ANALYSIS AND DEVELOPMENT OF
INCLUSIVE VALUE CHAINS
TO SUPPORT SMALL-SCALE PRODUCERS TO ACCESS AGRICULTURAL MARKETS

Information note
November 2011
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Analysis and development of inclusive value chains: 
"to support small-scale producers to access agricultural markets"

0. Executive summary

The value chain (VC) analysis and development can improve the living conditions of the rural population and contribute to food security. The key elements are: the knowledge of a sub-sector which will gradually be building up among the stakeholders, the confidence created among them and the resulting dynamics. The two main challenges consist in involving the stakeholder so that they appropriate the analysis tool and then in finding the right entry point for the analysis. This is the condition for this kind of exercise to be directed towards its goal - first and foremost the eradication of poverty, in accordance with the principal objective of our cooperation - whilst remaining rigorous in processing the information.

STRENGTHS AND PROSPECTS OF VC ANALYSIS

- The object of VC analysis and development for agricultural markets can be either export oriented agricultural commodities or import substitutes (intended for local consumption), they can be in particular food products (including those which had not previously been cultivated for the market); there are therefore numerous opportunities to apply this approach, provided that there are existing or prospective marketable surpluses.

- The flexibility of VC analysis extends further since it is possible to adapt it to more general fields, such as food security, environment and gender.

- VC analysis can also be combined with other approaches, especially those favouring local – primarily horizontal – coordination, known as clusters.1 These concepts are themselves useful in a local development approach (see example 10). They often lead to strategic alliances with the local authorities and forms of hybrid relations between producers in the same employment area: between competition and cooperation for certain functions (hence Porter’s term: "coopetition") in certain fields (purchases of inputs, transport, trade promotion, etc.). Finally, if the VC analysis takes particular care to study the situation in the rural environment (see Figure 14 concerning "sustainable livelihoods") and if it is part of a rural development or agricultural policy, it will increase its effectiveness considerably (leverage effects).

- VC analysis produces fairly vivid graphic presentations, charts, diagrams and summary tables, which are built up gradually during participative exercises. These enable the stakeholders to obtain a better grasp of the various operators which are to be taken into account, their functions and their importance, to identify the strengths and weaknesses of the VC, and to take part, with a full awareness of the facts, in knowledge formation and possibly decision-making processes. The resulting strategies can give rise to sustainable alliances.

- The fact of quantifying and measuring the costs and distribution of value added enables to avoid prejudices and errors of assessment, based on hypotheses which sometimes prove to far from reality.

1 According to Michael Porter, a cluster is a geographic concentration of interconnected businesses and associated institutions in a particular field, linked by common attributes and complementarities.
DIFFICULTIES AND RISKS ENTAILED IN VC ANALYSIS AND DEVELOPMENT

– It is no easy matter to define the role to be played by the public authorities of a developing country in the analysis and especially for the development of inclusive agricultural VCs. To improve the “business enabling environment” (laws, regulations, infrastructures, services) is undoubtedly a very concrete option, but it is also necessary to ensure that the VC approach does not take the place of a true sectoral framework policy.

– Simplification is necessary in VC analysis, as in any analysis-for-action approach; the difficulty consists of not disregarding significant contextual aspects. Taking into account the 3 worlds of agriculture as defined in the 2008 World Bank report,2 it will be clear that it is not possible to process a VC in Guatemala and a VC in South Korea in the same way, even though in both cases smallholder farming and the same product would be involved.

– Some parameters that are used may carry heavy consequences, as it could be the case, for example, for a cost reduction strategy. This strategy may contribute to improve the competitiveness, but the recommendations which may be inferred, if one is not careful, may lead directly or indirectly to worsening of working conditions.3

– Graphics may sometimes generate enthusiasm …and mask the inadequacy of certain analyses. On the other hand, critical review of the analysis requires a great deal of work and knowledge. Integrated methods (value links, for example) which imply group work minimise these risks, but they are demanding in terms of organisation and working time.

– In fact, VC development is a gradual process, calling for energy, consistency and time, for results which depend in part on … markets. In addition, this investment must not give rise to unduly high expectations especially concerning employment;4 rapid achievement of large-scale impacts is unlikely.

2 The three categories are: "agriculture-based", "transforming" and “urbanised”.

3 Cost reduction may be achieved in a variety of ways: reducing waste of all kinds, more efficient procedures, etc. On the other hand, cost reduction is not the only way of improving competitiveness: promoting the image of the product origin or making productive investments are others and the list is not exhaustive.

4 Posthumus, H. (2007). Can value chain development create rural employment and alleviate poverty?
1. **Introduction**  
**AN IMPORTED CONCEPT**

There is increasing talk of value chains in many very different fields, whether in the marketing environment or to deal with strategies in the motor industry …or again in the context of agriculture in developing countries.

It is of course this last case which is to be considered below, but the scope remains vast and varied since this concept is used to deal with staple agricultural commodities at global level (international forums) or in the drawing up of agricultural policies at regional or national levels. Value chain analysis is also relevant in local efforts at the level of planning for the economic development of a department, for example. The red thread in this document will be the VC analysis and development in combating poverty.

This information note will show how this concept of value chain (VC), which has been borrowed from the business management domain, can respond effectively to the concerns for development to assist small-scale rural producers of the developing countries to obtain better access to the markets.

**A FEW PRELIMINARY NOTIONS**

The specific nature of agriculture adds to the complexity of importing a model designed for other purposes: agriculture, especially in the developing countries, is a particularly high-risk activity, sometimes belittled and at the same time of vital importance (food supply), which is usually undertaken by families who do not necessarily follow simple economic logic. If this complexity is disregarded when postulating the problem, it may lead to it being poorly expressed and therefore to inappropriate approaches to solutions. The intention is not therefore to present the VC analysis and development as a miracle solution.

To establish some reference points that will be useful afterwards, a **value chain (VC)** is a **model (a representation)**; a **value chain analysis** is a **conceptual tool to draw up a strategy**; the **development of the value chain** is the **implementation** of the strategy … and a tool to combat poverty and lack of food security.

VC analysis, despite simple principles, is a complex **operation** and it requires preparation that exceeds the scope of this information note, which involves simplifications. It is intended primarily for those who might be in the position to commission and/or **use the VC analyses**.

**The general plan** is as follows:

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2. **Context and approach to VC analysis and development**

**A TOOL TO FIGHT POVERTY AND FOOD INSECURITY**

It is known that growth of the agriculture sector in developing countries contributes to alleviate poverty: this finding based on averages should not mask the fact that the agricultural models chosen and the conditions of access of the poor to resources and markets are decisive. In other words, **growth in agriculture will have effects in terms of alleviating poverty if the small-scale farmers participate in it by finding outlets.** However, improving sustainable access by small-scale producers to the markets and increasing the profits that they can obtain from this are precisely the general objective of the development of a VC as we consider it in this information note.

In this context, the existence of real or potential outlets is presupposed: it is important to emphasise straight away that these markets exist and that some of them are of vital importance. In fact, a very substantial proportion of the food that is imported into Africa could be produced within this Continent, undoubtedly with positive, not insignificant collateral effects on quality of diet (nutrition) and on maintaining biodiversity. At present, these imports amount to tens of billion euros, a situation which is untenable for the respective national economies and moreover does not prevent chronic malnutrition.

This shows that the objective of the inclusive development of agricultural VCs, as defined above, makes an essential contribution towards an overriding objective, **food security**, for both rural producers and consumers of developing countries.

The markets exist but even then it is necessary for the small-scale producers to be capable of supplying the required quantity and quality of marketable surpluses, in short to produce a supply which is likely to meet this demand. This is far from being the most frequent case in developing countries where family farming is still to large extent subsistence farming. There will therefore be a need to improve the quality, realise significant productivity gains, whether for land (inputs, irrigation, mechanisation) or for labour (training, organisation), which is feasible on condition that the financial status is sound, agricultural investments are granted and efforts are made for research and producer guidance.

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5 Comparative studies have shown that growth in agriculture in developing countries is 5 times more effective in reducing extreme poverty (<1 USD/day) than that of other sectors (combined in a “non-agricultural” aggregate) [Luc Christiaensen (UNU-WIDER), Lionel Demery (Development Consultant), Jesper Kuhl (Development Consultant) – UN presentation June 2010]. This statistic tallies with the finding presented in the World Development Report 2008 of The World Bank, which bases its analysis on the importance retained by agriculture in gross national product and in employment in most developing countries (up to 50% and 85% respectively): “For China, (…) aggregate growth originating in agriculture is estimated to have been 3.5 times more effective in reducing poverty than growth outside agriculture – and for Latin America 2.7 times more.”

6 To be more precise, the term “inclusive development of agricultural VC” could be used.

7 According to the Economic Commission for Africa, despite USD 3 billion in food aid and USD 33 billion in food imports, one African in three suffers from chronic malnutrition (Abuja Declaration, Nigeria – March 2010 – cited at the UN News Centre 11 March 2010). Malnutrition, which provides fertile ground for repeated infectious diseases, is considered to be a decisive factor in infant mortality: approximately half the 5 million deaths per year of children under five years of age in Africa are attributable to it.

8 This is undoubtedly reinforced by the massive food imports which initiate or reinforce nutritional habits unfavourable to sub-Saharan agriculture (the case of wheat in Senegal, for example) and direct financial resources outside local production channels.

9 In family farming, land productivity (per hectare) may for that matter often already be very satisfactory, with parcels of land exploited in near optimal fashion, whilst preserving a certain biodiversity. However, for slack of funding or motivation, the cultivated areas being limited, the productivity per person is low compared to that of intensive agriculture.

10 The Comprehensive Africa Agriculture Development Programme (CAADP) of the African Union provides for example that governments devote 10% of their budget to agriculture (Maputo Declaration – June 2004), which shows that agriculture is coming back into its own on the development agenda.
FROM MARKETS TO PRODUCTION

**VC analysis and development** deals with the production and marketing of a product, starting downstream (the markets), by seeking to ascertain final demand: who are and where are the real or potential customers, which products do they want, of what quality, etc.?

This concept of quality, considered here in the general sense, is particularly important, as agriculture in developing countries often yields large volumes of agricultural produce without high value added: integration in transformation processes may remedy this situation. It should be added that the agricultural commodities market is increasingly demanding, especially in the field of international trade, which requires compliance with very strict (public) regulations and encourages conformity with increasingly numerous, mandatory private standards.

The analysis will examine the various components of the VC: the products demanded, their cost, price, qualities, the flows of production, transformation and possible processing of by-products, but also the stakeholders involved in these operations, the processors, transporters, wholesale traders, retailers, ascertaining their number, their location and the regulations and standards that they apply. As will be shown, all this comes within the scope of VC analysis.

However, apart from these indications concerning what is consumed, transformed and produced and on the principal stakeholders, VC analysis will reveal constraints which very often prevent small-scale producers of developing countries from gaining market shares. The main constraints are: 1° scattering of the farms, which

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11 In VC analysis, reference will be made to specific products (shea, pineapples): during a preliminary phase, a comparison may be made between the respective advantages of committing to the development of one or other of these products, then the analysis concentrates on just one of them (reference is also made to sub-sectors, for example, the coffee sub-sector, the peanut sub-sector, horticulture, etc.).

12 Often, the small-scale producers are not able – or inclined – to meet these "transaction costs" which provide knowledge of the markets (prices, requirements, quality conditions, etc.) and enable their products to be sold in practice.
often entails dissuasive costs for supplying inputs and for transporting produce to the markets\textsuperscript{13}; 2\textsuperscript{°} market failures (for lack of transparency and also because small-scale producers do not know the prices at the appropriate times); 3\textsuperscript{°} asymmetry (with, for example, arbitrary fixing of prices by the distributors), 4\textsuperscript{°} distorted competition (unlawful agreements between large-scale producers; subsidisation of their competitors on the export markets); 5\textsuperscript{°} difficult access or use through ill-adapted infrastructure (transport, energy, warehousing). Smallholders have also to pay the levies, sometimes legal, sometimes not, which will affect the meagre profits they may realise under the difficult conditions indicated above.

**VC analysis is therefore, roughly speaking, an exercise which will draw up a diagnosis, by identifying, for a given product, quantities, values, flows, power relations and rules characterising its production and marketing.**

**THE FOCUS ON INCLUSIVE VC**

While the VC analysis progresses, a research phase will start to find the strategy which, in an inclusive perspective, will improve the situation for small-scale producers (or possibly for rural workers\textsuperscript{14}). This strategy may assume a very wide variety of forms and, as it will be shown, it is crucial during this phase to choose the relevant objective and the right "entry point". The two points mentioned are different, but equally important, as can be seen from the following two examples:

- Taking as an "objective" the development of horticultural production in a given developing country does not represent any major difficulties. On the other hand, doing so whilst ensuring that the small-scale producers\textsuperscript{15} are involved and that they obtain a decent, sustainable income while respecting the environment, is another matter far more complicated.

- As for the "entry point", it is possible to act in an inclusive perspective in relation to an aspect which is quite remote from the small-scale producer: seeking to promote a product in the context of a niche business on a foreign market, for example.

However, whatever the objective and the entry point, it is clear that an essential aspect of the process of analysis and drawing up the strategy is the active participation from the start of representatives of small-scale producers.

For the implementation of the strategy (the development of the VC), it is possible to use instruments which are part of the same family – which can be termed as "market access facilitation" – and which dovetail perfectly with these ways of thinking. Without being exhaustive, mention can be made of: market information systems (MIS), agricultural commodities exchanges, the warehouse receipt system (WRS) and agricultural insurance.

Once again, it should be noted that recent studies show that these "market access facilitation" instruments have a common feature, apart from the general theme, which is the need to involve farmers’ organisations to ensure quality.

\\textsuperscript{13} Peasants buy their supplies at retail prices and sell their produce at wholesale prices.

\textsuperscript{14} Considering the "banana" VC in Côte d'Ivoire or Cameroon, where production is essentially undertaken on large plantations, the inclusive approach will relate to maintenance and employment conditions.

\textsuperscript{15} The ValueLinks Manual (GTZ) establishes the following distinction: inclusive growth (pro poor) is said to be "relative" when the income of the poorest progresses faster than that of the other categories. Inclusive growth is said to be "absolute" when the income of the poor passes above the poverty threshold, without necessarily increasing their respective share in national income.
3. Conceptual aspects of VC analysis and development

DEFINITIONS

**Functional definition**: the value chain describes the full range of activities which are required to bring a product or service from its conception, through the different phases of production (involving a combination of physical transformation and the input of various services), delivery to final consumers, and final disposal after use. At each stage considered, there is value added (hence the term VC).

**Definition by the stakeholders**: the value chain, according to GTZ in its "ValueLinks" Manual, is also the full range of parties involved, who perform the functions listed above (producers, processors, dealers, distributors, wholesalers, retailers of a given product). These chain stakeholders are linked by a series of trade relations which ensure the movement of the product from the primary producers to the final consumers. According to this point of view, which gives precedence to the sequence of functions and the respective stakeholders, a value chain takes the form of a series of links.

**VC analysis** (reminder): consists in the study of the structure and dynamics of the VC with a view to drawing up a strategy or an approach to the VC.

**VC development**: implements a strategy to meet the constraints and/or to benefit from opportunities at multiple levels of the VC.

Three key concepts that are useful for a clear understanding:

1. **The horizontal and vertical axes of the VC**: when VC stakeholders located at different stages of the chain establish links with one another (between suppliers of inputs and producers, for example), these are vertical relationships. They may range from merely "passing on information" to more significant coordination at various degrees of vertical integration. When relationships are established at the same level (for example, between production cooperatives to reduce certain costs), this is likewise coordination or, depending on their significance, horizontal integration.

2. **Governance** of the VC: describes the relationships which may evolve between those who are in a position to set the conditions of the transactions at various stages of the VC or even for all of it and the other stakeholders (see "structure and dynamics" below).

3. **Competitiveness**: the capacity of an enterprise, a sector or an area to provide and sell, on a sustainable basis, one or more marketable goods or services on a given market under conditions of competition.

CONCEPTS

- **The “filière” approach**

  The National Institute developed this method, which is close to VC analysis, in the 1950s in France for Agricultural Research (INRA) and the Centre for International Cooperation in Agronomical Research for Development (CIRAD) and subsequently in French-speaking Africa.

  - **In the technical sense**, it is the study of the transformation process from the raw material to the finished product allowing the identification of the improvements to be made.
  - **In the financial sense**, the analysis relates to the cash volumes and flows (existing or planned) and provides useful information to allow comparison of different products or different chain development strategies.
  - **Through economic analysis**, an evaluation is carried out of the internal contributions between intermediate consumption and production starting from a raw material and ending with a finished product and the contribution of the sector to the economy (GDP) of a country.
  - **The strategic analysis** focuses on the objectives, constraints and results of the various stakeholders of the sector, the types of organisation and regulation.

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16 In this context, this French vocable means a sector of activity with a network nuance
• The commodity systems approach

At about the same time (1950s), the commodity systems approach appeared which is centred on the vertical dimension of agricultural production and leads to the agri-business concept.

• Porter’s competitive advantage

The American Michael Porter,17 who aims to promote firms’ competitiveness, considers the production process more broadly and more systematically: he takes into account what he considers to be the main activities (the internal and external logistical aspects surrounding production, marketing, sales, after-sales services) and the support activities of firms (the firm’s infrastructure, the human resource management, the design and methods of supply of inputs).

Considering that the concept of competitiveness applies not only to the firm, but also to the economic sector, this representation by Porter (see Figure 3) has developed beyond business management.

• Global value chain

More recently, researchers18 applied the VC concept to globalisation, considering its utility to highlight the distribution of value added throughout the VC of an agricultural commodity for export (coffee, cocoa, bananas, cotton, etc.) and to show the degree of integration of a given region in the global economy.

• VC analysis as a tool to combat poverty

As said before, originally VC analysis was not an instrument intended to combat poverty: it comes from a field that aims essentially to maximise profits and retain or increase market shares, a very different option from that which generally characterises the production systems of the small-scale producers. To adapt it, it is necessary to adopt the idea that is clearly expressed in the premises of the GTZ ValueLinks Manual: the concept of pro-poor growth is based on the conviction that only economic growth and commercial success of the poor are capable of providing a lasting solution to the problem of poverty.

This assumption calls for some comments:

1. The renewed interest19 in this kind of approach in the context of the "return of agriculture to the development agenda"20 is understandable: the results of the process of liberalisation of the economies of the developing countries in the 1980s and 1990s were somehow unsatisfactory and, during this period, agriculture was overlooked in relative terms as regards both development actions and methodology. Consequently, the development community is looking for effective methods to address this sector. In this context, there may be a risk of a short-lived burst of enthusiasm or of overestimating the role of VC analysis and development. After all, this concept has already existed for some time in the context of agricultural development with slightly different forms: "filières" in the French-speaking area or "supply chain" in the English-speaking world, for example. There are of course some differences in the concepts but it will be essentially the way of using this refashioned instrument which could transform it into a "pro-poor" instrument.

2. It is understandable that VC analysis and development, in which the respective roles of the State (relatively minor) and the private sector (called on to organise itself) is necessarily re-examined, do not constitute an exclusively technical - and still less a purely scientific - approach. The manner of integrating VC analysis and development into the drawing up of a policy for the agriculture sector must be observed carefully: in fact,

with this approach, the role of the public authorities should not consist in sending the VC stakeholders back-to-back, i.e. the dominant (generally the processors and distributors) and the dominated (small-scale producers).

**VC ANALYSIS COMPONENTS**

- **Diagrams, charts, mapping**

VC analysis is about observations and calculations that are sometimes laborious, but it uses and produces a **large number of graphical representations**. The mapping of a VC is moreover a preferred instrument that allows the information to be summarised and shared among the parties concerned.

This desire to illustrate a VC may go as far as making it a didactical or a lobbying tool which can be questionable in terms of accuracy but quite effective as in the case of the diagram below.

![Diagram of VC](image1)

*Figure 2- Source: Presentation at the artisans of the world days November 2005 – solidarity among peoples – Economic alternatives – Carrefour – Max Havelaar*

More than for its "historic" importance (see "Chapter 2 "Development of the Concepts"), the Porter’s diagram is shown below as it illustrates what Porter considered to be essential and was subsequently transposed into wider contexts: clear identification and classification of the functions to be able to study their contributions to making profits whilst stressing the needs for coordination.

![Porter's Diagram](image2)

*Figure 3 - Source: Porter M., Competitive advantage*

- **The VC as a system** (see **EXAMPLE 1** below of the ALOE produced in KENYA)

A VC is assimilated to a system, of which it may be helpful to recall the definition: it is a set of components and a network of functional relationships that interact to achieve an objective.
The following categories are used for VC analysis: demarcation of the boundaries, structure (descriptive elements of the relationships internal and external to the VC which provide a basis for the diagnosis) and dynamics of the VC (the strategic efforts which can be made for the development of a VC), as well as the results (effects) of its development.

Note: All the points below are to be considered at local, national or international level, depending on the product in question.

- **Demarcation of the boundaries** of the VC

  It is essential to determine precisely the object and the relevant contextual aspects of the analysis, since this exercise represents an investment and fits naturally into a process leading to the development of the VC, which represents an even more arduous and demanding effort. The product choice is crucial and must be precise: different conclusions may be reached according to whether the plan is to support, for example, livestock products, dairy products ... or small-scale cheese production. The knowledge of the context is also essential: the cotton-growing system is very different between Uganda and Mali, for example (see **EXAMPLE 2: COTTON SECTORS in AFRICA** below). Finally, the international constraints and opportunities are sometimes decisive: for example, the new rules governing the entry in the European market of bananas from South American countries have a clear effect for the ACP countries’ producers; the exchange rate variations, may have also have its importance, etc.

- **The structure** of the VC

  Final demand: the information on retailers and/or wholesalers constitutes the starting point of the analysis.

  Business environment: this refers, for example, to the business registration procedures, the laws, regulations and standards which apply, where appropriate the relevant international treaties for commodities for export, the commercial courts, the quality of the infrastructures for transport and warehousing... but also the degree of corruption in the public administrations.

  Vertical and horizontal links: as regards vertical links the focus will be on how the stakeholders are organised at the various levels of the VC, for example: between the producers and the processors (lack of contacts? verbal agreements? contracts?). For the horizontal links, the degree of association will be dealt with (cooperatives, individual farms, etc.).

  Support services: this refers principally to credit and technical assistance in its various forms.

- **Dynamics** of the VC

  Improvement of the VC: this is the traditional approach in which competitiveness improvements are sought.

  Governance and power relations of the VC: It is first established who is possibly dominant in the VC by referring to a type of governance. For this purpose, 4 traditional configurations are taken as a basis (see **EXAMPLE 3: TYPES of GOVERNANCE** below): open, balanced, dominated, hierarchical.

  Secondly, the balance of power in the VC, the participations and the remunerations for past and future efforts are assessed. Where appropriate, the possible ways of restoring the balance in favour of small-scale producers are considered.

  Cooperation-competition between stakeholders: the possibilities and possible consequences of strengthening horizontal and vertical links are assessed.

  Transfer of information: experience having shown that information was essential, it is a matter of seeing how to organise "knowledge management" in a relevant fashion between the various levels and the various stakeholders of the VC.

- **The effects of developing a VC**

  Even though the analysis and subsequently the development of VC may have an impact in a very wide variety of fields (employment, food security, etc.), for the sake of clarity, these can be summarised in two key results: competitiveness and benefits. These results have a frequently dynamic interrelationship.

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21 This term of benefit must nevertheless be understood in the broad sense because it will apply in this context for stakeholders whose ultimate aim is not to maximise profits but the earned income of the family. It would be more accurate – but less practical – to refer to "financial and economic benefits for the various stakeholders".
EXAMPLE 1: MAPPING of ALOE in KENYA. The profile mapping of the VC permits a review of the aspects considered above. The product considered here is aloe vera (a succulent plant used mainly in the cosmetics industry) produced in Kenya, which pastoralists harvest during their travels for export (demarcation). The complete structure is seen distributed along three horizontal rows: in the middle row of the VC, i.e. the various stakeholders (from the final market to the left, the buyers in Europe, to the producers of aloe vera in Kenya), with an indication of the price at each stage. The top row characterises the business environment (note the mention of corruption). The bottom row shows the support services for the VC. The dynamics are represented by the bold dotted arrow which indicates the strategy (to eliminate one stage, the intermediary in South Africa).


According to the authors of the analysis, with the help of the diagram, the pastoralists have (1) understood that the processors were not exploiting them (topic relating to governance); (2) they found that to take advantage of the prices practised on the world market, it was in their interests to obtain CITES certification and to increase the quality of the product supplied. In doing so, production could be processed under optimum conditions and sales could be made directly via Mombassa, without passing via South Africa, thereby cutting costs (shortening of the VC) and obtaining better prices.

EXAMPLE 2: COTTON SECTORS in AFRICA. In the context of a study co-financed by the EU, the World Bank drew up a cotton sector typology for various African countries. The liberalisation and privatisation process which has taken place since the 1990s had varied results which are shown in the diagram below: this lists countries where the State has retained a "pivotal" role in the purchase of cotton from the producers (national monopolies or distributed by regions) and others where the cotton sector is distinctly more market-based (whether it is competitive or characterised by a certain degree of concentration). These various situations which still fluctuate (as illustrated by the dotted arrows) do not prevent finding joint actions to assist the African cotton sector, but it is clear that support for cotton devised for a given country will have to take into account, among other factors, this specific VC structure in the country considered. The demarcation of the VC is therefore a factor to be specified from the start.

EXAMPLE 3: TYPES OF VC GOVERNANCE. The diagram illustrates 4 types of governance in VC: open structure (the market fixes the relations between the stakeholders and also the price), balanced structure (the stakeholders are complementary and cooperate), dominated structure (one firm establishes the parameters to follow), hierarchical structure (the various levels are integrated vertically; the dominant firm gives the orders). It is interesting to observe on the bottom line the matching development in coordination and asymmetry (the high degree of power) from the left with an open market situation where competition reigns (no coordination but no abusive position assumed) to the other extreme where only one stakeholder holds all the power and all the stakeholders work in a coordinated fashion. It is clear, without making it a universal rule, that the median situation is more advantageous for small-scale producers, mixing distribution of power and coordination.


4. **Standard procedure for VC analysis and development**

Apart from the *ad hoc* methods developed and used by the authors of specific studies in the context of their research, there are "integrated" methods that suggest following milestones, which can become familiar to all the stakeholders, thereby promoting their participation. The most commonly used include: 23 GTZ’s "value links", FAO’s "Agrifood Chain Performance" and "Easypol", and DFID’s "Making Value Chains Working for the Poor M4P", the Dutch institute KIT’s "Supporting African farmers to develop markets" and the recent methodological guide published by the World Bank "A guide to value chain concepts and applications".

It is not possible in the context of this information note to describe and compare these methods or to explain all the stages but, even if there are no strict rules concerning the way of tackling VC analysis and development, a standard procedure can be drawn up in four stages (see examples below):

1. On the basis of studies and working meetings with the parties concerned, a comparative table is drawn up of the various sub-sectors leading to the selection of a particular sub-sector (example 4), which will be the subject of the in-depth analysis. The criteria used are technical and financial, but the two main ones will be firstly market opportunities (there is a significant, unsatisfied demand, which is accessible with a certain amount of effort, etc.) and the probable impact in terms of poverty alleviation (income, jobs created and maintained, food security).

2. The sub-sector chosen during the first stage is the subject of an in-depth analysis (example 5), which is both econometric (the flow of commodities and creation of value added in particular will be calculated) and participative (in which the various stakeholders will, for example, give their points of view on the various stages of the commodity and the performances of each operator). This stage will permit better comprehension of the constraints of family farming confronted by ever more demanding marketing. VC analysis has to inform on the dynamics of the situations. In fact, the market requirements which have just been mentioned can be seen as "mere" obstacles to overcome, challenges in the light of greater demands in terms of quality, volume and regularity, but they may also constitute threats, such as the growing domination of certain brands (imposing, for example, their private standards, monopolising the distribution channels), and may in time represent a loss of margin of manoeuvre and subjection to those giving the orders ("standard bearer - standard taker").

3. The following stage involves searching for and then identifying the opportunities which are within the capability of family farming, followed by drawing up a strategy, choosing an entry point, relying on the advantages: organisation, access to modern information and communication technologies, low production costs, knowledge transfer to be hoped for by integrating certain sectors, etc.

4. The final stage is that of the implementation of the strategy or, in other words, VC development, accompanied by its monitoring and evaluation process.

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23 The detailed references are listed in Chapter 7.

24 …or commodities or sectors, these terms are more or less synonymous in this context.
EXAMPLE 4: CHOICE OF SUB-SECTOR In the table below, it is seen how the choice can be made between several commodities (or sub-sectors) placed in columns and several criteria set out in rows. These criteria are grouped into two categories, the first concerning the effect on poverty alleviation and sustainability and the second positive aspects of the structure of the VC. Each score refers to the order of priority (from 1 to 6, since there are 6 commodities). Rice and silk achieve the best scores in this case. Weightings are generally used which accentuate the importance of certain criteria deemed to be essential.

The results of the priority setting exercise indicated that Silk and Rice were the two commodities most appropriate for study under the pilot project.

<table>
<thead>
<tr>
<th>Type of Impact</th>
<th>Rice</th>
<th>Cassava</th>
<th>Rubber</th>
<th>Beef</th>
<th>Silk</th>
<th>Broilers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty and Sustainability</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Availability of Natural Resources,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within Framework of Regional</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Strategies (Clusters, OTOP etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential for Labor Intensive</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of People Involved in Industry</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>(Poor People)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future Potential</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Sub-Total Poverty and Sustainability</td>
<td>2.8</td>
<td>4.4</td>
<td>3.2</td>
<td>5</td>
<td>1.6</td>
<td>4</td>
</tr>
</tbody>
</table>

| Structure of Chain                   |      |         |        |      |      |          |
| Extent of Value Adding Potential     | 4    | 5       | 2      | 6    | 1    | 3        |
| (Profitability, Stability)           |      |         |        |      |      |          |
| Number of Different Products Produced| 5    | 2       | 3      | 6    | 1    | 4        |
| Length of Marketing Chain,           |      |         |        |      |      |          |
| Number of Intermediaries             | 6    | 2       | 3      | 4    | 1    | 5        |
| Maturity of Industry in Region       | 2    | 3       | 6      | 5    | 1    | 4        |
| Marketing Potential                  | 3    | 7       | 4      | 1    | 2    |          |
| Lack of Previous Research            | 6    | 3       | 2      | 1    | 4    | 5        |
| Data Availability                    | 1    | 5       | 6      | 4    | 2    |          |
| Potential for "Lessons Learned" /    |      |         |        |      |      |          |
| Replication of Mechanisms            | 2    | 4       | 5      | 6    | 1    | 3        |
| Sub-Total Chain Structure            | 3.6  | 3.4     | 3.9    | 4.9  | 1.8  | 3.6      |
| Ranking                              | 3.3  | 3.8     | 3.6    | 4.9  | 1.7  | 3.7      |

Figure 7 – Source: DFID (2008) Making Value Chains Work Better for the Poor: A Toolbook for Practitioners of Value Chain Analysis. (Based on a selection of VCs by the Economic and Social Council of Thailand) short version (page 19).
EXAMPLE 5: In-depth ANALYSIS of the VC. This requires data collection and processing and often specific skills regarding the sub-sector examined, especially because it is sometimes necessary to establish reasonable approximations when certain data are missing (and therefore to use sound experience on which to base the working hypotheses). This part is often a matter for specialists even though it is possible with rigorousness, commonsense and team work to achieve a satisfactory result. Some IT tools may prove to be useful such as those described on the FAO EASYPOL site.

a) The starting point is the flow analysis. Here is a fairly typical table showing the entire VC for rice production in Niger.

Figure 8 – Source: FAO Easypol Module 43 Constructing the Commodity Chain: Functional Analysis and Flow Chart (Figure 4)

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25 Obviously, the effort and complexity are related to the economic importance, the dispersal and the number of stakeholders in the sector and the number of stages: the cases presented by the FAO in EASYPOL are rice in Niger and suburban horticulture in Mali: both giving rise to quite impressive calculation tables. For more limited cases, for example the harvesting and sale of aloe vera in Kenya dealt with above, the necessary data are less complex.
b) **The financial analysis** then enables the costs and value added to be calculated and presented at each stage.

It is necessary here to introduce the concept of **value added (VA)**: for a given stakeholder of the VC, this is the difference between the value of its production and the value of intermediate consumption;\(^{26}\) it can also be shown at each stage, as the sum of the remuneration paid to the State (taxes, customs duties), the capital (financial costs resulting from a loan to carry out the operation) and to labour (salaries of any staff) and finally the stakeholder (its gross margin, from which it is necessary to deduct the depreciation of the equipment and infrastructures to calculate the net margin) (see Figure 9).

In addition, for a given VC, the **total VA of a VC is the sum of the VA of the stakeholders of the VC**.

\(^{26}\) Intermediate consumption refers to the goods to be consumed when a given stakeholder of the VC carries out his operation. For a processor, for example, it will be the product supplied by the primary producer and other goods necessary for his work.
This way of presenting the VC, in addition to taking stock, allows the strategies to be explored: it is possible to contemplate increasing the VA of the VC by increasing sales; it is possible to recover VA captured by suppliers. It is also possible, for a given stakeholder (the producer, for example) to focus on cost reduction so that the profit is higher, etc. These various options are taken up again below.

c) The participative analysis aims to provide a better understanding of the situations and relations between the stakeholders of the VC. Based on questionnaires or working sessions, it can in particular highlight the strengths and weaknesses of the various stakeholders, taking account of the mutual perceptions (see Figure 11).

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**Crossed perceptions of performance in a VC**

In this generic case, the buyers (dotted lines) complain mainly about two aspects, the quality of the product supplied and the delivery times, whereas the producers considered that they are efficient: targeting these two aspects may obviously be a way to improve the chain and can serve as a working hypothesis for the next stage.

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Figure 10 – Source: according to GTZ/Springer-Heinze, A. et al. (2007) ValueLinks Manual. (Module 2, p. 20)

Figure 11 – Source: according to ILO/Schmitz, H. (2005) Value Chain Analysis for Policy-Makers and Practitioners (page 17).
EXAMPLE 6: drawing up the STRATEGY. The VALUE LINKS method already cited, which was devised by GTZ, proposes 4 standard options, which are not necessarily mutually exclusive: product improvement, cost reduction, investment, and redistribution. To illustrate these options, the first and fourth are shown below.

**Box 3.2 Template: Product development/Quality upgrading strategy**

In this **product improvement** option, the aim is to increase volumes and sales prices. Solidarity is sought between all the stakeholders of the VC, who are required to respect new quality standards and will benefit from additional income.

**Box 3.5 Template: Redistribution strategy**

In this **redistribution** option, the aim is to improve the position of small-scale producers by promoting their associations; giving them the means to process part of their production themselves, by improving the terms of contracts which bind them to the other stakeholders. These activities should enable them to "gain part of the value added" of the VC. As such it is a "zero-sum game" which has no effect on raising the level of confidence between the stakeholders.

Figure 12 (a, b) – Source: according to GTZ/Springer-Heinze, A. et al. (2007) ValueLinks manual (module 3 pages 6-7).

EXAMPLE 7: DEVELOPMENT of the VC. This refers to the implementation of the strategy and accompanying activities with in particular the monitoring-evaluation process.

**Mango marketing channels in Pemalang before institutional innovation**

![Diagram showing mango marketing channels in Pemalang before institutional innovation]

VC analysis led to a partnership strategy with a wholesaler, Bimandiri (14, b), which provides technical assistance and ensures an outlet in a distribution chain (better prices, increase in volumes).
A cooperative (Aspirasi Bina Usaha) takes care of temporary warehousing of the harvest.

After a certain time, some producers decide to follow a more demanding quality approach (they set up a group KUBM and find other outlets), while others content themselves with the results achieved; the chain becomes more complex.
5. **Uses of VC analysis and development**

Without being exhaustive, the following list explores the main areas in which VC analysis and development can be used.

**SECTORAL POLICY IN AGRICULTURE**

Sponsoring a VC analysis may provide very useful "food for thought" for political decision-makers on the opportunities and constraints of the sub-sectors. Obviously, this cannot constitute an end in itself for the public authorities, but it is possibly a way of tackling the agricultural policy through a stimulating and pragmatic approach.

**EXAMPLE 8: GHANA – FASDEP.** Ghana recorded has experienced avigorous growth in agriculture, which largely explains its good results regarding poverty alleviation. Working with the VC concept is highly ranked amid the strategic orientations of the Ghana Food and Agriculture Sector Development Policy (FASDEP II – 2007). This approach has already encountered a relative success for the cocoa sub-sector (in spite of ageing of the plantations, the difficulty for young people to gain access to this sub-sector and problems of smuggling with Côte d'Ivoire). The sub-sector is organised around the Ghana Cocoa Board (Cocobod) which fixes the prices and which is constituted as a joint structure with all the VC stakeholders with a dominant representation of the State,. Based on partial liberalisation, it is therefore a hybrid system (also see EXAMPLE 2, African cotton). Without giving a categorical response, a study by the British Overseas Development Institute (ODI)\(^27\) asks the question: Was there evidence that the present arrangement provides a superior combination of competition and State regulation?

**EXAMPLE 9 : BENIN – RICE.** Benin is also an example where a government has committed to supporting rice\(^28\) - a sub-sector of crucial importance - under an agricultural policy (Strategic Plan to Revive the Agricultural Sector). Rice has been chosen for its dynamism (30% growth in the past ten years) and its capacity to avoid massive imports. Analysis and development of the VC therefore takes account of the local (40% of rice is still imported) and the regional markets.

**LOCAL PLANNING**

The majority of integrated methods (Value Links, etc.) can be adapted to participative planning approaches at local level.

**EXAMPLE 10: Northern SIERRA LEONE – RICE.** As part of a project involving the rice sub-sector in 3 districts of Northern Sierra Leone, financed by the EU (CRIS D-21494) and implemented by CARE (Netherlands). The chosen strategy is to strengthen the links between the various private and public stakeholders to deal with the critical points of the VC and especially the quality of the seed and the post-harvest arrangements, as well as marketing aspects.

**LOCAL ECONOMIC DEVELOPMENT**

The development of VC leads to practical measures that test not only the key VC stakeholders, but also the public authorities. Because they are often more accessible for producer groups, the local authorities may then enter into a facilitation process which is at the basis of local economic development.

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\(^{27}\) ODI/ Vigneri M et al. (2007) *Ghana and the cocoa marketing dilemma: What has liberalisation without price competition achieved?* ODI Project briefing.

\(^{28}\) Action in receipt of EU support with the PAFIRIZ project, implemented with Belgian technical cooperation.
EXAMPLE 11: MOZAMBIQUE (Nampula) – CASHEWS. A cashew value chain in Nampula Province, Mozambique, supported by Dutch cooperation (SNV). The post-analysis strategy opted for a production increase and product improvement. A processing unit was set up and production was directed in part towards fair trade. One of the main weaknesses identified during the VC analysis was the lack of legal documentation of the producer organisations. Thanks to negotiations launched with the local authorities, the producer associations were able to obtain all they needed to receive the FLO label (Fairtrade Labelling Organisation) and to obtain funding. The local authorities, for which this procedure was a first experience in this kind of support, granted the juridical recognition: it may interesting to note that they thought that they were not entitled to do so. This progress naturally has consequences for other sub-sectors and for the local economic development of this province in general.

INTEGRATION OF PRODUCER ORGANISATIONS

For the producer organisations and rural workers unions, VC analysis may be a useful instrument to assess situations (regarding matters of governance, for example) and prospects, not only in the field of agricultural commodities for export, but also for other production. It also provides a basis for stronger horizontal integration in the sub-sector at local level (see clusters) or vertical integration, in an inter-branch organisation, for example.

EXAMPLE 12: BURKINA FASO – COTTON INTER-BRANCH ORGANISATION. The African cotton sector (with its diversity of situations mentioned above: see EXAMPLE 2) is dependent on international market fluctuations. It is affected by upturns and downturns (at present the price is particularly high and the sector is picking up again). Fixing the prices paid to producers is a particularly complex process, especially in West Africa where monopolies or oligopolies have remained. To put it briefly, if the prices fixed in advance are too high, they may lead to bankruptcies or to bail-outs with public funds. If the prices keep strictly in line with the market, many producers, ill-inclined to take risks, abandon production, without having an alternative. Analyses of the cotton sector in Burkina Faso have encouraged producers to regroup and then to join with other stakeholders of the sector in an inter-branch organisation (Association Interprofessionnelle du Coton du Burkina Faso - AICB). They received support from French cooperation in setting up a price "smoothing" fund (called in French "fonds de lissage" this scheme is based on a floor price: producers contribute to the fund when the price exceeds 101% of the floor price and the fund compensates producers when the price reaches 95% of the floor price). This is a compromise since the price provided states below that applied previously, but the distribution between factories and producers has been revised in favour of the latter, as too have the dates of payment.

RESEARCH

The development institutes, research centres, certain specific programmes (DFID’s M4P, for example) carry out VC analysis and use it intensively in the context of studies on individual sub-sectors or to perfect and systematise the analysis approaches. Generally, the researchers point out the pragmatism of the VC approach.

EXAMPLE 13: NETHERLANDS - Royal Tropical Institute (KIT). Several institutes have drawn up methods and studies devoted specifically to VCs which may be consulted on the Internet. For example, the Royal Tropical Institute of the Netherlands (http://portals.kit.nl/) proposes a wide range of analyses (grouped around 6 themes) and has set up discussion groups (facebook) and projects.

DONOR SUPPORT FOR VC DEVELOPMENT

Donors sponsor VC analyses or use the results of analyses already carried out either to evaluate the effects of the measures conducted or with a view to providing support for a country or region.

EXAMPLE 14: TANZANIA – Trade and Agriculture Support Programme TASP II (5 VCs). Under the agriculture support programme of Tanzania, a VC analysis preceded the definition of the Trade and Agriculture Support Programme (TASP II – amount EUR 15 million) proposed for EU funding. Five VCs (out of 8 pre-selected) will receive support to comply with the imperatives of European and regional markets (tea, coffee, cotton, fish, fruit and vegetables) and one of these VCs (fruit and vegetables) will be developed in depth. This analysis allowed various sub-sectors to be reviewed and a better understanding of the constraints and potential,

especially in terms of combating poverty. It has also enabled public and private partners to be brought together to
deal with concrete issues. One of the challenges of this programme will be the practical implementation of the
inclusive approach: the strong involvement of organisations of small-scale producers from the start is a good
way to "stay on course".
6. **Observations concerning VC analysis and development**

**RECENT TRENDS IN VCs**

- **Dominance:** the stakeholders situated downstream in the VCs, the processors or traders, are increasingly dominant. It is they who decide on the improvements to the production process, who dictate the new rules to follow, especially those which take the form of "private standards", who establish new distributions of roles and who may relocate part of the production and transformation process.

- **Concentration:** in a context of heavy pressure on retail prices, the large dominant firms try to oust the others from the market. This corresponds less and less to the model of perfect competition and often firms will emerge as oligopsonies (demand for goods) and oligopolies (supply on the final market).

For bananas, 5 firms account for 80% of international trade, for cocoa, 5 stakeholders purchase 60% of the harvest exported and for coffee, 5 roasting firms share 80% of the world market.

The distribution of value added along the VCs illustrates these first two trends: for coffee, cocoa and bananas, for example, producers receive between 10% and 15% of the added value, whereas the processors and distributors share approximately 30% to 40%, with an upwards trend in this share. This trend is accompanied by increasingly high costs for marketing, especially to differentiate the product, create a brand or a special type of consumption (cafe latte, for example).

On the other hand, certain economists call for the adoption of less cut-and-dried conclusions concerning the question of distribution of the final sales price between producers and other stakeholders: with the productivity gains from coffee, for example, the production costs tend to stagnate or fall whereas the transformation and distribution costs increase.

- **The growing role of large-scale distributors** also illustrates the dominance and concentration at the end of the chain. This phenomenon is observed at both international level and in the developing countries: in Kenya, for example, 200 supermarkets and 10 hypermarkets already share 30% of the retail trade.

- **Externalisation:** in certain VCs, vertical integration\(^{30}\) is no more the model and a new division of tasks and responsibilities is emerging. This strategy is considered to be more efficient, allowing the various stakeholders to concentrate on their trade and therefore on their field of excellence. It is not, by all means, an egalitarian structure and often the dominating firms retain control over the key components of the VC.

- **Greater market demands:** The dominant firms tend to pass on to the small-scale producers the costs incurred from complying to public standards which contain the health requirements in international trade. On the other hand, for some years, private standards concerning the environment and workers’ rights have been multiplying. Originally, they relate to consumers’ preoccupations relayed by NGOs, but for the large-scale distributors it is above all a matter of marketing. In any case, compliance with standards represents a far from insignificant cost (up to USD 200 for a small-scale producer from Central America to comply with GlobalGAP, for example). In addition, these phenomena show the paramount importance of information management (on what needs to be done to reach the market) and therefore of the means (ICT) of obtaining access to it and ensuring that it is circulated.

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\(^{30}\) Vertical integration, to recap, consists of an alliance between the various types of stakeholders upstream and downstream in the VC (for example: producers, processors, traders).
The cost of certifications and labels of origin, organic farming and ethical trading,\(^{31}\) may also represent a burden which may deter small-scale producers even if these approaches are more akin to investments (it represents a choice) than public or public standards compliance.

- **Growth in organic and ethical markets:** They are still small – and imply significant efforts (see previous point) on the part of small-scale producers – however, they grow very fast. According to IFOAM (International Federation of Organic Agriculture Movements),\(^ {32}\) the total sales from organic farming has tripled in 8 years (USD 46 billion in 2009) and fair trade is progressing even faster, even though the total sales only account for approximately one tenth of the organic market (EUR 2.9 billion in 2008). Moreover, a study has shown that small-scale producers could benefit from ethical trading opportunities and receive higher and more stable incomes on condition that they organise themselves (or are already organised) and are capable of ensuring the required quality and regularity.

- **As regards the method of approaching the VC,** it is found that although remaining "inclusive", the small-scale producers do not necessarily constitute the exclusive "entry point". The case of PIP (Fruit and Vegetable Quality and Compliance, phase 2 – financed by the EDF, implemented by COLEACP) illustrates this option: thanks to the method of intervention used, the support of this programme, which is intended initially to facilitate access to the European market and targets first and foremost national exporters of fruit and vegetables, probably gives rise to more numerous and sustainable spin-offs than direct intervention in relation to the small-scale producers would have done. Continuing this momentum, PIP phase 2 aims to promote exports to regional markets and improve the integration of small-scale producers in the distribution channels.

**EXAMPLE 15: "TASK FORCES" – fruit and vegetables sectors.** Meeting the growing health demands made by the European market and certain private reference standards requires the coordinated intervention of the public and private sectors: the PIP programme aims to promote the emergence and support the activities of platforms grouping together the private stakeholders of the fruit and vegetables sectors (trade organisations, exporters, etc) and the public authorities concerned. Such agreements (Task Forces) were created in particular in Kenya, Ghana, Mali, Côte d’Ivoire, Cameroon, Uganda and Zimbabwe. Since the requirements are to a large extent common, regional workshops are organised to prepare the interpretation guides for the "Global Gap"\(^ {33}\) standard.

In other cases, an analysis focusing on the strengths and weaknesses of the VC stakeholders can lead to subsidising one of them on condition that it enters into a moral and financial commitment to improve the entire VC; these are initiatives which come under public-private partnerships (PPPs). Examples are to be found on the websites devoted to the "Global Development Alliance" (USAID), the "Business Linkage Challenge Fund" (DFID) and certain GTZ projects. It is an approach which is designed to be pragmatic, with the implicit finding that only those which are in the VC and which have the knowledge and power required are capable of making the desirable improvements. Without caricaturing the approaches which have just been mentioned, it will be agreed that this way of proceeding entails risks: for example, the community of interest between a cocoa processing firm and the small-scale producers is admittedly significant, but it is not absolute and to support one if the others are not able to assert their interests may prove to be a non-inclusive operation in the end.

- **On the other hand,** a consensus seems to be emerging to avoid focusing the analysis right away on the redistribution of value added between the links of the VC (zero-sum game). Pragmatism, there too, encourages more the creation of opportunities to increase the total value added of the VC (in a "win-win" perspective).

\(^{31}\) Also see EuropeAid information note (2009) *EC Cooperation and Fair Trade.*


\(^{33}\) Global-Gap (previously) is a private sector body that sets good practice standards (GAP = Good Agricultural Practices) to reassure consumers and promote a rational system of arable and livestock farming. The partners are large supermarket chains, manufacturers of plant protection products and fertilisers and trade associations). According to the PIP2 publications, two other quality labels are particularly important for the fruit and vegetables sector: TESCO (associated with the British large-scale distributor) and Fairtrade Labelling Organisation (FLO).
VC AND OTHER RELATED APPROACHES

- Other fairly similar approaches to the VC analysis and development of may be mentioned, such as "BDS" (business development services). The difference from development of VC is mainly in the more targeted approach to some stakeholders for the BDS whereas the VC approach will place the emphasis on solidarity and joint actions.\textsuperscript{34}

- Contrary to the BDS perspective, which tends to target small and medium-sized enterprises, the approach known as "Market for the Poor" (abbreviated to M4P\textsuperscript{35}) takes account of the market imperfections attributable to intangible factors (laws, regulations, but also customs) and tangible factors (infrastructures, services) which, according to this analysis, tend to penalise the poor.

- Under a fairly similar perspective, development actions have been undertaken with the business enabling environment as entry point. It means supporting the institutions in order to facilitate the task of the VC stakeholders, reducing the constraints (for example by simplifying the many formalities, eliminating procedures which are too finicky) and filling the regulatory loopholes (a departmental decree which could be lacking, also see example 10).

- It is interesting to compare the VC approach with an analysis framework specific to the poor (see Figure 14) which was proposed some years ago: the sustainable livelihoods framework.\textsuperscript{36} This depicts the context in which poor families live and their vulnerability.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure14.png}
\caption{Figure 14 – Source: IFAD [http://www.ifad.org/sla/index.htm]}
\end{figure}

A balanced approach probably remains to be found which takes account of both the specific logic of small-scale producers and the dynamics of the agricultural markets. Measures which assimilate small-scale producers to small-scale entrepreneurs are often unrealistic; tools which are considered to improve their access to the markets (the first generation market information systems, for example) have often been abandoned by their potential beneficiaries. Moreover, rural small-scale producers may also display impressive entrepreneurial boldness and rational and effective use of modern means of communication (2nd generation MIS, for example). The analysis of a VC will become more relevant and the strategy more effective whenever it has undertake an in-depth observation of the situation of rural people. In this

\textsuperscript{34} See Posthumus, H. (2007). Can value chain development create rural employment and alleviate poverty?

\textsuperscript{35} Making market systems work for the poor? Jörg Meyer-Stamer, in Small Enterprise Development vol. 17, No 4, December 2006, included in the electronic review of the French Ministry of Foreign Affairs.

context, the concepts of the various forms of capital available to them may prove useful, but it is above all the mobilisation of this capital which is necessary from the early stages for appropriation.

**VC AND PRODUCER ORGANISATIONS (POs)**

- Sound, competent **producer organisations**\(^{37}\) (POs) are essential to be able to analyse and develop VC. Public authorities, private bodies or international donors may initiate such efforts but they would be very likely useless without the POs.

- Certain POs are torn between the **two main roles which are generally assigned to them**: that of **defending interests** and that of **practical support for production** (market information, advice, supplier of inputs, grouped sales, etc.). **Both roles are useful and complementary** in the context of improving the VC: in the case of the onion sub-sector in Senegal, for example, the dialogue between PO and public authorities, and therefore the powers to defend interests, assumed considerable importance for efficient supply management (avoiding the prices falling).

- From a certain degree of complexity and risk-taking by the producers, the specialised POs in a VC\(^{38}\) become essential and supporting them is appropriate from the point of view of the public authorities and donors. Quite often, an initial stage is necessary, which consists of **strengthening the powers of these POs in quite general areas**. Nevertheless, to be effective, this support must necessarily move on to another stage with a view to adapting producers’ practices to the requirements of an improved VC and, as a general rule, this means an investment which may prove to be considerable (possibly for the new infrastructures) with a **high level of expertise and over a long period**.

- Improving a VC may mean **efforts and sacrifices** for the small-scale producers, it may possibly involve a **balance of power** with other stakeholders of the chain to improve the position of the small-scale producers, but it must not mean a permanent state of conflict: the POs are necessary to analyse, understand and explain the situations and to accompany the necessary reforms, to defend the interests of the producers and to **instil confidence** in the relations between the stakeholders of a VC.

- A VC analysis, and still more its development, require participation and adhering to the solutions proposed. Perceptions or convictions based on the **socio-cultural and historical context**\(^{39}\) may prove to be decisive: for example, in French-speaking West Africa, it is seen that the connotations of the words "filières" and "coopératives" (cooperatives) may provoke mixed reactions which may go as far as distrust. The POs have a role to play in this context to assist their members to choose the appropriate solutions.

**VC AND DONORS**

- The previous points indicate a first general orientation: active participation of the POs in VC analysis is essential from the start with a view to the **ownership of the development process**. In this perspective, **support to the POs** is undoubtedly an ineffective approach for the development of a VC.

- Even more generally, it is not only the direct interventions which may have significant effects on the VC: by definition, the VC systematically integrate the context in which they develop; consequently, the vast majority of the programmes in support of trade or concerning the private sector of the developing countries may have repercussions on the VC of agricultural commodities, as do the policies governing international trade and their possible reforms and the internal agricultural sector (the CAP). The **coherence of the policies** (especially in relation to the development policy) is therefore particularly important for the support for VC.

\(^{37}\) Generally referred also as "farmers organisations".

\(^{38}\) For example, the Association of African Cotton Producers (APROCA) plays an increasingly pronounced role with other stakeholders of the sector, the African Cotton Association (ACA) and the African Cotton and Textiles Industries Federation (ACTIF). The European Commission programme "All ACP Agricultural Commodity Programme – AAACP" supports this sector in particular (EUR 15 million out of a total of EUR 45 million).

\(^{39}\) The context of the VC cotton can be taken up again here, with the implications of its establishment during the colonial period or the liberalisation process with "predator" buyers.
• To intervene in relation to VC may have consequences on employment, working conditions, food security and other fundamental aspects. However, it is not an exact science and, in the end, there are always decisions to take and therefore legitimacy to respect. The approach via VC should ideally be part of a sectoral policy for agriculture and combating poverty.

VC AND GENDER

• A recent document (2010),\(^{40}\) financed by Danish cooperation, lists the questions arising concerning the gender approach in the analysis and development of VC and stresses that since the analysis stage is essential, as it conditions the strategy, an accompanying gender analysis is necessary.

**EXAMPLE 16: GUATEMALA MEXICO – LABELS AND GENDER.** The conclusions of a study\(^{41}\) concerning fair trade-certified (FLO), organic coffee in Mexico and Guatemala show how these two labels, by combining their effects, produce fairer development for women: the FLO standards are strict concerning the organisations and encourage women to participate, which enables them to benefit from the other technical and organisational measures taken in this process. The organic certification, with the inspections it requires and the land issues it raises, renders participation by women indispensable— including for women who are head of household and alone — and it promotes the registration of land to women in the same capacity as men. An experiment with the same labels, conducted in West Africa, reaches similar results.

VC AND ENVIRONMENT

• A document financed by Danish cooperation\(^{42}\) reviews the aspects of environmental analysis of the agricultural VCs: it stresses that the effects of development of VCs, like those of the majority of agricultural projects, may be local, global or both at once: for example, deforestation for a cane sugar crop will probably have effects at local level in terms of impoverishment of the biodiversity and soil erosion, but also at global level by contributing initially to the emission of greenhouse gases and then to reducing their capture.

• There are also some VC experiments with the declared aim of protecting the environment by applying a commercial logic to rational exploitation of the natural resources (for example, support for developing craft industries, traditional medicinal products and cosmetics marketed by the local population in the area around natural reserves).

**EXAMPLE 17: BURKINA FASO – VC cashew and CLIMATE CHANGE.** An FAO study\(^ {43}\) establishes the "carbon balance" of the cashew sector in Burkina Faso and compares two arrangements: production and processing in Burkina by groups of women versus semi-industrial production in Burkina Faso and processing in India. The analysis shows (thanks to the software developed by FAO EX-ACT) that the first formula is positive, as the production of the cashew nut functions as a greenhouse gas "well". This research is intended to fuel the discussions on strategies for adaptation to and mitigation of climate change.

• The EU recently published guidelines on the integration of environment and climate change aspects in its development actions.\(^ {44}\) Following the results of preliminary analysis, national environmental profiles (for the multiannual programmes), strategic impact studies (sectoral policies) or impact studies (projects) will be carried out. It is this last level which is generally involved in the case of VC and it will therefore be a matter


\(^{42}\) Integrating Poverty, Gender And Environmental Concerns Into Value Chain Analysis, Simon Bolwig, Stefano Ponte, Andries du Toit, Lone Riisgaard and Niels Halberg - Danish Institute for International Studies, DIIS 2008,

\(^{43}\) Intégration des filières dans la mitigation au changement climatique Cas de la filière anacarde au Burkina Faso, by Marianne Tinlot, FAO Consultant, FAO, Rome, Italy 2009.

\(^{44}\) Tools and methods series: guidelines No 04. Guidelines on the integration of environment and climate change in development cooperation.
of deciding whether an impact study is necessary. The decisions will be taken on a case-by-case basis, but it is seen that the number of factors likely to create pressure or to affect the environment in the case of VC, at the crossroads between trade and agriculture is considerable (see Annex 1 – pp. 65-66 and 71-73).
7. Bibliography – References


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**Additional notes:**
- All the references (with the exception of the Porter book) are accessible on the Internet; using a few key words, it is easy to access the documents.
- A few VC analysis METHODS: GTZ (value links), DFID (toolbook), ILO (guide VC analysis) and (guide VC local), FAO (agrifood appraisal), BM (guide Africa competitiveness VC guide).

**Platforms or websites concerning VC**

The **Donor Committee for Enterprise Development** is a group of financial and intergovernmental agencies ([http://www.enterprise-development.org/](http://www.enterprise-development.org/)); it manages the following reference site: [http://www.value-chains.org/dyn/valuechains/bdssearch.home](http://www.value-chains.org/dyn/valuechains/bdssearch.home)

**Capacity.org** is a gateway (English, French, Spanish) which deals with capacity development in international cooperation in the South. It is operating from the Netherlands. [http://www.capacity.org/fr/content/view/full/262](http://www.capacity.org/fr/content/view/full/262)

**Easypol** ([http://www.fao.org/easypol](http://www.fao.org/easypol)) is an FAO multilingual on-line platform on policy-making in agriculture, rural development and food security. It contains summary documents, analytical tools, calculation sheets and examples. In particular No 43 on the functional analysis and 44 on financial analysis. The keyword in French is *filière.*

Easypol link
Microlinks is a USAID website

On the **rice sub-sector**, the site of AfricaRice (ex "ADRAO"): http://www.warda.org/warda/adrao/default.asp

The website for the programme All ACP Agricultural Commodities Programme (AAACP): http://www.euacpcommodities.eu

The site of the PIP2 programme PIP2: "Fruit and Vegetable Quality and Compliance, phase 2": http://pip.coleACP.org
The purpose of this document, which was drawn up by EuropeAid, is to present information and “food for thought” to European Commission colleagues on the subject of inclusive value chains in agriculture. This note is a working document which does not represent the definitive views or recommendations of the Commission. Any comments or supplementary information will be welcomed.

Acknowledgments: the Unit C1 wishes to thank Mr Hans Posthumus, Mr Ton van der Krabben and Mr Baudouin Michel, who kindly reviewed and contributed to the text. The photos appearing on the cover come from COLEACP, an interprofessional network promoting sustainable horticultural trade (managers of the PIP 2 programme "Fruit and Vegetable Quality and Conformity, phase 2", funded by the EU).