ValueLinks Module 1

Introduction into sustainable value chain development

Sustainable VC development – Introduction

Contents

1 Value Chains – a perspective on development
2 The “ValueLinks” concept
3 Scoping & selecting a value chain for promotion
Factors of Competitiveness

Value Chain – a definition

“Value chain” means….

- the sequence of related business activities (functions) from the provision of specific inputs for a particular product to primary production, transformation, marketing and up to final consumption
- the set of enterprises that performs these functions i.e. the producers, processors, traders and distributors of a particular product
The value chain map

**Basic sequence of functions in an agribusiness value chain**

1. **Specific inputs**
   - Provide - equipment - inputs

2. **Production**
   - Grow, harvest
   - Produce the primary stage etc.

3. **Transformation**
   - Classify
   - Process
   - Pack

4. **Trade**
   - Transport
   - Distribute
   - Sell

5. **Consumption**
   - Prepare
   - Consume

**Categories of operators in value chains and their relations**

- **Specific Input providers** → **Farmers, (primary producers)** → **Packers, Agro-industry** → **Traders (sales pt.)** → **Consumers of pineapple juice (the market)**

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Concept: micro – meso – macro levels

**Micro**

**Functions directly related to the product**

- **Input suppliers** → **Primary producers** → **Processors, industry** → **Wholesalers, retailers** → **Consumers**

**Meso**

**Support functions benefiting all operators alike**

- **Information**
  - Markets, partners ...
- **Public Research**
  - Search, finances
- **Collaboration**
- **Promotion projects**
- **Advocacy/common interests**
- **Fairs, joint marketing**

**Macro**

**Functions supporting the business climate**

- **Infrastructure**: Roads, electricity, water
- **Legal framework**: Food laws, taxes
- **Political framework**: Sector support
Why promote value chains?

The answer of public policy:

Economic development generates social benefits
By promoting rural / agricultural growth:
- jobs are created and revenues of smallholders and SMEs increase
- Poor people can be integrated into markets, directly or indirectly
- Prices can be kept low
- more tax income is generated that can be spent on education, health etc.
- marginal regions can catch up

The environment needs to be protected and resources wisely used
- No development at the expense of natural resources and the climate, growth within the limits of the ecological carrying capacity.

Why promote value chains?

The answer of private enterprises:

Markets do not always develop & function on their own!
The growth potential remains unused, because of
- lack of trust, lack of coordination, no market transparency
- Missing or inappropriate legal & administrative rules
- Deficiencies in infrastructure and public services
- Lacking skills, solutions, technology

Economic globalisation calls for...
- close coordination of production and distribution along the chain to comply with quality requirements and reduce cost of logistics
The goal dimensions of VCD

**Economic growth**
= greater *volume* and *higher value* generated ("a growing pie")

**Environmental protection**
Natural resources and the climate are utilized sustainably, generating a "one planet footprint" ("green" growth)

**Benefits for the poor**
Poor people benefitting at least equally or above average from the income generated ("pro-poor, "inclusive" growth)

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The idea of a "Green Economy"

UNEP / UNCSD definition (2010-2012)

"A green economy results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities"

It is low carbon and low pollution, energy and resource efficient and socially inclusive, preventing the loss of biodiversity and ecosystem services.

This development path should maintain, enhance and, where necessary, rebuild natural capital as a critical economic asset and source of public benefits, especially for poor people whose livelihoods and security depend strongly on nature.
From region to value chains

Business opportunities
>> select value chains

Region
>> establish choice of opportunities

... to activate the growth potential at the location
Regional development

... to prepare value chain promotion

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ValueLinks 2.0

ValueLinks Tasks

Analytical and decision-making tasks

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<th>Issues / Tasks</th>
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<td>▪ Assessing potential and limits of value chain promotion</td>
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<td>Scope of value chain development</td>
<td>▪ Combining VC promotion with other approaches</td>
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<td>▪ Determining the scope of value chains to be promoted</td>
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<td>▪ Setting priorities across alternative value chains</td>
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<td>Module 2</td>
<td>▪ Value chain mapping</td>
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<tr>
<td>Value chain analysis</td>
<td>▪ Economic analysis of value chains</td>
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<tr>
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<td>▪ Environmental analysis of value chains</td>
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<td>▪ Poverty and social analysis of value chains</td>
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<td>Module 3</td>
<td>▪ Strategic considerations for value chain development</td>
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<td>Chain upgrading strategy</td>
<td>▪ Agreeing on a VC vision</td>
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<td>▪ Constraints analysis</td>
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<td>Module 4</td>
<td>▪ Clarifying public, private, and donor roles</td>
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<td>Programs and projects</td>
<td>▪ Development Partnerships with the Private Sector (DPP)</td>
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<td>▪ Cooperation and steering processes</td>
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<td>▪ Managing VC development processes</td>
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### Fields of implementation and supportive action

<table>
<thead>
<tr>
<th>Module</th>
<th>Issues / Tasks</th>
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</table>
| Module 5 **Business models** | - Business models for VC development  
- Improving small-scale farm and SME business models  
- Promoting and supporting entrepreneurship |
| Module 6 **Business linkages** | - Brokering vertical cooperation - supplier / buyer contracting  
- Fostering horizontal cooperation - producer associations  
- Business Matchmaking |
| Module 7 **Services** | - Operational and support services in value chains  
- Strengthening private service markets and arrangements  
- Farmer Business School |
| Module 8 **VC Financing** | - Financial instruments in value chains  
- Risk management in agricultural value chains  
- Cases of financial service arrangements |
| Module 9 **Quality and standards** | - Definitions, types and importance of standard systems  
- Example Rainforest Alliance |
| Module 10 **Regulations** | - Policy instruments in the context of VC development  
- Economic, environmental and social policies  
- Supporting private initiatives addressing policy constraints |

### Monitoring

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<th>Module</th>
<th>Issues / Tasks</th>
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| Module 11 **Managing data and monitoring** | - Data collection and management  
- Monitoring VC development impact  
- Managing for development results |
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### Scoping Value Chains

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<th>Sector</th>
<th>Agriculture &amp; Food</th>
<th>Tourism</th>
<th>Textiles &amp; Clothing</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Horticulture</td>
<td>Wildlife Tourism</td>
<td>Clothing</td>
</tr>
<tr>
<td></td>
<td>Dairy</td>
<td>Cultural Tourism</td>
<td>Textiles</td>
</tr>
<tr>
<td>Sub Sector</td>
<td>Meat</td>
<td>Beach Tourism</td>
<td>Carpets</td>
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<tr>
<td></td>
<td>Flowers</td>
<td>Conferences</td>
<td>...</td>
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<tr>
<td></td>
<td>...</td>
<td></td>
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<tr>
<td>Chain</td>
<td>e.g. Horticulture:</td>
<td>e.g. Wildlife Tour.</td>
<td>e.g. Clothing:</td>
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<tr>
<td></td>
<td>- French Beans</td>
<td>- National Park visit</td>
<td>- Apparel</td>
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<tr>
<td></td>
<td>- Tomatoes</td>
<td>- Animal watching</td>
<td>- Knitwear</td>
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<td>- ...</td>
<td>- Safaris</td>
<td>- ...</td>
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<tr>
<td>Channel</td>
<td>according to end product / marketing system</td>
<td>according to marketing system</td>
<td>according to marketing and retail system</td>
</tr>
<tr>
<td></td>
<td>- e.g. table tomatoes sold in supermarkets</td>
<td>- e.g. as part of a package offered by tour operators</td>
<td>- e.g. brand name apparel sold in specialty stores</td>
</tr>
</tbody>
</table>

### Selection criteria

**Economic criteria**
- National/international market demand prospects
- Comparative advantages of production
- Opportunities for employment creation

**Social criteria**
- Inclusion of disadvantaged groups
- Need to improve working conditions
- Impact of the VC on surrounding communities
Selection criteria

Environmental criteria
- Impact of the VC on the environment
- Impact of the environment on the VC
- "Green" opportunities

Institutional criteria
- National policy priorities
- Needs for public investment/new laws
- Evidence of own initiatives of VC actors
- Synergies with other programmes
- Feasibility and outreach of interventions

Different goal dimensions

Hypothesis: The conflicts between these different dimensions remain, that is: it will not be possible to attain all partial objectives at the same time
**Short-listing matrix**

**Unmet Market Demand**

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
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</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
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<td><strong>High Priority</strong></td>
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<tr>
<td><strong>Medium</strong></td>
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</tr>
<tr>
<td><strong>Low</strong></td>
<td><strong>Low Priority</strong></td>
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</tr>
</tbody>
</table>

**Potential No. of MSMEs**

Source: AFE – Action for Enterprise

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**Ranking grid**

<table>
<thead>
<tr>
<th>Key criteria</th>
<th>Weights</th>
<th>Score</th>
<th>Weighted score</th>
<th>Explanation</th>
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<tbody>
<tr>
<td><strong>Economic criteria</strong></td>
<td>0.3</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• Criterion 1: Market demand</td>
<td>0.12</td>
<td>4</td>
<td>0.48</td>
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<td>• Criterion 2: Comparative advantages</td>
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<td>3</td>
<td>0.30</td>
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<tr>
<td>• Criterion 3: Employment creation potential</td>
<td>0.08</td>
<td>2</td>
<td>0.16</td>
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<tr>
<td><strong>Social criteria</strong></td>
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<tr>
<td>• Criterion 1: Inclusion of disadvantaged groups</td>
<td>0.10</td>
<td>5</td>
<td>0.50</td>
<td></td>
</tr>
<tr>
<td>• Criterion 2: Need to improve working conditions</td>
<td>0.05</td>
<td>2</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>• Criterion 3: Impact on surrounding communities</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td></td>
</tr>
<tr>
<td><strong>Environmental criteria</strong></td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Criterion 1: Impact of the VC on the environment</td>
<td>0.10</td>
<td>3</td>
<td>0.30</td>
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<tr>
<td>• Criterion 2: Impact of the environment on the VC</td>
<td>0.05</td>
<td>2</td>
<td>0.10</td>
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<tr>
<td>• Criterion 3: “Green” opportunities</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td></td>
</tr>
<tr>
<td><strong>Institutional criteria</strong></td>
<td>0.3</td>
<td></td>
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<td></td>
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<tr>
<td>• Criterion 1: National policy priorities</td>
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<td>4</td>
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<td>• Criterion 2: Needs for public investment/new laws</td>
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<td>5</td>
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<tr>
<td>• Criterion 3: Evidence of own initiatives of VC actors</td>
<td>0.05</td>
<td>4</td>
<td>0.20</td>
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</tr>
<tr>
<td>• Criterion 4: Synergies with other programmes</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td></td>
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<tr>
<td>• Criterion 5: Feasibility and outreach of interventions</td>
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<td>2</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1</td>
<td>45</td>
<td><strong>3.15</strong></td>
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</table>
Value chains are economic systems that organize the interaction of enterprises and connect them with markets. To define a value chain, its boundaries have to be clearly determined (so-called “scoping”).

The idea of VC development (VCD) builds on the observation, that economic, environmental and social change are interconnected and have to be addressed “systemically”, based on a good understanding of the chain.

Public VCD aims at creating an economically viable, green and socially inclusive economy. The investment of public funds is only justified, where these objectives are not reached through market forces alone, and where the interventions into the value chain are likely to be effective.

The selection of a VC for promotion is an important strategic decision. It uses economic, social, environmental and institutional criteria.

VCD takes markets and industries as reference. It is just one approach to economic development, others being spatial development, the rational use of natural resources and the support to particular economic groups (such as farmers). In cases where VCD is just a component in development programs that use other approaches, the VCD know-how can be used to introduce a “value chain perspective” thus making sure that market conditions are taken into account.