SDC Small Enterprise Development Workshop 2007

Employment and Income Division

"Making Value Chains Work for the Poor: Current thinking and future collaboration"

Report by Jim Tanburn on insights gained

20 January 2007

A. Introduction

The 9th SDC SED Workshop was held in Gerzensee, 11-12 January 2007. The Pre-Announcement for the Workshop noted that "four main focuses will be considered during the Workshop as an analytical framework:

- "**The context for value chain development:** How can we determine when to apply the value chain approach, in preference to other tools, such as improving the business environment generally? Once the choice of value chain development has been made, which analytical tools and participatory techniques can help us to decide what to do, and how should we choose between them? How can practitioners reach beyond borders, for example to understand trends in distant markets and global trade agreements? And how can we build analytical capacity, so that rapid changes in global markets can be tracked by local stakeholders in a dynamic way, in the years to come?

- **"From analysis to intervention:** While analytical tools are available, the inter-disciplinary nature of the possible solutions challenges practitioners to source expertise quickly, in thematic fields that may be unfamiliar to them. What roles can Government, traders and service providers play, and how can they be brought together in ways that stimulate changes that benefit the poor? How can development agencies encourage an attitude of improving competitiveness, over that of rent-seeking? And how can successful pilots be scaled up, 'crowding in' the private sector to replicate proven business models on a much larger scale?

- **"Social responsibility in the value chain:** The effective functioning of value chains requires transparency and trust between those involved. Meanwhile, however, market power is often being concentrated increasingly into the hands of a small number of buyers, which may squeeze out small producers who cannot meet the requirements for quality and quantity. The role of development agencies in improving such situations can be ambiguous, since their inputs are essentially temporary. What strategies are available to address these challenges, for example through the careful choice of partners in the public and private sectors?

- **"How to measure outcomes?** Development agencies need to demonstrate systemic impacts that are pro-poor: what employment and income opportunities have been created, for whom, and how will this be sustained? In addition, agencies need to take environmental concerns into account, for example to avoid monocultures; there may also be both positive and negative consequences specifically for women in value chains, and again these need to be tracked and taken into account. The challenges involved in monitoring these outcomes will be addressed during the Workshop."

This report summarises the insights gained during the preparatory literature review, and during the Workshop itself, by Jim Tanburn (who acted as resource person for the event). It does not include a summary of the presentation on SDC's Community of Practice on Value Chains in Rural Development (VCRD) by Gerrits and Roduner, since that in itself was already a summary of many inputs and documents. However, it is worth noting that one sentence from the presentation was subsequently described by a panelist from the private sector as the most important of the Workshop: "*Large lead firms or market intermediaries should not be considered enemies of the poor, but interesting entry points for VCD*".

All of the presentations from the event have been posted on www.value-chains.org[1]. These presentations include the Overview provided by Mr. Tanburn at the start of the event, which summarised the findings of the literature review; the report below therefore touches on (and expands) several of the slides in the Overview presentation (Section B). It then goes on to review the other substantive presentations made during the Workshop, to summarise the key findings, and how the bullet points mentioned above were addressed in practice (Section C).

B. Insights gained from the literature review

A very large volume of material was reviewed, from the development and business communities, academia, official publications and synthesis documents of various kinds. This report summarises the key trends overall, rather than going into detail (which is already amply available elsewhere). One immediate conclusion of this review is that value chain development is attracting tremendous interest at the moment; for example, the entry for value chain analysis on the www.mmw4p.org database has recently become the most popular entry ever on that site.

B.1 What is a value chain?

Many definitions of a value chain stress "the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use" (Kaplinsky and Morris for IDRC, 2001). This definition places few constraints on the number of steps involved, but takes the product or service as the basic unit of analysis.

How are 'value chains' different from the 'sub-sectors' for which GEMINI proposed an analytical methodology some years ago? And indeed how are they different from the 'supply chains' of the business literature today? Some would say that, in practice, there is little difference; others argue that the term 'value chain' "implies generation of value added throughout the chain ... which is required in order to achieve a social impact" (Springer-Heinze, GTZ, 2004). In other words, value chain practitioners are particularly aware of the margins which are generated along the chain, and who captures those margins; by implication, they are also often concerned with the power relations within the value chain.

Broadly, though, there is agreement - or at least a shared understanding - about what a value chain is; again, for example, there is broad agreement that value chains are pulled or driven by ultimate market demand ('you cannot push a chain'). Also, there is a common element of considering a larger group of actors, beyond one particular target group, and how those various actors relate together in inter-dependent ways. The poor may well be involved, therefore, not just through their participation in small enterprises, but also as employees in larger enterprises (and even as consumers). Value chain development is also, therefore, inter-disciplinary; in principle, it could include, for example, experts in specialist finance, trade agreements, legal issues, or infrastructure.

Value chain development is often considered to be rather close to cluster development; indeed, IADB groups them together as "la integración productiva". Value chain development does often consider how to enhance the productivity of clusters of producers, while cluster development (and

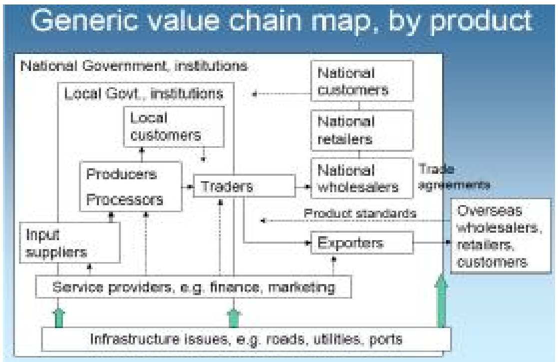
[1] www.value-chains.org/dyn/valuechains/bdssearch.details?p_phase_id=567&p_lang=en&p_phase_type_id=6

indeed, local economic development) generally have to consider the market potential of value chains, beyond the immediate geographical focus of the intervention.
Some definitions of value chains include a range of related products, while others focus on single products; partly because of this, there are many different methodologies for analysing value chains, which partly overlap; these are reviewed in the following Section. There is even less agreement, in any detail, about how to develop value chains, and this is considered in the subsequent Section.

B.2 Value Chain Analysis

The reality of value chain analysis is that practitioners ignore any aspect of a value chain at their peril; in other words, they should ideally develop a rather complete understanding of every key element, in order to be able to intervene effectively. At the same time, the time and funds available for analysis are generally limited, and difficult choices often have to be made. The academic community and others have therefore evolved a range of analytical tools, that enable practitioners to map out some of the key features of the value chain, to enhance their understanding. Indeed, several agencies and universities have recently published manuals on how to analyse value chains[2].

The most well-known analytical tool is the <u>sub-sector map</u> popularised by Gemini (see generic example alongside)(Gemini, 1991).This depicts each key group of people within the chain as a box in the diagram, ideally quantifying the number of people involved, their value added or revenue flows, and other key metrics within the chain, for each box. The francophone filière approach is somewhat comparable to this, and indeed practitioners are currently applying the basic concept as part of their preparatory analysis.



While helpful in visualising the mechanics of a value chain, the approach (if used on its own) does, however, have several limitations. One is that it is largely static, providing a snapshot at one moment in time. Many value chains are currently evolving and consolidating very rapidly, and development practitioners need to be able to understand those changing dynamics. Another is that they often do not capture the less quantifiable elements, such as the power relations, the degree of trust within the chain, the competitiveness of the chain, or the quality of the business environment.

Nonetheless, it may be helpful to reflect on why the GEMINI approach, which was well documented at the time, did not achieve widespread adoption - and indeed has been largely dormant for some years. One possible answer is that it was too ambitious or rigorous, requiring practitioners to analyse the chain in some detail - at a time when systemic approaches were not in widespread use. Similarly, there was less sense at that time that the private sector could be part of the solution, rather than just part of the problem. Another possible reason for the lack of widespread adoption was that the methodology did not mesh easily with the log-frames being used by the more rigorous practitioners at that time; indeed, the analysis often pointed to 'what' actions were needed, but rarely answered the 'how' or 'by whom' questions that project managers also faced.

Another analytical methodology in widespread use is the <u>consideration of margins or costs along the value chain</u>. Many products involve multiple processes and players, each of which can be quantified in monetary terms. The example of a bar of chocolate is given below, excerpted from the ILO's manual on value chain development. It shows clearly that cocoa producers in developing countries (in this case, Madagascar) capture relatively little of the final selling price, with retailers capturing rather more.

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[2] Concept papers: IDB, ILO, UNCTAD, GTZ. Methodology guides: IDB, ILO, GTZ, UNIDO, SDC, FAO

A third type of approach is to analyse the value chain according to the lead firm; this is clearly appropriate where multiple value chains are organised around one large firm, as in the case of Unilever Indonesia (UI)(see box for a brief history of UI). UI recently conducted a study with Oxfam to understand what impacts its business was having on all of its suppliers upstream, and its distributors downstream, for a range of products in the highly-competitive fast-moving consumer goods (FMCG) sector (Oxfam/UI, 2005).

The study found that, while UI only employed 5,000 people directly in its core workforce, the value chains in which it was involved were generating about 300,000 full-time equivalent jobs. These jobs were adding $421m p.a. of value along the chain, outside UI itself.

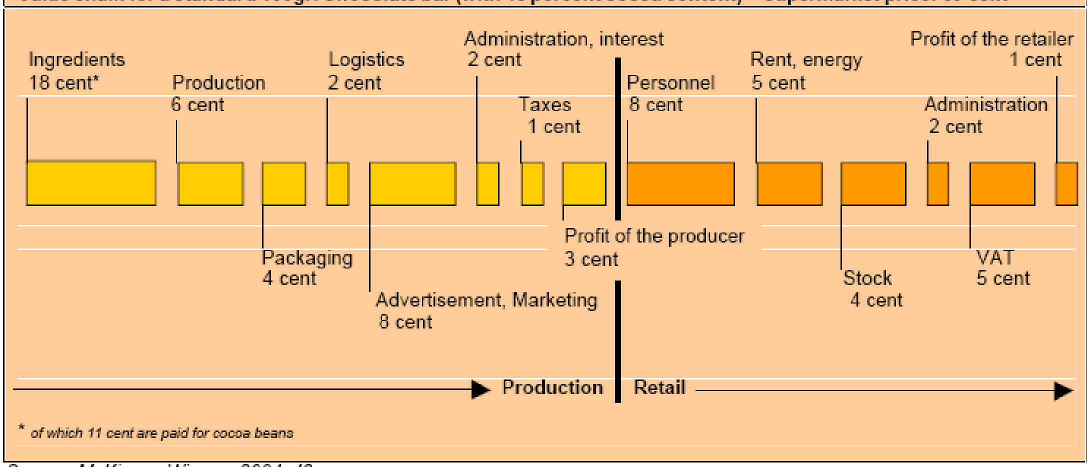
The impacts of UI on the local economy were therefore clearly considerable; by operating a focused and modern business, it was also providing many opportunities to those in the small-scale and informal sectors for gainful employment. Indeed, a recent expansion in marketing small sachets to low-income consumers had increased employment throughout the distribution system.

A brief history of Unilever in Indonesia

UI was founded in 1933. By 2003 the company had sales of US$ 984 million, around 84 per cent of which were home and personal care items such as soap powder, household cleaning products, hand soap, and shampoos. Around 16 per cent of sales were accounted for by foods such as tea, margarine, and ice cream. Unilever estimates that at least 95 per cent of Indonesians use one or more UI products each year, and that 90 per cent of poor people in Indonesia buy UI products in the course of a year. UI is ranked as the thirteenth largest company by sales in Indonesia and the fourth-largest company in the FMCG sector. *(Oxfam/UI, 2005)*

Figure 1.1 illustrates a very simple value chain of a chocolate bar. It shows what the different stages are and how much value is added at what stage. Similarly, you could fill in the number of workers at every stage, or the average income. This value chain illustrates the production and retail process. You could however also start at a earlier stage, breaking the ingredients into components and tracing the cocoa beans (which make up to 11 cents of the 18 cents) all the way back to the planters. Local farmers have no influence on the price that they receive for their beans. Cocoa beans are traded at the commodity futures exchange in London. Since 1970 the price for a tonne of beans varied strongly from 586 US dollars (1970) to 2,149 dollars (1985/1986) and to 1,465 dollars (January 2006). Today German consumers of a 69 euro-cent chocolate bar (100 gr.) with 45 percent cocoa would pay on average 11 cent for this ingredient. Even these 11 cents do not reach the local farmer in Madagascar, but are divided amongst traders, logistic suppliers, *preparateurs* and other actors along the value chain.

Figure 1.1
Value chain for a standard 100gr. Chocolate bar (with 45 percent cocoa content) – supermarket price: 69 cent



Source: McKinsey Wissen, 2004: 49

From *A Guide for Value Chain Analysis and Upgrading, ILO, 2006*

On the other hand, the study also notes that "UI's strength as a large company limits [supplier] farmers' negotiating power"; Oxfam concluded that the study "reinforced our belief that for value chains to work for poor people, there need to be other social institutions and resources in place, such as credit and saving schemes, marketing associations, and insurance schemes, as well as diversification of income streams, to avoid dependency on any single company or market". It also "questions whether companies like UI may be creating rather than meeting needs for poor consumers, and over time turning luxuries into necessities through advertising and promotion".
Another analytical lens which is now used increasingly is that of competitiveness; many value chains must effectively compete with the most efficient producers, wherever they may be, and Chinese producers are now highly competitive in many areas. For instance, one project manager recently reported substantial improvements achieved by his agency in the productivity of the ready-made garments (RMG) sector in Bangladesh (IFC, 2006). Female staff had increased by 16%, domestic sales by 12%, exports by 13% and profits by 16%. Despite this, he then showed that, despite these improvements, the sector was not yet fully competitive on the world market, as illustrated in the Table below.

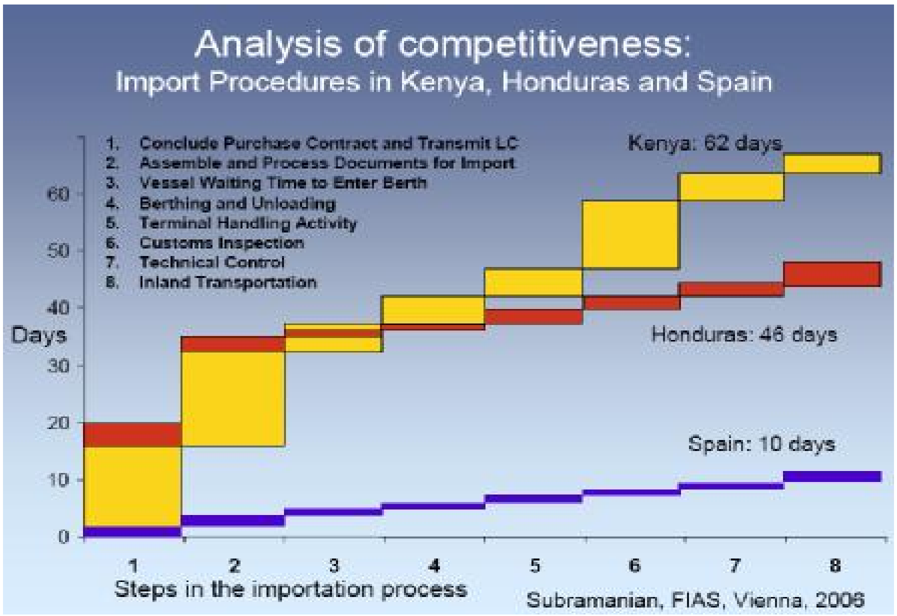
Ready-made garments	**Baseline Bangladesh**	**Project-assisted**	**Reference country benchmark**				**Global bench-mark**
			Sri Lanka	**China**	**Viet-nam**	**Camb-odia**	
Labour turnover / yr, %	15	11	6-8	6	7	7	5-6
Rejection rate	10	8	3	0.5	3	5	1
Plant efficiency, %	30	44	65	80	70	60	75
Labour cost/hr, $	0.30	0.37	0.46	0.50	0.30	0.40	
Return on capital, %	15	18	18	25	20	18	
Women supervisors, %	0.5	1	40	70	60	65	40

Apart from benchmarking overall productivity and costs, this approach is also valuable because it enables governments and practitioners to pinpoint those costs along the value chain where particular attention is needed. Taking the example of T-shirt production in Kenya and Honduras, recently presented by FIAS, raw material costs in Kenya are three times those in Honduras; labour costs are nearly double, and outbound logistics are four times as expensive (see Table, below). These are elements over which the producer has only limited control; a partnership with government is clearly needed, in order to address the lack of competitiveness effectively.

T-shirt manu-facture	**Ranking, 2006 Doing Business**	**Raw material costs**	**Labour cost per shirt**	**Overheads**	**Outbound logistics**	**Speed to market**
Kenya	80	$2.30	$0.40	$0.62	$0.28	>30 days
Honduras	107	$0.80	$0.25	$0.19	$0.06	<15 days

Source: FIAS, 2006

The outbound logistics element of this is illustrated further, and compared to the situation in Spain, in the Chart below, according to the number of days required.



Value chains can also be categorised according to their governance (Schmitz for ILO, 2005), which might include:

- an hierarchy (the lead firm owns large parts of the value chain)
- a captive network (the buyer controls the chain to ensure performance)
- a balanced network (reciprocal dependence between the actors)
- an arm's length market relationship (with a standardised product, where the switching costs are low)

Different products may have different governance structures, and this will clearly influence the choice of intervention strategy. However, there are rather few documented examples of practitioners using this tool to develop their strategy, perhaps because the governance of the value chain is usually rather apparent, once other types of analysis have been carried out.

Value chain analysis very rarely considers how value chains evolve over time, and how this might need to be taken into account when designing interventions. Indeed, there are few documented examples of how value chains evolve over time at all, although some practitioners are researching how agricultural product value chains are now developing, in response to rising food standards, increased roles of supermarkets etc.

One of the most complete examples is that of Chilean salmon between 1978 and the present (IADB, 2004). That value chain started at a rather low level of annual production, by SME producers selling directly to the local elite. Their technologies were rather basic, and there were few providers of supporting services. Around 1986, producers learned how to export frozen salmon to Japan, and volumes increased dramatically. Prices fell, quality certification became an issue, and service providers started to professionalise.

Around 1996, producers also started to penetrate markets in the US and Europe. Volumes increased further, and prices fell again, although this time less dramatically. Producers were by this time large enterprises, with some TNCs involved; technical challenges included the need for national egg production, automation and specialised veterinary support. Service providers therefore also became highly specialised.

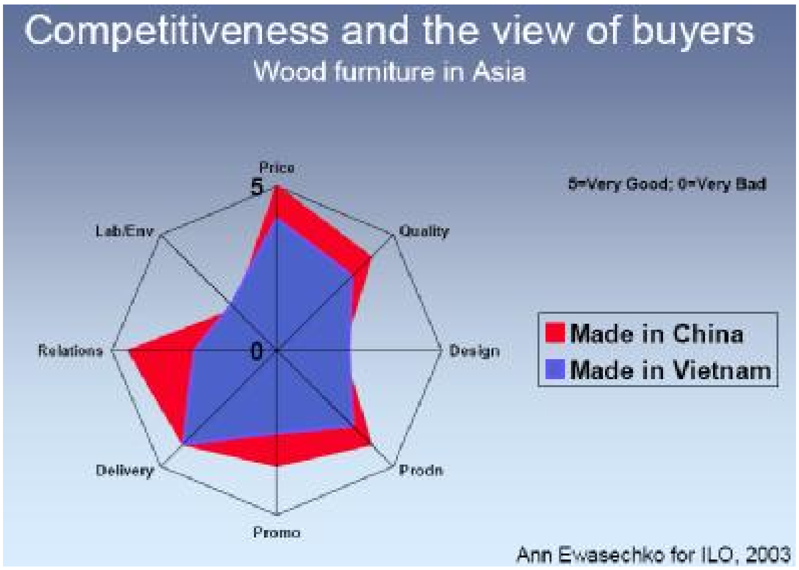
By implication, the role of the poor in this value chain evolved from being SME producers and traders, to being employees in the larger fish farming enterprises. While many of those living in poverty would prefer employment to having to run their own business, there has at the same time been strong criticism of some of the labour practices of some of the fish farms. In summary, and assuming that this case is typical of some other value chains, development practitioners should probably analyse in more detail the likely trajectories of those value chains they are supporting.

Assuming that they are successful, the dynamics (particularly as they affect the poor) are likely to change substantially over time.

Indeed, another general observation is that many analytical tools do not consider how the poor are affected at various stages along the value chain, for example in terms of business or employment opportunities, or how they might be displaced as value chains evolve. In some cases, opportunities may disappear, as others open up, and some awareness of this process would probably be helpful.

Finally, none of the approaches outlined above consider how actors within the value chain might update themselves over time; they all rely on specialist researchers, whose inputs can be paid for in the short term by donors. In the longer term, however, producers and others need to understand how markets are evolving - so that they can also evolve and remain competitive. In local markets, basic tools for market research, for example, could enable those with a market orientation to stay 'ahead of the game'.

Alternatively, the skills required to enjoy good relations with traders in the value chain could enable producers to gain the intelligence they need. For export markets, the challenges are greater, because of the distances (and implied costs) involved, and also because of the cultural and economic gaps. Nonetheless, in these days of the internet and associated communication tools, it should not be impossible for producers to remain aware of key market trends; this Chart illustrates an analysis carried out by a consultant on perceptions of global buyers of wood furniture, relating to products from Vietnam and China. This sort of information was of great interest to Vietnamese producers, who understood its importance, but not how they could build a similar picture in the future.



B.3 Strategies for Value Chain Development

If much has been written on value chain analysis, rather little has been written on how to move from analysis to action; different agencies are adopting different approaches, under the one banner of value chain development. Ideally, analysis would lead directly to intervention design, and occasionally it does; however, all analytical tools pose a challenge: understanding of the key dynamics does not necessarily lead to a clear understanding of how to intervene. Appropriate partners may not be evident, or the key constraints may be outside the current mandate or capacities of the intervention.

Also, every value chain is different; within each value chain, the critical constraints may relate to a wide range of possible disciplines, from financial sector development to business environment reform or service market development - not to mention infrastructure or trade agreement reform. For these reasons, there is a school of thought that advocates 'learning by doing'; this involves some quick analysis, followed by 'action learning': interventions are started, and then adapted rapidly in response to lessons learned.

This school of thought cannot readily be translated into a tool or methodology; rather, it requires an entrepreneurial frame of mind, to identify opportunities, take risks and learn quickly from mistakes. It also requires an analytical frame of mind (often in another person) to make sense of the experience retrospectively: fit it into a framework, conceptualise it, and report on it coherently to the wider development community.

Nonetheless, several agencies have published manuals on how to move from analysis to strategies for action; these manuals often struggle to go beyond the generalities of good practice in development, to the specifics of value chain development. Those who have (such as On the Frontier) often advocate rather comprehensive approaches, that require both a high degree of political will, and substantial budgets. It may therefore be more helpful to consider the intervention tools that practitioners are currently deploying to develop value chains, since there are strategies implicit in each of them:

- the agency conducts extensive research and stakeholder consultations, leading to diagnosis of key constraints, and possible solutions; facilitators are hired to intervene, mobilise stakeholders etc. (the strength of this approach is that it can take an impartial look at the problem; the weakness is sometimes the lack of local ownership at the outset - although loss of a trade agreement or a major market shift can lead to strong demand. Also, such programmes tend to be small.)
- the development agency is the 'honest broker', bringing stakeholders together to articulate their needs through LED, cluster development etc. (the strength of this approach is that it is demand-led; the potential weakness is that local stakeholders may not understand global markets, the need for major changes, etc.)
- matching grants are provided, to encourage lead firms to take risks (the strength of this approach is that the private sector is anyway preoccupied with understanding market trends; also, ownership can be strong, and programmes can be large. The weakness is that the impacts may not be sector-wide, but rather captured by one firm, which might have implemented the change anyway)
- the value chain is benchmarked, in order to generate demand for change; this approach has met with some success in business environment reform, but is rather unproven to date in value chain development.

At present, application of these approaches is quite fragmented, with many practitioners applying only one, or perhaps two of them. Indeed, some donors have separate departments to use the different tools for value chain development. Ideally, however, project managers would be able to deploy a combination, depending on local circumstances, and this is increasingly happening in practice, in the field.

Many of the more successful interventions seem to have been documented rather poorly; those looking for multiple case studies that have achieved impact on a massive scale may be disappointed, even though there are cases that have been most impressive. The Table below gives a brief list of a few of the more impressive ones identified during the literature search, but the list is still rather short.

Partners	Country	Agency	Product	Reported results
International buyer	Vietnam	GTZ	Organic catfish	Exports grew from 70 t to 1,600 t; price stable
Exporter	Ghana	DFID	Baskets	Rural incomes increase €15,000 p.a.
Lead producers	Mexico	IBM, HP	Software	22,000 employed, mostly in micro-enterprises
Input suppliers + lead processors	Malawi	DFID	Cotton	180,000 smallholders increased production from 16,000 t to 43,000 t
Catalysing hub	Kenya	DFID	Dairy	Sales now worth $3.6m pa for 13,000 dairy farmers
Producer groups	Kenya	USAID	Avocado	New buyer increased income by 700% for 1,027 producers

B.4 The future for value chain development

The lack of a coherent and useful methodology for implementation is one potential obstacle to the further expansion of value chain development; agencies prefer some degree of assurance that good results will be obtained, rather then depending on the entrepreneurial talents of a project manager to seize the opportunities of the individual situation. Whether this universal methodology can ever be achieved, in the case of systemic interventions, remains to be seen.

While funders seek assurance of results, the value chains are diverse and often changing rapidly; supermarkets are playing an increasing role in most parts of the world, sometimes dominating many value chains with their buying power and standards (Japanese shoppers can now review the entire supply chain from the supermarket, using their mobile phone).

There is also great interest at present in the donor community in reforming the business environment, currently expressed as levelling the playing field through reforming the business registration process, rather than considering the constraints specific to important value chains. Presumably this will evolve in time; some research indicates that the majority of business environment constraints are specific to individual value chains.

Another current interest of donors is in budget support, for example in health and education, but it is not clear how this might be translated into value chain development, in practice. Nonetheless, there are clear opportunities in value chain development, not least the demand being expressed by governments and private sector bodies for support in this area. For example, many producers in developing countries are particularly keen to gain market information on global trends in various value chains, and development agencies find themselves challenged often to devise ways in which to generate this information.

Several different disciplines are increasingly involved in value chain development, including for example agricultural extension and financial sector development. New value chains are emerging, which offer high potential for growth in some countries, including for example those related to information technology, outsourcing and data entry. Finally, there is great potential for innovation, for example to define ways of collecting intelligence on the internet, and remotely, on distant markets.

C. <u>Reflections on the SED Workshop presentations and discussions</u>

The presentations finally selected for the SED Workshop (other than the opening and concluding addresses, and panel) included the following:

- A pro-poor analysis of the competitiveness of the bamboo value chain in the Mekong region, by John Marsh, Oxfam Hong Kong
- Insights gained during the SDC online debate on Value Chains in Rural Development, by Andreas Gerrits, SDC, and Daniel Roduner, Agridea
- Experiences in the sheanut butter value chain in west Africa, by Lionel Giron, Intercooperation
- Experiences in developing organic cotton in west Africa and central Asia, by Tobias Meier, Helvetas, and Rolf Heimann, Hess Naturtextilien
- The experiences of seco, by Hans-Peter Egler
- A systemic approach to value chain interventions, by Marshall Bear
- Experiences in the vegetable value chain in the Honduras, by Michael Velten, Swisscontact
- Experiences with fishery associations in Bangladesh, by Peter Roggekamp, Katalyst
- Experiences in the banana, coffee and cashew value chains in Tanzania, by Tim Piper, Technoserve

Section B, above, covers the insights presented during the opening, overview presentation by the author; apart from that presentation, what key findings emerged from these substantive presentations? And to what extent were the four key focus areas mentioned in the Pre-announcement (and listed in Section A, above) addressed and resolved?

The context for value chain development: In principle, development practitioners may be choosing between value chain development, and other tools, such as improving the business environment, or local economic development. In practice, few of the presenters considered this possible choice - although several of the projects described had started life as Business Development Services (BDS) initiatives. Indeed, there were surprisingly few explicit references to the complementary roles of Government in relation to the private sector (although most addressed this implicitly); most focused explicitly on the roles and potential of the private sector.

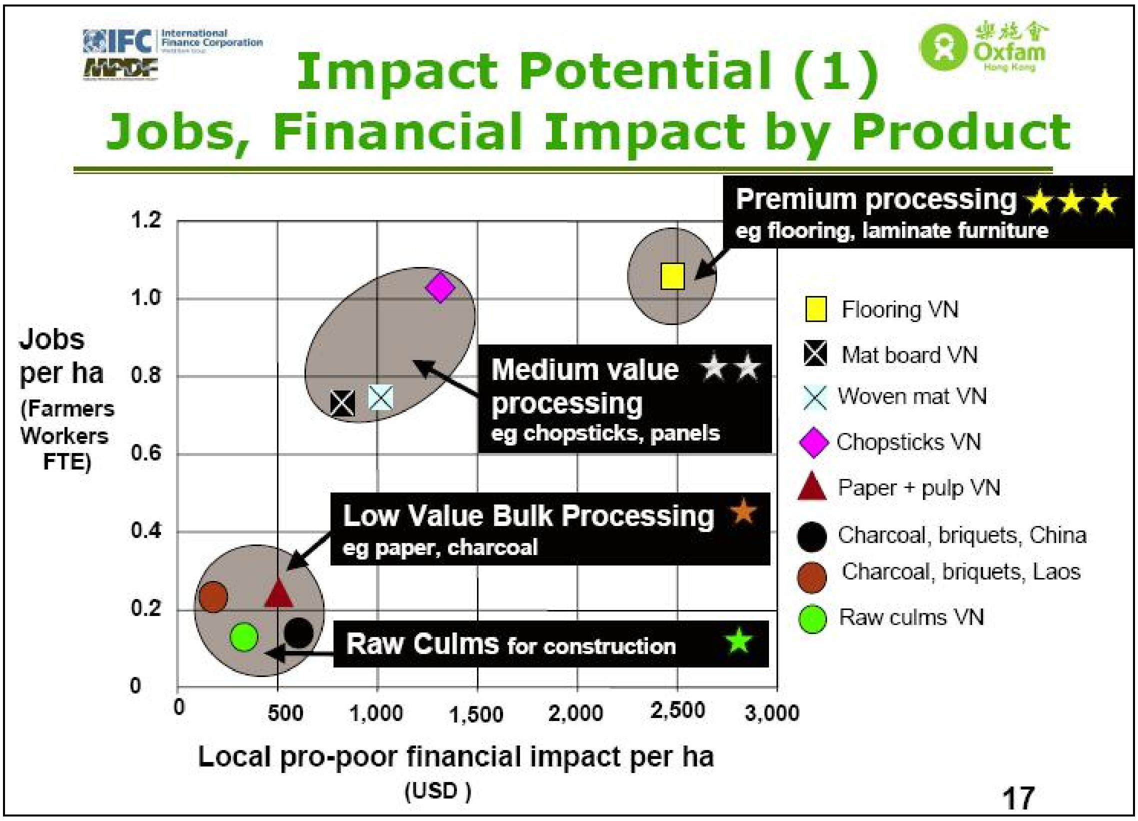
This is likely to be explained, at least in part, by the wide range of government regimes being considered; China, for example, seemed to have achieved a very effective public-private partnership to develop the bamboo sector. On the other hand, several presenters listed policy-related constraints that were impeding value chain development locally.

As for analytical tools, several presenters (Giron, Velten, Roggekamp) showed simple value chain maps as part of their introduction. Some showed how the margins along the value chain affected the poor (Marsh, Meier), but only two studied the competitiveness locally, in any detail (Marsh, Piper). Most referred to participatory processes, involving stakeholders in defining the strategy, but few provided detail on how this was achieved; indeed, the implication seemed to be that inter-personal skills, for participation, advocacy and behaviour change, are very much required in modern value chain development initiatives.

Marsh's presentation provided the most input to the Workshop, in terms of showing how analysis can be used to develop strategy options, and to choose between those options, based on pro-poor priorities and competitive realities. That body of work had benefited from the successful experience of China in developing the bamboo value chain; it enabled Oxfam Hong Kong (OHK) to benchmark various costs along the chain, and also to estimate the total size of the various bamboo-related markets.

Indeed, one of the most interesting insights to emerge from that presentation was that the value chain only became competitive when all parts of the bamboo plant were used to produce value-added goods; currently in Vietnam, some parts are thrown away, and the economics of the chain are therefore not very competitive - despite the relatively low cost of labour ($50/month, compared to $150/month in China). Similarly, if some parts of the bamboo are diverted to less profitable uses, for example in accordance with a current interest in becoming self-sufficient in paper production, then the overall competitiveness would be threatened.

The exhaustive analysis also shows that, if Vietnam is able to move towards sophisticated products (such as flooring and laminate furniture), it will generate more jobs per hectare, and have greater pro-poor financial impact per hectare. The Chart below, excerpted from the presentation, summarises this finding.



One interesting facet of this finding is that pre-processing plants are an essential (but generally missing) element in the chain. These plants need to be close to the bamboo producing areas, so can generate rural employment; on the other hand, they need to be established at medium scale, with significant capital investment, so do not really come within the traditional ambit of "small enterprise development". But they are relatively easy to establish (with machinery from China) and have very important effects, both up-stream and down-stream, in improving the economics of the whole bamboo value chain. At the same time, they have important environmental benefits, by reducing waste, transport costs and fuel consumption. Apparently, 8 'copycat' processing plants have now been established, following initial support to a few demonstration plants by the project - indicating the commercial viability of the intervention too.

Importantly, Marsh predicted that a ten-year intervention could generate 1.2 million jobs; since 75% of these would be pro-poor, the pro-poor financial impact was predicted to be $900m pa (of a total sector size of $1.2 bn pa). 50-60% of all jobs in the sector would be for women, with 80-90% of the new jobs being in the rural areas. For donors, a $40m investment over 10 years should generate 800,000 jobs created, at $50 per job, lifting people out of poverty at a cost of $40-60 per person.

These numbers, while based on extensive research and analysis, are mostly predictive and hypothetical; OHK is now moving to implement the approach on a large scale, with possible assistance from SDC and other donors. Early results from a pilot project are promising; the primary workshops (including the 'copycats' mentioned above) are now buying bamboo from 6,000 farmers, and the price of raw bamboo has increased by 20% since last March. The poorest families are now deriving 75% of their household income from bamboo, and 88% of the 540 people employed in the workshops come from ethnic minorities. 85% are women, and the average monthly salary is $38 (where the local average is around $8).

Notwithstanding these achievements, Marsh's presentation was most interesting for its analytical approach, combining pro-poor perspectives with commercial competitiveness in global markets. This is an unusual (although rather logical) combination; if the analysis is broadly accurate, then the imminent roll-out of the approach promises important achievements at the scale being sought by many donors.

From analysis to intervention: Many of the presentations implicitly focused in this area, as they had mostly been selected to reflect hands-on experiences in the field. Most of the presentations reported on work to change whole systems within the value chain, rather than using donor funds in order to achieve quick (but unsustainable) results. Bear focused explicitly on this area, contrasting two USAID-funded projects, in Kenya and Zambia. One had intervened directly in the value chain, perhaps in order to achieve fast results (which it had); the other promised to intervene more systemically, building local service providers to address a key constraint in the value chain on a sustainable basis.

Considering the framework for intervention strategies proposed in Section B, above, two presenters (Giron, Roggekamp) essentially reported on a combination of research with tailored interventions, and playing the role of 'honest broker' in the value chain, to bring people together. Two others (Meier, Velten) added matching grants, or tailored direct support, into this mix. Two (Marsh, Piper) used benchmarking and ranking of competitiveness, in order to build a strategy for intervention.

Piper in particular considered three different value chains in East Africa, describing the different strategies adopted in each case, according to the critical constraints identified:

- *Bananas:* too many middlemen involved in the chain, reducing the returns and market information available to farmers; as a result of streamlining the value chain, and other inputs, 2,500 farmers have increased their income from $100,000 to $250,000
- *Coffee:* a lack of quality meant that farm-gate price was low; a suite of interventions (specialist finance, technical inputs, policy changes etc.) raised quality, increasing prices by over 70%. Services to farmers are now being provided by a consumer cooperative, Kilicafe.
- *Cashew:* a lack of quality and processing capacity locally was about to lead to major loss of market share; establishment of local primary processors has created over 4,000 rural jobs, and secured a local market for 200,000 farmers.

Piper concluded that 5-7 years were required to build a self-sustaining, competitive value chain, and that each industry must be analysed separately. Indeed, his presentation illustrated the range of possible interventions, showing that there is no 'one size fits all' solution. Clearly, though, there were by implication losers in the change processes he described, including for example traders in bananas and cashews; on the other hand, those functions were probably not sustainable in the long term.

Meanwhile, many farmers and their families have benefited substantially, and the longer-term future is more secure. Again, the achievements reported by Piper were impressive, not least for the success in defining a strategy for the value chain as a whole, and for making it work in practice. This 'big picture' analysis and roll-out are surely important capabilities for the future of value chain development.

Other presenters also illustrated some key intervention lessons, including for example:

- Roggekamp, who described how a local association had been supported to identify a key constraint: lack of brood fish and fingerlings (very young fish). The association had then developed a sustainable market exchange for this key input
- Velten showed clearly the impacts of the growth of supermarkets in central America - a trend that may well be seen now and in the future in Asia and Africa; by assisting them to adapt to the changing situation, the project enabled 600 farmers to lift themselves and their families out of poverty
- Meier showed clearly the value of linking with distant markets, particularly to provide market information about standards for organic cotton

All of these presenters described markets where overall demand was not a key constraint; indeed, in some (e.g. organic cotton), lack of supply was clearly a binding constraint. This presented the projects with opportunities to support local producers and other stakeholders, so that they could act to meet this unsatisfied demand.

One issue that was discussed several times related to projects that had carried out their analysis, and that had moved from there to a range of interventions - but that were still not seeing good results. Giron described a very interesting case, for example, where the export market for high-quality sheanut butter was very buoyant and profitable; the women who produced the butter, however, did not see themselves as needing to be successful in business, or to meet this demand. Rather, they produced the butter for local consumption, selling only excess and low-quality production. While the potential was clearly there for pro-poor growth, therefore, it seemed that the cultural and social setting was not yet appropriate for project-style intervention.

Social responsibility in the value chain: Most of the presenters touched on both the poverty and gender dimensions of the value chains they were considering - arguing mostly (and convincingly) that the interventions were both pro-poor and pro-women. Indeed, the consensus seemed to be that up-grading of the value chains was generally a 'win-win' situation, where the mutual inter-dependence of producers, traders and others in the value chain ensured some degree of favourable outcomes for all concerned.

There was some discussion of likely size of market niches around Fair Trade and organic produce; some speakers, including those engaged in it on a daily basis, argued that the niches were large and expanding rapidly. Some participants, however, argued that the niches were relatively small, and unlikely to become mainstream in the near future. This discussion was not resolved during the Workshop.

How to measure outcomes? While most presenters reported on the impacts they had achieved, often in rather impressive terms (and as summarised above), there was little discussion of how those impacts had been measured. The form of presentation was largely plausible, with attribution being relatively evident; the causal chains were mostly clear, with interventions leading to very specific changes in the chain, which in turn led to the impacts reported.

However, external evaluations were not presented, nor was it clear in some cases how systemic and sustainable the impacts had been. Also, in the current climate of donor collaboration, one may expect that several agencies could be involved in the value chains described. In such circumstances, it is difficult (and perhaps impossible) for an individual agency to report on the impacts that it alone has achieved. Methodological challenges remain, therefore, but they should not be allowed to diminish the clear achievements and potential of the value chain development approach.

Other, more general observations: One participant commented that the value chains selected were almost exclusively agriculture-related; this largely reflects current practice, where agencies keen to address poverty (and particularly rural poverty) find themselves considering agriculture almost without alternative. There are some initiatives in tourism development, but they were not presented here. Manufactures mostly struggle to be competitive with offerings from China and India.

Relatively little mention was made of the specialised financial service products required at different points along the value chain; these could, for example, include crop insurance, warehouse receipts, and equipment leasing. A future workshop could perhaps include consideration of some of the more interesting innovations in these areas.

Finally, many of the presentations reported impressive results achieved to date, and several declared intentions to achieve greater scale in the near future. This was an important message for participants; value chain practitioners have often thought in terms of rather small interventions in the past, whereas donor agencies are increasingly expected to reach and benefit millions of people who currently live in poverty. The presentations in the Workshop showed that this is possible, and that it is being achieved.

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