inside a value chain and have different ways of understanding and doing business. Different approaches for gathering data and access to information give an other picture then external investigation
- Public Private Partnership – Support a VCA and then fill the identified niches, gaps and bottlenecks

Consultants

- Consultants should only be paid by donors, when they help those donors to understand what is going on and where they can apply leverage in public interest.
- Consultants could become entrepreneurs and link up with local partners to explore and launch joint businesses (Donors can fund such ventures in initial stages through small R&D projects until the business variables are clear). But, as soon as consultants have VC-related business interest, they become part of the VC and are not consultants anymore but entrepreneurs.



→ Comment on the above 'donors-entrepreneurs-consultants' triangle: This triangle visualizes the discussion of the roles of these three actors and the different interfaces between them. The real VC actors (suppliers, producers, traders, etc.) are not included in this simple triangle; and would probably not fit in such a scheme.

Chapter 4: Governance in VC

The two faces of Governance (power-relationships) in VC

'Governance' is a term used for describing the power-relations in a value chains. Governance ensures that interaction between firms along a value chain exhibit some reflection of organisation rather than being random. Governance involves the ability of one firm (or of several firms) in the chain to influence or determine the activities of other firms; i.e. the determination of: What is to be produced; How is it to be produced; When is it to be produced; and How much is to be produced. The VCA has to identify these power (governance) relationships. It is crucial for any intervention to know the actor(s) that are at the top of the governance structure. These might be any actor inside (producer, trader, exporter, wholesaler, etc.) or outside (Governmental agencies (laws and regulations), NGO or private enterprises (certification standards), etc.) a specific value chain.

The conclusion of VCRD is to separate two types of Governance:

- Intrinsic governance that is about power relationships between the stakeholders acting within the VC. For example an importer is defining the quality of products to be produced.

- More exogenous governance that has to deal with actors influencing the 'framework condition'. Specific examples are laws and regulations for the use of timber and non-timber products.

Whether the 'powers of markets' is looked at and dealt with as an intrinsic or exogenous factor, depends on the influence of the specific value chain actors on the market, and vice-versa. There is no context independent statement possible.

This part of the discussion led to an important practical guideline:

Not only processes, linkages and relationships between VC actors (VC players), but also important actors for framework conditions (VC influencers) and businesses offering development services (VC supporters) have to be analysed in a value chain analysis.

In order to not stretch too much the expression 'governance' in further discussions, we will equal it with the expression 'power-relationships'. So this term will not be confused with 'good governance' approaches applied within many donor programmes.

Chapter 5: Subsector analysis (SSA) and VC analysis (VCA)

Is it a semantic, academic or practical difference between SSA and VCA?

Tools, methods and procedures for subsector analysis can be very similar to those of VC analysis. The difference lies within the focus. The VC analysis looks at one market channel only, while the subsector analysis identifies the different channels within the overall subsector and then looks at the competitive relationships between those channels.

An example from the green bean subsector in Kenya helps to understand the difference.

Three different VC were identified within this subsector:

- Independent growers who sell to briefcase traders; these traders sell to exporters, who then sell to wholesale markets in Europe.
- Small organised exporter using subcontracted growers; this allows a higher quality control and a different relationship between grower and exporter. They serve whole markets as well as retailers.
- Vertically integrated grower-exporter who has strict quality and quantity controls with direct contracts to retailers.

It is important to look at all the channels (value chains), understand their dynamics and interdependences. This will indicate whether the majority of the growers is in prosperous or dying channel; and when necessary, how to upgrade these farmers into an other channel.

Again, the differences lie within the focus of the analysis, not within the methods. A suggestion of the discussion is:

Always get the whole picture first (SSA), then decide on specific value chain(s) and implement VCA(s).

And it makes a difference for practical approaches: When concentrating on a specific VC without identifying other channels of the same commodity, important possibilities for upgrading can be missed. Further, when programs or projects support farmers or other actors in a dying channel, increased employment and income will never be achieved.

Chapter 6: Other important themes and insights

Different leverages for different actors?!

- The leverages may be different for the various actors; some can act here, others there. A need for classifying various types of possible leverages, according to the different actors has been stated.

Intervention points for donors

- Providing technology, information and know-how to VC actors
- Promote local market access for the rural producers
- Linking actors; especially employ entrepreneurs where entrepreneurship and commercial knowledge is needed. Do not waste time and money for trying to make out of farmers some marketing specialists, but assure fair conditions between farmers and marketers
- Tie up business with rural development. It is the private sector that has interest, experience and knowledge – they might just need a impulse from the public side.

Daniel Roduner, VCRD Moderator, February 20th, 2005