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Value Chains, Donor Interventions and Poverty Reduction: A Review of Donor Practice

John Humphrey and Lizbeth Navas-Alemán

March 2010

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Summary

Value chain interventions are increasingly popular amongst donors aiming to promote market-oriented growth and poverty reduction. Based on the reflections of the community of practice itself and extensive desk research, this review critically examines the causal models underlying value chain interventions and asks how and to what extent their poverty alleviation impacts have been systematically investigated.

Concentrating on a selection of 30 donor-led value chain interventions, the review finds two main patterns of engagement: (a) one which funnels assistance by partnering with lead firms in the value chain – *lead firm projects*; and (b) one which works with chains without a lead firm – *value chain linkage projects*. Targeting of the poor seems more effective in value chain linkage projects and in those lead firm projects where beneficiaries are identified in both the chain's suppliers and distributors.

Controversially, despite a wealth of positive anecdotal evidence, the vast majority of projects did not carry out an impact assessment of their poverty alleviation objectives and it is therefore unclear whether the value chain intervention: (a) is responsible for the improvements observed; (b) benefits the poor disproportionately; and (c) is more cost effective than other alternative approaches. Assessing the poverty alleviation effects of individual interventions in a rigorous way is costly and challenging but necessary to ensure long term effectiveness of the interventions as well as optimising the use of public funds. There is a need to carry out systematic impact assessment at the programme level to develop a strong evidence base.

Finally, this review provides some guidelines for designing and managing value chain interventions, particularly regarding the identification of situations in which the value chain approach is most appropriate and those where other private sector-oriented approaches (such as Business Development Services and Making Markets Work for the Poor) may be more suitable or complementary.

Keywords: value chains, donor-led initiatives, SMEs, poverty alleviation.

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Contents

Summary, keywords, author notes	3
Acknowledgements	7
Acronyms	7
Executive summary	11
1 Introduction	15
1.1 Methodology	16
1.2 Structure of the report	17
2 Overview: value chain interventions	18
2.1 Value chains: the core idea	18
2.2 Value chain interventions in the broader private sector development context	24
2.3 Challenges for the design of value chain approaches	27
3 The logic of value chain interventions by donors	29
3.1 Interventions working with lead firms	32
3.1.1 Supplier development programmes	32
3.1.2 Lead firms in agriculture	35
3.1.3 Lead firms and labour conditions	36
3.1.4 Targeting and poverty reduction in lead firm interventions	38
3.2 Chain linkage programmes	39
3.2.1 Non-agricultural linkage programmes	40
3.2.2 Agricultural linkage programmes	42
3.2.3 Targeting and poverty reduction in chain linkage projects	45
4 Evidence of poverty impacts from value chain interventions	46
4.1 How did the projects assess their impacts?	48
4.1.1 Monitoring activities and outcomes	48
4.1.2 Impacts on the poor: non-systematic evaluations	50
4.1.3 Quantifying poverty reduction	52
4.2 Why persist with evaluation and impact assessment?	57
4.3 Cost effectiveness	58
5 Conclusions and recommendations	61
Appendices	64
A1 Mini case studies	64
A2 Events attended	95
A3 Potential benefits of business linkages for large firms, local business communities, and small-medium enterprises	97
A4 Value chain theory: markets and chains	97
References	100

Figure

Figure 2.1	Typology of objectives for value chain interventions	21
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Boxes

Box 2.1	Improving value chain performance: handicrafts in Ghana	23
Box 3.1	IFC and ExxonMobil's partnership to develop SMEs in Chad	34
Box 3.2	Supply and distribution linkages with SMEs, Nestlé	35
Box 3.3	Improvement of working conditions as a pathway for poverty alleviation: the Better Work programme	38
Box 3.4	WaiWai Community in Guyana and Conservation International	41
Box 4.1	Impact assessment for value chain interventions	47
Box 4.2	Objectives and indicators of UNCTAD linkages programmes	49

Tables

Table 2.1	Value chains, from theory to policy	19
Table 2.2	Two approaches to enterprise promotion	26
Table 3.1	Classification of donor interventions	30
Table 3.2	Contrasting value chain interventions in agriculture	43
Table 4.1	Value chain interventions with quantified assessments of outcomes and impacts, summary	51
Table 4.2	Evaluation results from MEDA project (Case 15)	53

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The views expressed in this report and any remaining errors in it are solely the responsibility of the authors.

Acronyms

ACDI	Agricultural Cooperative Development International
ACE	Agricultural Cooperatives in Ethiopia
ADA	Austrian Development Agency
AFE	Action for Enterprise
AGDF	Affinity Group on Development

AMAP	Accelerated Microenterprise Advancement Project
APEP	Agricultural Productivity Advancement Program
BDS	Business Development Services
BLCF	Business Linkages Challenge Fund
BMZ	Bundesministerium Für Wirtschaftliche Zusammenarbeit (Federal Ministry for Economic Cooperation and Development)
CEPEMA	Center for Environmental Research and Training
CI	Conservation International
CIDA	Canadian International Development Agency
CoC	Code of Conduct
COCA	Community Owned Conservation Area
COP	Chief of Party
CORPEI	Corporation for the Promotion of Exports and Investments
CSR	Corporate Social Responsibility
DAI	Development Alternatives, Inc
DIALOGS	Developpement Institutionnel et Associations Locales pour l'Organisation et la Gestion des Services Collectifs
DFID	Department for International Development (UK)
ECDI	Entrepreneurship Career Development Institute
FAO	Food and Agriculture Organisation of the United Nations
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FMCP	Fast moving consumer product
FSG	Foundation Strategy Group
FUNDES	Foundation for Sustainable Development in Latin America
GAP	Good Agricultural Practices
GDA	Global Development Alliance
GLCC	Great Lakes Cotton Company
GMED	Growth-Oriented Microenterprise Development Program
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)

GVC	Global value chain
HANDECEN	Handicraft Design Centre of Nepal
HANDPASS	Handmade Paper Association of Nepal
HIMCOOP	Himalayan Tea Producers Cooperative Ltd
HOTPA	Himalayan Orthodox Tea Producers' Association
IADB	Inter-American Development Bank
IDPs	Internally Displaced People
IEL	Euvaldo Lodi Institute
IFC	International Finance Corporation
ILO	International Labour Organization
INSEAD	European Institute of Business Administration
IRC	International Rescue Committee
IRL	Indochina Research Ltd
ITC	International Trade Centre
KBDS	Kenya Business Development Services
KHDP	Kenya Horticulture Development Programme
LBO	Local Business Opportunities
LDU	Local Defence Units
LE	Large Enterprises
LRA	Lord's Resistance Army
M4P	Making Markets Work for the Poor. Also referred to as MM4P and MMW4P
MCSTP	Malawi Cotton Seed Treatment Programme
MEDA	Mennonite Economic Development Associates
MOU	Memorandum(s) of Understanding
MSE	Micro and small enterprise
MSI	Management Systems International
MSME	Micro, small and medium sized enterprise
NASFAM	National Association of Smallholder Farmers in Malawi
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development

PPP	Private Public Partnerships
PSD	Private sector development
PSP	Private sector promotion
PWBLF	Prince of Wales Business Leaders Forum
SDC	Swiss Agency for Development and Cooperation
SE	Small Enterprises
SEBRAE	Brazilian Micro and Small Business Support Service
SEEP	Small Enterprise Education and Promotion
SENAI	Brazilian National Service of Industrial Learning
SIDA	Swedish International Development Agency
SME	Small and medium enterprise
SNV	Netherlands Development Organisation
TNCs	Transnational Corporations
TTO	Triple Trust Organisation
UI	Unilever Indonesia
UIA	Uganda Investment Authority
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organisation
UPDF	Uganda People's Defence Force
USAID	United States Agency for International Development
VASI	Vietnam Agricultural and Science Institute
VC	value chain
VOCA	Volunteers in Overseas Cooperative Assistance
WI	Winrock International
WTO	World Trade Organization

Executive summary

Value chain approaches are being used increasingly by development agencies as part of the toolkit for promoting business and reducing poverty. These organisations use the value chain development approach to promote private sector development and economic growth in ways that reduce poverty. By improving the access of the poor to markets, facilitating the more effective operation of markets and by promoting the flow of knowledge and resources along value chains to small enterprises and poor producers, value chain interventions should enable the poor to benefit more from market development and take advantage of some of the opportunities offered by domestic and global market development.

Do value chain approaches promote business development, and are they an effective means of integrating poor people into markets and reducing poverty? This review critically examines a range of donor initiatives that use value chain approaches in their promotion of market-oriented growth and poverty reduction. It examines the causal models underlying value chain interventions and asks how and to what extent the impacts of these interventions have been investigated systematically. It provides an assessment of the different types of value chain interventions used by donors and explores the linkages between these interventions, private sector development and poverty reduction.

This report has drawn substantially on the analyses and reflections of the donor agencies themselves – in their impact assessments, in the reflections of practitioners (particularly in the Donor Committee for Enterprise Development) and through interviews with policymakers. It has involved extensive desk research, focusing on 30 specific donor value chain interventions. This information was complemented by previous research and consultancy work by the authors plus attendance at several events where practitioners and donors gathered to discuss the latest challenges and lessons learned around pro-poor value chain (VC) interventions.

Value chain initiatives offer a practical way of working with the private sector. They resonate with the shift in private sector development policies from supply side to demand side interventions and an increasing emphasis on how the private sector itself can support small businesses and poor producers. Increasingly, such interventions have focused on poverty reduction and enabling small producers and marginalised populations to benefit from both globalisation and opportunities in domestic markets.

There is a simple element at the heart of value chain analysis. The idea of a chain is a metaphor for connectedness. It highlights the simple point that most goods and services are produced by a complex and sequenced set of activities. Poor producers often struggle to gain market access, either lacking knowledge of market requirements or the skills to meet them. Furthermore, poor communication, obstacles and bottlenecks in value chains either prevent them from entering into new markets or reduce the benefits they obtained from entry. Donor value chain initiatives are designed both to overcome some of these obstacles and also mobilise the knowledge and resources of lead firms in value

chains to improve the opportunities and benefits of market entry to poor people and poor producers.

Value chain interventions are often associated with international trade, but they can be oriented towards the domestic market. Globalisation, however, creates specific opportunities and threats relating to how value chains are organised both in the domestic and international markets. Domestic opportunities for increasing incomes often derive from the development of niche markets and increasing the value added of products by engaging in more sophisticated linkages between suppliers and buyers (e.g. branding of products, which require better communication with distributors about product positioning strategies). Conversely, entry into global markets often means that local producers must meet higher standards and more complex buyer requirements (e.g. meeting FDA or EurepGAP standards). Improving value chain functioning can address both these issues.

The review found a wide range of value chain interventions, which varied in scope, in the ways in which value chain performance was enhanced and whether they worked with lead firms or not. With respect to scope, some interventions focus on business-to-business linkages along the chain, while others look at the factors and the broader business environment that affect how well chains operate. In developing practical ways of improving chain performance and the knowledge and resources available to poor producers, value chain interventions frequently overlap with other private sector-oriented approaches such as Business Development Services and Making Markets Work for the Poor.

Value chain interventions oriented towards business-to-business linkages typically employed one or more of four methods to improve chain performance: (a) identifying and working with particular weak links within value chains that undermine the performance of the chain as a whole; (b) improving flows of knowledge and resources along chains; (c) improving the efficacy of linkages between chain actors; and (d) developing new or alternative linkages in the value chains. Interventions oriented towards the wider business environment focus predominantly on mobilising stakeholders to engage with regulators and government.

A major difference in value chain interventions by donors was the issue of lead firms. Lead firm linkage programmes incorporate SMEs and small producers in agriculture into the value chains of lead firms. Some high-profile donor initiatives have focused on supply chain development in manufacturing, but lead firm interventions can include projects to improve linkages to small-scale distribution and projects in agriculture, particularly outgrower schemes. Lead firm interventions are primarily concerned with business promotion and the transfer of knowledge and resources from lead firms to their suppliers, and occasionally their distributors. Their poverty reduction impact can be increased by targeting geographical areas, sectors and social groups that include above average numbers of poor people. The level of targeting varied considerably between projects.

There are many chain linkage programmes that do not rely on lead firms. These interventions target inefficient or missing linkages between different parts of the value chain. These include agricultural and non-agricultural projects. They tend to have a broader range of beneficiaries. Significant opportunities exist for rural

producers to enter new markets or increase their incomes from existing markets if interventions can overcome the problems of lack of information about markets and mismatches between market requirements and producer capabilities. Conversely, and more positively, the diagnosis is that there are significant opportunities for rural producers to enter new markets or increase their incomes from existing markets if value chains can be made to work more effectively.

Targeting of the poor seems more effective in value chain linkage projects. Linkage promotion can be directed at geographically and socially isolated groups, and it can be used in conflict and post-conflict situations to rebuild markets that have broken down, or to create new opportunities for those whose livelihoods have been disrupted.

Many, but not all, value chain interventions emphasise their potential for reducing poverty. Some of these interventions attempt to reach the poor more effectively through sectoral, geographical or social targeting. Judging from the evaluations carried out by donors themselves, there is a belief in the efficacy of value chain interventions and some satisfaction with the outcomes. Similarly, there is a lot of anecdotal evidence about the ways in which promotion of value chain linkages enables small businesses to thrive.

What is much less clear is the extent to which value chain interventions reduce poverty and/or benefit the poor disproportionately. The conclusion from the material available on the 30 interventions studied for this report is that the vast majority of these interventions did not carry out thoroughgoing impact assessments to address the core issues: (1) Did the improvements expected for the beneficiaries actually occur? (2) Were these improvements attributable to the project? (3) Are the interventions cost-effective and superior to alternative policies? Furthermore, the number of independent impact assessments of any kind was very small.

Some of the reasons for this absence are pragmatic. Impact assessments are expensive and difficult to design and carry out effectively. Practitioners recognise this. The more that they focus on outcomes and impacts, and on tracing the impacts through to poverty reduction, the more difficult and expensive it becomes. Establishing counterfactuals requires a longer-term time horizon than is available for many development projects.

Although there were few impact assessments found for this review (one carried out in late 2007 and the rest in the summer of 2008) the 30 cases analysed and discussions with various practitioners showed that monitoring and evaluation of projects was very common. The project reports provide a substantial amount of anecdotal evidence for the positive outcomes and impacts of value chain initiatives.

This combination of abundant anecdotal evidence and scarcity of systematic impact assessments needs to be addressed. Anecdotal evidence is not enough. Some evaluations included in this report showed that certain of the positive benefits that seem to arise from VC interventions may not necessarily be attributable to the interventions or could easily be achieved through different forms of interventions. Furthermore, anecdotal evidence does not allow an investigation of the relative merits of different value chain approaches.

As well as assessing whether or not outcomes and impacts can be attributed to particular activities, donors should be interested in the cost-effectiveness of VC interventions. It is not widespread practice, but the strongest cases included in this review provide at least some account of the numbers of potential beneficiaries in relation to expenditure, as well as identification of whether the beneficiaries are likely to be poor.

Rigorous impact assessments do not have to be undertaken for all value chain projects. This would be prohibitively expensive, and impact assessments need a time horizon that stretches beyond the life of any given project. Therefore, we argue that impact assessment is best seen as a programmatic activity aimed at improving a whole class of value chain interventions, rather than verifying the impacts of particular projects.

Nevertheless, it is also clear from this review that improving the effectiveness of value chain interventions need not wait for an impact assessment programme. This review provides some clear guidelines for designing and managing VC interventions, particularly regarding the identification of situations in which VC interventions are most appropriate and those where other approaches may be more suitable.

1 Introduction

Value chain interventions have become increasingly popular as a development tool. In recent years, a range of organisations employing value chain tools includes donors such as the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) and the United States Agency for International Development (USAID), government ministries and agencies in various developing countries, Non-governmental organisations (NGOs), international organisations such as the Food and Agriculture Organisation (FAO), the International Labour Organization (ILO) and the United Nations Industrial Development Organisation (UNIDO), and companies such as Unilever and BP.

These organisations use the value chain development approach to promote private sector development and economic growth in ways that reduce poverty. By improving the access of the poor to markets, facilitating the more effective operation of markets and by promoting the flow of knowledge and resources along value chains to small enterprises and poor producers, value chain interventions should enable the poor to benefit more from market development and take advantage of some of the opportunities offered by domestic and global market development.

The Institute of Development Studies (IDS) was commissioned by the Ford Foundation to critically examine a range of donor initiatives that have used the value chain approach in their policy packages for promoting the growth of micro, small and medium enterprises. The review assesses current practice in order to engage with donors and other interested partners about the viability of different types of donor intervention and considers the evidence as to whether they provide an effective route to achieving poverty reduction.

This review is designed to make a practical contribution to the thinking and reflection of development practitioners. It furthers understanding on how the value chain approach is being used by donors, the way their pro-poor or developmental effects are verified and consequently, the types of VC interventions that might most effectively be used as part of poverty alleviation strategies. It does this through an analysis of 30 cases of donor value chain interventions.¹ The review aims to:

- identify the extent to which different donor programmes explicitly have a pro-poor agenda;
- elucidate the linkages and assumptions (explicit and implicit) that identify pro-poor impacts;
- identify knowledge gaps in the construction of programmes and evaluation of evidence;
- provide an assessment of current strategies and the viability of different types of donor intervention with regards to their potential for pro-poor outcomes.

¹ Appendix A1 provides summaries of 30 donor interventions that are specifically used for discussion in this report.

This review is *not* about the best way to implement value chain projects. Rather, it explores the logic of value chain interventions – what were they trying to do and what were the cause and effect models underlying them? The review aims to assess the *potential* of the value chain interventions to act as an active means of reducing poverty, verifying the extent to which claims for their effectiveness have been substantiated by impact assessments.

The report examines different types of value chain interventions, including those mediated by donors, the private sector, government actors or a combination of all three. The purpose is to extract lessons from implementation and to identify gaps in knowledge and/or practice where new designs and actors might be introduced to enhance their positive impact on the poor.

The document should be of interest to development agency officials, policymakers, NGOs, government planners and private practitioners seeking to improve pro-poor outcomes from VC interventions in the developing world. The authors are grateful to the many experts in this field who gave their time to engage in discussions with them.

1.1 Methodology

The review consists of extensive desk research, involving the analysis of more than 100 documents, including many reports on the donor value chain interventions, manuals developed to guide value chain interventions and reflections by the ‘community of practice’ on VC interventions. A selection of these documents has been used for ‘mini-case studies’ to illustrate the main points made in this report (see Appendix A1). These cases, numbering 30 in total, are the main empirical basis for this report. This information was complemented by previous research and consultancy work by the authors plus attendance at several events where practitioners and donors gathered to discuss the latest challenges and lessons learned around pro-poor VC interventions.

The review also benefited from interviewing and interacting with a group of more than 30 key informants with technical expertise in numerous relevant fields beyond VC promotion, including micro and small enterprise development, agricultural extension services and market development. The acknowledgements at the beginning of this report show that the first draft was circulated to various practitioners and commented upon, both in written form and face-to-face. Nevertheless, the review makes no claims to be comprehensive. The literature is massive, and new analyses and reviews are appearing all the time.

Three key questions guided the analysis of the cases:

1. What were the assumptions being made about how value chains operate and how interventions might change the way value chains operate in beneficial ways?
2. How were the VC interventions linked to poverty alleviation strategies, and what attempts, if any, were made to focus interventions on the poor?
3. How have these interventions been monitored and has their impact on the poor been assessed?

A desk review has limitations. First, the VC approach is a relatively new addition to the policy packages of many donors. Many of the value chain interventions included in this review have not been formally and independently evaluated, and some of the projects are ongoing. In fact, some important impact evaluations used in this review only became available in the summer and autumn of 2008. Second, the review has focused on larger donors and predominantly used publicly available material, as well as written and verbal material supplied directly by donors and value chain practitioners. Inevitably, coverage is incomplete.

Finally, and most importantly, independent evaluations of the outcomes of VC interventions are hard to find. As a result, much of this review is based on self-assessments or presentations of results by those carrying out the VC interventions and the outcomes are often those reported during the projects' lifetimes. Therefore, the longer-term impacts and the sustainability of these outcomes cannot be assessed. As will be seen in the report below, in a small number of cases subsequent impact assessments provided a different view of the outcomes. In spite of these limitations, it has been possible to identify the logic of value chain interventions, examine different approaches to value chain interventions and evaluate the extent to which claims for effectiveness have been backed up by impact assessments.

1.2 Structure of the report

Section 2 of this report provides an overview of the value chain concept and thinking behind the adoption of the value chain perspective for development purposes. It identifies the different ways in which value chain interventions might improve the operation of value chains and the links to poverty reduction. Section 3 presents a typology of value chain interventions used by donors and analyses the pathways by which these interventions are expected to reduce poverty. Section 4 examines the extent to which the projects provide evidence about poverty reduction impacts. Section 5 considers the implications for donors and makes recommendations for future work.

2 Overview: value chain interventions

In this section

This section presents the basic idea at the heart of value chain analysis and explores how this provides a framework for value chain interventions. It addresses three issues:

- The basic idea at the heart of value chain analysis and different ways of operationalising it.
 - Value chain interventions in the context of private sector development and globalisation.
 - Challenges to be addressed when using the value chain approach for private sector development aimed at poverty reduction.
-

2.1 Value chains: the core idea

There is a simple element at the heart of value chain analysis. The idea of a chain is a metaphor for connectedness. It highlights the simple point that most goods and services are produced by a complex and sequenced set of activities. In many cases, these activities are split across a number of economic agents (people, enterprises, cooperatives, etc.).² How these different economic agents interact matters for development. Research and practice on clusters and local economic development has highlighted the importance of network relationships at the local level. The value chain approach emphasises the importance of vertical linkages between firms at different points in the value chain.

This simple idea leads to a key policy insight: we have to look beyond the individual enterprise, the individual farmer and the independent small producer when considering how to increase the incomes of the poor through promoting their involvement in market-oriented production. Focusing on the value chain, and the links between the firms spread along it, allows policymakers to diagnose issues affecting the performance of the chain as a whole, mobilise stakeholders through their involvement in diagnosis and problem solving and support more effective relationships between firms in the chain.³

Initiatives to enhance the capabilities, productivity and incomes of individual producers frequently run up against issues relating to market access, the efficiency of intermediaries and difficulties in understanding the specific requirements of particular marketing channels. Further, some of the more attractive opportunities for developing country producers in global markets seem to require high levels of coordination between different agents along the chain. The VC approach highlights these issues, providing an analytical framework and a basis for interventions.

2 We will use the term 'firms' generically to indicate agents in value chains. These could be companies, farmers, production cooperatives, or other organisations.

3 A short, theoretical argument about the need to focus on the chain as the unit of analysis is presented in Appendix A4.

Table 2.1 **Value chains, from theory to policy**

Value chain analysis	Implications for poverty-reducing value chain interventions
1. A chain consists of multiple, interconnected producers.	Strategies for enhancing the capacity of poor producers to engage productively in market-oriented activities must identify access routes to the market and the key agents involved.
2. Chains vary greatly in their functioning. Some require very little coordination between different actors, while others display complex webs of relationships and interactions.	The starting point for value chain interventions must be a diagnosis of the specific characteristics of the chain and its constituent parts. It is important to match the requirements of potential markets with the capabilities of potential suppliers to those markets.
3. The efficiency of the value chain depends upon the performance of the chain as a whole.	Identify weak or missing links in the chain. Linking the poor effectively to markets may require interventions at various points in the chain.
4. The quality of relationships between agents along the value chain matters for overall performance.	Value chain performance can be improved through programmes aimed at partnership development and trust-building between different agents in value chains.
5. As well as products and money, other things flow between agents in value chains: 'Within individual supply chains products and their affiliated ownership rights move from producers to consumers, payment and working capital move from consumers to producers, technology is disseminated, and information on current and future demand is passed back from retailers through to primary producers' (World Bank 2003: 5).	Maximising the flows of knowledge and resources (credit, technology, etc.) in value chains is a part of value chain development strategies. Interventions that change or enhance the flows of knowledge and resources in value chains can enhance the capacities of poor people to benefit from inclusion in value chains. Hence, poor producers and small companies can benefit from interventions aimed at key knowledge providers, which may be large companies. In BDS work this is referred to as embedded services.
6. A chain is a sequence of activities. Where these activities are located and how they are distributed between different firms have important consequences for development.	Chain restructuring may focus on relocation of activities (for example, replacing imported inputs to transnational companies with locally-produced inputs). It can also involve transfers of activities between enterprises (for example, shifting difficult tasks such as design or overseas marketing from SMEs to other firms in the chain, which reduces barriers to entry for the SMEs).
7. In some value chains, lead firms play a decisive role because of their control of key resources or their market power. Their decisions have considerable impact on other firms in the chain. But not all value chains are characterised by strong lead firms	Changing the behaviour of these lead firms, where they exist, can have significant consequences for poor producers. The policies adopted by these lead firms may impact upon many small producers.
8. Inequalities in resources and power between agents in the value chain lead to differential distribution of the benefits and risks between the different actors in the chain.	Strategies to change the power and resources of agents in value chains can lead to increased incomes and reduce risk. Interventions can be focused on enhancing the capacity of the weaker agents, or changing the behaviour of the stronger.

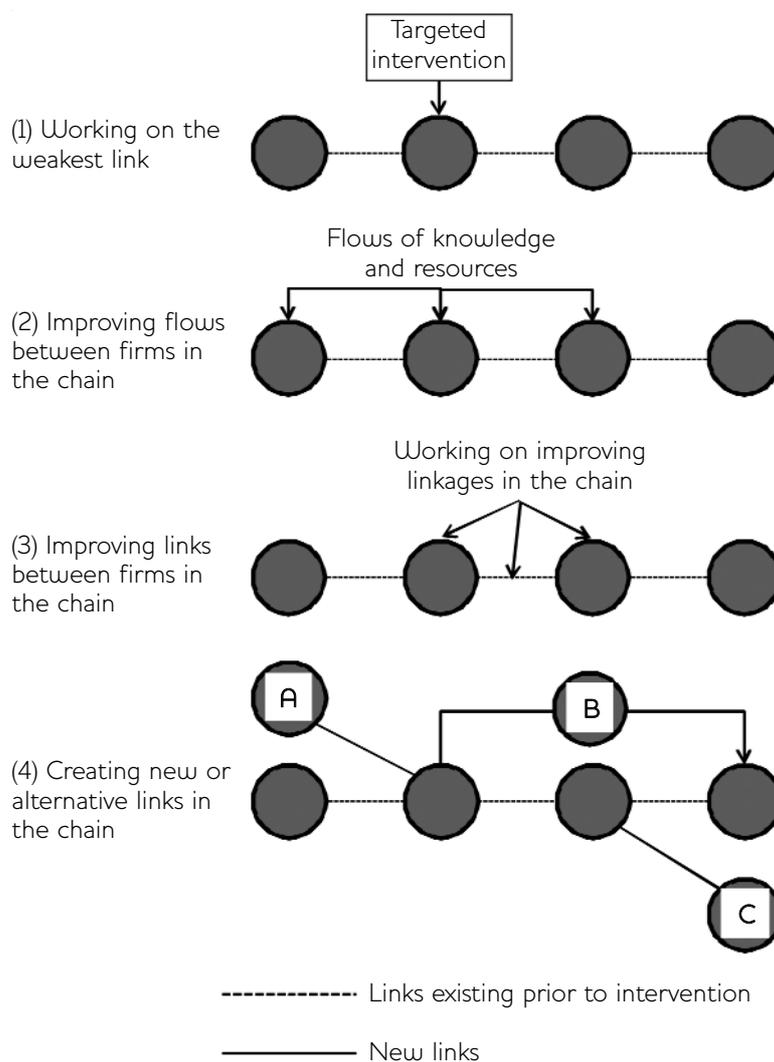
Table 2.1 continues this practical approach to the problem by highlighting the different insights produced by analytical work on value chains, linking each of them to implications for policymakers and practical implementation of value chain initiatives by donors. The attractiveness of the value chain approach lies in its combination of diagnosis of barriers to market access for small firms and poor producers and processes by which solutions to these barriers might be overcome, with a focus on business cooperation. Table 2.1 draws attention to key elements of value chain analysis:

- Focus on inter-firm linkages
- Value chain governance
- The whole-chain approach
- The importance of the quality of inter-firm relationships
- Flows of knowledge and resources along chains
- The distribution of functions along the chain
- The role of lead firms
- Power, risks and returns.

The donor interventions analysed in this report aim to increase the level and security of poor people's incomes by restructuring chains to link poor people more effectively to markets and changing the way chains function so that poor people have increased capabilities and increased incomes from the deployment of these capabilities.

There are many types of value chain interventions, as evidenced by the cases summarised in Appendix A1. But we think that these boil down to four ways of improving value chain performance and outcomes. These are presented schematically in Figure 2.1.

1. **Working on the weakest link.** The first intervention addresses the issue of weak links in the chain. The efficiency of the chain as a whole depends upon the performance of each of the linkages. In some situations, a diagnosis of the functioning of the value chain highlights particular problems. For example, the quality of raw materials is frequently found to be a problem for processing companies. Poor quality raises costs and may prejudice the quality of the final product. Solving the processor's problem requires improvement in the capacity of raw material suppliers. Such an intervention shares some characteristics with standard Business Development Services (BDS) interventions. The difference lies in the overall objective. BDS interventions are frequently market-focused: this type of 'customer orientation' in donor interventions was advocated by Humphrey and Schmitz (1996). However, the BDS intervention starts from the firm, and how the firm adapts its capabilities to the needs of the market. A value chain intervention starts from a diagnosis of the impact of a particular link in the chain on the performance of the chain as a whole.
2. **Improving knowledge and resource flows.** Poor flows of knowledge are commonly found in value chains. Knowledge is either poorly communicated, or

Figure 2.1 **Typology of objectives for value chain interventions**

not communicated at all. Producing firms do not know precisely what their customers want, particularly if these customers are located in overseas markets, and more so if they work through intermediaries that do not transmit information between buyer and supplier.⁴ This leads to missed opportunities. Suppliers may fail to do things that they are perfectly capable of doing just because they are unaware of their customers' requirements. Flows of resources can also make a difference to how value chains operate. This is seen clearly in cases where buyers provide credit, inputs, or technical support to suppliers. Suppliers of inputs and capital equipment may also provide credit and technical assistance to the purchasers of their products. One implication of targeting these flows is that knowledge deficits at one point in the chain may be addressed by interventions involving actors at other points in the chain.

4 Intermediaries are frequently criticised in the development literature. However, good intermediaries play a powerful role in transmitting information from buyers to actual and potential suppliers, and *vice versa*. Specialist trading companies have had a long history of facilitating access of companies, including small companies, to export markets.

3. **Improving linkages.** Doing business with another company can just be a matter of buying and selling a product: a spot transaction. Frequently, it involves more complex relationships. In particular, it may involve commitments and risk exposure as one firm depends on the activities of another. As a result, issues of trust arise. Trust can facilitate business: 'The build-up of stable, long-term and trust-based relationships contributes to nurturing local entrepreneurship and employment and can be among the most powerful social contributions large enterprises can make' (Luetkenhorst, quoted in Jenkins *et al.* 2007: 4). Equally, lack of trust 'makes trading and collaborative business arrangements extremely difficult because weak formal market rules and non-supportive informal institutions lead to high transaction costs' (The SLE Team 2006: 49). Transactions fail to happen at all, or become more costly and complex because extra protective measures have to be taken. Value chain interventions address these problems in a variety of ways, including trust-building initiatives, providing indicators of company reputation and setting up institutions to manage risk. Such initiatives have long existed in donor interventions on industrial clusters in developing countries. While in practice improving linkages is closely related to the second objective, improving knowledge and resource flows, they are analytically distinct.
4. **Developing new or alternative links in the chain.** If the overall efficiency of the chain depends upon the functioning of each of the links, value chain interventions can identify alternative linkages. In Figure 2.1, three types of new linkages are displayed. Linkage A shows the development of new sources of supply to overcome problems such as shortage of raw materials, or low quality. Linkage B shows how one link in a chain is replaced by another. This might be the brokering of new intermediaries to substitute a link that was malfunctioning, or non-existent. Linkage C shows the case of new market outlets being developed. In each case, the new link might substitute or complement the old.

To summarise, the incomes and security of poor producers and/or the employment prospects of poor people can be enhanced if value chains function more effectively. There is considerable underutilised potential in value chains that can be tapped by improving flows of knowledge and resources, improving relationships and establishing linkages, as well as by improving capabilities at specific points in the chain. Outside interventions may be needed to unlock this potential. In other words, strategies to improve the livelihoods of the poor should focus as much on linkages as on their assets.

Within this commonality of approach, there are differences in implementation. One difference relates to the breadth of/narrowness of focus of interventions. A concrete example, summarised in Box 2.1, illustrates the issue. A project to promote handicraft exports from Ghana utilised a number of standard elements of value chain interventions, including working with lead firms and the transfer of knowledge to poorer producers linked to these lead firms. The diagnosis of the problem emerged out of discussions with businesses themselves. In approaching the issue in this way, and in deciding how to promote a solution to the quality problems that had been defined, the intervention made a number of choices about how to proceed. In particular:

- An initial decision was made to target the sector rather than just one or two companies within the chain.

Box 2.1 Improving value chain performance: handicrafts in Ghana

While Ghana was able to quadruple its craft exports from 1993 to 2002, further growth was threatened by competition from other developing countries, notably Vietnam. One of the main problems was inconsistent quality. The export companies were fully aware of this but needed help in raising the quality of the output of their many small suppliers. This provided the entry point for the AFE project. AFE worked with the leading Ghanaian export companies to improve their ability to upgrade the processes and products of their small suppliers. Their activities included:

- The development of quality management manuals, including quality control checklists and job descriptions for quality monitoring;
- The organisation of train-the-trainer workshops in quality management;
- Piloting a quality management training workshop for basket weavers; and
- The organisation of a study tour to Vietnam, Ghana's main competitor.

The project showed that:

- The approach is feasible, even for more traditional products such as handicrafts. Buyers can be persuaded to participate in upgrading projects, provided that benefits can be demonstrated clearly (for example, reject rates were halved within a year).
- The buyers often lack the capacity of helping their suppliers. 'The largest constraint was a lack of suitable approaches or delivery mechanisms'.

Source: Schmitz (2005: 34). Quote within quote, AFE (2004: 48).

- It appears to be the case that the main problem addressed was identified by the industry itself.
- One of the solutions adopted to address the quality problem was to pilot a training programme for the basket weavers.
- The diagnosing agency, Action for Enterprise (AFE), itself worked with the 'leading Ghanaian export companies'.

It is quite possible to see how the approach adopted could have been narrower, or broader. A narrower approach to this issue might have focused on just one or two lead firms in the value chain. Equally, the value chain intervention might have focused on particular groups of basket weavers. This might arise, for example, if a group of basket weavers were contained within the geographical area which was the focus of value chain initiatives for community regional development.

A broader approach to this problem would have looked beyond the immediate circumstances of the producers. Rather than organising quality management training workshops for basket weavers, the project could have decided that it would have been more appropriate to promote a broader availability of training services. Equally, instead of organising a study tour to Vietnam, a broader-focused project might have considered how to promote private sector provision of this type of service. Finally, a broader focus might have looked at some of the business environment issues that affect the quality of interactions between exporters and the basket weavers. In all these possibilities, however, a distinctive value chain element of the intervention would remain. The problems would be

diagnosed through working at a sectoral level with particular groups of businesses and producers.⁵ This diagnostic process is used in value chain interventions not only to identify problems, but also to begin the process of inter-firm cooperation that can identify, and in some cases implement, solutions.

We will see below that donors use both of these approaches in their value chain portfolio, but that projects often focus on one or the other. The diagnostic components might be similar in both – working with business stakeholders and institutions to identify obstacles to improved performance – but the range of obstacles and the solutions sought might be focused differently.

2.2 Value chain interventions in the broader private sector development context

Value chain initiatives have become increasingly popular with development agencies because they connect to broader donor concerns with private sector development, economic growth and poverty reduction. The VC approach addresses two major challenges for development and poverty reduction:

- How to mobilise and work with the private sector to promote development and reduce poverty, shifting from supply-side to demand-side interventions.
- How to support the productive activities of small producers and marginalised populations in the context of globalisation.

The GTZ Value Links programme summarises the VC perspective as offering the following:

Value chain promotion fosters economic growth – as a necessary precondition for incomes to rise – by making sure that the additional income generated actually benefits poverty groups. This is to be achieved by strengthening the way that commercial product markets relevant for the poor function, by improving their access to these markets, and/or by influencing the distributive outcome of market processes. Value chain (VC) promotion thus harnesses market forces to achieve development goals. It is oriented towards business opportunities, and consciously builds on the existing or emerging economic potential of the poor. (GTZ 2008: Module 0: 2–3)

Concern about these issues has increased with globalisation. Globalisation is not a prerequisite for effective value chain interventions. Many value chain interventions are oriented towards local and national markets, where non-competitive markets, poor transportation and poorly functioning credit markets are particular barriers to small enterprise development. Nevertheless, globalisation increases both the opportunities and threats that value chain interventions are well-placed to address.

5 This is both a strength and weakness of the value chain approach. Businesses are informed, but not omniscient. It is also common for groups of businesses to avoid seeking radical solutions if they involve disruption to the sector. For an argument along these lines, see Grabher (1993). Value chain interventions have to decide how much they depend upon the business diagnosis and how much this diagnosis is complemented by other informants and commissioned studies.

- Globalisation creates new opportunities for entering global markets, but the quality of linkages can be crucial for sustaining participation. Some good opportunities for increasing incomes from participation in global markets depend on various forms of product differentiation: organic, local origin, Fairtrade, etc. These generally involve quite sophisticated market linkages so that claims about place of origin, particular production techniques, environmental impact and community development can be sustained through controls at the point of origin and traceability along the value chain.
- Access to markets increasingly relies on meeting complex standards: 'International trade agreements and standards such as EurepGAP, as well as governance of global value chains, exert enormous impact on the threats and opportunities that industries face in developing countries' (Kula *et al.* 2006: 12).
- Two processes strongly associated with globalisation – outsourcing and offshoring – rely on value chain linkages to coordinate activities fragmented by new divisions in ownership (outsourcing) and location (offshoring).
- Finally, the reduction of trade and investment barriers and increasing market openness that are characteristics of globalisation can introduce greater competition in both domestic and export markets.

In the face of these challenges the efficient operation of value chains becomes increasingly important for sustaining competitiveness. On the one hand, enterprises in developing countries need to perform more effectively in the face of increasing competition. On the other hand, there are new opportunities for exporting and adding value that might be lost without more effective organisation of value chains and business linkages.

Clearly, VC approaches are not alone in the donor armoury. There are a number of widely-used approaches to business promotion used by development agencies. These include Business Development Services (BDS), the cluster approach and Making Markets Work for the Poor (M4P). These approaches overlap. Without providing a lengthy account of the differences between these approaches, it is worth highlighting the differences between the VC approach and the M4P approach. This contrast between these two approaches highlights salient aspects of the value chain approach and its relative strengths and weaknesses.

The Department for International Development (DFID) in the UK have promoted the M4P approach, which is a wide ranging palette of interventions aimed at accelerating global growth through market development. A paper prepared by DFID in 2005 defined its goals in the following terms:

M4P [Making Market Systems Work Better for the Poor]... aims to accelerate pro-poor growth by improving outcomes that matter to the poor in their roles as entrepreneurs, employees or consumers of markets. M4P focuses on changing the structure and characteristics of markets to increase participation by the poor on terms that are of benefit to them.
(DFID 2005: 3)

Similarly, three leading practitioners in the field defined the concept in the following terms:

Table 2.2 **Two approaches to enterprise promotion**

	Value chains	Making Markets Work for the Poor (M4P)
Definition of goals	Input focused, improving operation of value chains	Output focused, reducing poverty
Positioning of interventions	Ranging from working with enterprises and their supply (or distribution) chains, to groups of firms, sectoral associations and policies directed towards the business environment	Outside the market, focusing on market conditions. Promoting entry ('crowding in') of market players to improve market functioning
Breadth of interventions	Interventions focused on both firms and business environment	Broad range of interventions, ranging from basic services to business development and value chains
Complexity of diagnosis	Possible to codify interventions around value chains	Complex diagnosis of many different policy options
Poverty focus	Weak	Strong

[M4P] is an approach to developing market systems that benefit poor people, offering them the capacities and opportunities to enhance their lives. Building on a detailed understanding of market systems and a clear vision of the future, it allows facilitating agencies to address identified systemic constraints and bring about large-scale and sustainable change.

(Elliott *et al.* 2008: 102)

In other words, M4P is a broad concept, which focuses on the 'systemic constraints' that prevent poor people from benefiting from market involvement. These constraints extend to broad areas such as property rights and basic education and health services.

Table 2.2 summarises the difference between this approach and the value chain approach. The focus of value chain approaches is to improve the operation of value chains. In this sense, it is 'input focused'. Value chain practitioners are prepared to work directly with private sector actors. Equally, however, value chain interventions may focus on broad productive sectors, and even on the business environment in which the sector operates. In all of these cases, the distinctive feature of the value chain approach is the involvement of business in the diagnosis of problems and the mobilisation of businesses to seek solutions.

This positioning of the value chain approach also has two further consequences. Firstly, the approach is relatively easy to codify, which explains why many value chain manuals circulate in the practitioner community. The focus is relatively narrow. Secondly, because the approach focuses on inputs – making chains work better – it is possible for such approaches to have little or no poverty focus, or for the poverty focus to be based on assumptions about causal models and likely

impacts which are not well-founded. In other words, even when poverty reduction is the ultimate goal of value chain interventions, it is possible for the focus to switch to improving the operation of value chains without considering in sufficient detail whether the benefits from this will actually reach the poor.

In contrast, the M4P approach is output focused. It includes a wide variety of methods and tools and its focus is deliberately broad. Interventions may include VC approaches, but equally the approach can target broader reforms, addressing issues such as the operation of labour and property markets, and even basic services such as health and education. In contrast to the value chain approach, the complexity of the diagnostic effort is, inevitably, considerable. Many different possible causes of poverty have to be considered: 'Led by analysis, it is an approach that in simple terms is a process of continually asking 'why?' to identify underlying constraints' (Elliott *et al.* 2008: 103). Equally, many different possible means of tackling these constraints might be available. On the other hand, the explicit poverty focus of the work means that practitioners using this approach should maintain their focus on whether their interventions are really benefiting the poor.

2.3 Challenges for the design of value chain approaches

There are important challenges for value chain analysis. Some of these challenges are faced by most if not all productive sector interventions, and they are widely recognised by practitioners. In the Reader produced for the 2006 BDS seminar, Miehlbradt and McVay have highlighted a number of important challenges and we draw on this analysis.

The first issue is scaling up. Miehlbradt and McVay posed the question 'Can market development deliver on its promise of large-scale, sustainable poverty reduction? If so, how can programs measure these results and widely disseminate successful strategies' (2006: 1). This issue is very pertinent for value chain interventions. They are frequently highly customised to meet specific circumstances and require interactions with businesses to address difficult issues such as trust-building or the acquisition of new capabilities. How many people, therefore, are likely to be reached by such interventions? Do these vary according to the intervention types?

The second issue is the breadth of focus of value chain interventions. If value chain promotion involves working with particular firms in the supply chains, is there enough public benefit to justify the use of public funds? This is certainly an issue for value chain interventions that work with lead firms and SMEs. Even in these cases, however, there can be clear public benefits that go beyond those accruing to the lead firms. These are:

- The benefits of supplier development may accrue to other enterprises. This was one of the reasons noted above for these programmes in the first place. The capabilities acquired by suppliers may be applied to various customers and markets.
- There may be spillover effects from the supplier to other suppliers, broadening the impact of the intervention through knowledge transfer/leakage, the demonstration effect, etc.

- The intervention may still be justified on the grounds of employment creation and poverty reduction.

Nevertheless, value chain interventions that work with one or a narrow range of enterprises should be justified by clearly identified and verified spillovers.

The third issue is 'ambition'. The more interventions aim to transform business and the business environment, the more the risks of failure increase. As one commentator on this report observed:

One of the biggest problems with donor-led interventions in this case is that donors promote new or alternative links that they believe are useful or important to benefit the poor. Excessive promotion of cooperatives (horizontal linkages) and bypassing of intermediaries are common practices that donors commonly perceive as 'good' following the (often) biased perceptions of market actors that feel marginalised. However it is very difficult for a donor or for a few actors to know what new or alternative linkages should be promoted without carrying out proper research and impact assessments. These processes of creating new linkages should also be led by the market actors themselves and not by donors.⁶

The fourth issue concerns the effectiveness of value chain approaches in reducing poverty. It was argued above that the value chain approach is 'input-focused', providing a means of promoting business linkages and efficiency along the value chain, but with the consequence that projects lose sight of the ultimate goal, poverty reduction. It is all too easy to proceed with the immediate tasks of promoting value chain linkages and chain efficiencies and hope or assume that the ultimate goal of reducing poverty will be an outcome. Meyer-Stamer and Wältring (2006) highlight the importance of sectoral and geographical targeting, suggesting that the poor are concentrated in agriculture, and that, in particular, they are concentrated in marginal rural areas, as opposed to areas that have 'poor agro-ecological endowments and/or isolated from access to markets and employment centers' (Meyer-Stamer and Wältring 2006: 24). This issue will be discussed further in Section 3.

Fifth, developing value chain programmes aimed at linking producers and small businesses more effectively to markets and increasing the efficiency of value chain functioning will, generally speaking, have indirect and possibly long-term impact on poverty. How, then, will it be possible to know whether or not programmes are successful? Miehlsbradt and McVay argue that BDS interventions (and we will suggest later, value chain interventions as well) are characterised by 'Lack of impact assessment to show clear, large-scale results: poor measurement of results from market development. The lack of clear and significant results in eradicating poverty is eroding donor support for market development strategies' (2006: 11). We will argue that the answer to this problem is not to introduce much more impact assessment into specific projects. This would be too time-consuming and expensive and would quite likely seek to find impacts in too short a timeframe. Nevertheless, the issue of impact assessment and establishing links between value chain interventions and poverty reduction is an important issue, and this will be examined in Section 4.

6 Comments from practitioners based on the first draft of this report have been left anonymous.

3 The logic of value chain interventions by donors

In this section

This section presents the 30 cases included in the report. It:

- Distinguishes between interventions focused on lead firms and those that are not.
 - Identifies differences in agricultural and non-agricultural interventions.
 - Elucidates the cause and effect logic of these interventions (the overall goals of the interventions, the beneficiaries and the value chain objectives they were designed to achieve).
 - Considers the ways in which interventions were targeted on the poor.
-

Donors concerned with the promotion of 'pro-poor' growth in the developing world have adopted the value chain approach as a tool to connect micro, small and medium enterprises to growing markets and rising incomes. Donors have become increasingly interested in the poverty alleviation impacts of their value chain work because they are being asked to prove that they are helping to achieve the Millennium Development Goals and because demonstrating poverty alleviation impacts is increasingly perceived to be a good indicator that public funds are being put to their best use.

The donor literature however, shows an increasing awareness of the fact that (i) there is not enough evidence on poverty alleviation impacts from these interventions to claim that they are effective or efficient in helping the poor, and (ii) the poverty focus of value chain interventions is not clear (which of the poor are being targeted, what kind of poverty is being targeted and how).

This examination of the pathways from value chain interventions to poverty reduction will address four questions:

- What pathways to poverty reduction are identified in different types of value chain interventions?
- To what extent, and how, do these interventions attempt to increase their poverty-reducing impact?
- What evidence is provided in the way of impact assessment to show whether or not the poverty-reduction goals have been achieved?
- How cost-effective are these interventions in terms of achieving poverty reduction?

The first two questions will be addressed in this section and the second two questions in Section 4.

To answer these questions, some ordering of value chain interventions is needed. Donors adapt and combine different elements of value chain analysis as they blend it with their existing Private Sector Development (PSD) and/or poverty

Table 3.1 **Classification of donor interventions**

Category	Examples included in this review
<p>Lead firm initiatives for supply and distribution chain development. These are projects that focus on large firms and the development of their supply chains and (sometimes) distribution chains. In some but not all, these large firms are multinational companies.</p>	<ol style="list-style-type: none"> 1. UNCTAD linkages programme in Brazil (Projeto Vínculos) 2. UNCTAD linkages programme in Uganda 3. IFC SME development and linkages in Chad 4. IFC and BP's linkages programme in Azerbaijan 5. UNIDO – supplier to Fiat India 6. GMED India 7. ILO Better Factories Cambodia project 8. Unilever programme in Indonesia 9. Nestlé, global supply and distribution linkages 10. FUNDES linkages programme 11. DFID Business Linkages Challenge Fund (Malawi cotton seed treatment programme) 12. Kenya BDS and KHDP tree crop development programmes in Kenya 13. Inter-American Development Bank, facilitating sustainable linkages
<p>Chain linkage programmes: These are more frequently national or sub-national in scope and do not focus on a lead firm.</p>	<ol style="list-style-type: none"> 14. Conservation International (CI): Income generation within the WaiWai Community owned preservation Area in Guyana 15. MEDA: From behind the veil. Access to contemporary markets for homebound women embroiderers in Pakistan 16. GTZ Nepal: handmade paper 17. SNV's 'Linking the poor to the tourism market in Bhutan' 18. Triple Trust Organisation (TTO): Red MeatProject in Eastern Cape, South Africa 19. Katalyst intervention in the vegetables sector in Bangladesh 20. Katalyst intervention in the fisheries sector in Bangladesh 21. GTZ Nepal: orthodox tea

Table 3.1 **Classification of donor interventions (cont.)**

Category	Examples included in this review
	22. DFID and ILO's Business services market development, Uganda
	23. GTZ Vietnam: Promoting the lychee value chain
	24. GTZ Ecuador: Promotion of access to markets for small farmers
	25. USAID, agricultural cooperatives in Ethiopia
	26. Poverty orientation of value chains for domestic and export markets in Ghana (GTZ and BMZ analysed by Humboldt-Universität Berlin)
	27. USAID's study of IRC's intervention in the cotton value chain of northern Uganda
	28. SNV's 'Improving quality and production of Sedge in Ninh Binh, Vietnam'
	29. Environmentally friendly coffee in Ceará, Brazil
	30. USAID strengthening micro, small and medium enterprises in Cambodia

Note: Appendix A1 contains short summaries of the case studies included in this table.

alleviation programmes. The VC approach has been adopted by international donors working with a variety of contexts, industries and actors.

The scope of this review includes not only supply chain development programmes for large manufacturing companies, but also a variety of other linkage programmes focused on agriculture, manufacturing and distribution. In total, the review has examined 30 VC interventions. These are listed in Table 3.1. In classifying these linkages, we have distinguished between interventions that work with lead firms, as seen in the case of supplier development programmes, and those that target value chains, but without working with a specific lead firm. We refer to the latter as chain linkage programmes. This is a basic distinction that structures the analysis in this review. However, several specific interventions include elements of both types of intervention. Short summaries of these interventions are presented in Appendix A1.

For both types of interventions, we will discuss (i) the logic underlying them (the overall goals of the interventions, the beneficiaries and the value chain objectives they were designed to achieve), and (ii) the ways in which interventions were targeted at the poor.

3.1 Interventions working with lead firms

These interventions target large, often transnational, companies, as potential agents for the upgrading of local firms and agricultural producers (farms, cooperatives, outgrower schemes) in developing countries through linkage strategies. We refer to these firms as lead firms, because they have a decisive role in shaping value chains: determining conditions of entry into chains, what is produced, and how.⁷ Donors see powerful lead firms in the developed world as points of leverage where intervention may have a greater impact on the development prospects of producers. In addition, donors see their relative 'closeness' with lead firms in the developed world as an advantageous position to be used in benefit of developing country producers. This is implicitly expressed in recent reviews by donors and/or about donors.⁸

These lead firm interventions are split into three groups: supplier development programmes in manufacturing, interventions that link lead firms to agricultural producers, and interventions focused on labour conditions.

3.1.1 Supplier development programmes

The driving forces in these interventions are large companies, mostly transnational corporations (TNCs), but sometimes large domestic companies. The focus is on a lead firm, and the donor works directly with it. The basic expectations about effectiveness are:

1. There is an overall demand and growth effect. If SME production replaces imported products, the local economy as a whole benefits. If the supply chain switches from larger suppliers to SMEs, there is likely to be a greater reduction in poverty.
2. There is a knowledge and resource transfer effect. Demand from large firms improves the capabilities and performance of SMEs. Large firms introduce global standards into the domestic economy in areas such as design and quality. Linking SMEs to these firms accelerates the learning and acquisition of superior capabilities.
3. Donor support enables linkages to develop by enhancing SME capabilities targeted specifically at the lead firms' needs. It is assumed that these large companies have a much better understanding of what suppliers need to be able to do than state or independent suppliers of business development services.
4. The benefits of the interventions will go beyond the immediate beneficiaries as a result of spillovers from the target SMEs to a broader number and from the beneficiary SMEs to their customers and suppliers.

7 This conception of what lead firms do and how they shape value chains was developed in Dolan *et al.* (1999: 18–21).

8 See, for example, Kula *et al.* (2006) (for a perspective from USAID) and Altenburg (2006) for reviews of donors' activities within the GVC paradigm.

TNCs may undertake supplier development programmes in the absence of donor intervention. However, interventions may be required for the following reasons: (i) TNCs may not realise the potential of SMEs – the imperfect knowledge problem, which can be addressed through demonstration and linkage programmes; (ii) there may be start-up costs for TNCs, so an initial push from donors or government may be required; (iii) SMEs may lack the requisite capacities to meet TNC requirements. This justifies some support from donors to meet the extra costs of upgrading these suppliers.

SMEs targeted in these interventions tend to be located in urban or peri-urban settings often in the manufacturing and services sectors. The poverty objective is pursued through promoting employment in SMEs, which are assumed either to generate more employment than large firms, or to replace suppliers elsewhere, or employ workers from poorer households.

A number of linkage programmes of this sort are identified in Table 3.1. These include programmes linking SMEs to large transnational companies. These are seen in the cases of the motor industry (Fiat in India, Case 5) and oil industry projects (Cases 3 and 4). In some cases, projects work with one or a small number of firms. In others, the intervention targets a broader range of transnational companies (as seen in Cases 1 and 2). In some cases (notably 1, 2, 3 and 10), the larger firms are encouraged to provide direct support to SMEs, as is suggested by the idea of ‘mentoring’ in the FUNDES (Case 10) project.

The range of firms that might act as lead firms in such programmes is quite broad. Often, they may be the first-tier suppliers of the high-profile transnational, ‘lead’ firms. So, for example, in the auto industry it might be first-tier suppliers, rather than the transnational assemblers. In the oil industry, SME supply chains might be more easily developed by the large service suppliers to the oil exploration and refining companies. The lead firms may be transnational companies, but they do not have to be, as illustrated by the United Nations Conference on Trade and Development’s (UNCTAD) business linkages Programme in Uganda (Case 2) where in addition to TNC affiliates, the country’s largest real estate developer signed an agreement to support 15 local suppliers.

Why do TNCs and other large companies agree to participate in these schemes, and how do their motivations affect their characteristics? This is an important issue because it affects the strategy for targeting likely TNC partners in supplier development programmes and the support these partners will provide. There are at least three different motivations: (i) benefits from localisation of supply if SMEs are cost effective – a clear business case; (ii) meeting commitments on localisation and economic impact, which might be negotiated with governments; and (iii) benefits for brand image and corporate social responsibility. The nature of the motivation will affect the involvement of the large firm and what it is prepared to offer. If upgrading of suppliers is motivated by business logic, the TNC might be motivated to ‘capture’ the suppliers to ensure that the benefits do not leak out to competitors. This tends to narrow the range of beneficiaries. Conversely, projects and programmes that are motivated by transnational company commitments to spread the benefits of their investments to the local economy or by a desire to demonstrate social responsibility may reach larger numbers of beneficiary SMEs but may be undermined because of the lack of a strong business case.

Box 3.1 IFC and ExxonMobil's partnership to develop SMEs in Chad

This project has been implemented by the International Finance Corporation (IFC, part of the World Bank group) and ExxonMobil since 2002. ExxonMobil created a 'Local Business Opportunities (LBO)' programme which is the supplier development component of its National Content Strategy in Chad. 'IFC played a crucial enabling role, serving as a training resource, an intermediary for procurement processes and a source of information' (Jenkins *et al.* 2007: 40). ExxonMobil assesses the capabilities of potential local suppliers (SMEs) and where there are shortfalls they are recommended as candidates for training at an IFC facility in Chad. IFC and the Enterprise Centre in N'Djamena and local chambers of commerce and a variety of NGOs in the South provide SMEs with: 'capacity building, access to finance and e-procurement support activities' (page 40). These services are available to SMEs generally in the hope that they will then qualify to be suppliers of ExxonMobil.

This initiative has both a business and a development logic. The development logic has emerged due to the high poverty levels in Chad. The business logic of the project is underpinned by ExxonMobil's commitment to work with local suppliers in what they called their 'National Content Strategy'. However, this commitment was fraught with obstacles due to the low level of skills found amongst local SMEs in Chad. To respond to this challenge, ExxonMobil joined forces with IFC in order to select and train promising SMEs so one day they could be acceptable candidates to supply ExxonMobil.

This type of project fits with the objectives of IFC private sector development activities which centre on designing programmes around its clients' investments facilitating linkages between local SMEs and large multinational companies. IFC's clients are thus supported in their pursuit of their corporate responsibility goals.

Source: Jenkins *et al.* (2007).

IFC website www.ifc.org/ifcext/sme.nsf/Content/Linking_SMEs_to_Investments (accessed 17 January 2010)

Different types of TNCs might be more or less willing to invest in local suppliers. The case of the food industry is discussed by Humphrey (2006), who argues that food processors are more likely to invest in food chain capabilities than supermarkets. This issue has also been discussed regarding the kind of support that global buyers are prepared to provide their suppliers in their efforts to comply with international labour, environmental and quality standards. Navas-Alemán and Bazan (2005) showed how global buyers would provide resources and technical assistance to their footwear suppliers in Brazil for those standards which mattered for the international acceptance of their products (i.e. quality and labour standards) while at the same time ignoring (or choosing not to support) their suppliers' efforts to comply with environmental standards, which at the time (early in the millennium) were not perceived as critical for attracting consumers.

Donor interventions focused on backward linkages, but it is possible to promote forward linkages, as is shown by two projects in this review. The first is Unilever in Indonesia (Case 8) and the second, Nestlé (Case 9). In both cases, the projects were not donor-initiated. Of particular interest is the potential for large-scale impacts when the focus is switched to distribution. The Unilever Indonesia case describes how corporate social responsibility strategies aimed at improving conditions for workers directly employed by Unilever would impact (directly) upon relatively few people (5,000 employees). Extending this initiative to workers in first-tier suppliers would perhaps increase the number of direct beneficiaries to 10–20,000. Much larger impacts would be derived from working with smallholders to organise the supply of agricultural inputs, with one product, sweet soy sauce involving 14,000 farmers (Clay

Box 3.2 **Supply and distribution linkages with SMEs, Nestlé**

‘In many developing countries, Nestlé products are sold through small shops, kiosks and even pushcarts, a distribution chain which provides a number of business opportunities for small, medium, and micro (sometimes only one person) businesses. In Thailand, for example, the chain extends to 400 microdistributors and 4,000 sellers.’
(Jenkins *et al.* 2007: 47)

In Brazil, Nestlé introduced a programme called ‘Nestlé comes to you’ which supports their (mostly) female sellers in their sales with neighbours and acquaintances by giving a higher profile in the Media to this particular delivery system. The networks of women constitute a link in the value chain that would be otherwise non-existent without the support of the programmes and provide an extra source of income for the sellers. Some of the partners of Nestlé in this initiative are Rainforest Alliance and the trading company, Ecom. Both entities are credited by Nestlé as being responsible for the scale of impact of this programme and therefore their ability to reach deeper into remote, isolated and/or poor markets.

Sources: Jenkins *et al.* (2007) and Foundation Strategy Group (2006).

2005: 69). But by far the biggest impact in numerical terms was derived from working with the small distributors to improve conditions. Here, the potential beneficiaries could be counted in hundreds of thousands. Unilever India follows this strategy as well, mediated by the social entrepreneur M.G. Papamma (Jenkins *et al.* 2007).

The second case, the Nestlé distribution system in a number of countries, is summarised in Foundation Strategy Group and Nestlé S.A. Public Affairs (2006). Once again, the focus is on the distribution side. In this case, Nestlé partnered with Rainforest Alliance and a trading company, Ecom, to extend the reach of their business to more isolated and poorer segments of the market. This project has elements of the ‘Bottom of the Pyramid’ strategy advocated by Prahalad (2006), which is a theme taken up in a further report by Jenkins *et al.* (2008). However, neither of these projects had a clear development agency partner.

3.1.2 Lead firms in agriculture

The second group of lead-firm based value chain interventions are in agriculture. This group includes the agricultural elements of broader interventions seen in Cases 2, 6, 8 and 9, Case 11 and parts of Case 12. Many other schemes involving lead firms and small agricultural producers could have been included in this review.⁹

Interventions involving agriculture frequently involve contracts between lead firms and small farmers that tie the latter to the former. The Business Linkages Challenges Fund (BLCF) scheme, Case 11, is a good example. The lead firms, cotton ginners, provided extension services, pre-treated seeds, and subsidised pesticides and spraying equipment to farmers. In exchange, the ginners had exclusive rights to buy the farmers’ output. Buyers obtain a more secure supply and a return on investments that they might make to improve quality, quantity and reliability of farmers’ output. Farmers gain a more secure market outlet and

9 See the report on the workshop held in Cologne in 2006 which brought together a number of outgrower initiatives in Africa, many of which had been financed by the German development finance agency, DEG (Brüntrup and Peltzer 2006).

access to the technical and market knowledge of the purchasing companies. Equally, however, there are widely known risks, which range from side-selling by farmers to the dependence of small farmers on their large buyers.

These schemes become more and more important as market demands and market opportunities put a premium on quality control, specified and monitored production practices, safety and traceability. Access to premium markets requires levels of control that are difficult or impossible to achieve without outgrower schemes. In effect, outgrower schemes transfer some of the more complex tasks in farming to the processor or exporter.¹⁰ Globalisation creates new opportunities, but also new challenges, as discussed in Section 2.2. However, some interventions in this category focused on production for the domestic market:

- The agricultural interventions in Case 2 worked with food processors in Uganda – brewers and sugar refiners to develop contract farming for the supply of barley and cane sugar.
- In Case 6, the programme focused on improving linkages between agricultural producers and buyers and also facilitating the provision of market-based services.
- In Case 11, as described above, the BLCF initiative provided part-funding to promote the linkages between the cotton ginner and small farmers. As with Case 2, the link was between farmers and a large processor.
- Part of the programme in Case 12 focused on linking small producers of mangoes and passion fruit to large exporters and facilitating the provision of services that would support farmers in meeting export market requirements. One element of the programme aimed to ‘offer fee-based services related to crop management, maintenance of document control, forecasting production, group formation and linkage to lead firms’ (Sebstad and Snodgrass 2008: 17).

These examples show that working with lead firms does not necessarily mean adopting a narrow approach to value chain linkages. Some of the interventions did work directly and (apparently) exclusively with one or a small number of large firms.¹¹ But in other cases, such as Cases 6 and 12, the promotion of service providers would be more typical of the broader approach to VC development. The service providers would be available to other firms and farmers.¹²

3.1.3 Lead firms and labour conditions

A third example, with rather different characteristics is ILO’s ‘Better Factories Cambodia’ programme, which aimed to develop Cambodian garment suppliers for US buyers with an explicit commitment to improve working conditions. Taking

10 This is an example of point 6 in Table 2.1. If a task is challenging for a particular set of actors in the value chain, one option is to transfer it to another actor in the value chain, rather than increase the capabilities of the first set of actors.

11 It should be noted that the structure of the Business Linkages Challenge Fund is precisely to encourage private sector firms to develop new linkages with part-funding from the Challenge Fund.

12 Development agencies are well aware of this problem. It is discussed, for example, in the GTZ ValueLinks manual (GTZ 2008).

advantage of a linkage between access to the US market and labour conditions, the Better Factories Cambodia initiative looked to improve labour conditions:

In Cambodia in 2001, the ILO was part of a unique experiment. Cambodia's garment industry, which today employs more than 270,000 mostly female workers and makes up 80 per cent of all Cambodian exports, grew rapidly as a result of US quotas on big garment producing countries. The US government gave trade privileges to Cambodia in return for demonstrated improvements in factory working conditions. It was agreed that ILO would help the industry to make those improvements.

(ILO 2005: 36)

The scheme was implemented by ILO, which monitors and reports on working conditions in the factories. It created a comprehensive web-based Management Information System that can be accessed by all links of the value chain: factories, buyers, employer organisations, government and the public. The data that ILO monitors includes wages, worked hours, type of contracts used, holidays and leave time earned (and actually enjoyed) by workers, issues of safety and health, welfare and labour relations. The benefits of this initiative are praised by global buyers sourcing from Cambodia and other competing locations:

Forecasts of the future of Cambodia's garment industry are cautiously optimistic, since it is seen as having a comparative advantage in the region in the area of labour standards, as highlighted in the results of a World Bank survey of Cambodian buyers released in December 2004. The World Bank found that good working conditions in Cambodian factories was [*sic*] a major factor in buyers' sourcing from Cambodia. Cambodia's key overseas buyers rated labour standards as a top priority in their decision to source from a country and considered Cambodia to have an advantage over Bangladesh, Thailand, Viet Nam and China in that regard. The survey also found that almost 80 per cent of buyers considered monitoring of labour standards to be critical after the end of quotas, and praised the ILO's monitoring.

(ILO 2005: 37)

The distinctive characteristic of this initiative compared to many other Corporate Social Responsibility (CSR) projects is its focus on the exporting country and a wide range of supplying companies in that economy, as opposed to starting from particular lead firms (manufacturers, retailers or brand names) and their suppliers in many different countries. This expands the range of suppliers involved and mobilises in-country engagement with the programme.

This initiative has been scaled up through the development of the ILO/IFC Better Work programme, summarised in Box 3.3. Here, the aim is to expand coverage beyond Cambodia and beyond the garment industry to provide broad-based, national schemes to improve the benefits to workers of participation in export-oriented industries. Initially the scheme is planning to extend activities to Vietnam, Jordan, Lesotho and Haiti and to roll out 20 initiatives, covering agribusiness and tourism as well as garments, by 2009.¹³

13 The writers of this report are grateful to Ros Harvey, Global Programme Manager for Better Work for providing information about the initiative.

Box 3.3 Improvement of working conditions as a pathway for poverty alleviation: the Better Work programme

Building on the successful experience of Better Factories Cambodia (Case 7 in this report), ILO and IFC have extended some aspects of the programme to other countries and other industries beyond garments. Since February 2007, Better Work has been devoted to improving labour standards and competitiveness in global value chains where developing country workers operate.

The programme staff broker agreements between global buyers and local suppliers in developing countries, so as to ensure that both parties work together in monitoring and enforcing compliance with labour standards. Training is provided for both suppliers and buyers on how to manage these relationships, on the principles behind the programme and on how to operate the technological platforms (developed by the programme) which gather data on standards compliance and remediation of problems. These platforms (called STAR*) are web-based and they are complemented with manuals, workshops and coaching.

The programme's basic premise is that 'Good labour standards equals good business'. This means that compliant SMEs in developing countries will also be better suppliers due to knock-on effects of compliance on productivity and quality. Emphasising these linkages between labour standard compliance and productivity is important to make the business case for global buyers to support the programme. Without the support of the private sector the programme would not be sustainable or even effective in its attempt to raise labour and living standards amongst local workers operating in global value chains. On the other hand, suppliers need the reassurance that they will not be dismissed if failures to comply with standards are discovered by the monitoring system. Better Work staff mediate between global buyers and suppliers in order to create an atmosphere where transparency about compliance failure is not punished by dismissal as long as prompt disclosure and remediation takes place.

In addition to a pilot project in Cambodia's garment industry (Better Factories Cambodia), the programme has worked in Jordan and in Vietnam, and expects to roll out in Haiti and Lesotho. The new programme is still in its initial stages and assessments of results are not yet available.

A team of academics from Tufts University is designing a methodology to measure impacts at the level of the factory, the industry, the country and at global level. 'In addition, Tufts will be conducting a controlled experiment with factories in Vietnam that will show the causal relationship between Better Work interventions at the factory level and economic, social, and human development outcomes' (Better Work n.d.). Some of the indicators that Tufts is considering are: remittances, workers' savings, household income changes, poverty and hunger, extent to which universal primary education is available, gender equality and maternal health (Better Work n.d.).

(*) Supply Chain Tracking of Assessments and Remediation

3.1.4 Targeting and poverty reduction in lead firm interventions

How were the interventions focusing on lead firms designed so as to increase their poverty-reduction impact? Some interventions did not adopt this goal. Kula *et al.* argue that 'USAID's development goal is centred on economic growth rather than poverty reduction' (2006: 3). Some other cases either made no explicit reference to targeting the poor, or referred to an overall goal of poverty reduction without focusing on specific groups of poor people.

Those projects that did attempt to target the poor did so in three ways: by targeting areas where the poor live (geographical focus), by targeting sectors where the poor are more likely to be earning a living (sectoral targeting), or by working with specific groups of poor or vulnerable people (social targeting). Specifically:

- Targeting SMEs was often assumed to be pro-poor in itself.
- Projects targeted poorer regions. For example, the Projeto Vínculos initiative (Case 1), linking local SMEs with large domestic or foreign firms, was based in one of the poorest regions in Brazil, the Northeast. This, by itself, did not guarantee that relatively poor people in the region would be targeted.
- Agricultural projects, by definition, targeted rural areas, where the poorest live. Once again, however, the targeting of rural areas does not necessarily target the poor in these areas. It may be the case that the farmers that are most capable of entering outgrower schemes are not the poorest – and in cases such as horticulture, they will be in the more favoured rural areas. The large companies may choose to work with the most able farmers or cooperatives, or these groups may be the ones most likely to commit to outgrower schemes.
- Some projects displayed social targeting. UNCTAD's linkages programme in Uganda (Case 2) not only targeted poor areas, but also refers to the fact that 30 per cent of the SME owners were women.
- Interventions focused on the distribution side of large firm value chains (Cases 8 and 9) included explicit targeting of individual distributors that live on low incomes or reside in 'hard-to-reach' areas as part of a business strategy which would also benefit those at the 'bottom of the pyramid' (Prahalad 2006).

Overall, the explicit linkage of lead firm interventions to poverty reduction seems to be quite weak. The linking of SMEs to large firms and the development of links between farmers and agribusiness companies was quite often viewed as poverty-reducing without any further justification. In addition, projects differed greatly with respect to scale. The more closely that a project worked with specific lead firms (the 'narrower' VC approach, as discussed in Section 2.2), the more the issue of scale arises. Given that value chain programmes tend to be labour-intensive because of the need to respond and adjust to specific geographical and sectoral circumstances, how effective is the use of scarce development resources when the number of beneficiaries is relatively small? In the cases discussed above, the beneficiaries vary from hundreds to many thousands or hundreds of thousands. The broader the approach, the more it is likely that scale will be achieved. The issues of targeting and scale will be discussed further in Section 4.

3.2 Chain linkage programmes

Many of the VC initiatives did not take the route of identifying and working with lead firms. Seventeen of the selected projects (Cases 14 to 30 in Table 3.1) are defined as chain linkage programmes. The overall diagnosis behind these interventions is that inefficient or missing linkages between producers and their actual or potential markets denies poor people income-generating opportunities, or reduces the benefits of market-oriented production. Or, alternatively, significant opportunities for rural producers to enter new markets or increase their incomes from existing markets exist, but they need value chains to work more effectively. Small producers face one or more of four challenges that can be addressed by linkage programmes:

- They are isolated and lack information about market opportunities.
- They lack the technical means to take advantage of these opportunities.
- They rely on downstream parts of the value chain, particularly trading intermediaries, to provide market access, and this can give rise to blockages and power inequalities that reduce the producers' returns from their activities.
- To the extent that the most attractive value-adding opportunities are in distant markets – in export markets and in the richer areas of the national economy – taking advantage of opportunities means working with other actors in the value chain.

3.2.1 Non-agricultural linkage programmes

In five cases included in this report (Cases 13–17), it was possible to find technical assistance targeted at particular points in the chain, measures to improve inter-agent relationships along the chain, improvements of flows of knowledge and resources along the chain, and the development of new value chain linkages. Two examples, in particular, highlight the distinctive characteristics of these linkage programmes compared to lead firm initiatives.

Case 14, summarised in Box 3.4, is a good example of a value chain linkage project that works without a lead buyer. Focused on a specific poor and isolated community, it provided direct technical assistance for training and quality control (so that better products fetching higher prices could be produced), identified alternative linkages (and alternative products) to spread risk and increase demand, and sought new outlets in order to shift the balance of power within the value chain. Given the remoteness of the community, developing the market potential for handicrafts required outside support. The expectation in such interventions is that following the initial intervention, the value chain linkages would be self-sustaining.

A second case, Case 15, addresses a different form of isolation. This project aimed at overcoming the social and economic isolation of homebound (i.e. confined to their homes due to religious practices and cultural norms) women in Pakistan. Implemented in 2004–07 by the Mennonite Economic Development Associates (MEDA) and the Entrepreneurship Career Development Institute (ECDI) in the areas of Baluchistan, Punjab and Sindh, the project promoted access of homebound women to markets. Specifically, it worked with a group of traders, female sales agents, who bought embroidered products from these women and sold them in the market.

The project proposal highlighted gender issues, the isolation of homebound women workers, and the unrealised economic potential of this group:

The majority of women in rural Pakistan are marginalised by poverty, home confinement and geographic isolation. The proposed program will reduce the poverty of poor homebound women embroiderers in three conservative areas of rural Pakistan by helping them access higher value markets in the embroidered garment subsector. The quality of the embroidery of rural women is excellent, but products are generally sold into low value traditional markets through

Box 3.4 WaiWai Community in Guyana and Conservation International

‘The WaiWai (Amerindian community) produce a number of unique, high quality products (baskets woven from mokru, beadwork, cassava graters, traditional aprons and headpieces), although they have had a limited presence in Guyana’s handcraft market due to their remoteness.’

(The Value Chain and the Poor Working Group 2006)

The WaiWai live in a very remote part of Guyana. Their closest market is a town of 2000 inhabitants which can be reached after 15 days by foot and boat. The capital (Georgetown) is a further 12–24 hours away depending on the quality of transport. WaiWai community members face many hurdles in their quest to link their products to the market: roads are poorly maintained which makes travel slow and expensive (even impossible during the rainy season) and retailers refuse to pay for transportation costs for the products. The distribution of gains in this short value chain is less than equal: retailers mark up the goods to sell in the capital by 300 to 1000 per cent.

Conservation International (CI), working with the Ministry of Amerindian Affairs has been supporting the WaiWai by initiating the following actions:

1. brought buyers and sellers to the table for MOU (Memoranda of Understanding) negotiations;
2. ‘additional business partnerships for WaiWai crafts in order to provide viable alternatives to the main purchasers and to increase community’s bargaining power’;
3. conducted, ‘with the community, a value chain analysis to identify shortcomings and needs for improving product flows’;
4. ‘capacity-building and teacher training in design and quality control for community-elected craft teachers’;
5. ‘participatory enterprise assessments to assess feasibility of enterprises other than handcrafts (tourism and agro-forestry) in generating income.’

Source: The Value Chain and the Poor Working Group (2006).

monopolistic buying channels. Since buyers are usually men and transactions must therefore take place through a male family member, confined women do not have the knowledge or opportunity to develop products for alternative markets. At the same time, there is a growing middle class of Pakistani women in urban centres who seek out quality hand-embroidered garments in contemporary styles, and are willing to pay a premium for them. Our program will develop commercial BDS markets that will overcome social barriers and limitations in the value chain, enabling rural embroiderers to reach affluent consumers and realize a higher return on their labour.

(MEDA/ECDI 2004: 6)

The project’s activities were: (a) recruitment and development of women sales agents to provide a package of embedded services to rural embroiderers which included product development and access to quality input supplies and higher-value markets; (b) linking of sales agents to buyers and designers; and (c) capacity-building for sales agents in product development and design. In other words, the project did not stop at linkages. In addition to linking the homebound women to the product market, the project also looked to add value to the women’s work by linking the production chain to designers in order to create higher-value products. An early evaluation of the project also pointed to the need to seek out

new and more distant markets, particularly in the largest cities in Pakistan (MEDA/ECDI 2004: 2).

This project also showed clearly the overlap between different approaches to private sector development. While this project presented itself as a BDS project, and also refers to using the subsector approach, it was clearly oriented to the linkage question. A 'subsector map' is provided in one report, but this is then described as 'the current dominant links between players in the value chain' (MEDA/ECDI 2004: 4). The project had clear value chain characteristics as it focused not only on inputs to the production process but also the linkages between homebound female workers in conservative parts of the country and market outlets (via the sales agents), and the links between sales agents, buyers and designers. Intervening to establish or modify such links may be essential if geographically or socially isolated groups are to gain access to markets.

3.2.2 Agricultural linkage programmes

Agricultural chain linkage programmes were the most commonly-found type of VC intervention by donors.¹⁴ Thirteen different cases (Cases 18–30) are listed in Table 3.1, and many more could have been selected. As with the non-agricultural schemes, the basic diagnosis is that the market potential for small/poor farmers is not being realised, farmers lack knowledge/capacity and have weak or inefficient links to markets. Interventions are designed to improve knowledge and resource flows along the chain, develop new market linkages and provide producers with new skills and information.

VC interventions in agriculture face particular challenges. First, weak or ineffective value chain linkages in many parts of agriculture have direct and serious consequences because of the impact of storage and distribution on product quality – quality of inputs, freshness of outputs, contamination, etc. Second, globalisation creates particular challenges and opportunities for agriculture that can only be addressed through more effective value chain coordination. Third, production by poor farmers is very fragmented and the quality of intermediaries in agricultural markets is very varied. Therefore, the potential gains from changing the way that chains operate are substantial.

The scope of interventions in agriculture can vary from narrowly-focused work with small groups of producers, and the buyers linked to them, to interventions that have the potential to reach thousands, or tens of thousands, of beneficiaries. The diversity in scale can be seen in the contrast between Cases 20 and 29, presented in Table 3.2.

Case 29, a coffee chain project in Ceará, Brazil, was focused on the export market, working with a small group of coffee farmers. The objective was to introduce ecologically-friendly, organic production. The gains to local producers were derived from increasing the unit value of the product through product differentiation. The linkage to the external market, and a particular buyer willing to pay a premium for the product, was a driving factor for the

¹⁴ These programmes include fishing and aquaculture as well as agriculture.

Table 3.2 **Contrasting value chain interventions in agriculture**

	Case 29: coffee production in Brazil	Case 20: pond fishing in Bangladesh
Main goal	Developing shade-grown coffee as part of a broader ecological initiative	Improving the productive efficiency of small-scale pond fishing
Scale	158 producers involved at time report written	Potentially, tens of thousands of beneficiaries
Target market	Swedish consumers via Swedish coffee roaster	Consumers in local area
Focus of improvement efforts	Organic certification Brand image as environmentally friendly	Operation of local input market Capacity of business associations Training and knowledge transfers
Source of benefits to farmers	Higher price for specialty product	Improved efficiency of production

Sources: Macchione Saes (2001) and de Ruyter de Wildt (2007).

intervention. This project has some of the characteristics of a lead firm initiative, although the driving force for it came from local organisations.

In Case 20, the intervention focused on the productive efficiency of pond fishing in a part of Bangladesh that appeared to be lagging behind competing regions.¹⁵ The initial diagnosis suggested that pond fishing in the Faridpur district was not developing as rapidly as in other districts and that the key issues were the quality of inputs into ponds (the small fish, fingerlings, that are grown from fry in grow-out ponds), the performance of local business associations, and weaknesses in transportation. These were addressed by developing a local market for buying and selling fingerlings, promoting more effective local business associations, and targeting nurseries as sources of information to farmers on cultivation practices. In other words, the interventions were quite broad.

The value chain elements in the interventions were clear: diagnosis of chain linkages and weaknesses, focus on improving knowledge flows along the chain (particularly from nurseries to farmers, with its implications for the role of hawkers as intermediaries between the two), a goal of improving farmer productivity through training of nurseries (which would be a conduit for transfer of knowledge to farmers) and the development of the local market to shift the dynamic of relationships between nurseries and farmers. Nevertheless, the intervention combined this with an M4P approach, as was recognised in an evaluation of the exercise:

Katalyst following a market development approach undertook a number of detailed market studies and developed a detailed picture of the sector including the main players, the number of businesses involved in the major

¹⁵ The information which follows is taken from an assessment of this project written by the Springfield Centre in the UK as part of a series of assessments of Katalyst projects in Bangladesh (de Ruyter de Wildt 2007).

processes in the value chain. With this broad picture in mind, Katalyst's focus was on the business services (formal and informal) that could enhance output and productivity.

(de Ruyter de Wildt 2007: 5)

It would be possible to further broaden out such interventions, and an even broader approach was evident in the micro, small and medium sized enterprise (MSME) strengthening project in Cambodia financed by USAID (Case 30). Here, MSME Cambodia project staff worked on the business environment and even the policy environment by advising the government on new ways to benefit from WTO regulations (Indochina Research Ltd 2008). In other words, the programme's efforts went beyond the industrial sector and aimed to influence the broader economic, political and business climate in which targeted industrial sectors operate.

There is no hard and fast rule for adopting one approach or the other. A good example of the use of a 'narrow' chain linkage approach that was justified by the particular circumstances of the target beneficiaries was Case 27. This was developed by the International Rescue Committee (IRC) in northern Uganda to develop cotton production for internally displaced people (IDPs) in the context of civil strife (Locke and Goeldner Byrne 2008). This involved developing a link with the cotton ginners so that cotton growing could be developed. This product was chosen because continuing violence meant that previous patterns of production and marketing were too dangerous for the IDPs. With previously existing markets disrupted, and severe limitations placed on new production by the security situation, new relationships had to be built from scratch.

In a similar way, Hofmann *et al.* (2006) situate GTZ's Nepal projects (including Cases 16 and 21) in the context of promoting private sector development in conflict environments. Here, we see one important way in which the value chain approach can target the poorest and most vulnerable in difficult situations. The same process is evident in schemes to redevelop rural marketing systems in post-conflict environments in Central America. Value chain interventions may be the first step in re-establishing market linkages, which can subsequently be further developed using M4P tools.

In spite of these benefits, the potential risks of such interventions should be recognised. The more that VC interventions create entirely new market linkages, the more risks are created. The consequences of developing radically new products, new markets or new linkages may be unpredictable. In the Brazilian coffee case, the Swedish buyer subsequently withdrew from the project. In the case of the Uganda cotton project, an initially successful project was undermined by difficulties with maintaining access to land.¹⁶ In the TTO red meat project (Case 18), trying to bypass the established market traders created some unexpected problems. To the extent that poor people have few resources to cope with such unpredictability, it may be more prudent to improve the performance of existing chains wherever possible. The case of pond fishing in Bangladesh is an example of a project that builds on a pre-existing activity that has a clear underlying business logic.

16 A review by Parker (2008) of a number of VC interventions in post-conflict environments shows that success relies on sustained, long-term engagement.

3.2.3 Targeting and poverty reduction in chain linkage projects

Overall, the scope for targeting value chain interventions towards the poor is much clearer in linkage programmes, both agricultural and non-agricultural, than in lead firm programmes. Four out of five of the non-agricultural linkage programmes included in this review used geographical and social targeting. Cases 14 and 15, cited in section 3.2.1 above, are clear examples of this.

Some of the studies included in this report go further by identifying and targeting particular disadvantaged groups. The International Rescue Committee (IRC) cotton value chain project in northern Uganda (Case 27), for example, focused on IDPs. A project working with agricultural cooperatives in Ethiopia (Case 25) explicitly focused on the lack of women producers benefiting from the highly lucrative distribution of dividends that the cooperatives were generating. The sedge project in Vietnam (Case 28) led by SNV also emphasised that 'women are the primary beneficiaries of additional income by means of sedge handicraft' (SNV 2006: 43). In these interventions, it is common to work with the poorest directly, enhancing assets and supporting improvements in value chain knowledge and negotiating power.

However, it is important to note that these beneficiaries can be reached through interventions at other points in the value chain. In the two Katalyst projects in Bangladesh (Cases 19 and 20), the ultimate aim was to benefit poor producers, but this was achieved by working with producers and traders at different levels of the local value chain. In the case of the fisheries sector in Bangladesh, Katalyst focus particularly on technical support and training to local hatcheries and building up the local fisheries association. Some of the immediate beneficiaries were poor and others less so, but the aim of the intervention was to make the whole chain more productive by transferring knowledge along the chain and improving relationships between chain actors in order to deliver higher income opportunities for all.

4 Evidence of poverty impacts from value chain interventions

In this section

This section examines the extent to which VC interventions collected evidence about impact. It addresses three issues:

- How projects assessed whether they were successful
 - Why impact assessment is necessary
 - The cost effectiveness of VC interventions
-

The previous section examined the poverty reduction potential of different types of interventions. What evidence is there that the 30 cases covered in this report actually succeeded in reducing poverty and/or accelerating economic growth? Furthermore, is there evidence that these projects were cost-effective means of achieving this overall goal?

The key conclusions of this report will be substantiated in the remainder of this section. They are:

1. The 30 cases analysed and discussions with various practitioners showed that monitoring and evaluation of projects was very common. In other words, project activities and project outputs were verified.
2. The project reports provide a substantial amount of anecdotal evidence for the positive outcomes and impacts of value chain initiatives. Some of the outcomes appear to be very positive.
3. Beyond this, there was little systematic impact evaluation evidence across the 30 projects. The few examples of impact assessment found across the 30 project seem to have been carried out in 2007–08.
4. This lack of systematic impact assessment is understandable, because of the cost and expense involved. But it is a problem. Impact assessments are essential to address two key questions: were the ultimate goals of the project verifiably achieved, and can this achievement be attributed to the activities of the projects themselves (see Box 4.1). Without such assessments, it is difficult to assess the efficacy of value chain interventions.
5. Value chain impact assessments are complex and expensive. It is neither realistic nor desirable to include them as a standard element of the design of all value chain projects. Instead, donors or independent bodies should introduce programmes of impact assessment covering multiple projects.

The basics of impact assessment are well-known. They are summarised in Box 4.1. Clearly, many of the 30 value chain interventions did not follow up with a well-designed impact assessment of this type, and it would not be reasonable to expect them to have done so. However, the projects did employ a variety of different strategies to review their activities and outcomes. These are discussed in the

Box 4.1 Impact assessment for value chain interventions

'The key questions addressed in an impact assessment are:

1. Did hypothesised changes in fact occur in the lives of the beneficiaries of the project?
2. Were these changes due to the activities of the project?' (page 4)

The report later adds a third issue: 'A third element may also be considered essential in an impact assessment – the cost factor. Understanding the cost (initial and on-going) that the project represents is needed to establish a cost-benefit ratio that can be compared with the results of similar projects in other countries or with alternative projects.' (page 8)

Impact assessment has to be based on 'a good understanding of the underlying causal model' that links project activities to outputs, outcomes and impacts. (page 5)

'The most immediate results of project activities are called project outputs... Project outputs, in turn, lead to project outcomes [for example, growth in businesses and competitiveness]... Project outcomes lead directly to project impacts – increased incomes, increased employment and reduced poverty – that are the ultimate goals of the project.' (page 6)

Ex post impact assessments identify actual impacts. Such assessments have two core elements: 'An impact assessment on [a] micro-enterprise development project involves two essential elements: proof that change has resulted and an impact has occurred; and proof that the changes were due to the project and would not have occurred without it.' (page 7)

The first of these elements is achieved by establishing a baseline survey and then comparing the findings with a subsequent follow-up survey. The second element is achieved by comparing the target group of the intervention with a control group, which is as similar as possible to the target group other than with respect to the intervention itself. A full-blown experimental method (for example, in clinical trials) would randomly select both target and control groups. Much more common is the use of a 'quasi-experimental method' that compares non-randomly selected programme participants with a comparable control group (pages 7–8). The control group acts as the 'non-intervention' counterfactual.

Source: Magill *et al.* (2007). See also Sebstad and Snodgrass (2008).

following three subsections. First, it examines the different approaches to monitoring and evaluation and impact assessment adopted by different projects. Second, it asks why impact assessment is still essential, even if difficult. Third, it addresses the issue of cost effectiveness of different types of value chain interventions.

In undertaking this assessment, we will focus on the chain of cause and effect, which analyses the impacts of projects by linking four stages:

1. Project activities. What the project actually does.
2. Project outputs. The immediate achievements of the project, such as the number of people trained, the number of businesses brought into contact with each other, the number of farmers receiving improved inputs, etc.
3. Project outcomes. These are broader objectives that the activities are designed to achieve. Farmers receiving improved inputs, for example, is a means to a broader end, such as better farming practices or increased production.

4. Project impacts. As defined in Box 4.1, this refers to the ‘ultimate goals of the project’, such as increased incomes, accelerated economic growth or reduced poverty.

4.1 How did the projects assess their impacts?

Across the 30 interventions, few *independent* impact assessments or systematic examinations of the links between value chain interventions and poverty outcomes were found. There was a substantial amount of monitoring of activities and outputs, some non-systematic information on poverty reduction, and claims from the projects themselves indicating positive outcomes – discussed later in this section.

It is possible that the study just failed to find impact assessments or was unlucky in its choice of projects. It is certainly the case that impact assessments were planned for some projects, but by the time of the review these were not ready. Three such cases are discussed below. It is also possible that impact assessments are less likely to be made available by donor agencies than information about projects themselves. However, during extensive discussions with the staff of various donor agencies (see Appendix A2), both in the initial stages of preparing this report and during discussions on the final draft, very few indications of the availability of impact assessments were offered, and those that were there have been included in this report.

We now examine three elements of evaluations and assessments of value chain interventions:

- Monitoring of the activities and outputs of business development projects.
- The non-systematic evaluations of poverty impact.
- Attempts to quantify poverty reduction impacts.

4.1.1 Monitoring activities and outcomes

Many projects among the group of 30 studied incorporate detailed monitoring and evaluation procedures. These monitor the extent to which activities are completed and objectives achieved. It has been argued that lead firm interventions tend to focus on business development, with direct impact on poverty as a corollary, rather than a direct goal. What would be the relevant indicators for the achievement of project goals? A good example of objectives and indicators is shown in Box 4.2. This business linkages project lists five immediate objectives and identifies indicators for each one. Similar examples of this approach to SME development and poverty reduction can be found for Cases 5 and 10.

The need for this type of monitoring and evaluation is undisputed. Nevertheless, to establish whether or not success in achieving the immediate objectives also leads to a reduction in poverty, it would be necessary to find out: (i) whether or not outputs such as signing up to linkage programmes actually improved the competitiveness of enterprises in the long run; and (ii) whether this increase in competitiveness led to a reduction in poverty. In addition, some quantification of the number of beneficiaries in relation to the project’s expenditure would be desirable.

Box 4.2 Objectives and indicators of UNCTAD linkages programmes

The objective is to promote economic and social development by enhancing local productive capacity and the efficiency of the domestic enterprise sector through the creation and deepening of fair and sustainable business linkages between foreign affiliates and local SMEs, thereby allowing SMEs to be competitive, increase employment opportunities and generate more income.

Immediate objective one: Improve the policy environment in which the private sector operates to enable the creation of linkages between foreign affiliates and SMEs.

Result: Policy improvement recommendations prepared for government consideration and approval.

Immediate objective two: Motivate, through linkage promoters, foreign affiliates to establish more and deeper sustainable business linkages.

Result: x number of foreign affiliates signed up for the linkage programme and x number of linkage promoters assigned.

Immediate objective three: Upgrade SMEs to meet foreign affiliate requirements, benefiting from their coaching and mentoring programmes, and the strengthened capacity of local BDS providers.

Result: x number of SMEs engaged in business linkage deals and benefiting from direct and continuous upgrading of their business and management skills.

Immediate objective four: Analyse and identify the most effective means for establishing business linkages between foreign affiliates and SMEs and distribute best practices locally and internationally.

Result: Documentation and guidelines published on best practices in forging business linkages in order to share the acquired knowledge.

Immediate objective five: Establish institutional and BDS structure to carry the project beyond the initial funding period.

Result: Local institutional capacity created and developed, established network of dynamic partners in place.

Source: Edited from UNCTAD (2006a: 17–22)

Where projects were explicitly concerned with poverty impact, this sometimes took the form of taking business development as a proxy for poverty reduction. The logic of this approach is clearly evident in studies of two GTZ projects in Nepal (Cases 16 and 21). Two GTZ reports on these cases (Banjara 2007; Rana 2007) start with a Foreword whose first sentence is ‘Enhancing the competitiveness of Nepal’s private sector in order to generate income and employment opportunities is the prime objective of the Private Sector Promotion (PSP) project of German Technical Cooperation (GTZ)’. However, the monitoring process for the project links does not examine this directly. The utilisation of outputs are defined in terms of producer and enterprise performance, with indicators such as improvements in the quality of output, improved techniques, entrepreneurial awareness and promotion in Europe. The studies refer to ‘direct benefits’ of the project, but these are defined in terms of quality, product image in Europe, market promotion and local service capacity (Banjara 2007: 28–30). The studies do not directly verify whether or not these ‘direct benefits’ led to either verifiable increases in production, or increased incomes for poor people.

4.1.2 Impacts on the poor: non-systematic evaluations

The studies discussed in the previous section included well-designed evaluations of outcomes, but mostly did not verify whether or not they were sustained increases in competitiveness or changes in the income and/or employment of the poor. In part, this reflects the non-agricultural focus of most of the projects. The prime objective was business development, and the link to poverty reduction is indirect. Projects that focus on well-defined communities, often in rural areas, sometimes encounter the opposite problem. They are concerned with poverty reduction impacts on well-targeted populations but the evidence provided for poverty reduction is either incomplete or anecdotal, or not compared to a control group.

For Case 17, 'Linking the poor to the tourism market in Bhutan', some baseline data was collected at the beginning of the intervention, and information on initial impacts and project achievements were kept. According to the report, 'Twenty villagers received vocational training in 2006 and approximately 210 households in six villages received a supplementary income from the tourist trail; part of the income from the project was paid into the Community Development Funds to fund communal expenses; the project has shown great potential for increasing gender equality' (SNV 2007c).¹⁷

Another such case is a GTZ project in Ecuador (Case 24). It gathered baseline data measuring the incomes of small family-owned farms and compared these with their income levels at the end of the project (2006). The project found that small farmers of coffee and wood products saw an increase of 70 per cent in their income from year 2004 to year 2006 (and for cocoa the increase reached 104 per cent) (GTZ 2007a). Unfortunately, it has not been possible to gain access to the full evaluation from which these claims are made, and there does not appear to have been a comparison with non-participants.

The project working with the WaiWai community in Guyana (Case 14) suggested that there were benefits to the poor, but an evaluation could not be found. Information provided by SEEP (The Value Chain and the Poor Working Group 2006) suggests that progress is being made towards formalising and facilitating the linkages between WaiWai producers and retailers in the market. These linkages should enable WaiWai producers to increase their incomes by selling their products at better prices and on a more frequent basis, and the mediator (Conservation International) seems to help to bring greater transparency to pricing negotiations and protection for the intellectual property of WaiWai's handcrafts patterns and designs. Nevertheless, this case is a good example of the dangers of relying on anecdotal evidence and promising trends. The WaiWai tribe are very isolated. Information provided directly by a person involved in this project suggests that considerable value chain bottlenecks remain, particularly with respect to getting products to market. The cost of reaching the capital city, where prices for the goods are much higher, may well be offset by the cost of travel. This limitation is not evident in the source used for the project summary in Appendix A1.

17 This project is still ongoing and may produce impact evaluations. SNV, Netherlands Development Organisation, did carry out three country evaluations and two thematic evaluations in 2007, but Case 17 was not included (SNV 2007a).

Table 4.1 **Value chain interventions with quantified assessments of outcomes and impacts, summary**

Case number	Short title	Summary of evaluation/assessment
13	Facilitating sustainable linkages between Central American Producers and US Regional Markets	Initial proposal set out successful business promotion indicators. Subsequent assessment followed up on some of these indicators and provided provided before/after comparisons of incomes and wellbeing of participants compared to population in general.
15	From behind the veil: access to contemporary markets for homebound women embroiderers in Pakistan	Assessment calculated increases in income of various groups along the value chain, but without providing a control group.
20	Accelerating growth in the pond fish sector of Faridpur, Bangladesh	Independent evaluation of changes in business outcomes along the value chain using a comparison of participant and control groups. Data on changes in income and welfare restricted to overall changes within two districts covered by the programme.
19	Bringing knowledge to vegetable farmers in Rangpur, Bangladesh	Evaluation of evidence with respect to farmer satisfaction and to productivity increases following programme to promote knowledge transfer via retailers to farmers.
30	Cambodia micro, small and medium-sized enterprise (MSME) strengthening project	Analysis of impact of programming three sectors identified improvements in business outcomes comparing pre- and post-project indicators. Some attempt to track perceptions of changes in poverty.
12	Kenya KBDS and KHDP tree crop development programmes	Elements of both programmes evaluated and assessed using baselines and outcomes with participants and control groups. Some qualitative evaluation as well. Results of quantitative study open to question.

Finally, project assessments are frequently unable to establish whether new value chain initiatives are viable in the long term. The IRC's VC intervention in the cotton value chain in northern Uganda (Case 27) did restart economic linkages and activities between the local population (including land owners) and IDPs. The value chain linkage ensured a buyer for the cotton, and IDPs earned substantial amounts of money for their efforts (Locke and Goeldner Byrne 2008). However, a subsequent evaluation of this project, as part of a broader review of value chain initiatives in post-conflict environments (Parker 2008), revealed that land tenure issues led to the breakdown of the scheme in the second year. This indicates the importance of a broader VC approach that examines issues of trust and collaboration in specific social and cultural contexts so that new value chain linkages are sustainable. This case also indicates the risks of creating substantially new linkages, rather than building on existing relationships.

4.1.3 Quantifying poverty reduction

Across the 30 projects selected for this study, six provided clear attempts to quantify the extent to which they have successfully increased the incomes of the participating populations. The ways in which these six projects address the challenges of impact evaluation (outlined in Box 4.1) will now be considered.

Case 13, microproducers and furniture export value chains in Central America, was a programmatic initiative to promote the competitiveness of small producers of furniture for export markets. It financed several initiatives. The initial project proposal outlined indicators of business development that would be used for evaluation. These focused on competitiveness indicators such as increased value added, export revenues, participation in trade fairs and development of new products (Guaipatin *et al.* n.d.: A1).

It is not clear whether or not this evaluation exercise was followed up. However, one of the components of this programme was subject to an evaluation by Guaipatin (2005). This provided some data on business outcomes, including sales growth and sales to new clients (Guaipatin 2005: 24). In addition, this evaluation provided baseline data on incomes, housing and household educational attainment at the beginning of the project and a comparison with subsequent data collection during the evaluation process. The evaluation results showed clear 'before-after' and 'with-without' benefits. The results showed that project participants increased their incomes in comparison to (a) their incomes pre-project and (b) the income of other comparable labourers in the area, including workers in the tourism and other sectors. It also found improvements in the quality of life of project participants (better housing, better diets and better school attendance by participants' children).¹⁸ Finally, the evaluation usefully manages value chain initiatives, pointing to the need to allow participants to learn through trial and error. The main limitation of this evaluation was that the comparisons were not based on control groups. Outcomes for project participants were compared to regional averages for wages, housing conditions and other household welfare.

The second project showing clear 'before-after' impact assessment on the target group (but without a control group) was the MEDA project for creating linkages between homebound women in Pakistan and garment markets (Case 15). An internal evaluation was carried out which included all links of the value chain (the only one of its kind in the present review). The findings of the internal evaluation focus on the pro-poor effects of the project, including income-related variables but also issues of women's empowerment, education and technical upgrading for all actors involved in the value chain.

The findings of this internal evaluation are summarised in Table 4.2. This shows that there is a substantial increase in the incomes of the poorest and most socially isolated women, the rural embroiderers, who were the main beneficiaries of the programme. Incomes increased from approximately \$9 to \$22 per month.¹⁹ The

18 More information about the results of this project can be found in Case 13 in Appendix A1 and in Guaipatin (2005).

19 The report cites an initial income level of \$6 per month, but the comparative table showing data for 2005 and 2007 shows the 2005 figure to be \$9 (MEDA 2007: 2 and 8).

Table 4.2 **Evaluation results from MEDA project (Case 15)**

Value chain actor	Situation at the beginning of project	Situation reported by May 2007
Rural Embroiderers (Female) N=9,000+	Income: USD 9/Month	Income: USD 22/Month Other benefits: better design, quality control, time management, negotiation and pricing skills.
Urban Garment Makers (Female) N=200	Income: Not reported	Income: USD 13/Month Other benefits: 'provides considerable income for very poor women and girls' (page 2).
Sales Agents N=214 (4 Male)	Income: Not reported	Income: USD 1,100/month (USD 200 profit) Other benefits: in addition to the abilities acquired by the previous two links of the VC, sales agents learned to 'manage orders, supervise groups of producers, to respond to market demand' (page 3) as well as packaging, bookkeeping, management of the supply chain and participation in exhibitions at home and abroad.
Buying Houses N=6	Income. Reported as part of the sales agents' income	Other benefits: better skills to 'deal with sophisticated buyers, adhere to design and quality demands, and invest capital in production' (page 3).
Input Suppliers N=27 providers of thread, ribbon, sequins, fabric, etc.	Not all providers (shops) were women-friendly	5 new women-friendly providers in the rural areas attuned to the needs of rural embroiderers.
Tracer Designers N=40	No women tracer designers available to train homebound rural embroiderers	Income: USD 53/Month Other benefits: Women tracer designers trained to offer access to rural embroiderers who are unable to meet with men. 'Improved capacity to design or to respond to consumer demand' (page 4).

Source: MEDA (2007).

number of embroiderers benefiting was considerable – more than 9000. There were benefits to other chain actors, although the data in the report does not provide baseline comparisons. The capacities of some of the chain intermediaries, such as the sales agents, were improved, with benefits to the overall operation of the value chain. The report also suggested that the value chain became more 'women-friendly', and it provides examples of individuals to illustrate many less tangible benefits to women involved in the scheme.

The pond fishing project (Case 20) was described in Section 3.2 above. It was subject to an independent evaluation carried out by the Springfield Centre in the UK (see de Ruyter de Wildt 2007). In total, 575 enterprises across two districts

included in the programme were included in the evaluation: 275 linked into the nurseries where training had been carried out and 300 in which no such training had been implemented. The samples included not only the hatcheries themselves, but the value chains from the two groups of hatcheries: with questionnaires for nurseries (hatcheries), farmers and hawkers. Although not stated explicitly, it appears to be the case that the temporal comparison was based on interviewee recall – i.e. respondents were interviewed once towards the end of the project.

The project aimed to overcome value chain constraints by working with local actors at various points in the chain. The impact assessment reported the following:

- Greater reductions in mortality rates for all stages in the value chain for the intervention group compared to the control group.
- Greater increases in investment and productivity in the participating nurseries than in the control group.
- Greater increases in the number of clients for the participating nurseries.
- Increased farmer productivity for farmers who were customers of the participating nurseries compared to the control group.

The evaluation did not provide data on changes in incomes between the participant and control groups, possibly because of the unreliability of recall data on income. However, it could establish that there were general improvements in livelihoods in the two districts covered by the study. These were:

- an increase in fish consumption (between 16–18 per cent) amongst the poorest farmers;
- over a two-year period, 2004–06, incomes rose: ‘Survey data confirmed that large numbers of poor families earn their main incomes from hawking, farming and (to a lesser degree) nursery operations. Increased incomes from fisheries have hence played an important role in lifting a considerable number of these families, especially farmers, out of poverty over the past few years’ (de Ruyter de Wildt 2007: 23). Household incomes rose between 9 per cent and 17 per cent across the different links in the value chain;
- higher employment in areas where Katalyst operates with seasonal and unpaid workers becoming permanent and earning a salary;
- predominantly male direct beneficiaries: ‘virtually all employment in pond fish is male and there is no evidence that women have increased their participation because of the interventions. Nonetheless, their position has not worsened and, like other members of households, they have been benefited [*sic*] from higher incomes and consumption’ (de Ruyter de Wildt 2007: 23).

The fourth evaluation found in this survey also comes from Katalyst in Bangladesh. Case 19 aimed to improve farming practices by providing better information through farm input retailers. This project was evaluated independently (see Gibson 2005). In addition, an impact assessment based on baseline and follow-up surveys was included in the project’s assessment plan, but at the time of the writing of this report, only the baseline survey had been carried out (Magill *et al.* 2007).²⁰

The independent evaluation referred not to the overall poverty reduction impact of the project, which would have required the results of the follow-up survey, but to farmers' use of, and satisfaction with, retailers and the advice that they provided:

Given that 20 per cent of the retailer stock in Rangpur has been covered but that these generally represent the more established retailers (with greater customer outreach), improved knowledge and information has potentially been made available to approximately 25–35 per cent of vegetable farmers (250–350,000 farmers). While it is too early to assess the final impact on these farmers' productivity, farmers' perception of retailers' information is at least positive, is consistent with retailer data and can be regarded as a 'proxy' indicator for final productivity impact. Moreover, early anecdotal feedback supports the survey results suggesting a positive impact on farmer performance.
(Gibson 2005: 13)

As Gibson observes, the evidence on increased productivity and reduced use of farm inputs (which should translate into increased farmer incomes) was not conclusive, and he further indicates that the evidence on improved productivity was anecdotal (Gibson 2005: 14). The programme as a whole was strongly oriented to rural poverty alleviation, but the evaluation only had the data to provide some measurement of project outputs and some anecdotal evidence of project outcomes (such as increased productivity).

The fifth evaluation comes from Case 30, projects to promote micro, small and medium enterprise development in Cambodia across three different sectors: pigs, fish and brick tiles. An independent evaluation was commissioned by the funder. This provided some before/after information on business performance, with data from before the start of the project, 2005, and with data for 2008 (Indochina Research Ltd 2008). This enabled calculations of levels of increases in volume and value of output and investment in participating firms as well as indicators of productivity and profitability. The evaluation provides extensive data on changes in business performance within the participating firms between 2005 and 2008. The evaluation also provided evidence about the broader impact of the intervention. For example, it identified how input suppliers involved in the programme were training not only pig producers participating in the intervention, but other producers as well. This, of course, raises the issue of spillovers, which are desirable in themselves but a complicating factor for impact assessment.

The evaluation also looked to find some indicators of impact on poverty. These issues were not included in the original project design. Without a baseline from which to construct intertemporal comparisons, the final evaluation was forced to use the recall method. The evaluators report positive results about 'perceived linkages to poverty alleviation' from the projects' activities. Changes included increased schooling for the children in the household including a larger

20 The framework for the full-scale impact assessment of this project is set out in Box 4.1 (Magill *et al.* 2007). Conclusive evidence of the effectiveness of this project in reducing poverty will have to await the impact assessment planned for 2009. Similarly, the GMED (Growth-Oriented Microenterprise Development) programme in India (Case 6) had prepared for an impact assessment by collecting baseline data at the level of individual firms and at the value chain level (see, for example, Panlibuton *et al.* 2004). However, the project was also ongoing at the time of this review and definitive results are not available.

percentage of girls. Data on employment was also gathered in 2008 and showed that this indicator had had modest increases across all VCs served (from almost nil in the pig raising value chain, to 24 per cent for the producers of tiles and bricks). However, this was based on the participants' impressions of changes in the circumstances and did not include control groups.

Overall, this evaluation does not appear to provide any systematic comparison of participants with a control group, except with respect to their use of services. There also appears to be a strong survivor bias 'a significant number of value chain clients were out of operation or were not available for interview at the time. Some clients that could not be located had either moved or were far away busy in agriculture, and a number had temporarily ceased pig production either due to market forces or the impact of epidemics. In the end the sampling quotas were met after utilising substitute communes to make up for quota shortfalls' (Indochina Research Ltd 2008: 26).

This evaluation provides a good indication of how difficult it is to conduct impact assessments when the activity is not planned from the outset. Constructing baselines and control groups towards the end of the project is complicated and creates unreliable data.

The sixth example is Case 12, an impact assessment of elements of two USAID-funded initiatives to promote tree crop value chains in Kenya (Sebstad and Snodgrass 2008). The interventions were led by Kenya Business Development Services (KBDS) and the Kenya Horticulture Development Project (KHDP). Within the context of two broad programmes of rural development in Kenya, the evaluation focused on interventions to promote smallholder production of three tree crops spread across five regions of Kenya. The KBDS interventions had strong value chain elements, focusing on links between smallholders and exporters and processors. As well as promoting the development of brokers to act as intermediaries between smallholders and their buyers, it also promoted markets for support services for smallholders, such as pruning, spraying and finance. The KHDP projects were more focused on providing technical support for small farmers.

The evaluation of the two projects focused predominantly on the business outcomes of the interventions. Unlike the other interventions discussed in this section, it was planned from the outset. It involved baseline studies and follow-up studies after the projects had been running for two years. Both of the studies used samples of participants and control groups (non-participants). In total, over 1,900 farmers were included in the baseline survey, and 1,640 in the follow-up survey. In addition to this, a qualitative evaluation was carried out on the basis of 50 interviews with actors in the value chain.

In spite of the sophistication of this approach, the quantitative results are not conclusive. The evaluation notes various difficulties with the data (Sebstad and Snodgrass 2008: 22–3). There are few consistent results across the different projects, and in numerous cases the outcomes for the participants in the control group are very similar. The evaluation concludes that 'the assessment did not find a lot of difference between participants and controls in the amount of change. This suggests that the new actors and relationships engaging participants have not had a major impact, at least in the timeframe of this study' (Sebstad and Snodgrass 2008: 50). It is hard to know whether to attribute this to deficiencies in the

assessment procedures, weaknesses in the implementation of the projects (some of which are discussed in the assessment), the failure of the activities and outputs of the project to lead to the expected outcome, or the success of these projects in creating spillover effects that raised the efficiency of farmers not directly involved in them. It is sobering that what looks like the best-designed impact assessment completed across the 30 cases does not provide conclusive results.

On the other hand, the qualitative material does provide an important guide to future practice. In particular, the evaluation investigated the issue of trust. It concludes that: 'The interviews and focus group discussions revealed many issues of trust. In the avocado value chain, farmers do not trust sprayers to do a good job, to use the correct amount of chemicals, or to know what they are doing. Farmers do not fully trust the EAGA [the exporter] buyers and believe that they are 'side buying' from the brokers. They have mixed feelings about the brokers' (Sebstad and Snodgrass 2008: 32). This raises important issues not only about trust, but also about the risks faced by small farmers when dealing with other actors in the value chain.

4.2 Why persist with evaluation and impact assessment?

If the best of the quantitative studies are not able to provide a convincing answer to the underlying question of whether or not value chain interventions are a means of reducing poverty, is it worth pushing for more impact assessments to be carried out?

First, it is worth emphasising that there are good reasons for the limited number of in-depth evaluations and impact assessments available for this review. Academics and practitioners involved in impact assessment exercises acknowledge that it is difficult to assess the impact of Private Sector Development interventions. Evidence of these difficulties is provided in an online discussion hosted by Gary Woller for USAID's microlinks programme in 2006.²¹ Impact assessments that go beyond project activities and outputs to establish causal links and identify outcomes and impacts that control for counterfactuals are very expensive and frequently need to take place beyond the life of projects themselves. This argument was expressed clearly in the summary of the microlinks online discussion forum just mentioned (Woller 2006).

Nevertheless, some of the outcomes of evaluations for projects included in this survey clearly indicated the need to persist with evaluations and impact assessments. These projects showed very clearly the importance of asking the question, 'Are the positive outcomes attributable to the activities of the project?' This is particularly the case for projects that suggested positive outcomes that could not be attributed to the project activities. For example, a project to promote cooperatives in Ethiopia, commissioned by USAID and carried out by ACDI/VOCA, did review the results using household surveys and focus groups, as well as use of a control group and poverty indicators.²² This case was the most

21 See www.microlinks.org/ev.php?ID=12730_201&ID2=DO_COMMUNITY (accessed 17 January 2010).

22 This review was carried out by ACDI/VOCA-Ethiopia itself (ACDI/VOCA 2005). USAID did commission a detailed external evaluation by a consultancy firm, The Mitchell Group (Dorsey and Assefa 2005), but this review focused on project outputs – indicators of cooperative activity and promotion – rather than outcomes and impacts in the form of reduced poverty and increased food security.

thoroughly assessed intervention included in this review, involving a survey of 674 households across 27 cooperatives, and included 105 households not involved in the cooperatives as a control group (ACDI/VOCA 2005: 5–6).

This evaluation showed that one of the key value chain elements in the project, establishing links with international buyers, did provide some benefits to members of the agricultural cooperatives, as these buyers offered alternatives to low local prices. However, this benefit was greatly outweighed by the basic financial advantages derived from being part of a cooperative (over US\$ 1,000 per member) (ACDI/VOCA 2005). Furthermore, women had very low participation (8 per cent of participants) in this highly lucrative scheme. In other words, the participants in the cooperatives benefited greatly from the scheme, reporting increased incomes and better quality of life, but it is hard to attribute these benefits to the links to international buyers.

Similarly, the project to promote production and sale of mango, *gari* and grasscutter meat in Ghana (Case 26), collected income data from producers operating in the three value chains. Their conclusions are:

- ‘The study could hardly observe direct positive poverty effects of existing promotional activities for the mango and grasscutter value chains’ (Berg *et al.* 2006: vii);
- Vertical integration (in the case of grasscutter farmers’ associations) seems to have a positive effect on producers’ incomes and the recommendation from the study is to try to link larger numbers of poor producers to these value chains;
- Orientation towards domestic markets, where prices may be higher than in export markets, seems to be as effective in raising incomes as orientation to the export market.

In other words, evaluations and impact assessments that provide some form of comparison with control groups may well show that some of the many positive benefits that seem to arise from value chain interventions – as discussed earlier in this section – may not be attributable to the interventions, or could equally be achieved through different types of intervention.

4.3 Cost effectiveness

As well as assessing whether or not outcomes and impacts can be attributed to particular activities, donors should also be interested in the cost-effectiveness of value chain interventions compared to other types of intervention. In some ways, this is an even bigger evaluation challenge. Nevertheless, the review did provide some information pertinent to this question.

The review notes that in some TNC-supplier linkage programmes, in particular, the small number of firms involved can be very small. In the Projeto Vínculos intervention (Case 1), the total number of SMEs involved in the programme was just 55. The FUNDES survey of linkage programmes in Argentina (Case 10) refers to just 55 enterprises (although this may not have been the total of firms involved in linkage programmes). Not all such projects are so small scale. In IFC’s supplier development projects in the oil industry (Cases 3 and 4) a large number of SMEs were involved: 300 in Chad, and 444 in Azerbaijan (Jenkins *et al.* 2007: 40).

One of the greatest concerns for the organisers of Case 1 was that the amount of effort and money required was perhaps disproportionately large in comparison with the SME development results achieved. When asked about effects on workers' wages the responses were even less optimistic. For one of the key informants (from BASF in this case), much money and effort was being put into 'upgrading' these firms, but not enough progress was being made. TNCs involved in this project have now decided not to participate directly in the training of the SMEs but to engage or employ those firms that have 'graduated' from a supplier development programme run by local training organisations in Brazil.²³

Clearer opportunities for scaling up and greater potential for poverty reduction appear to be evident in projects focusing on forward linkages and in the agricultural linkage schemes. It has already been noted in the case of the interventions focused on distribution, that the number of potential beneficiaries is much greater. Even so, there is little or no evidence concerning poverty reduction. We do not know how far the beneficiaries were below the poverty line before their inclusion in these distribution networks. Since the distributors involved are individuals (and small businesses) that already exhibit an entrepreneurial attitude and sell other products, they may already be better off than most poor people. Unilever's own account of their pro-poor value chain activities in Indonesia explains their 'mix' of distributors:

UI's complex distribution chain consists of a mixture of wholesalers and 'modern' retailers (self-service stores, and supermarkets) and 'traditional' or 'general' retailers and vendors. It extends to small shops, family-owned *warungs* (small sales outlets inside family houses), kiosks and street hawkers... it is estimated that up to 1.8 million small stores and street vendors sell UI products informally in rural markets and poor areas.
(Clay 2005: 17–18)

In the case of the agricultural lead firm projects, there are at least some projects that are much greater in scale. The Malawi cotton seed treatment programme (Case 11) is an example of a lead firm-focused programme (with donor and government support) with both business objectives and poverty alleviation objectives. The business objectives of the programme were fulfilled beyond the initial expectations of the programme: 'The Malawi Cotton Seed Treatment Programme was implemented in 2003, and by the end of 2004 this programme can already take full credit for the increase of Malawi's national cotton crop by about 265 per cent in a single season. More than 200,000 farmers have already registered for inclusion in the 2004/2005 programme, and this figure is set to rise' (BLCF 2007a). It is further argued that substantial numbers of farmers benefited:

The success of the MCSTP has been felt the length of the supply chain – smallholder farmers have been able to produce more cotton and increase their incomes. The private companies' records show that over \$10,000,000 was paid to farmers in 2006. The incentive to maximise returns from the soil saw 250,000 growers plant cotton last year, a five-fold increase on numbers before the programme started. This is especially significant given each farmer on

23 See www.vinculos.ce.sebrae.com.br/projetos_locais.html and www.vinculos.ce.sebrae.com.br/cases.html

average employs the help of 3 to 4 family members or labourers, thereby spreading indirect gains among up to one million people out of a population of around 13 million.

(BLCF 2007a)

Similarly, a report by Ruffing for UNCTAD on this project notes that 'the incomes of smallholder farmers involved in the linkage have gone up by 56 to 100 per cent. To the extent that the smallholder farmers involved in the project are direct beneficiaries (numbering 118,000 in 2004 and 180,000 in 2005), with many living below the poverty line, this initiative could well turn out to be a sterling case of pro-poor growth' (Ruffing 2006: 57). Other reported benefits include: (a) increases in households' incomes (due to the employment of several family members in the cotton growing sector) and (b) community investment of this extra income in the cotton growing business itself, better nutrition, school fees and even in other small business ventures. Measuring this type of benefit beyond the traditional measures of success (increased incomes at the firm level, increased productivity, etc.) may be the key to finding evidence of the pro-poor effects of VC interventions. The challenge is how to go beyond using recall data from interviews with beneficiaries and actually finding objective, external, measurable indicators for these changes that can also be linked to a VC intervention.

Other agricultural linkage projects also showed scope for reaching larger numbers of beneficiaries. In Case 2, the UNCTAD linkages project, the project documents referred to over 4,500 farmers being linked to large firms such as Kinyara Sugarcane and Uganda breweries. The GMED project (Case 6) aims to scale up to reach 20–30,000 small farmers. Nestlé's VC intervention in Latin America (Case 9) supports 280,000 farmers and 650,000 indirect employees (Foundation Strategy Group and Nestlé S.A. Public Affairs 2006). Many of those indirect employees work in the distribution side of the value chain, and the potential for distribution linkages to reach large numbers of beneficiaries has been noted.

At the very least, projects should provide some account of the numbers of potential beneficiaries in relation to expenditure, as well as identification of whether the beneficiaries are likely to be poor. Replication of VC interventions is difficult because of the specificities of each case and the stakeholders involved. Therefore, each intervention has to be justified on its own merits, rather than being seen as a pilot for future interventions.

5 Conclusions and recommendations

The use of VC approaches in business promotion is now widespread. This review has focused on just 30 interventions, but many more could have been included. The interventions adopted a wide variety of goals, beneficiaries and approaches, and they often overlapped with other well-established approaches to private sector development, such as BDS and M4P. Value chain interventions are part of a broader toolkit for market-oriented development and are rightly used in conjunction with these other approaches.

Judging from the evaluations carried out by donors themselves, there is a belief in the efficacy of value chain interventions and some satisfaction with the outcomes. Output and outcome measures point to their benefits, and a wealth of anecdotal evidence points to the ways in which promotion of value chain linkages enables businesses to thrive.

Nevertheless, there is a clear lack of high-quality impact assessments that would substantiate claims that VC interventions are capable of achieving the broader goals of many, if not all, of the donors in a cost-effective manner. As a result, the projects reviewed provide no definitive answer to the question of whether VC interventions are a good way of reaching the poorest, or even the not-quite-so-poor, in ways that are superior to alternative approaches.

The scarcity of systematic impact assessments is problematic. This is not only because more needs to be known about overall effectiveness, but also because not enough is known about which types of value chain interventions – both policies and implementation – are most effective:

- First, it is important to know not only when value chain interventions are effective, but also when they are best dropped in favour of other approaches. The material analysed does offer some suggestions in this respect. For example, it seems clear that the value chain approach has something to offer in conflict and post-conflict situations, where markets have been disrupted and need to be rebuilt, although even here some comparison with alternative approaches to business development in conflict and post-conflict situations would be desirable. Similarly, value chain linkage projects that connect geographically or socially isolated groups to markets also appear to have positive outcomes.
- Second, the difficulty in establishing the veracity of often-claimed links between value chain promotion and poverty reduction means that it is difficult to make statements about what types of value chain intervention and what types of targeting have the biggest and most direct impacts on the poor. Conversely, it became clear that the poorest are quite frequently *not* the beneficiaries of value chain interventions. This would lead to more consideration of how the poor might be enabled to take better advantage of such interventions, or better not targeted at all.
- Third, in the absence of comparisons with control groups, it is difficult to rule out the counterfactual – that observed improvements in incomes and employment of the beneficiaries were not attributable to the intervention, or at

least not to the specifically value chain elements of the intervention (as suggested by the evaluations of Cases 25 and 26).

Arguing the case for well-designed impact assessments does not mean that such assessments have to be undertaken in a rigorous and thorough way for all interventions. Such assessments are expensive. Oldsman and Hallberg (2002: 28–9) have identified the ways in which the strength of causal inferences that can be drawn from impact assessments tend to be associated with increasing complexity and cost. Knowledge comes at a high price, and sufficient knowledge to generalise about best practice would have a higher price still.

For this reason, impact assessment is best seen as a programmatic activity, aimed at improving a whole class of value chain interventions, rather than verifying the impacts of particular projects. It requires systematic and long-term assessment of impacts extending beyond the life of particular projects.

Nevertheless, it is also clear that improving the effectiveness of value chain interventions need not wait for an impact assessment programme. This review also provides some clear guidelines for designing and managing VC interventions. To a great extent, this best practice relies on identifying the situations in which value chain interventions are most appropriate. Specifically:

1. Making more explicit connections between project activities (the interventions identified in Table 3.1) and outputs, outcomes and broader project impacts. This is good practice even for projects whose goals are strictly on promoting business rather than reducing levels or intensity of poverty.
2. Clarifying the extent to which the targeting of interventions is effective and which groups of the poor are benefiting from these interventions. Even for interventions aimed at small rural producers, it is often not clear whether the beneficiaries are the poorer rural households, or what the indirect impacts on the poor of these interventions might be.
3. Considering the issue of scale. For some value chain promotion initiatives, the poor might benefit from the indirect impact of increasing incomes in a particular locality and increased demand for products and services from the direct beneficiaries. There may also be spillover effects with respect to improvements in transport and communication arising from the development of value chain linkages. However, for the spillover effects to be significant, the value chain initiative itself has to be on a sufficiently large scale. Once again, these effects need to be monitored and measured.
4. Reviewing the cost-benefit elements of interventions. The costs of VC interventions can be high relative to the benefits when small numbers of beneficiaries (people or firms) are targeted. VC interventions have to be customised to the needs of particular beneficiaries and value chain challenges. It was particularly evident in the case of projects aimed at TNC-SME supply chain development that the cost-benefit relationship was less favourable than in projects aimed at the distribution end of the value chain or at agricultural inputs. This issue was seen clearly in the case of Unilever in Indonesia (Case 8), where the ratio of potential beneficiaries in manufactured goods suppliers compared to outgrower farmers was in the region of 20:1. If it

is argued that there are spillover benefits to broader groups of small scale producers, this needs to be verified.

5. Identifying with greater clarity in value chain projects the motivations and capabilities of lead firms and intermediaries. Some of the less successful VC interventions reviewed for this report included accounts of buyers who assumed that all upgrading efforts had to be undertaken by the small, poor firms aspiring to supply them. In these latter cases, the number of local firms benefiting from the intervention was disappointingly low. Conversely, some projects appear to start with a negative view of intermediaries (buyers, traders), which is belied by other projects that have used these intermediaries to transform value chains (see the argument in Jones and Shaikh 2005). Perhaps the most important task for the donor/facilitator is to get a commitment from the buyer that they will consider and work towards, in conjunction with the donor (and perhaps other actors in the area) to increase the benefits that flow to the poor from their business operations and to consider the areas in which there is scope for enhancing the pro-poor impact of their business.
6. Clearly identifying the potential for post-project sustainability. In the absence of systematic, long-term evaluations, a doubt remains as to whether or not interventions are sustainable once public funding is discontinued. This is an issue for all private sector development work, not only for value chain interventions. It increases with the level of ambition and degree of transformation sought by the intervention.
7. Making a clear distinction between reducing poverty and targeting value chain interventions on the activities being undertaken by poor people. One of the interviewees, Andreas Springer-Heinze at GTZ, summarised this issue as follows: 'It's time we evolve from being merely poverty-oriented to being poverty *alleviating*' (pers. comm., added emphasis). Poverty may be alleviated not so much by assisting poor people to continue pre-existing activities albeit in a more effective way, but rather by offering opportunities for different activities. For example, some studies on export horticulture in Africa – in Kenya by McCulloch and Ota (2002), and in Senegal by Maertens and Swinnen (2006) – have concluded that a shift from independent small farming to employment on large-scale farms is equally capable of raising household incomes. Value chain promotion should be about reducing poverty, not supporting particular types of production.

Making value chain interventions more effective in building viable market linkages and successfully targeting the poor, as well as identifying the circumstances in which they are most appropriate, is a process that can be led by donors and by value chain communities of practice. The latter appear to be thriving, with a range of networks, meetings and web-based communication linking together many diverse groups of practitioners. The discussion fora developed by these communities of practice seem to be well aware of the challenges of impact assessment and the need to substantiate claims for efficacy. Some donors are developing systematic approaches to improve the use of the value chain methodologies. Together, they are capable of developing more systematic efforts to compare the impacts and cost effectiveness of different types of value chain approaches.

Appendices

A1 Mini case studies

Case 1: UNCTAD-GTZ linkages programme in Brazil (Projeto Vínculos)

At the UNCTAD XI Conference in Sao Paulo in 2004, the government of Brazil and high-level corporate representatives agreed that business linkages between TNCs and local firms were a crucial instrument for strengthening competitiveness and production capabilities in domestic enterprises.

Project description: UNCTAD cooperated with GTZ, Ethos institute (a Brazilian NGO promoting ethical behaviour in the private sector) and Fundação Dom Cabral (a well-known Brazilian business school) to promote business linkages with the financial and operational support of the government of Germany. The region chosen for the project is the impoverished north and northeast of Brazil (Pernambuco, Amazônia, Paraíba and Ceará).

Why did they think this would help people/development? The assumption is that SMEs in developing countries need to scale up and upgrade their capabilities in order to be effective partners for TNCs. By providing training to SMEs and involving TNCs in these activities the implementers believed SMEs had better chances to absorb the new knowledge and apply it in their dealings with TNCs. This element of 'linking' SMEs to TNCs can happen during the training/upgrading of the SME, or afterwards when their training has finished. However, it is generally expected that TNC's requirements be taken into consideration when designing training programmes for SMEs. The project implementers expect that by improving the capabilities of local SMEs, these will, in turn generate more and better employment, become innovative enterprises and contribute to a faster and more sustainable growth of the local economy.

Key achievements: Two TNCs (BASF and Philips) and several large domestic firms (Alcoa and Gerdau amongst others) have established long-lasting linkages with Brazilian SMEs thanks to this project. In the case of BASF, the emphasis of the intervention was on upgrading local SMEs regarding safety and health at work, environmental practices and quality enhancing programmes. As for Philips, their intervention aimed to help their suppliers acquire the certification ISO 14001. Until 2006, 55 local firms (30 of them in Pernambuco, working with Alcoa, Gerdau and Philips) had been trained by the project. In 2006, the project was redesigned so as to transfer the responsibility of training local firms from the project to local institutions such as SEBRAE, SENAI and IEL. An interview with a BASF manager revealed that large TNCs were not eager to train firms that needed basic training and preferred to relay their demands to local support agencies that in turn would help local SMEs in their upgrading efforts. TNCs would be willing to employ those firms that have 'graduated' from the training programmes and start investing in their upgrading at this stage if necessary. The project has been invited to formulate policy advice for the federal and regional governments of Brazil on how to promote sustainable business linkages.

Sources: www.vinculos.ce.sebrae.com.br/projetos_locais.html and www.vinculos.ce.sebrae.com.br/cases.html and UNCTAD (2006c).

Case 2: UNCTAD linkages programme in Uganda

The business linkage promotion programme in Uganda emerged from collaboration between UNCTAD, UNDP and the government of Uganda. The implementers are Enterprise Uganda, a business development services centre that also hosts UNCTAD's EMPRETEC programme,²⁴ the Uganda Investment Authority (UIA) and UNDP. Funding comes from the Swedish International Development Agency (SIDA) under a cost-sharing arrangement of US\$ 450,000.

Project description: It is a two year programme aimed at establishing sustainable partnerships between TNC affiliates and large domestic companies on the one hand and local SMEs on the other, in order to enhance local productive capabilities, competitiveness and the local business environment. The TNCs/large domestic firms and the 26 participating SMEs contribute to the cost of implementing the agreements: training for the SMEs.

Why did they think this would help people/development? The project implementers believe that Uganda's SMEs (comprising 90 per cent of the country's private sector) are critical for accelerating economic growth and for creating new jobs, increasing revenues from exports and providing tax revenue to the government. However, most of Uganda's SMEs are generally unable to meet TNC's and large firms' business requirements regarding price, quality, consistency in volumes and so on. Following best practices in the promotion of business linkages by other countries (Malaysia, Ireland and India among others) the project expects that by 'coaching' SMEs so they can join TNC and large firms' value chains, by the end of the pilot phase (December 2007) there would have been technological transfers from TNCs and large firms to local SMEs that would result in: (a) a more dynamic private sector; (b) improved business environment conducive to more business linkages; (c) more quality jobs created and/or preserved; (d) increased Ugandan capacity to attract FDI; and (e) more competitive SMEs.

Key achievements: The pilot stage (which ended in December 2007) linked 26 SMEs to six TNCs and local large firms. At least 30 per cent of the SMEs in the programme were owned by women. Participating TNCs and large firms signed Memorandums of Understanding (MOU) with their supplier SMEs and with Enterprise Uganda to signal their commitment to the programme, including supporting their new local suppliers in the upgrading path. The TNCs and large firms that have signed MOUs are: Uganda Breweries who will assist in upgrading the members of the barley growers' association to benefit over 2,000 farmers; and Kinyara Sugar Works Ltd under Booker Tate, who signed an MOU with Kinyara Sugarcane growers, thereby benefiting over 2,500 local farmers. UIA has worked to improve the policy environment regarding issues of infrastructure, taxation and land accessibility of SMEs.

Sources: Enterprise Uganda www.enterprise.co.ug/bizlinkages.htm (accessed 17 January 2010) and UNCTAD (2006b).

For a more detailed presentation, see Nagabitho (2007).

24 EMPRETEC: capacity-building programme for SMEs in developing countries run by UNCTAD since 1988 and operating in 26 countries.

Case 3: IFC and ExxonMobil's partnership to develop SMEs in Chad

This project was implemented by the International Finance Corporation (IFC, part of the World Bank group) and ExxonMobil since 2002.

Project description: ExxonMobil has created a programme called 'Local Business Opportunities (LBO)' which is the supplier development component of its National Content Strategy in Chad: 'IFC played a crucial enabling role, serving as a training resource, an intermediary for procurement processes and a source of information' (Jenkins *et al.* 2007: 40). ExxonMobil assesses the capabilities of potential local suppliers (SMEs) and when they are found wanting in any requirement, they are recommended as candidates for training at an IFC facility in Chad. IFC has carried out its training role in cooperation with the Enterprise Centre in Chad's capital (N'Djamena) and with regional centres in the south (local chambers of commerce and a variety of NGOs). Together, they provide SMEs with: 'capacity building, access to finance and e-procurement support activities' (page 40). These services are available to SMEs generally in the hope that they will then qualify to be suppliers of ExxonMobil.

Why did they think this would help people/development? This initiative counts as both a business and a development logic. The development logic has emerged due to the high poverty levels in Chad. Chad is a very poor country and even though it has very large oil reserves, 80 per cent of its population lives under the one-dollar-a-day poverty line (page 40). The business logic of the project is underpinned by ExxonMobil's commitment to work with local suppliers in what they called their 'National Content Strategy'. However, this commitment was fraught with obstacles due to the low level of skills found amongst local SMEs in Chad. To respond to this challenge, ExxonMobil joined forces with IFC in order to select and train promising SMEs so one day they could be acceptable candidates to supply ExxonMobil.

As for IFC, this type of project fits with the objectives of its private sector development activities which centre on designing programmes around its clients' investments facilitating linkages between local SMEs and large multinational companies which tend to be IFC's clients. IFC's clients (often, but not limited to, multinational enterprises in the oil and mining sectors) are thus supported in their pursuit of their corporate responsibility goals.

IFC prioritises its SME linkages activities in low income countries (i.e. sub-Saharan Africa) or deprived areas in middle income countries (i.e. northeast of Brazil or Turkey).

Key achievements: (a) '300 SMEs have been trained and sizeable contracts awarded in non-hazardous waste recycling and civil works'; (b) '13 contracts have been signed for US\$ 22.5 million in total'; (c) '107 jobs have been created' (page 40).

Sources: Jenkins *et al.* (2007); IFC website www.ifc.org/ifcext/sme.nsf/Content/Linking_SMEs_to_Investments (accessed 17 January 2010)

Case 4: IFC and BP supplier development programme in Azerbaijan

BP (British Petroleum) has made major investments in oil fields and pipelines in Azerbaijan but local SMEs did not have the business skills and capabilities to become BP's suppliers.

Project description: BP joined forces with IFC to design the 'ACG/BTC (after the initials of the oil fields and pipelines) linkages programme' in order to increase procurement opportunities for local firms through the Baku Enterprise Center (EC). The EC supported firms by providing training in technology, bidding, basic business skills and any other skill needed to bid successfully and obtain contracts with BP. At the same time, BP changed its procurement policy in order to facilitate bidding by smaller firms (breaking large contracts into smaller ones, for instance). The linkages programme was complemented by: (a) a programme to develop the business development services market; and (b) a 'supplier finance facility pilot project' whereby IFC and BP encouraged the Micro Finance Bank of Azerbaijan to lend money to SMEs wishing to invest in new technologies and equipment in order to compete on quality with international suppliers of BP.

Why did they think this would help people/development? BP and IFC realised that local firms were not benefiting from BP's investment in Azerbaijan and that these gaps in business skills and lack of financial resources would hinder the country's path to economic development. By tackling these problems at least for BP's potential suppliers, they felt they were contributing to promote growth and the creation of a new generation of internationally competitive Azerbaijani firms.

Key achievements: In 2006, BP spent US\$ 77 million in procurement from local SMEs. The company worked with 444 SMEs.

Source: Jenkins *et al.* (2007)

Case 5: UNIDO-FIAT India

This project implemented by UNIDO in 1999 in collaboration with a number of partners from the private sector (FIAT), academic institutions (INSEAD, the business school at Fontainebleau, France), NGOs (The Prince of Wales Business Leaders Forum, PWBLF) and government authorities to upgrade the capabilities of automotive component suppliers in India, to enable them to supply to TNCs.

Project description: The project in India was designed to be the pilot that would guide UNIDO's future interventions of this type (Private Public Partnerships for supplier development programmes). The pilot's objective was to test the viability of the model (PPP) in the provision of assistance by the partners (UNIDO, government, FIAT, INSEAD and PWBLF) to 20 Indian enterprises in the Pune/Mumbai area. Since the project aimed to have a demonstration effect, the selection of firms was limited to those in the metal, rubber and plastics subsectors that were already relatively competitive (tier 1 or tier 2 enterprises with a maximum turnover of US\$ 5 million and at least two years of operation with export potential), were non-captive (had at least two unrelated major customers) and had a committed and motivated management. It could be argued that the firms were cherry-picked and therefore any improvement is the result of their own motivation as much as any support they may have received from the partners. In addition, the firms paid a participation fee of Rps 20,000 to signal their commitment. The selected firms received assistance and participated in several activities over a period of eight months: ten days' shop-floor assistance on Toyota Production System, five days of classroom training and experience sharing seminar, two visits to award winning Indian companies, attendance at international fairs, bilateral

meetings with potential foreign partners, factory visits in Europe and the instalment (plus training) of two UNIDO software packages: financial planning and business performance assessment.

Why did they think this would help people/development? UNIDO became interested in involving TNCs directly in their industrialisation projects in developing countries in the 1990s during the rise of the PPP (Public Private Partnerships). One way to involve the private sector is to link TNCs to local suppliers via supplier development programmes. It was believed that these types of programmes could support developing countries in finding their own recipe for industrialisation as the East Asian tigers (Hong Kong, Taiwan, Korea and Singapore) had managed to do.

Key achievements: The project claims that participating firms experienced 'impressive improvements both in terms of change in industrial culture and increase in productivity and efficiency. Data and information on several of the demonstration enterprises more than a year after the completion of the programme, show that assistance provided created the conditions for sustainable improvements in terms of change of mind-set, increase in client base, access to export markets and increase in turnover' (Samii *et al.* 2002: 1001). Unfortunately the team within UNIDO that led the programme left the organisation before any systematic attempt was made at capturing and transferring the best practices required to run similar initiatives. After a year of non-activity for the programme, the original TNC partner opted to leave its collaboration with UNIDO under the partnership described above.

Sources: Samii *et al.* (2002); Brouquil (n.d.)

Case 6: Growth-Oriented Microenterprise Development Program (GMED - India). Integrating farmers into commercial supply chains

This programme is being implemented by ACDI/VOCA. It is a '4-year, USAID-funded, \$6.3 million Programme under the Accelerated Microenterprise Advancement Project (AMAP) [which aims to develop] sustainable and scalable approaches to job creation by fostering the growth of micro and small enterprises (MSEs)' (this, and subsequent quotes in this summary, are taken from www.acdivoca.org/acdivoca/portalhub.nsf/ID/ (accessed 17 January 2010)).

Project description: 'USAID's first enterprise development project in India, GMED's components include agribusiness and urban services. The agribusiness component focuses on fruits and vegetables, organically certified food products, maize value chain improvement, and the integration of HIV/AIDS-affected communities into commercial supply chains. The urban services component works to improve municipal solid waste management through outsourcing to MSEs. GMED is solely a technical service programme and has no grant or subsidy component, which makes it unique for a donor project.' The programme has several components and one of them has explicitly adopted the VC approach, although the rest have implicitly adopted it as well.

Why did they think this would help people/development? 'GMED has adopted a value chain approach to enterprise development following the principle that the growth of micro and small enterprises must be driven by sustainable growth strategies for all of the firms in a value chain. ACDI/VOCA develops partnerships

with larger firms and nongovernmental organisations (NGOs), which then provide embedded business development services to associated MSEs as an integral part of their commercial transactions. Thus, GMED acts as a service facilitator, rather than a service provider. The ultimate goal of the project is to enhance MSE growth opportunities by expanding the scope of the embedded services being provided by corporate and NGO partners, helping to make them more effective.' ACDI/VOCA is convinced that demonstrating commercially viable solutions to MSE growth constraints through development of these models will inspire other industry participants to adopt them.

Key achievements: The benefits (up to March 2008) include: (a) improvements to quality assurance through interventions along the value; (b) increased maize productivity and establishment of better linkages between producers and buyers; (c) 'GMED has helped two large Indian NGOs... effectively organised and obtained organic certification for several thousand small, marginal, mostly women farmers'; (d) 'GMED has helped one of its principle corporate partners, ITC Ltd, to establish three model smallholder vegetable farmer production bases to illustrate the measures required to accomplish this. ITC Ltd, plans to scale up the model to cover 20,000 to 30,000 smallholder farmers throughout the country during the next 4 years' and (e) 'One of the highlights of this activity is the memorandum for understanding signed between GMED's partner Radhakrishna Foodland, one of the largest retail chains in India, and Nandani Cooperative to source fresh and fresh-cut produce from the cooperative.'

Source: www.acdivoca.org/acdivoca/portalhub.nsf/ID/indiaGMED (accessed 17 January 2010)

Case 7: Better Factories Cambodia: a multi-donor project implemented by ILO

This multi-donor project implemented by ILO in Cambodia is currently expanding to a 'Global programme for improved labour standards in global supply chains' with the financial support of the International Finance Corporation. The project origins are explained below:

Project description: 'In Cambodia in 2001, the ILO was part of a unique experiment. Cambodia's garment industry, which today employed more than 270,000 mostly female workers and makes up 80 per cent of all Cambodian exports, grew rapidly as a result of US quotas on big garment producing countries. The US government gave trade privileges to Cambodia in return for demonstrated improvements in factory working conditions. It was agreed that ILO would help the industry to make those improvements. Due in large part to the measurable improvements in working conditions obtained as a result of the project, Cambodia received bonus quotas each year of 9–14 per cent during the period of the trade agreement, and exports grew from virtually nothing to 1.9 billion dollars' (ILO 2007).

How does it work? Since 2001, ILO has been monitoring and reporting on working conditions in Cambodian garment factories according to national and international standards. Using the data generated during monitoring visits, ILO has created a comprehensive web-based Management Information System that can be accessed by all links of the value chain: factories, buyers, employer organisations, government and the public. The data that ILO monitors includes wages, worked hours, type of contracts used, holidays and leave time earned

(and actually enjoyed) by workers, issues of safety and health, welfare and labour relations. By making this information accessible to all, this management information system facilitates decision-making processes aimed at making value chain improvements sustainable and transparent. Higher wage levels, better working hours and conditions, sanitary conditions, health and safety, training and capacity-building not only improve workers' lives but also makes Cambodia more attractive to investors.

Key achievements: Benefits of this initiative are praised by Global buyers sourcing from Cambodia and other competing locations:

Forecasts of the future of Cambodia's garment industry are cautiously optimistic, since it is seen as having a comparative advantage in the region in the area of labour standards, as highlighted in the results of a World Bank survey of Cambodian buyers. In a survey released in December 2004, the World Bank found that good working conditions in Cambodian factories was a major factor in buyers sourcing from Cambodia. Cambodia's key overseas buyers rated labour standards as a top priority in their decision to source from a country and consider Cambodia to have an advantage over Bangladesh, Thailand, Vietnam and China in that regard. The survey also found that almost 80 per cent of buyers consider monitoring of labour standards to be critical after the end of quotas and praised ILO's monitoring. (World Bank Group Report summarised in ILO 2007).

ILO reports that benefits to SMEs and workers continue to be accrued thanks to the project: 'Since January 2005, employment levels have been maintained and the volume and value of imports to the US have increased approximately 20 per cent in seasonally adjusted terms' (ILO 2007: 2).

Why did they think this would help people/development? ILO and its funders claim that this project is '...helping to reduce poverty in one of the poorest nations of the world' (ILO 2007: 2). The rationale behind this statement is threefold: (a) by monitoring, reporting, mediating and establishing higher standards for all dimensions included in the 'decent work' concept of ILO, the project will tackle and improve not only the income side of the workers' poverty situation at participating factories, but will in addition help to improve the non-income aspects: working hours and conditions, sanitary conditions, health and safety, training and capacity building and gender discrimination; (b) by developing and implementing an effective information management system which tracks not only social standards but also product and process information, the participating factories are becoming more productive and attractive to international buyers which in turn would bring more business and higher levels of value accrued and retained by the local factory due to increased productivity and efficiency of the value chain; (c) by showcasing Cambodia as a sourcing location where social and management practices are *credibly and certifiably* better than in competing locations, ILO and its backers are hoping that the best international buyers will find Cambodia more attractive and that the Cambodian factories will have more (and higher-value added) business opportunities thus increasing the income that the country receives from participating in global value chains (a certain degree of 'trickle down' distribution to the poor is assumed in this model).

Source: ILO (2007)

Case 8: Unilever-Oxfam study collaboration in Indonesia

In 2004–5 Unilever Indonesia (UI) joined forces with Oxfam GB and Novib (Oxfam Netherlands) to carry out a research collaboration that would look into the impacts of a multinational's value chain on issues of poverty alleviation in Indonesia.

Project description: Oxfam and Unilever Indonesia resolved to focus on the whole Unilever Value Chain in Indonesia and the potential links between international business and poverty reduction: 'It explores how, and to what extent, the operations of Unilever Indonesia have an impact on poverty – both positive and negative. It looks at the impact of UI's entire value chain, from its interactions with small-scale producers in the supply chain to those with low-income consumers and those with low-income consumers' (Unilever 2005). Crucially, the research also looked at independent vendors in the distribution chain.

Why did they think this would help people/development? Both parties wanted to find hard evidence (one way or the other) of the so-called pro-poor development that is allegedly linked to Foreign Direct investment in developing countries. Oxfam also expected to be able to influence how UI engages with poor people at different stages of the VC. Unilever was also keen to demonstrate that there are many ways in which a TNC can have positive socioeconomic impacts in the host community beyond the development of backward linkages to SMEs. In addition, 'The collaboration was prompted by calls from the UN to business, governments and non-governmental organisations to work together to develop solutions to global poverty – the first of the Millennium Development Goals' (Unilever 2005).

Key achievements: The number of direct employees who benefited from any potential poverty alleviation impacts from their interaction with UI was low: 'UI's core workforce includes approximately 5,000 people, of whom 60 per cent are direct employees, and 40 per cent are contract workers' (Unilever 2005).

However, UI had an important role to play in the livelihoods of the full-time equivalent (FTE) of about 300,000 indirect employees (people making their livelihoods in UI's value chain).

'More than half of this indirect employment is found in the distribution and retail chain. This includes an estimated 1.8 million small stores and street vendors' (Unilever 2005). The majority of street vendors are women who can supplement their income with a flexible activity such as selling UI's products.

Only one third of those 300,000 indirect employees can be found in the supply chain. Therefore, contrary to common VC wisdom, more value is created and more people are employed on the distribution side of the business than on the supply side of the UI Value chain and this is often overlooked as a contribution to socioeconomic development.

However, UI learned about the disadvantageous working and salary conditions of contract staff working for their labour and input supplying firms. Contract staff are not treated as fairly as UI direct employees, and this realisation (which could not have happened without a VC analysis and the presence of Oxfam) may move UI to improve working conditions as far along the Value Chain as their influence allows them, which would presumably be a long way.

UI also realised that local suppliers find it challenging to negotiate with UI's business units because of the huge power asymmetry.

'Two thirds of the value generated along the chain is distributed to participants other than UI (producers, suppliers, distributors and retailers). Taxes paid by UI to the Indonesian government account for 26 per cent of the value generated in the chain' (Unilever 2005).

'The value created by poorer people working at either end of the value chain is much lower than the value captured by those who are in direct interaction with UI' (*ibid.*).

'Participation in value chains such as UI's does not automatically guarantee improvements in the lives of people living in poverty' (*ibid.*).

Oxfam staff and UI staff took a great leap of faith by undertaking this research together and the process required endless rounds of negotiations as the two unlikely partners challenged each other's view of the world and of the meaning of development. Some staff at both organisations have expressed that this initiative was a one-off. The next study of this kind will be a partnership between Unilever and INSEAD, the French Business School.

Sources: Clay (2005); Unilever (2005); personal communications with Oxfam GB staff.

Case 9: Nestlé's global supply and distribution linkages with SMEs

Nestlé is a large food and beverage TNC headquartered in Switzerland that employs approximately 250,000 people globally, has an extensive distribution system in almost every country in the world and is an important buyer of several agricultural products.

VC activities

Agriculture: Nestlé has 850 of its own agricultural extension workers serving 400,000 farmers in India, Pakistan, Brazil, Colombia, Indonesia and South Africa amongst other countries. These linkage activities with farmers concentrate on making sourcing more reliable, production of a higher quality, more sustainable and completely traceable to the farm. Other linkage activities include the introduction of food standards along the VC in order to make Fairtrade certified products part of Nestlé's offer.

Distribution: 'In many developing countries, Nestlé products are sold through small shops, kiosks and even pushcarts, a distribution chain which provides a number of business opportunities for small, medium, and micro (sometimes only one person) businesses. In Thailand, for example, the chain extends to 400 microdistributors and 4,000 sellers' (Jenkins *et al.* 2007: 47). Both distributors and sellers receive constant training and motivation (via best seller awards, New Year's gifts and so on which Nestle have found crucial to retain sellers). In Brazil, Nestlé introduced a programme called 'Nestle comes to you' which support their (mostly) female sellers in their daily selling attempts with neighbours and acquaintances by giving a higher profile in the media to this particular delivery system. In both countries, these networks of women constitute a link in the value chain that would be otherwise non-existent without the support of the

programmes, and provide an extra source of income for the sellers. Some of the partners of Nestlé in this initiative are the International NGO Rainforest Alliance and the trading company, Ecom. Both entities are credited by Nestlé as being responsible for the scale of impact of this programme and therefore their ability to reach deeper into remote, isolated and/or poor markets.

Relevance of their VC activities for this review: This is not a straightforward donor-TNC intervention²⁵ but the case is interesting in that (similarly to Unilever) Nestlé has discovered that its *distribution* linkages may have a strong potential for benefiting poor people that has been overlooked in traditional analyses. This realisation, if corroborated by many other FMCP (fast moving consumer product) companies may give more credence to the 'bottom of the pyramid' (Prahalad 2006) poverty alleviation strategies advocated by the business and CSR literature.

Key achievements: Nestlé claims that both distributors and suppliers have benefited from participating in their value chains by way of improved skills, greater stability and higher earnings. A consulting firm specialising on social impact audits (FSG, based at Harvard University) reported in 2006 that Nestlé's purchasing from suppliers in Latin America alone exceeds 4 billion Swiss francs, working with 280,000 farmers and supporting 650,000 indirect jobs.

Sources: Jenkins *et al.* (2007); Nestlé S.A. (2006); Foundation Strategy Group (2006)

Case 10: FUNDES study of 'linkages' programmes in Argentina

This review was carried out in 2006 by FUNDES, an NGO based in Switzerland that supports SME development in Latin America in 2006. The review analysed a certain type of alliances defined as follows: '...relatively stable cooperative model between LEs (Large Enterprises) and SEs (Small Enterprises) that generally enhance SE exports, that entail specific commitments between the LEs and their clients or suppliers, and that usually involve a value chain comprising a relatively large set of SEs – including potential and established exporters' (Bercovich and Koenig 2006: 1).

Project description: These 'Linkages' programmes between Large Enterprises (some domestic, some foreign) and SMEs had the objective of increasing exports of the latter and making SMEs suppliers of the Large enterprises. These linkages programmes were led by the private sector who provided technical assistance, contacts and credit for SMEs. Some initiatives were mediated by NGOs. The government provided Grants and credit facilities for large firms to engage in 'mentoring' of SMEs with export potential.

Why did they think this would help people/development? The assumption is that exporting will expose SMEs to more stringent requirements and will make them more competitive both nationally and internationally. Linking SMEs to large exporting firms was thought to fulfil this role.

Key achievements: (a) 38 per cent of SMEs claimed to have experienced a 'positive impact' in their exports and sales in general; (b) 36 per cent of SMEs did

25 Although in some countries they do collaborate with NGOs like the Rainforest Alliance in Central America, particularly when developing the Fairtrade Value Chain.

not report any improvement at all; (c) the most successful initiatives were completely private-led; (d) formality and complexity of the agreement was not found to be important as a predictor of the success of an initiative; the level of commitment from the large enterprise was; (e) a questionnaire survey was carried out with 55 SMEs (no reference to representativeness of the sample) and in-depth interviews with some of them. One of the main questions was: did the SMEs acquire sustainable capabilities that allow them to export autonomously? Some are mentioned to have done so, but the opposite case (SMEs not being able to export on their own) is not explained and (f) no mention of poverty alleviation impacts.

Source: Bercovich and Koenig (2006)

Case 11: DFID business linkages challenge fund support to the Malawi Cotton Seed Treatment Programme

In 2003 a private ginning company called Clark Cotton applied for a grant from the UK's Department for International Development (DFID) Business Linkages Challenge Fund (BLCF). The application was successful and the company received £295,000 in order to support a project that would change the downward trend in the Malawi cotton industry.

Project description: GLCC joined forces with other organisations: a ginning company (Clark Cotton), a company engaged in the production and distribution of chemicals (Syngenta and Chemicals and Marketing), the Ministry of Agriculture and the National Association of Smallholder Farmers in Malawi (NASFAM). Together, they were expected to contribute £1,319,000 to the £ 295,000 grant money over the three-year duration of the grant.

The programme created under the grant aimed 'to improve cotton seed varieties and establishing plants to produce higher yielding and better quality pre-treated seeds. These seeds, along with pesticides and chemicals, would then be sold to farmers at subsidised prices to farmers who, in return, would contract to sell their cotton crop exclusively to the ginners involved in the programme at fixed prices' (Ruffing 2006: 54).

Why did they think this would help people/development? With the help of 400 extension workers and 50 supervisors, the programme gave farmers access to new varieties of pre-treated seeds, pesticides, chemicals and spraying equipment at subsidised prices. More importantly, from a VC point of view, the extension workers became a new link in the cotton value chain on behalf of the ginners. The extension workers not only registered farmers, monitored the use of pesticides and rented out equipment but also sold the seeds to the farmers and bought the cotton from them as well. Before the programme was set up, farmers faced long journeys in order to sell their produce in the market and they were not paid immediately but after a few days or even a month.

Key achievements: The experience of the Malawi cotton seed treatment programme is an example of a lead firm-focused programme (with donor and government support) with both business objectives and poverty alleviation objectives. The business objectives of the programme were very clear (increasing the production of good quality cotton in Malawi that could demand better prices in the market) and were fulfilled beyond the initial expectations of the programme:

'In a single season, the annual production of cotton in Malawi increased by more than 265 per cent... This has translated into remarkable income and profits for the ginning companies and *to a lesser extent, the farmers*' (Ruffing 2006: 56, emphasis added).

Although this unequal share of the gains could be controversial, the programme's clear poverty alleviation orientation allowed for the collection of income data at the level of individual smallholders as well: 'At the same time, the incomes of smallholder farmers involved in the linkage have gone up by 56 to 100 per cent. To the extent that the smallholder farmers involved in the project are direct beneficiaries (numbering 118,000 in 2004 and 180,000 in 2005), with many living below the poverty line, this initiative could well turn out to be a sterling case of pro-poor growth' (Ruffing 2006: 57).

Employment has also increased and it was estimated that in 2005 there were 35,000 casual labourers earning their living from these programmes' linkages (up from 10,000 in 2003) (Ruffing 2006: 57). As for the main company involved in this initiative, Great Lakes Cotton Company Limited of Malawi: '... made all its seasonal employees full-time, taking the number of permanent staff to over 460. The employees are trained, paid significantly above the minimum wage and receive health and pension benefits. The company is now expanding into Zambia without requiring any grant support' (BLCF 2007b: 2).

The way forward

The incentive to maximise returns from the soil saw 250,000 growers plant cotton last year (2006), a five-fold increase on numbers before the programme started. This is especially significant given each farmer on average employs the help of 3 to 4 family members or labourers, thereby spreading indirect gains among up to one million people out of a population of around 13 million. Security of income has also been a catalyst in terms of the willingness to spend, borrow and invest to secure access to products and services. Reports suggest that cash earned from cotton is spent on agricultural inputs, food crops, school fees, bicycles and animals but also on starting small businesses as bakeries, stores, etc. In addition, small holders have been supported by the company to form social support systems: Cotton Clubs. These informal networks are essential channels for going to scale since farmers are slow to adopt to change and peer example and education works best. And in the absence of formal institutions, social hubs are also invaluable to the private sector as a means to integrate itself in the community and its traditional structures.

(BLCF 2007b: 2)

Sources: Ruffing (2006) and BLCF (2007b; 2007a)

Case 12: Kenya BDS and KHDP tree crop development programmes

Project description: USAID operates two programmes in Kenya that show the overall goals of increasing rural incomes by improving small farmer productivity, boosting the volume and value of traded commodities, supporting the development of better business support services for micro, small and medium

enterprises, and promoting small farmer organisations (Sebstad and Snodgrass 2008: 14). The programmes are run by the Kenya Horticulture Development Programme (KHDP) and Kenya Business Development Services (KBDS). Both programmes have targeted tree crops for production for the domestic and export markets. The impact assessment focused on five interventions to develop and promote small farmer production of avocados, mangoes and passion fruit. There are differences in approach by the two programmes: 'While KBDS focuses on market linkages (primarily to support export markets) and the development of commercial business services specific to tree fruits, KHDP has focused more on supporting the overall development of the horticulture market through research on new varieties, demonstration plots, training, extension services, and market information' (Sebstad and Snodgrass 2008: 25). Four of the interventions were carried out by KBDS.

Why did they think this would help people/development? Both projects were meant to contribute to rural development by enabling farmers to access markets with high growth potential. The KHDP programme focused on ensuring that farmers receive high-quality inputs and knew how to use them effectively. The programme provided inputs and training to farmers and fostered linkages between farmer groups and nurseries and extension services. The KBDS programme focused more explicitly on market linkages: 'The project has entered into memoranda of understanding with both exporters and processors to develop commercial strategies for sourcing avocados, passion fruit and mangos from smallholders. This has been complemented by agreements with local private sector management firms, service providers and NGOs addressing a range of supply constraints facing the fruit tree smallholders. Other service providers (pruning, spraying, finance) were developed to help smallholder supply the quality and quantity of fruit required' (Sebstad and Snodgrass 2008: 15). At the same time, the programme aimed at overcoming past mistrust between these two groups, it was hoped that more effective commercial relationships could be created and the access of small farmers to export markets established. Reliable access to export markets was seen as a means of increasing farmer incomes. The combination of better linkages along the chain and improved provision of services to producers should increase the sustainability of exports.

Key achievements: The overall results of the impact assessment are inconclusive. Baseline and endline surveys of both participant and control groups were conducted. While there were measurable improvements in output and productivity for participants, there were frequently similar improvements for control groups. While there are some explanations for these findings, it is possible that the quantitative analysis contained certain flaws. Qualitatively, the impact assessment indicated some important findings for the management of value chain projects. For example, it was shown that farmers continued to have limited trust in exporters – or more accurately, the exporters' agents – and sometimes preferred to work with local traders.

Source: Sebstad and Snodgrass (2008)

Case 13: Facilitating sustainable linkages between Central American producers and US regional markets

Implemented by the Inter-American Development Bank (IADB) and one implementing agency (Weidemann), sector - manufacturing: handicrafts.

Project description: IADB provided funds to supplement buyers investment to develop micro-producers operating in global value chains. The objective of the project was to increase the incomes of micro-enterprises by supporting a buyer-driven approach to value chain development. The project lasted two years from 2002 until 2004.

Why did they think this would help people/development? Their causal model for this project was that cooperation between global buyers and exporting firms (based locally) is crucial to improve the incomes of the micro-producers in their value chains. In addition, the project believed that BDS services aimed at micro-producers should be hired and implemented by the buyers (instead of donors or the government), particularly those in the area of design.

Key achievements: The evaluation followed a quasi-experimental (no control group) design for the impact assessment. A baseline was established prior to the intervention. This evaluation established, firstly, that there were lasting business results from the project. 1,000 micro producers (65 per cent women and 90 per cent rural) were serviced during the project. Six months after the project resources had finished, 80 per cent of firms were still working in the GVCs. Sales from beneficiaries increased by US\$ 350,000 during the two years of the project with a net income of US\$ 100,000. Since the project invested almost US\$ 350,000 in supporting productive activities, the evaluator estimates that each dollar invested generated another dollar for beneficiaries. Second, poverty alleviation effects were observed not only in terms of sales and income, but also by registering education investments per household and changes in the quality of dwellings (the document includes quantitative results for increases in income for Honduran, Nicaraguan and Guatemalan beneficiaries of this project). In addition to income measures of poverty, the evaluation looked at factors such as observation of the quality of housing (project participants had built cement houses during the life of the project while the comparator group had remained in more precarious housing), nutrition (project participants had improved their diets) and school attendance by the household children (project participants are reported to have lower truancy rates than the 'comparators'). Third, the evaluation drew lessons about project design. It argued that 'learning through trial and error should be allowed': one of the main lessons learned from the point of view of the implementers and beneficiaries is that all project participants learned important lessons from their mistakes which ultimately made them more independent from donors' assistance (they learned how to innovate, how to look for their own niche and avoid mass-markets where Chinese competition is stronger). The big question is whether donors will agree to promote experimentation and 'trial and error' type learning when dealing with public funds.

Source: Guaipatin (2005)

Case 14: Income generation within the WaiWai Community Owned Conservation Area (COCA) in Guyana

Background: 'The WaiWai (Amerindian community) produce a number of unique, high quality products (baskets woven from mokru, beadwork, cassava graters, traditional aprons and headpieces), although they have had a limited presence in Guyana's handcraft market due to their remoteness' (The Value Chain and the Poor Working Group 2006: 13).

The WaiWai live in a very remote part of Guyana. Their closest market is a town of 2000 inhabitants which can be reached after 15 days by foot and boat. The capital (Georgetown) is a further 12–24 hours away depending on the quality of transport. WaiWai community members face many hurdles in their quest to link their products to the market: roads are poorly maintained which makes travel slow and expensive (even impossible during the rainy season) and retailers refuse to pay for transportation costs for the products. The distribution of gains in this short value chain is less than equal: retailers mark up the goods to sell in the capital by 300 to 1000 per cent (The Value Chain and the Poor Working Group 2006: 13).

Project description: Conservation International (CI), working with the Ministry of Amerindian Affairs has been supporting the WaiWai by initiating the following actions:

1. brought buyers and sellers to the table for MOU (Memoranda of Understanding) negotiations;
2. promoted 'additional business partnership for WaiWai crafts in order to provide viable alternatives to the main purchasers and to increase community's bargaining power';
3. conducted, 'with the community, a value chain analysis to identify shortcomings and needs for improving product flows';
4. capacity-building and teacher training in design and quality control for community-elected craft teachers';
5. 'participatory enterprise assessments to assess feasibility of enterprises other than handcrafts (tourism and agro-forestry) in generating income.'

Key achievements: This project has benefited approximately 50 producers and its activities are still ongoing, with a final date estimated beyond 2007. A mid-term evaluation could not be found but the information provided by SEEP (The Value Chain and the Poor Working Group 2006) suggests that progress is being made towards formalising and facilitating the linkages between WaiWai producers and retailers in the market. These linkages are crucial for WaiWai producers to increase their incomes by selling their products at better prices and on a more frequent basis. The role of the mediator (Conservation International) seems to have brought greater transparency to pricing negotiations and protection for the intellectual property of WaiWai's handcrafts patterns and designs.

Source: The Value Chain and the Poor Working Group (2006: 13)

Case 15: From behind the veil: access to contemporary markets for homebound women embroiderers in Pakistan

This project was implemented by the Mennonite Economic Development Associates (MEDA) and the Entrepreneurship Career Development Institute (ECDI) in the areas of Baluchistan, Punjab and Sindh in Pakistan between September 2004 and May 2007. Funding was provided by USAID.

Project description: The project aimed to 'economically empower poor homebound women embroiderers in three conservative areas of rural Pakistan by enabling them to overcome barriers and participate directly in the embroidered garment value chain' (The Value Chain and the Poor Working Group 2006). The project identified and trained women (and a few men) who could move freely and that were interested in helping other women who were homebound while at the same time engaging in a productive and potentially lucrative activity (trading on embroidered clothing). The mobile female traders would then source high quality inputs for the homebound manufacturers, explain to them what kind of designs were being demanded in the market and provide an outlet for their production. These traders would also become a link between the homebound embroiderers and designers in higher value added markets. The project also educated shop owners that supply materials for the embroiderers in order to persuade them to be more 'women friendly'. Some husbands participated in the project as well and helped their wives to access markets.

What did the project do: The project's activities were: (a) recruitment and development of women sales agents to provide a package of embedded services to rural embroiderers which included product development and access to quality input supplies and higher-value markets; (b) linking of sales agents to buyers and designers; (c) sales agents also received capacity-building in product development and design.

Why did they think this would help people/development?: The majority of women in rural Pakistan are marginalised by poverty, home confinement and geographic isolation. The quality of rural women's embroidery is excellent, but these products are usually sold in traditional low-value markets through monopolistic buying channels. Since buyers are usually men and transactions must take place through a male family member, homebound women do not have the knowledge or opportunity to develop products for alternative markets. At the same time, there is a growing middle class of Pakistani women in urban centres who seek quality hand-embroidered garments in contemporary styles and are willing to pay a premium price for them. MEDA and ECDI thought that the inclusion of rural women in higher value markets would increase their income generating prospects. To facilitate this inclusion, the programme focused on developing the embroidered-garment value chain by identifying women who have some mobility and developing them as sales agents. These sales agents are trained in developing backward and forward linkages to benefit the homebound rural embroiderers by providing embedded services, such as design and quality control. By giving them access to affluent consumers, the sales agents can help the rural women get a higher return on their labour.

Key achievements: (a) the number of operating sales agents reached 185 by June 2006 and keeps on increasing; (b) by that time, 2,953 women had received recurring orders in high-value markets; (c) 7,030 women were involved in the project either through sales to traditional markets or on an *ad hoc* basis; (d) the project created enough competition amongst the new female sales agents to prevent monopolies and exploitation of the homebound women; (e) the project has also helped to introduce a culture of standard-setting and quality control, including the establishment of 'buying houses' which serve as a link between buyers and sales agents providing quality control and brokering services; (f) contemporary designs were introduced in the value chain by promoting the supply and demand needs of commercial design services and design information from formal designers and traditional 'trace designers' to rural embroiderers through the project's sales agents.

Sources: MEDA (2007); The Value Chain and the Poor Working Group (2006: 16)

Note at the time of publishing: USAID commissioned Management Systems International (MSI) to conduct a final evaluation of the project in 2008. MSI was not able to travel to most project sites and had to rely mostly on written reports to collect their data. In addition, MSI reports that baseline data was not collected by the project implementers and had to be inferred for the purposes of their evaluation. However, even with those limitations, MSI is satisfied that the project was more successful than expected and that more than 9,800 poor Pakistani women benefited. MSI's recommendation is to replicate this project with some modifications (see Management Systems International 2008).

Case 16: Handmade paper in Nepal: upgrading with value chain approach

This project is one of two pilots within GTZ's PSP in Nepal. Main local partners in this intervention were HANDPASS (Handmade paper association of Nepal) and HANDECEN (Handicraft design centre of Nepal). Nepal has been facing increasing competition from India, Thailand, the Philippines and China, all of which produce and export handmade paper to demanding markets in the West and in Asia. These competitors are regarded as higher-quality producers who also offer lower prices. How is Nepal to compete?

Project description: After a thorough analysis of the sector in Kathmandu (where the project concentrated its activities) and its market prospects (domestically and internationally), the project identified the sector's main constraints in the two main value chains: the 'organised' one (where producers joined in cooperatives) and the 'semi-organised' one. The constraints were: atomised production (too many small paper makers) and 'cut-throat' competition amongst the smallest producers which lowers prices for the whole sector; very low productivity (particularly in the semi-organised one); over-exploitation of *lokta* (raw material for the paper) causing fast depletion of *lokta* resources; lack of knowledge in the workforce to produce high-quality paper; strong presence of middlemen that cut off producers from rural areas from their buyers in Kathmandu; lack of local design skills and of managerial and marketing skills. To tackle these weaknesses, the project developed a strategy to (a) strengthen the capacity of paper makers by providing paper making training workshops, 'exposure visits' to other more developed *lokta* paper producers and carrying out research on alternative methods for mass production of *lokta* (tissue culture); (b) strengthen the capacity of product

manufacturers (a myriad products can be made from handmade paper) by developing a Code of Conduct (CoC), 'exposure visits' to India and Thailand, acquisition of new equipment, organisation of an international product design contest for *lokta* products; (c) market promotion in European and domestic markets, analysis of competitors, development of 'Nepalokta' brand; and (d) institutional capacity-building of the secretariats of HANDPASS.

Why did they think this would help people/development? By tackling the main weaknesses identified for the value chain, GTZ expects that increased productivity, exports, knowledge and income will help reduce poverty amongst workers in the handmade paper value chain. GTZ selected the handmade paper sector due to the presence of large numbers of poor people who participate in this VC and who stand a chance to benefit if the whole value chain improves its performance.

Key achievements: (a) Impact chain on paper makers' capacity strengthening: product makers report that the quality of paper has improved; (b) impact chain on product makers' capacity strengthening: 50 per cent of CoC signatories actually implement it, 50 per cent of entrepreneurs are using the new book-binding techniques after the training, other entrepreneurs have acquired new machinery and new production techniques after their exposure visits; (c) impact chain on market promotion: Nepalokta logo promoted in Europe, HANDPASS purchased equipment to improve products, 14 entrepreneurs participated in the Paper World Fair in Germany in 2007, 320 international buyers made enquiries about Nepali *lokta* paper products; (d) impact chain on institutional development: executives of HANDPASS learn to share their newly acquired knowledge (at trainings) with other entrepreneurs in order to upgrade the whole sector. This project has been extended for another year (to end in 2008) and further improvements are expected.

Source: Banjara (2007)

Case 17: 'Linking the poor to the tourism market, Bhutan'

This project was carried out by SNV Netherlands development organisation in the sector of tourism (services). SNV assisted the various stakeholders (Bhutan's department of Tourism and the association of Bhutanese tour operators) in the implementation of a pilot on community tourism by training, coaching and creating market linkages to foreign markets. SNV also offered technical assistance in product implementation, community mobilisation and private sector participation.

Why did they think this would help people/development? SNV has mainstreamed the value chain approach in its pro-poor operations. They have developed their own definition of what a value chain is and how it fits into its causal model for interventions:

'Triple AAA model'

The Triple AAA model provides a conceptual framework and set of guidelines for the implementation of SNVs primary process. The Triple AAA model outlines the essential steps of the primary process at three levels:

- a. strategy level: how we develop, implement and update our strategy in a basic services sector, **value chain** or country as a whole;

- b. client level: how we start, maintain, review and end a client relation;
- c. assignment level: how we prepare, execute and review specific work assignments.

Value chain:

A value chain is a functioning whole assembling a variety of tasks, functions and activities for bringing a product or service to the end-use market. A value chain perspective emphasises [sic] the institutional setup of economic transactions and social relationships; it looks into interdependencies and how these are coordinated and governed. For SNV the pro-poor perspective of a value chain is of main importance.

(SNV 2007a: 84)

Key achievements: SNV's intervention in the Bhutanese tourism sector collected poverty alleviation data from the beginning of its operations: 'Twenty villagers received vocational training in 2006 and approximately 210 households in six villages received a supplementary income from the tourist trail; part of the income from the project was paid into the Community Development Funds to fund communal expenses; the project has shown great potential for increasing gender equality' (SNV 2007c). It is very likely that this project will keep collecting and monitoring poverty alleviation data throughout its implementation, given their commitment to poverty alleviation objectives and reporting on their attainment.

Sources: SNV (2007c) and SNV (2007a)

Case 18: Red meat project in Eastern Cape, South Africa

This project was implemented by Triple Trust Organisation (TTO) between March 2005 and March 2006 with 2,000 Xhosa communal farmers.

Project description: capacity-building in: negotiation, pricing, animal grading; standards, market information in general. TTO also organised auctions in order to link farmers with formal marketing channels and provide alternatives to the speculators.

Why did they think this would help people/development? 'Communal farmers largely sell their cattle in rural markets where prices are low and to speculators. The speculators resell the cattle to abattoirs at higher prices. Traditionally the speculators have been a consistent market for the communal farmers although they pay a low price for the cattle' (The Value Chain and the Poor Working Group 2006: 14). TTO thought that by setting up auctions where the communal farmers could sell directly to the abattoirs there would be a reduction of the transaction costs for the abattoirs as they do not have to go to individual farmers to purchase their supply. This reduction of transaction costs, would, in turn, help create a direct and sustained linkage between the communal farmers and the formal marketing systems that would help the income-generating prospects of the communal farmers.

Key achievements: The project created links of the value chain that were previously non-existent such as auctions which improve the bargaining power of producers (by giving them alternatives to the traditional speculator/trader) and reduces transaction costs for abattoirs. Although explicitly concerned with poverty

alleviation issues, this project did not collect poverty data at the level of the farmer. However, 'monitoring the project reveals that the average sale price for cattle by communal farmers has increased by at least 10 per cent since the intervention began' (The Value Chain and the Poor Working Group 2006: 14).

Source: The Value Chain and the Poor Working Group (2006)

Case 19: Bringing knowledge to vegetable farmers in Rangpur, Bangladesh

The vegetable sector in Bangladesh presents very low productivity. Katalyst partnered up with Syngenta (an input supplier – pesticides – and multinational company leader in the crop protection market in Bangladesh) to address this problem.

Project description: This project has been funded by DFID, SDC, SIDA and CIDA and implemented by Swisscontact and GTZ International services and partners, with the Ministry of Commerce of Bangladesh. The project implementers believe that to ensure pro-poor economic growth the 6 million SMEs that comprise the Bangladeshi private sector (plus the millions of commercial farmers) must improve themselves and learn how to face the global competition both domestically and abroad. This is the largest SME promotion project included in this review and it is certainly one of the largest in the field of international development. It started in 2002 as a 'real' Business Development Services project but during the five years of its first phase (finished in March 2008, and it has been extended for another five years until 2013) the project adopted elements of other approaches such as market development, 'Making Markets work for the Poor' (MMW4P), *Value Chain development* and enabling environments. Katalyst works in around 30 sectors (agricultural, services and manufacturing), often in more than one area or market per sector. Katalyst believes that their role is to identify the key constraints to competitiveness and promote mechanisms to improve the setting up and running of businesses and/or access to a range of business services. Instead of providing direct support to small enterprises, Katalyst looks for leverage points where the project can support a few companies to reach many. It works with these leverage points that have a business interest to work with the firms and farms, now and when Katalyst is gone. Besides commercial service providers, the project often works with sector associations, input companies or with large companies that interact with many small ones in the value chain. The services that these companies give to the small firms and farms in the sectors where Katalyst works are often related to product, production or market information.

What did they do for Rangpur's vegetables sector? After carrying out an extensive study of the possible causes of the low productivity of Bangladeshi vegetable producers, Katalyst thought that the main problem was the low levels of knowledge and information among farmers about good vegetable farming practices. Katalyst then considered several 'entry points' for their intervention and decided that retailers (who sell seeds, pesticides, fertilisers and even non-agricultural items as well) to farmers, were the best point to exert the 'leverage' of the intervention since they are in contact with many farmers and like to provide extra services to keep their custom. These retailers in turn, buy their products from their input suppliers and their information on the advantages (or disadvantages) of each product generally come from their interactions with

suppliers. Katalyst funded two-thirds and Syngenta one third of the cost of a three day training programme for retailers in Rangpur. Katalyst realised that Syngenta was picking the strongest retailers, showing a bias against the poorer retailers so Katalyst joined other input suppliers to provide wider access to improved knowledge in good agricultural practices. Katalyst reports that 480 retailers were trained by 2005, which is 20 per cent of all retailers in Rangpur, which in turn serve approximately 200-350,000 farmers (Gibson 2005).

Why did they think this would help people/development? The ultimate end was to improve the flow of knowledge and information towards the farmers so good agricultural practices would be adopted and productivity increased. The idea was also to intervene in a way that was 'market-friendly' and sustainable, with retailers wanting to learn the techniques in order to provide a better service to their customers (farmers). Input suppliers were also expected to see the benefit of training retailers on the virtues of their products and the best ways of using them in order to increase their sales. More productive farmers would demand more of their products via the retailers. More productive farmers were also thought to increase their incomes hence alleviating their poverty. Crowding in by other input suppliers, retailers and farmers was also expected after the demonstration effects were clear to the market. In this way, Katalyst planned to change the market for the better, to make it more poor-friendly. Following Springer-Heinze's (GTZ Value Links manual 2008) definition of a VC intervention, the VC element of this intervention is reflected in Katalyst's action of intervening (training) one link of the value chain (i.e. the retailers) with the intention of having an effect on another link of the VC (i.e. the farmers) and also arguably on the efficiency of the chain as a whole.

Key achievements: The logic of the intervention was that positive change would be felt by farmers (demand side), retailers and input suppliers (supply side). Early indications of a positive reception to the training and of change in behaviours have been reported by Katalyst, although no formal independent evaluation is available. Some of those early indications of success are summarised as follows (according to Gibson 2005): (a) farmers have a better image of retailers and view them as sources of advice on agricultural practices linked to the usage of certain products (pesticides, fertilisers, etc.); (b) anecdotal evidence collected by Katalyst shows that some farmers (linked to the trained retailers) are experiencing better yields and higher productivity; (c) retailers reported that their relationships with customers (farmers) have improved and that farmer loyalty to their shop has increased; (d) over three quarters of trained retailers reported increased sales, customer numbers and profits; (e) non-participating retailers reported feeling 'left out' and recognised that those who attended the training saw their sales increase; (f) Syngenta was one of the greatest beneficiaries due to increased sales (36 per cent), market share and loyalty from retailers many of whom may now feel they should favour Syngenta products.

Sources: Gibson (2005) and (Katalyst 2008)

Case 20: Accelerating growth in the pond fish sector of Faridpur, Bangladesh

This project was implemented by Katalyst in a part of Bangladesh where pond fish productivity was well below the national average and it lasted 3 years.

Project description: Following their methodology which includes carrying out detailed market studies before the intervention is designed, Katalyst identified the main constraints and obstacles in the sector. The two main constraints addressed by Katalyst were poor quality fingerlings (by nurseries and hawkers) and poor pond cultivation techniques (by farmers). The key interventions were three, at three different points of the value chain: facilitating the development of a physical fingerling market, strengthening fisheries associations and providing nursery training.

Why did they think this would help people/development? The creation of a fingerlings market would increase competition for good quality fingerlings, which is an essential input for good quality fish. Strengthening the links between different actors within the sector would facilitate the transmission of knowledge that could improve farming practices and ultimately improve productivity. To this end, Katalyst ran a series of capacity-building workshops for local business associations around Faridpur focusing on strengthening linkages and better farming practices. Finally, in consultation with the business associations, it was decided that the best ‘point of entry’ to transmit new knowledge on cultivation practices to farmers would be by training the nurseries. By training the nurseries, Katalyst intervened in one link of the value chain hoping that the effects (improved cultivation practices, higher productivity and poverty alleviation) would be felt in another link of the chain: the farmers. Katalyst also expected that these interventions would increase efficiency and productivity of the whole chain and market in general.

Key achievements: A quasi-experimental impact assessment methodology was used. Three questionnaire surveys (for nurseries, farmers and hawkers respectively) were conducted and for each sector (i.e. nurseries) a control group was selected and included in the survey. The final sample had 563 businesses. The focus was not on individuals who used more than 25 per cent of the fish for consumption, but businesses. Arguably, this may have excluded a large number of poor people from the assessment, but Katalyst explains their choice as follows:

Katalyst’s end objective is to reduce poverty. Although its immediate focus is on *services and business level change*, and although tangible change at poverty level is expected to require more time, the survey brought out a number of changes that benefit poor people explicitly: from increased output that raises consumption and reduces market prices of table fish; from higher incomes from their fishery businesses; and from more employment opportunities.

(de Ruyter de Wildt 2007: 22, emphasis added)

The impact assessment of the fisheries VC intervention by Katalyst reported the following: (a) An increase in fish consumption (between 16–18 per cent) amongst the poorest farmers; (b) increases in household incomes which is claimed to have lifted a number of poor families above the poverty line (between 9 and 17 per cent in each type business) although *medium farmers experienced the largest change (per cent) in their incomes* and (c) higher employment in areas where Katalyst operates with seasonal and unpaid workers becoming permanent and earning a salary. However, there is a caveat: ‘virtually all employment in pond fish is male and there is no evidence that women have increased their participation because

of the interventions. Nonetheless, their position has not worsened and, like other members of households, they have been benefited from higher incomes and consumption' (de Ruyter de Wildt 2007: 23).

Sources: de Ruyter de Wildt (2007) and Katalyst (2008)

Case 21: Orthodox tea in Nepal: upgrading with the value chain approach

This project is one of the two pilots of the Private sector promotion programme (PSP) in Nepal by GTZ (the other pilot, handmade paper is discussed in intervention 16) with the support of the Tea Development Alliance (mainly HOTPA and HIMCOOP, local organisations but also international donors such as SNV, WI and others).

Project description: GTZ/PSP analysed and benchmarked the quality of orthodox tea from Nepal with other teas from the rest of the world (including India), concluding that the Nepalese industry was capable of producing a premium quality tea. The industry's main weakness was found to be the lack of market awareness of Nepali tea. In addition, GTZ identified that not being able to meet the demand for export (even to Germany, its main export market) has also hindered sales. Improper use of pesticides and lack of skills in the workforce were also identified as weaknesses. The strategy chosen by GTZ/PSP to tackle these weaknesses focused on three areas: (a) *Branding*: development of the brand name 'Nepal Tea' along with the right imagery and slogan 'Quality from the Himalayas', the support of a famous German climber of the Himalayas (Messner) and the promotion of the Code of Conduct followed by many Nepali tea producers; (b) *Quality*: The Code of Conduct was introduced by HOTPA and GTZ in order to make Nepali tea more consistent, attractive and ethically sound. The CoC includes elements of quality control along with environmental and social concerns; and (c) *Volume*: GTZ plans to facilitate private investment in plantations with a view to doubling production within the next ten years.

Why did they think this would help people/development? GTZ bases its choice of subsectors on the eminent rural nature of Nepal's population (85 per cent) and the prevalence of poverty amongst them. Their strategy has been summarised as follows: 'GTZ/PSP focuses on reducing poverty by enhancing competitiveness and local value addition in order to generate income and employment' (Rana 2007: 20). GTZ reports that the orthodox tea sector in Nepal employs large numbers of rural poor: 7,500 small-holder farmers and 35,000 employed by tea estates (Rana 2007). By tackling the main weaknesses identified for the value chain, GTZ expects that increased productivity, exports, knowledge and income will help reduce poverty amongst workers in the tea value chain.

Key achievements: GTZ's system of results-based monitoring is based on 'impact chains': 'An impact chain is the flow of impact from activities to outputs, to use of outputs, to direct/indirect benefits, to national development goals' (page 26). For the impact chain on branding, the main achievement has been the adoption of the brand and imagery by local producers, their adoption of the Code of Conduct (50 per cent of processors) and an increased market share in the European market. For the impact chain on quality, GTZ reports that 80 per cent of the participants in the project's trainings share the concepts of quality control and

CoC to other links in the chain (300 farmers in the area get technical services from trained lead farmers) and software is being used for the traceability of the CoC. Regarding the impact chain on market promotion, GTZ reports that sales of orthodox tea have increased by 30 per cent and that consumer awareness of this product has increased in Nepal and abroad (e.g. in hotels, embassies).

Source: (Rana 2007)

Case 22: Business services market development experiences and lessons

Project description: This project was implemented by DFID and ILO in Uganda. It consisted of a series of three pilot projects that used a very loose version of the VC approach (mixed with the MMW4P approach) to create linkages where there were none/few and to embed BDS into already existing VCs in order to have a greater outreach for Ugandan farmers. The poverty alleviation orientation of this project is explicit and direct; their aim was to increase the incomes of participating farmers. In addition to the pilots, DFID and ILO researched and documented three successful VCs in Uganda in order to identify key success factors to be used in their pilots.

Why did they think this would help people/development? The study wanted to provoke discussion on the effectiveness of PSD and in particular BDS and its new delivery mechanisms, including VC approaches. Their causal model said that MSEs learn most about how to run their business from their customers, their suppliers, and other business contacts, generally within their supply chain. The other assumption was that donor-supplied BDS stifled the production of commercially competitive BDS and are not as effective. In addition, when purposive BDS providers lose their donor or government subsidies, then they raise their prices and MSEs are left with no services again. Usually this affects the poorer MSEs. Therefore, in their pilots, DFID and ILO tested whether donors must help MSEs integrate VCs or help them join VCs and then support lead firms in those VCs with the provision of embedded BDS.

Key achievements: One of the pilots (dry mushrooms) failed commercially but participants started their own domestic-oriented VC with what they learned from their failure to create an export-led chain. The second one (technology licensing) succeeded commercially but there were no reported effects on poverty alleviation; the third one (mango production) is reported to have high potential to triple the income of rural farmers, although this has not been formally assessed (the project ended in late 2007). As for the case studies commissioned by DFID/ILO, they were much more successful than the interventions in the pilots. DFID/ILO wondered why the pilot experiences were not nearly as successful as the private-led cases? One of the answers suggested by DFID/ILO is that donors and facilitators of VC processes need to have good business acumen in order to replicate the commercial success of private-led initiatives. Another possibility is that lead firms in the commercially successful cases selected/attracted the strongest suppliers and the weaker ones were the ones left to be the participants in the pilots. Increases in employment were observed in both the private-led initiatives and in the pilots and poor farmers seem to have better prospects when participating in the pilots.

Source: van Bussel (2005)

Case 23: Promoting the lychee value chain in Hai Duong Province

This project was implemented by GTZ, the French organisation DIALOGX, the Vietnam Agricultural and Science Institute (VASI) and the local association of lychee farmers.

Project description: This project is part of the Value Chain component of GTZ's SME development programme in Vietnam. The programme has four components of which one is concerned with value chains. The component has chosen agricultural and agroindustrial value chains only, which supports the emerging finding of VC donor interventions being skewed towards agriculture. The component's budget is approx. 1.5 million Euros and has 2.5 staff dedicated to it from 2005 until 2009/10. Some interventions are very advanced while others are still in their initial stages. For the lychee project, the association proposed to GTZ and VASI to develop a brand name for Thanh Ha 'Thieu' Lychee to increase their income. In addition, the project carried out the following activities: (a) developed a manual of GAP (good agricultural practice) and delivered training to farmers (b) the association received training on management, financial management, accounting and market development; (c) the project created linkages to an distribution company for the domestic and export markets; and (d) farmers were trained in post-harvest and processing technologies for new products.

Why did they think this would help development/people? The project aimed to address the main challenges in Vietnamese VCs particularly the lack of business and cooperative relationships among the stakeholders and the low quality of services provided. The project acts as a knowledge and 'matchmaking broker' between different actors. The goal in every value chain is to add value to local production, increase efficiency and thus increase income and competitiveness of the VCs. Local and foreign buyers are sought and persuaded to get involved in the project's interventions with cash and in kind, and many see that they have a clear business interest in upgrading their local suppliers. The project envisions that incomes will rise for VC actors at several links of the value chain when efficiency increases. The project also supports local producers to develop their own branding and marketing capabilities in order to add extra value to their products and self-reliance, even in the absence of GTZ or lead firms.

Key achievements: (a) farmers trained in GAP were able to protect their harvests from hoar-frost (non association farmers lost 70 per cent of crops and 43 per cent of association farmers lost less than 60 per cent of crops. (b) association farmers have adopted new management practices and (c) the product has repositioned itself to a higher position in the local market thanks to its branding strategy; (d) that repositioning has brought increased prices and profits for farmers (25 per cent higher at the farm gate). The project ended in December 2007.

Source: GTZ (2007b)

Case 24: Promotion of access to markets for small farmers in Ecuador

This project was implemented by GTZ in cooperation with the Ministry of Agriculture of Ecuador and CORPEI (the Corporation for the Promotion of Exports and Investments).

Project description: The project selected a few value chains to be promoted, namely cocoa, coffee and wood. The methods used to implement the VC approach were participatory. These included 'consultation rounds with all chain stakeholders, the mapping of chains, the development of a marketing guide, sale agreements and specific interventions to improve competitiveness. During the consultation rounds, a common objective is defined by all those involved' (GTZ 2007a: 1). The specific interventions focused on different levels of the chain. At the producer's level, they aimed to improve quality of produce, compliance with standards and management know-how. At the meso level, advice was provided on how best to provide services to the chain's actors and also on investments in research, capacity-building and supply chain coordination. At the macro level, GTZ also provided advice to the government on national policies that would be favourable to value chain development.

Why did they think this would help people/development? The methodology was designed by GTZ with the explicit purpose of having a positive impact on the poor. To this end, the project aimed to promote life-long learning, self-initiative and the strategic participation of the private and public sectors so that the process could continue after GTZ had finished the project. Criteria were developed in order to choose the value chains that would have better chances of being productive and sustainable, as well as having the highest impacts on poor people. Natural resources were preferred, the proportion of small producers had to be high and the chain had to show potential for increasing its market share.

Key achievements: In Ecuador, GTZ gathered baseline data measuring the incomes of small family-owned farms and compared these with their income levels at the end of the project (2006). The project found that (a) small farmers of coffee and wood products saw an increase of 70 per cent in their income from year 2004 to year 2006 (and for Cocoa the increase reached 104 per cent) (GTZ 2007a).

Other benefits reported include: (1) 'Access to international markets for more than 10,000 small farmers with quality products. The produce of at least 9,500 farmers is certified either as organic, Fairtrade or Rain Forest Alliance'; (2) '...a 276 per cent increase in the export volumes for small cocoa farmers and 98 per cent for coffee producers between 2003 and 2006'; (3) 'ten new cocoa products in international markets' and (4) 'A public investment of 1 mm USD has succeeded in channelling 1.3 mm USD from the private sector to work in the area of improving value chains' (GTZ 2007a).

Source: GTZ (2007a)

Case 25: USAID and ACDI/VOCA Agricultural Cooperatives in Ethiopia (ACE)

This programme was implemented by ACDI/VOCA with USAID funding and ran from 1999 until 2004.

Project description: Development and promotion of business oriented agricultural cooperatives actively involved in input supply, output marketing and credit. The programme has a component of market-linkage activities with domestic and international buyers. The programme trained and encouraged cooperatives and unions to expand their core business and to diversify their activities into new products and services (consumer stores) and to establish

savings and credit cooperatives to support members' own efforts at diversifying their family businesses and improving their family's food security and access to food from other sources of income.

Why did they think this would help people/development? In order to bypass middlemen and low value market systems such as local auctions, the programme established market linkages with Ethiopian processors and traders in the domestic and international markets. Many of these links did not exist prior to the programme. The mediation of ACE was particularly important in establishing international contacts with potential buyers for Ethiopian produce. In addition, the financial advantages of high dividends paid to cooperative members (over US\$ 1,000 each) plus loans allowed firms to grow, increase their working capital and operations.

Key achievements: Apart from regular project monitoring activities (mid-term and end-of-project reviews), USAID hired the Mitchell group to carry out an evaluation of the programme. ACDI/VOCA carried out an impact assessment based on a household survey. According to both reports, the number of cooperatives and unions served by ACE has increased from 12 unions with 130 cooperatives and 107,000 members in 2000 to 32 unions with 642 cooperatives and 673,000 members in 2004. Members also reported using extra incomes to improve their diets, hire labour to help them, family education, health and quality of housing. This project looks at a successful application of supply-side incentives *plus* demand-side incentives. In times when supply-side incentives are considered not effective, this experience seems to have worked extremely well. Members of ACE-assisted cooperatives reported higher incomes than non-members. However, questions remain regarding the issue of women's low participation in this highly lucrative scheme since the percentage of women involved remains low at around 8 per cent.

Sources: Dorsey and Assefa (2005) and ACDI/VOCA (2005)

Case 26: Poverty orientation of value chains for domestic and export markets in Ghana

Project description: In Ghana, a group of researchers from the University of Berlin studied the pro-poorness of specific agricultural value chains: mango, *gari* and grasscutter meat. In order to do this, the group focused on a VC intervention by GTZ in Ghana which aimed to support the integration of poor producers in the different value chains.

Why did they think this would help people/development? The study wanted to investigate how VC promotion programmes (by way of linking producers in developing countries to markets and making markets work for the poor) can contribute to the achievement of Millennium Development Goals in the most efficient way. The study says that the GTZ interventions use both the VC approach and the 'MMW4P' approach.

Key achievements: This group was specifically focused on poverty alleviation results and therefore collected income data from producers operating in the three value chains but unfortunately they found the following: (a) 'the study could hardly observe direct positive poverty effects of existing promotional activities for the mango and grasscutter value chains' (Berg *et al.* 2006: vii); (b) vertical integration (in the case of grasscutter farmers' associations) seems to have a positive effect

on producers' incomes and the recommendation from the study is to try to link larger numbers of poor producers to these value chains; (c) orientation towards domestic markets where prices may be higher than in export markets is also seen as a way to increase incomes; and (d) the only poverty alleviation impacts observed were in the *gari* production where thousands of micro-processors (mainly women) operate and the benefits are not linked to increases in income, but to the greater role that women now have in deciding how their revenues are spent.

Recommendations: the section on recommendations to increase the pro-pooriness of VC interventions contains suggestions for GTZ and BMZ on how to engage private sector agents, NGOs and the government to increase poverty impacts. In addition, it suggests new designs such as investing to switch to organic production and other higher value added products. Strategies for marketing, branding and establishment of new distribution channels are discussed.

Source: Berg *et al.* (2006)

Case 27: USAID study of IRC's intervention in the cotton value chain of northern Uganda

In 2007, USAID called for research proposals on the use of the Value Chain approach in post-conflict situations. This call was funded under the Accelerated Microenterprise Advancement Project Small Grant Facility administered by Pact, Inc. and subcontractor to Weidemann Associates Inc. From the six documents produced under that call (known as 'Guided case studies in value chain development for conflict-affected environments') this review has selected a study of IRC (International Rescue Committee) intervention in Northern Uganda using the Value Chain approach (Locke and Goeldner Byrne 2008).

Project description: In 2005, IRC decided to move away from its 'comfort zone' (relief and humanitarian response programming) and into the longer-term field of local economic development in Kitgum District, northern Uganda. IRC noticed that camps for Internally Displaced People (IDPs) were surrounded by a 'safe radius' of about 1.5-2km outside of the camp protected by the Ugandan People's Defence Force (UPDF) and Local Defence Units (LDU). This safe radius could be used for agriculture and IRC facilitated a process of land redistribution amongst IDPs and the owners of the lands (where the refugee camps were located) in preparation for their VC project. Food crops were given the priority within the safe radius, but IRC also wanted to promote another crop that could be sold in order to generate income for IDPs and local landowners. This cash crop had to be non-edible so as not to attract unwanted attention from potential attackers in what is still a highly violent part of the world. Cotton was chosen because: '(1) farmers were familiar with the crop; (2) a local company, Dunavant, was ready to purchase the raw cotton and agreed to provide subsidies and guarantees (including contracts with farmers) to ensure that any market volatility would not result in the loss of farmer income; (3) cotton provides a cleansing function attractive to landowners; and (4) security concerns could be addressed through project design' (Locke and Goeldner Byrne 2008: 5). The project, which was considered a pilot, took place from October 2005 until January 2007. Approximately 100 farmers from four refugee camps benefited from the project.

Why did they think this would help people/development? IRC wanted to kick start economic activities between the locals and IDPs, reducing mistrust and taking advantage of the 'safe radius' around the camps for agriculture. The land used to be distributed according to kinship or rental, but because of the agricultural experience of IDPs and the incentive of having idle lands made productive again, it only took some facilitation by IRC for new linkages to be formed between the local landowners and IDPs. These linkages did not exist before and formed a new 'mini-value chain' locally. IRC also created new linkages by organising cotton growers so they would offer their product jointly to buyers, encouraging buyers to come and buy from them at the camps instead of farmers travelling by road to sell their cotton to markets. Travelling by road is still dangerous and farmers run the risk of being attacked. It was also important to identify a crop that wasn't edible to avoid any unwanted attention shown to the fields by the Lord's Resistance Army (LRA). Cotton was grown in plots beyond the safe radius in order not to sacrifice food security but extra armed protection was negotiated with Dunavant, UPDF and LDU for those plots.

Key achievements: '...the pilot did meet the intended result of both increasing economic opportunities for farmers and providing evidence of how agricultural support could be provided to IDPs. Following conclusion of the pilot, Dunavant entered into a Global Development Alliance (GDA) partnership with USAID to support the continued expansion of cotton production in Acholiland through direct support to 12,000 farmers. APEP, a partner in IRC's pilot project, is also a partner in the GDA, although IRC is not' (Locke and Goeldner Byrne 2008: 6).

Source: Locke and Goeldner Byrne (2008)

Case 28: SNV's 'Improving quality and production of sedge in Ninh Binh, Vietnam'

SNV summarises their intervention as one that: 'improved the production of sedge crop and promoted market linkages by: supporting fieldwork research and consolidating the analysis; facilitating knowledge transfer from researchers to sedge growers (including a sedge cultivation manual); formulating extension services for sedge; advising the Department for Agriculture on a provincial policy to promote sedge crop development; connecting local enterprises to international experts; supporting the local trade promotion centre; and coordinating training and coaching for local enterprises' (SNV 2006).

Why did they think this would help people/development? The overall approach of SNV combines the *value chain and business services market development approaches*. Their aim is to focus on the critical constraints and opportunities that hold back growth, and design interventions that benefit all actors in the value chain and that have potential to become viable solutions to be offered by *local* service providers. SNV has built up an extensive track record in the area of value chain development (based on the '*filiere*' tradition, which has influenced the modern VC approach used by many donors) with a focus on selected value chains in sustainable tourism, non-timber forestry products, handicrafts, renewable energy (biogas) and agriculture. SNV has developed the '*triple A*' approach for value chain development: **A**nalysis, **A**ction and **A**ssessment (described in mini case study 17).

Key achievements: Still in its early phases, SNV's project in the Vietnamese Sedge sector has already planned its 'assessment phase' carefully. During the *Assessment* phase, SNV aims to 'set *indicators to measure impact* and *intermediate indicators* to guide activities and to design a step by step approach leading to the desired impact'(SNV 2007b). Up to May 2007, however, the only impacts that the project could report on were: (a) 1,000 contracted farmer households who 'have directly benefited from the pilot intervention' (*ibid.*) (the document does not elaborate further); and (b) 'gender inequality has been addressed: women are the primary beneficiaries of additional income by means of sedge handicraft' (SNV 2006: 43).

Sources: SNV (2007b) and SNV (2006)

Case 29: Coffee in Brazil

The project started in 1995. It is about the production of shade-grown coffee in the north-east of Brazil. There was an initiative to certify coffee produced by small farmers in an environmental protection zone. This involved a local NGO, the CEPEMA Foundation, whose priorities are ecology. It belongs to an international network of 60 NGOs that has its headquarters in Sweden. It has also received support from the Brazilian Environment Ministry.

Project description: The project describes itself thus: 'The proposal guidelines focus on ecological coffee production. They foster the preservation and conservation of the Atlantic Forest through environmentally-sound education and qualifications focused on the sustainable development of the local economy, by creating jobs and income and reducing the exodus of young people, and thereby improving the standard of living of the local populations... The Project involved basically four aspects: capability building, producers' organisation biodiversity enhancement in coffee production and marketing alternatives' (Macchione Saes *et al.* 2001: 23).

Why did they think this would help people/development? Support from Sweden led to the marketing in Sweden of this coffee as a speciality product – 'organic shade-grown coffee from the Atlantic Forest of Ceará' (Macchione Saes *et al.* 2001: 25). The coffee was exported directly to the Swedish roaster, Classic Kaffé, within the agreement involving the Brazilian NGO, the local growers association (founded in 1996 – i.e. a product of the project itself), the Swedish Society for Nature Conservation, the international NGO network mentioned above, and the State government of Ceará (Macchione Saes *et al.* 2001: 25).

Key achievements: Initial results were satisfactory, but the partnership broke down after three years. Excess supply in global coffee markets, including organic coffee led the Swedish roaster to back out of the deal. Alternative deals foundered on the costs of organic certification and the difficulties of adapting organic certification requirements to local agricultural practices. Some of the lessons learned from this experience are that developing linkages can be done, but relying on a single buyer makes the project overly dependent on the fortunes and decisions of one firm and hence increases the vulnerability of the intervention.

Source: Macchione Saes (2001)

Case 30: USAID Cambodia: Cambodia Micro, Small and Medium-sized Enterprise (MSME) strengthening project

Background: This project was implemented by DAI with funds from USAID (over US\$ 5 million). Cambodia's donor environment can be described as crowded: over 19 donor and international organisations operate in the country and provide more than US\$ 500 million/year which is more than 15 per cent of the country's GDP (Miller and Amato 2007). However, this project seems to have been fortunate to have chosen geographical areas where donors were not as numerous and USAID-DAI had the chance to implement its approach to VC interventions without having to harmonise approaches with other donors or even with the government (at least at the beginning). This account is based on Miller and Amato (2007).

Project description: The project supported 1,800 MSMEs in rural areas of Cambodia in three value chains: pig raising, fish raising and brick and tile making. Within the pig raising sector, the project paid special and differentiated attention to veterinarians and input suppliers as a way to increase the diffusion of new knowledge along this value chain where most project beneficiaries operated. The main components of the project were five: (1) identification of the VC's main constraints and developing action plans to overcome those; (2) enhancing the capacity of VC firms or business services providers to support the value chain, (3) improving MSME access to finance; (4) improving the business environment by focusing on the development of relationships of trust and cooperation within the VC, as well as with other firms in the province and coaching MSMEs on advocacy and lobbying techniques and (5) developing a vocational training programme for vulnerable (usually trafficked) persons.

Why did they think this would help people/development? The project aimed to improve the competitiveness of local MSMEs operating in a selection of rural value chains 'by enabling improvements to businesses and the business environment' (Indochina Research Ltd 2008). This project is a clear example of the 'wider value chain approach' followed by USAID in which the VC intervention aims to improve not only the relationships between firms within the value chain, but also around the value chain (i.e. in the business environment when the VC actors operate). Some of these efforts aimed at improving the business environment dealt with increasing levels of trust and horizontal cooperation amongst firms in the targeted sectors, encouraging cooperation and information sharing, raising awareness in the local financial sector about the need to finance MSMEs, coaching MSME entrepreneurs on advocacy techniques and even advising the national authorities on how WTO regulations affect the growth prospects of the targeted sectors and its MSMEs (DAI 2008). At the beginning of the project in 2005, no mention of poverty alleviation objectives was made but as the project evolved, a greater concern with poverty alleviation impacts developed and in 2008 the evaluation and monitoring activities included questions about 'perceived linkages to poverty alleviation' derived from the project's activities. The original causal model driving this project was one of generating growth from improved MSME activity in sectors where large percentages of poor people work with the expectation of this resulting in beneficial impacts with regard to poverty alleviation.

Key achievements: The project cycle lasted three years (2005–08) although most of the work was done in the last two, which makes its key achievements more impressive. Little progress was achieved during the first year of the project but after the Chief of Party (COP) was changed at the end of the first year, activities started in earnest and the project exceeded all its projected results. Results from an evaluation carried out for three weeks at the end of the project (summer 2008) revealed that sales values had superseded targets by 169 per cent in fish raising, 189 per cent for the tilers and 293 per cent for the pig raisers. Other indicators such as sales volumes, productivity, investments by MSME owners in their firms and access to credit were equally outstanding for such a short project (see final report for more details on other indicators at the firm level). Results regarding perceived poverty alleviation effects were only gathered in 2008 and even though they were carried out by a collaborator of DAI with the support of DAI and USAID's funding there is enough data to see that important changes occurred for the households linked to the beneficiary MSMEs during the length of the project. Some of these changes were reported as increased schooling for the children in the household including a large percentage of girls. Data on employment was also gathered in 2008 and showed that this indicator had increased across all VC served.

How was it evaluated/monitored? Unfortunately, due to the initial management challenges, baseline data is unreliable. The project was monitored annually using performance indicators at the firm level except for year 2008 when some questions regarding perceived linkages to poverty alleviation were asked as well as employment questions. The project had a mid-term review where a pair of consultants (Ex-USAID officers) reviewed the project's achievements in 2007. A company called Indochina Research Limited (IRL) collaborated with DAI in 2008 to conduct a survey with over 800 firms (plus in-depth interviews) to assess the extent of the change brought about by the project. An internal baseline was established for the 2008 survey based on recall data by the respondents. No control groups were used but non-beneficiary firms in the neighbouring provinces were interviewed in order to assess the 'demonstration effect' of the activities adopted by the project's beneficiary firms and implemented by DAI. Both the mid-term review and the final report state that the majority of sampled beneficiaries saw a link between DAI's activities and poverty alleviation not only for themselves but for others.

A2 Events attended

In order to interact with donors, Dr Navas-Alemán attended the following international meetings and made the following visits:

February 2007: 11th Enterprise Commission of UNCTAD, 19–23 February. Interviews carried out with key informants from UNCTAD, ILO and ITC.

March 2007: Interviews carried out with officials at USAID, ACDI/VOCA, AFE, FIAS, IFC, IADB and Rockefeller Foundation in Washington and New York between 21 and 28 March.

April 2007: Participation in workshop of the Donor Committee for Enterprise Development, Working Group on Linkages and Value Chains. This event took

place at the Headquarters of FAO in Rome, Italy, from 23 to 25 April. Participants included representatives from ILO, UNCTAD, FAO, UNIDO, ITC, GTZ, SDC, ADA, CIDA and the World Bank. A report on the objectives of the review was presented to the workshop, and it was also possible to carry out interviews with several donor officials attending the meeting.

May 2007: International Conference 'Value Chains for Broad-based Development'. Hosted by GTZ in Berlin (30–31 May), this conference was the highest profile event of 2007 regarding Value Chain promotion. Donor representatives from the Americas, Europe and Asia gathered to share their experiences with value chain promotion with a poverty alleviation agenda. It was a very productive meeting for the review under this grant since high quality materials and interviewees could be accessed within a very short period of time. In addition, a one-day visit to the headquarters of GTZ in Eschborn provided extra materials and interviews for this review.

A full draft of the review was completed in the summer of 2008 and while it was circulated amongst practitioners and policymakers for written comments, Professor John Humphrey and Dr Navas-Alemán made two visits to selected donors to discuss the review and obtain feedback in person.

September 2008: ILO (including the Better Work programme) and UNCTAD in Geneva.

November 2008: USAID, DAI and ACIDI/VOCA in Washington DC.

A3 Potential benefits of business linkages for large firms, local business communities, and small-medium enterprises

Small-medium enterprises	Local communities	Large firms
<ul style="list-style-type: none"> ● Increased employment and wealth creation by local firms ● Acceleration of knowledge transfer and technology upgrading ● Enhanced skills, standards and capacity ● Access to new domestic and/or foreign markets ● Attraction of additional foreign direct investment in 'cluster' effects ● More diversified client and market structures ● More stable relationships to buyer or producer organisations ● Risk-sharing through joint funding and/or operations ● Facilitation of access to finance ● Opportunities to innovate, upgrade and increase competitiveness 	<ul style="list-style-type: none"> ● Stimulation of economic activity and enhanced local economic development ● Increased employment and production ● Long-term increase in local or regional competitiveness ● Added local purchasing power ● Access to more affordable, reliable, or better quality products and services ● Increased participation of large-scale companies in local business and community development ● Balance of payment benefits when products are exported and/or substituted for imports ● Development of local business service providers catering to SMEs 	<ul style="list-style-type: none"> ● Reduced procurement, production and distribution costs ● Improved productivity ● Increased opportunities for corporate responsibility combined with profitability ● Enhanced reputation and local license to operate ● Improved integration in new overseas markets ● Increased ability to reach consumers at the base of the economic pyramid ● Proactively deal with downsizing ● Reduction of foreign exchange needs through import substitution ● Increase in flexibility in making design and production changes due to proximity of local suppliers ● Reduced environmental impacts from long-distance shipping ● Compliance with government local content requirements

Sources: Adapted from Stanton D. and Polatajko, T. (2001). Other sources include The International Finance Corporation's Global Linkages Unit; Nelson, Jane (2006); various UNIDO documents; and the International Business Leaders Forum.

Presented in Jenkins *et al.* (2007: 6, [www.ifc.org/ifcext/media.nsf/AttachmentsByTitle/Business_Linkages_June07/\\$FILE/Business_Linkages_June07.pdf](http://www.ifc.org/ifcext/media.nsf/AttachmentsByTitle/Business_Linkages_June07/$FILE/Business_Linkages_June07.pdf))

A4 Value chain theory: markets and chains

The market is the central idea in economics. At its simplest, a market is a space where many buyers and sellers come together. The idea of many buyers and sellers has certain implications:

1. Products are largely standardised. If they were not, there would not be many buyers and sellers.
2. Knowledge of how to produce these products is also widely available. This is another implication of having many sellers.
3. It is relatively easy to verify the characteristics of the product that matter to the buyer. At its most basic, simple inspection is enough to verify product quality.

4. The economic space covered by the market is big enough to generate plenty of buyers and sellers.
5. To the extent that markets have continuity, buyers and sellers acquire reputations based on their behaviour. This may provide assurances about honesty.

These simple ideas can be translated into economic theory through the concepts of competition and contestability (there are many buyers and sellers), perfect information (knowledge is freely available to producers about production technologies and to sellers about products' characteristics and quality), the production possibility frontier (producers are all efficient), perfect foresight (within the relevant time horizon of the buyers and sellers, trading conditions are without surprises) and zero transaction costs (it does not cost anything to engage in an act of buying and selling – which is a corollary of perfect information).

In an ideal market, one can buy and sell from complete strangers with total confidence. In the real world it is not so simple, but markets frequently generate a variety of intermediaries and service providers to facilitate information flows, as well as regulations in institutions to prevent fraud, enforce contracts, etc. Medieval markets in Europe were quite institutionalised in this respect.

A corollary of the idea of markets is the producer as an individual agent (person, household, firm) that acts in the market. The agent deploys its assets to make products to sell on the market. The agent's level of income derives from choices about purchase and deployment of assets (land, labour and capital) and prices determined by supply and demand in the market. Trade arises because the (relative) prices of non-mobile assets varies across different locations.

While no one believes in perfect information and perfect foresight, competitive markets do exist and a lot of analytical progress can be made working with the market concept. Leaving aside the well-known problems that afflict even sophisticated markets (fraud, the herd mentality, imperfect competition, etc.) what happens if:

- There is a lack of scale in the area covered by potential markets, so that there are few buyers and sellers. This issue is widespread in developing countries.
- There is industry concentration, leading to the emergence of some big buyers and sellers.
- Knowledge about what sellers want and how to produce it is uneven.
- Globalisation increases the distance between buyers and sellers so that knowledge about what markets want and also knowledge about the necessary technologies for producing for these markets is lacking in particular localities.
- Competition drives innovation, creating further unevenness of knowledge availability.
- Globalisation increases opportunities arising from differences in assets (labour costs, particular resource availabilities, etc., location itself), but also increases coordination costs.

- The things that add value to products are not easily verifiable: place of origin, the way that things are produced, who produces them. These frequently involve 'intangible' attributes that are not verifiable by inspection of the product, which means that other forms of verification have to be used.

How do we tackle these problems? If nothing is done, then there would be massively wasted potential. In particular, producers in developing countries may be unable to make new products and sell to new markets, resulting in losses of opportunities for increasing incomes and wellbeing.

From these considerations, we can identify three broad strategies for increasing incomes of the poor through promoting productive activities:

- **Assets.** Provide the poor with more assets to deploy for market-oriented production: investing in education, subsidising inputs, improving access to land, etc.
- **Market development.** Develop markets so that they function more effectively. This can mean providing the specialist services that overcome the problems listed above – quality assurance, product standards and grading, banking and credit checks (i.e. institutionalising reputation effects), making information about prices in markets more widely available (which is a way of unifying price-determination across different markets, which in effect increases the numbers of buyers and sellers). Initiatives such as Making Markets Work for the Poor (M4P) and market development programmes are primarily oriented to this type of initiative.
- **Value chains.** Rather than aiming at broad-based solutions for market development, value chain analysis works more directly on the linkages between agents in the market in order to reduce the costs of inter-firm coordination, maximise flows of knowledge along the value chain to overcome deficiencies in information about markets and technologies, increase the potential for value-adding strategies based on intangible attributes, and create trust so that people feel safe to make investments for the future.

One important consequence of the value chain approach is that a shift in focus is needed from the individual agent to relationships between agents. It is the nature of these relationships that determines the ability to turn assets into income. This is why the value chain becomes the unit of analysis and within the value chain the issue of governance – the 'institutions' used to manage relationships between agents – acquires importance. The term 'institutions' is used here to cover both devices to manage inter-firm relationships (types of contract, trust-building, ways of handling knowledge flows, etc.) and the broader institutional context of levels, norms, agencies, regulation, etc. within which transactions are managed.

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