



**U. S. Agency for International Development
Office of Microenterprise Development
1300 Pennsylvania Avenue NW
Washington, DC 20523**

**VALUE CHAIN PROGRAM DESIGN:
PROMOTING MARKET-BASED SOLUTIONS
FOR MSME AND INDUSTRY COMPETITIVENESS**

Submitted to:

Office of Microenterprise Development
USAID/G/EGAD/MD
Washington, D.C.

Updated
OCTOBER 2007

Submitted by:

Frank Lusby
Henry Panlibuton
Action for Enterprise (AFE)
2009 N. 14th St, Suite 301
Arlington, VA 22201
www.actionforenterprise.org

Table of Contents

Executive Summary	iii
I. INTRODUCTION	1
II. APPROACH / RATIONALE	1
III. DESCRIPTION OF APPROACH	2
3.1 Value Chain Selection.....	3
3.2 Value Chain Analysis	8
3.3 Identification of Value Chain Constraints / Opportunities	12
3.4 Identification of Market-Based Solutions.....	14
3.5 Selection of Market-Based Solutions for Assessment	17
3.6 Assessment of Market-Based Solutions.....	18
3.7 Identification of Facilitation Activities.....	21
3.8 Selection of Facilitation Activities.....	23
IV. DONOR COORDINATION.....	24
V. CONCLUSION.....	25

Appendices

1. Interview Guide Used for Value Chain Analysis
2. Interview Guides Used to Assess Potential Solutions
3. References

Figures

- Figure 1. Steps in Value Chain Approach to Program Design
- Figure 2. Short-listing Matrix
- Figure 3. Value Chain Map: Illustrative Case (Green Beans For Export)
- Figure 4. Flow of Information from the Main Value Chain Interview Guide
- Figure 5. Green Beans for Export: Constraints Analysis
- Figure 6. Flow of Information for Market Solution Assessment

Tables

- Table 1. Illustrative Criteria for Value Chain Selection
- Table 2. Approaches to Value Chain Analysis
- Table 3. Categories of Value Chain Constraints / Opportunities

Executive Summary

The approach presented in this paper is an attempt to combine the strengths of value chain¹ analysis with the promotion of sustainable, market-based solutions that respond to the recurrent needs of micro, small, and medium scale enterprise (MSME). Value chain analysis is important in understanding markets, inter-firm relationships, and critical constraints that limit MSME growth and industry competitiveness, while market-based, commercially viable solutions can result in solutions that are sustainable in the long run and that do not distort local markets.

Targeted at donors and practitioners involved in the field of enterprise development, this approach consists of eight steps.

Step 1: Value Chain Selection – choose a value chain with the greatest potential for growth in MSME income and employment.

Step 2: Value chain Analysis – gain a greater understanding of the operating context for MSMEs and intelligence on the market players, their roles, and interrelationships.

Step 3: Identification of Constraints and Opportunities – determine key issues hindering growth and competitiveness in the value chain.

Step 4: Identification of (*Potential*) Market-Based Solutions – determine which solutions can best address the constraints identified in Step 3.

Step 5: Selection of Market-Based Solutions – target specific market-based solution(s) for more in-depth analysis.

Step 6: Assessment of Targeted Market-Based Solutions – understand constraints to the sustainable supply/demand of the targeted solution(s).

Step 7: Identification of Facilitation Activities – determine facilitation activities which address the constraints of the targeted market-based solution(s).

Step 8: Selection of Facilitation Activities – choose the most appropriate facilitation activities to implement.

Some of the strengths of this approach include its ability to:

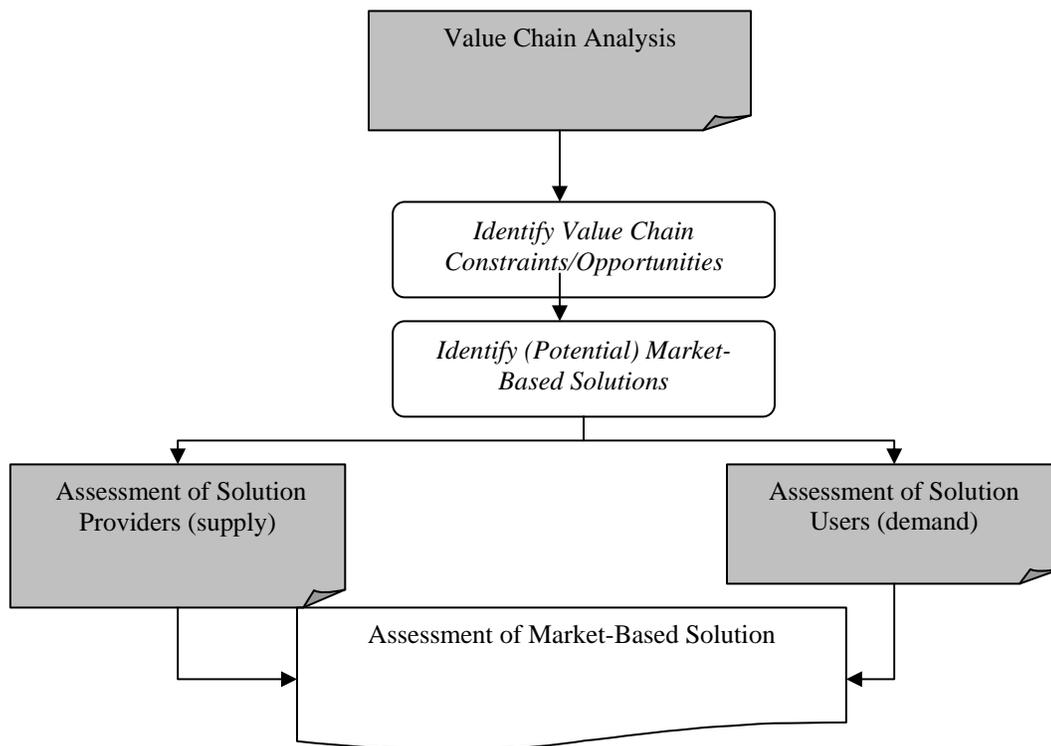
- address the needs of MSMEs operating in different industries, which tend to vary greatly
- reach smaller enterprises (especially in rural areas) due to its focus on forward and backward linkages
- identify and promote embedded solutions, often found in the relationships between actors in specific value chains
- focus on market-based, sustainable solutions in growth value chains that will result in increased MSME income

¹ A value chain can be defined as all the firms that buy and sell from each other in order to supply a particular set of products or services to final consumers. Terms with similar meanings include "subsector", "supply chain", etc.

One of the risks of this approach is its dependence on the continued viability of the targeted market. If that market fails for some reason, program interventions will not have their desired impact. This risk can be mitigated, however, by focusing on multiple value chains and/or markets within value chains. Another challenge is finding or developing the requisite expertise to implement the approach - which generally requires a multidisciplinary person or team skilled in economic analysis, business needs assessment, participatory workshop facilitation, and enterprise development.

A number of value chain analysis techniques can be used in this approach. These include the traditional form of value chain studies, more participatory methods such as workshops and focus groups, as well as "incremental" approaches that limit initial analysis in favor of continuing it once actual program implementation begins. A combination of all three methods is perhaps the most appropriate.

This approach uses a series of interview guides to elicit information on the roles and interrelationships of value chain participants, identify value chain constraints, and identify commercially viable solutions within the value chain that address those constraints. Once specific solutions are targeted, additional interview guides are used to gather information from providers and user of the solutions. The end result is an assessment report that serves as the basis for identifying needed interventions. The figure below illustrates the flow of information from these tools.



The table below presents an extract from the value chain analysis of the "Green Bean for Export" value chain (illustrative case presented in the paper) and shows how the identification of value chain constraints leads the identification of (*potential*) market-based solutions.

Constraints	(Potential) Market-Based Solution	Existing Providers of Market Solution
High cost of inputs (seeds, pesticides and fertilizers) for small-scale growers. Low germination rates of seeds.	Provision of, and access to, affordable fertilizers, chemicals and quality seeds to small-scale growers.	Stockists Exporters Producer Organizations
Lack of knowledge and skills in crop husbandry by small-scale growers.	Training and extension services to small-scale growers.	Exporters Input Supply Companies Government NGOs
Expensive irrigation equipment	Provision of affordable irrigation equipment to small-scale growers.	Irrigation equipment suppliers.
Seasonal demands for fresh vegetables by the EU export market.	Access to new export markets for exporters and growers	Exporters Exporters Association
Lack of respect for contracts between growers and exporters.	Access to mediation for breach of contract between growers and exporters	Government agency

The commercial viability of the targeted market-based solution(s) is critical in getting the private sector to take on or expand provision of the solution. If a full business plan is not possible during the assessment stage, a rough calculation of the economic feasibility of the solution should be conducted. A growing market and an appropriate return on investment (even if the return is indirect) will be the primary incentives for commercial providers to develop or expand the services, inputs and/or support they provide to MSMEs.

The approach in this paper looks at whether market-based solutions are offered on a "fee for service" basis, or whether they are "embedded" (and offered for free) as part of a commercial relationship between the provider and the MSME. One of the strengths of this approach is its ability to identify both kinds of solutions (existing and potential) within a value chain and to identify appropriate means of promoting them.

Donor coordination is critical to ensuring that the implementation of this approach is not undermined. Problems will arise, for example, if one donor is promoting the development of private sector providers who sustain themselves through transactions with MSMEs, while other donors are offering direct subsidies to those same providers. It is therefore important that local donors adopt a common set of definitions and agreed-upon principles for enterprise development programs.

The approach presented here is still evolving and not meant to be prescriptive. There are many different and valid approaches to the design and implementation of enterprise development programs - this is just one of them. As a work-in-progress, more testing and field implementation will be necessary to further refine and improve it.

The authors would like to invite all readers to share their views on this paper, with the objective of refining and improving the approach. They would like to thank USAID for funding the initial version of this paper, and the many individuals who contributed their time to reviewing initial drafts and providing useful comments.

I. INTRODUCTION

The approach presented in this paper is an attempt to combine the strengths of value chain² analysis with the promotion of sustainable, market-based solutions that respond to the recurrent needs of micro, small, and medium scale enterprise (MSME). Value chain analysis is important in understanding markets, inter-firm relationships, and critical constraints that limit MSME growth and industry competitiveness, while market-based, commercially viable solutions can result in solutions that are sustainable in the long run and that do not distort local markets.³

The paper is targeted at both donors and practitioners from enterprise development organizations, and is organized into three main sections. This first section explains the rationale of the approach, in the context of current thinking on private sector/enterprise development programs. The second section describes the approach and provides guidelines for implementation. The third section describes the importance of donor coordination and presents suggestions to improve it. Included in the appendices are model interview guides and a list of resources.

This approach is still evolving and not meant to be prescriptive. There are many different and valid approaches to the design and implementation of enterprise development programs - this is just one of them. As a work-in-progress, more testing and field implementation will be necessary to further refine and improve it.

Throughout the paper, a detailed case study is used to illustrate specific steps involved in the program design process. The case is presented and sequentially developed via nine text boxes. Although the case example is based on actual program analysis and design work conducted by Action for Enterprise (AFE), it is meant to be strictly illustrative.

II. APPROACH / RATIONALE

There is general recognition in the development community that traditional approaches to enterprise development have been lacking in impact and sustainability. This has led the field to look for more sustainable solutions. The promotion of "market-based" or "commercially viable" solutions has emerged as an alternative - and focuses on developing sustainable solutions that: 1) contribute to both firm and industry level competitiveness; 2) have good impact and scale, and; 3) avoid distorting private sector markets.

Experience among many practitioners has also shown that value chain analysis is a useful tool that can help identify constraints to MSME growth and competitiveness in a given value chain. When combined with an orientation towards market-based, commercially viable solutions (as described above) an approach emerges that can result in programs with significant impact on MSME's as well as greater competitiveness of the targeted sectors as a whole.

This approach attempts to combine the strengths of value chain analysis, which identifies constraints that are blocking sales and investment, with an orientation towards market-based

² A value chain can be defined as all the firms that buy and sell from each other in order to supply a particular set of products or services to final consumers. Terms with similar meanings include "subsector", "supply chain", etc

³ This includes micro, small- and medium-scale enterprises.

solutions which include strategies for increasing access of large numbers of MSMEs to sustainable solutions.

Many donors, practitioners, and projects are already using a value chain approach for their enterprise development programs. These include programs targeting specific agricultural products, manufacturing activities, and professional associations. The approach presented in this paper can help ensure that solutions for MSMEs will continue once the program is over and that impact will be sustained. It also helps establish clear links between program interventions and MSME impact.

There are both advantages and risks in this approach. One of the main advantages is that it addresses the specific needs of MSMEs operating in different industries, which tend to vary greatly. Surveys and experience suggest that by focusing on the specific needs of businesses that are involved in the same activity, programs can achieve better results.

This approach is also conducive to reaching smaller enterprises, especially in rural areas. This is due to its focus on forward and backward linkages between enterprises at all levels of the supply chain and the commercial relationships between them. Rural MSMEs are often linked to input suppliers and larger buyers through a variety of commercial relationships and frequently benefit from services and solutions that are “embedded” in the transactions they have with those actors. This approach is designed to identify these relationships and specific interventions that will strengthen them.

The approach also:

- provides a means for prioritizing market-based solutions that will have the greatest impact on the value chain and participating MSMEs (this step is often lacking in other programs)
- is conducive to strengthening linkages and mutually beneficial relationships between market actors

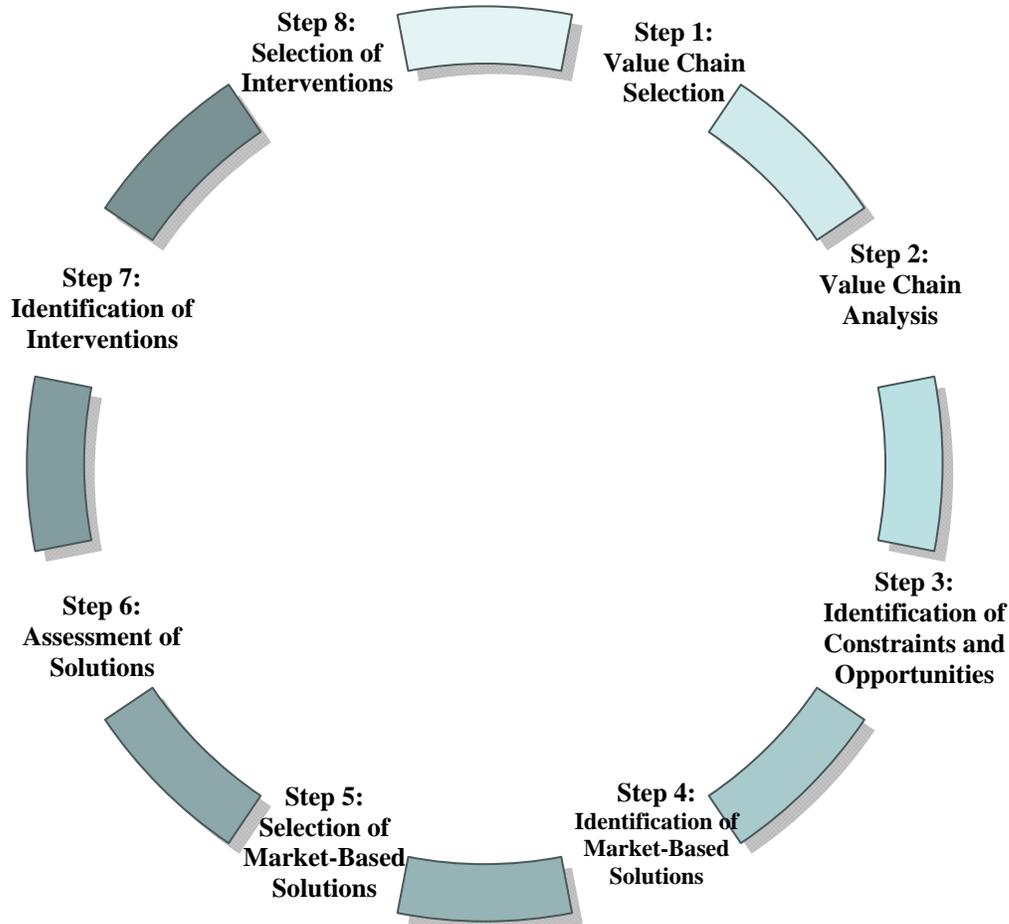
One of the risks of the approach is its dependence on the continued viability of the targeted value chain. If that market fails for some reason, program interventions will not have their desired impact. This risk can be mitigated, however, by focusing on several value chains at the same time. It can also be mitigated by targeting multiple markets within a given value chain, for example both domestic and export markets. Another challenge is finding or developing the requisite expertise to implement the approach—which generally requires a multidisciplinary person or team skilled in economic analysis, business needs assessment, participatory workshop facilitation, and enterprise development.

III. DESCRIPTION OF APPROACH

The approach to program design presented in this paper is comprised of eight steps (see Figure 1 below). The first step involves selecting a value chain. Step two begins the value chain analysis phase and consists of gaining a greater understanding of the market players, their roles, and interrelationships. Step three looks at the constraints and opportunities facing these players that hinder value chain growth and competitiveness. Step four identifies new or existing solutions in the value chain that have the potential to address these constraints in a commercially viable manner. Step five begins the solution assessment stage, and involves selecting solutions identified in step four for more in-depth assessment. Step six assesses these solutions, looking at

both demand and supply side constraints. In step seven, interventions are identified that will address the constraints identified in step six and result in sustainable and commercially viable solutions to MSMEs. Finally, in step eight, the program facilitator⁴ selects specific interventions (among those identified in step seven) for implementation.

FIGURE 1. STEPS IN VALUE CHAIN PROGRAM DESIGN



3.1 Value Chain Selection

Value chain selection begins with a list of value chains for consideration. If a pre-determined list does not already exist, primary and secondary sources of information can be used to create one. Information on value chains to consider can be collected from interviews, surveys, and/or workshops with key informants (who have good general knowledge of the local economy). This primary data can be supplemented with secondary data from sources including government agencies, donors, financial institutions, and other development organizations. Multi-lateral agencies are also a good source for country-specific data on various industries and sectors⁵. MSME surveys, if they exist, can also provide a wealth of information about different value chains and assist in ranking their relative attractiveness for development programs.

⁴ A facilitator refers to an international or local institution which has as its primary aim to promote the development of private, commercially viable solutions that can be sustainable in the market. Currently, most facilitators are public institutions, NGOs, or development projects and are usually funded by governments or donors.

⁵ The websites of the International Trade Centre of the UNCTAD/WTO (www.intracen.org/menus/countries) and the World Bank (www.worldbank.org/html/extdr/regions) are two examples.

3.1.1 Determine and Prioritize Criteria

Determining criteria for value chain selection is a critical step in program design. It is a task that requires strategic thinking about overall program objectives and how to maximize impact. For example, some development organizations may select value chains primarily on the basis of market potential - choosing those that show the most promise for increased growth in the economy. Others may have institutional priorities that mandate a particular focus, such as women or environmental conservation. Still others may be more interested in targeting value chains with the largest number of MSMEs. Most likely, donors and implementing organizations will have some combination of priorities and will have to balance the tradeoffs involved in making selections (e.g. one value chain might have the greatest number of MSMEs but low prospects for growth, while another might have a high rate of growth but low participation of women). Moreover, a donor with various sectoral priorities could target different value chains to achieve different objectives.

In all cases, value chain selection criteria should reflect the goals of the donor/implementing agency as well as the capacity, experience, and expertise of the facilitating organization(s). Examples of selection criteria are described in Table 1 below:

TABLE 1. ILLUSTRATIVE CRITERIA FOR VALUE CHAIN SELECTION

Criteria	Description
Market Demand and Growth Potential	<ul style="list-style-type: none"> Evidence of strong effective demand for products being produced Buyers have ready market for products but are unable to meet demand Unmet demand from municipal authorities or large public works projects
Potential Increase in Income and Wealth	<ul style="list-style-type: none"> Potential for increased revenues at all levels of value chain. Projected increases in sales, profits, or returns to labor
Opportunities For Linkages	<ul style="list-style-type: none"> Potential forward/backward linkages between large and small enterprise. Large buyers are overlooking MSMEs as a source of supply or unable to organize them to meet their demands.
Potential For Employment Generation	<ul style="list-style-type: none"> Potential for enterprises (large and small) to create new employment opportunities as the value chain develops or expands.
Number of MSMEs	<ul style="list-style-type: none"> Number of MSME operating in the value chain
Value Added Potential	<ul style="list-style-type: none"> Potential for MSMEs to add value to raw materials and gain higher earnings.
Potential For Increases in Productivity	<ul style="list-style-type: none"> Potential for technologies or management systems to increase the productivity and earnings of enterprises in the value chain.
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> Government interest in a value chain (can translate into positive linkages with government services, and favorable policies) Existing programs that can provide synergy and complementary activities.
Competitiveness	<ul style="list-style-type: none"> Competitiveness of the value chain on the world market and/or of MSMEs in the value chain.
Agency Mandates	<ul style="list-style-type: none"> Mandates such as participation of women, rural focus, environmental impact, etc. can be considered and weighted in accordance with the importance the agency puts on them

ILLUSTRATIVE CASE:

The following case will be used throughout the paper to illustrate specific steps involved in this approach to program design. It is based on actual AFE field work but has been modified in some instances, and is meant to be strictly illustrative.

Part 1 - Setting Value Chain Selection Criteria

An international development organization is designing an enterprise development program in country X. Having reviewed existing data and reports from government agencies and interviewed several development organizations in-country, nine value chains were identified for consideration:

- green beans
- dairy (milk)
- handicrafts
- tourism
- avocados
- beef
- building construction
- wood furniture
- poultry

Based on the organization’s strategic focus on economic development and issues of rural poverty, the following selection criteria were identified:

1. Unmet Market Demand
2. Potential Increase in Rural Incomes
3. Potential for Employment Generation
4. Government or Donor Interest / Existing MSME Support Programs

3.1.2 Narrow-Down Value Chains

Once selection criteria have been established, it is important to narrow down possible value chains into a short-list for further consideration. One method of doing this is to create a shortlist of each value chain under consideration. During this exercise, a matrix is completed which shows the relative rating of each value chain (i.e., high, medium, low) against the two selection criteria considered most important to the implementing organization.

For example, in Figure 2 below, two illustrative selection criteria, "unmet market demand" and "potential to increase rural incomes" are presented - one on each axis of the matrix. Any value chain that falls within the shaded area (i.e., low/medium market demand and low/medium income potential) is considered less attractive than the other more higher-rated value chains and would be given lower priority for further analysis.

FIGURE 2. SHORT-LISTING MATRIX

Potential to Increase Rural Incomes

High			<i>Attractive</i>
Medium			
Low	<i>Not Attractive</i>		
	Low	Medium	High

Potential Market Demand

The short-listing process should be as objective as possible and based on actual quantitative data, where available. The relative importance of one criterion versus the other should also be factored into the selection process to choose between equally attractive value chains (see the example in the illustrative case below).

ILLUSTRATIVE CASE: Part 2 - Short-listing Value Chains

Building on Part 1 of the illustrative case, data was compiled for each of the potential value chains and ranked against the organization's two most important selection criteria—potential market demand and potential for increased rural incomes. The chart below shows the relative attractiveness of each value chain.

Potential to Increase Rural Incomes

	– Handicrafts	– green beans – dairy (milk)
– avocados – beef		– tourism
	– poultry – building construction – wood furniture	

Potential Market Demand

As a result of this exercise, value chains in the shaded area (i.e., avocado, beef, poultry, construction, and furniture) were rated as less attractive and dropped from further consideration. However, the choice between tourism and handicrafts was less clear cut. Since the potential for increases in rural income was deemed relatively more important than potential market demand to the organization, the handicrafts value chain was rated higher than tourism. Thus, a short-list of three value chains was identified: green beans for export, dairy (milk), and handicrafts.

3.1.3 Rank Shortlisted Value Chains

Having narrowed down the choice of value chains, it is important to rank and prioritize the final short-list. A ranking system to evaluate prospective value chains can be used to conduct this exercise. Each value chain selection criteria is given a score on a scale of 1 to 5 (with 1 being the lowest and 5 being the highest score).

The scoring can be done with key informants during a focus group discussion, or internally based on available primary and secondary data of the value chains. Other tools and theories can be incorporated into the value chain selection step as well⁶.

The score for the more important criterion should be weighted higher than the others. A multiple of three (3), for example, could be assigned to criteria deemed relatively more critical. The score of that criterion would then be multiplied by three to reflect its higher weighting. Using a value chain ranking table, the total weighted scores for each value chain can then be compared to determine their relative ranking. An example of the ranking and scoring process is shown using the illustrative case below.

⁶ *Competitive Advantage: Creating and Sustaining Superior Performance*, Michael E. Porter, 1998.

ILLUSTRATIVE CASE: Part 3 - Scoring and Ranking the Short-list of Value Chains

In this step, each of the value chain selection criteria established in Part 1 of the case was assigned a relative weight. Given the institutional priorities of the sponsor organization, “unmet market demand” was given a weight of 3 times, while “potential to increase income” was given a weight of 2 times:

1. Unmet Market Demand (weighted 3x)
2. Potential Increase in Rural Incomes (weighted 2x)
3. Potential for Employment Generation (weighted 1x)
4. Government or Donor Interest / Existing MSME Support Programs (weighted 1x)

Thus, the individual score (ranging from 1 to 5) for those first two criteria are multiplied by a factor of 3 and 2 respectively. The individual scores for the remaining criteria are multiplied by one.

In order to conduct the value chain scoring exercise, existing data was collected and supplemented with findings from selected key informants. An example of the information used to evaluate criteria for the "green beans for export" subsector is illustrated below:

Unmet demand in the market

- In the last two decades, the U.K. and France have provided strong markets for this commodity.
- Besides the EU, other new markets in the Middle East are emerging indicating unmet demand in traditional and the emerging markets.

Potential increase in rural incomes

- About 5000 small-scale bean growers are located in the rural areas and depend solely on their small farms as the major source of family income.
- Given appropriate support these growers can improve their productivity and increase incomes.

Potential employment generation

- Potential for employment is high given the manual nature of farming activities. Small-scale growers need additional labor for expanded production.

Potential donor/government interest and synergy with existing MSME programs

- A positive partnership exists between the private sector and the government.
- The government has listed green beans as a “priority” export crop

Data for the other short-listed subsectors (see Part 2 of this case) was also compiled in a similar manner and used to complete the scoring exercise. The results are shown in the table below:

CRITERIA	PROPOSED VALUE CHAIN		
	<i>Green Beans for Export</i>	<i>Dairy (milk)</i>	<i>Handicrafts</i>
Unmet Market Demand [weighted 3x]	4	3	2
Potential Increase in Rural Incomes [weighted 2x]	4	4	3
Potential for Employment Generation	3	3	3
Government or Donor Interest / Existing MSME Support Programs	3	4	2
Total Weighted Score	26	24	17

Using the scoring results, green beans for export was rated as top priority, dairy (milk) was second, and the handicrafts value chain was ranked third.

3.1.4 Make Final Value Chain Selection

Having ranked a short-list of value chains, the final step is to decide which ones to select for further analysis. In determining how many value chains to analyze it is important to consider the amount of time and resources available for value chain analysis as well as subsequent implementation activities.

ILLUSTRATIVE CASE: Part 4 - Final Value Chain Selection

Based on the results of the weighted ranking against the selection criteria (Part 3 of illustrative case), as well as the availability of resources, both the green beans and milk value chains were chosen for more in-depth analyses.

3.2 Value Chain Analysis

Once value chains have been chosen the next step in the approach is value chain analysis. The basic objectives of this analysis are to:

- Identify final sales market(s) and market segments
- Identify market channels and trends within the value chain
- identify the primary actors in the value chain, their roles, and interrelationships (with emphasis on linkages with targeted MSMEs)
- create a value chain map that describes the above
- identify constraints and opportunities that are holding back growth and competitiveness
- identify commercially viable solutions that can address value chain constraints

Other information such as number of enterprises, sales volume, and return to labor can also be collected and mapped as "overlays" on the value chain map. See Section 3.2.2 for more information on value chain mapping.

3.2.1 Approaches to Value Chain Analysis

A number of variations on the traditional value chain analysis approach can be used to successfully complete this step. These include participatory methods such as workshops and focus groups, as well as "incremental" approaches that limit initial analysis in favor of continuing it once actual program implementation begins⁷.

The classic, more traditional approach for value chain analysis is a formal study, documented in publications such as a "Field Manual for Subsector Practitioners" produced by the GEMINI project⁸. If time and resources are available, in-depth studies can be very valuable as they provide a thorough analysis of the dynamics in a value chain. One of the disadvantages is that it is easy to get caught up in the intricacies of value chain mapping, statistics, etc., and lose sight of the final goal (i.e., identifying value chain constraints that are blocking MSME growth and competitiveness, and the corresponding commercially viable solutions that can address those constraints). In-depth studies can also be time consuming and expensive. It is therefore important to keep the final goal in mind, and limit analysis to what is needed to achieve that goal.

For a variety of reasons, a more streamlined and/or participatory form of value chain analysis may be preferred. One way to do this is to reduce the amount of research, and then use focus groups with value chain representatives to validate and complement the information gathered. Focus group discussions with value chain representatives are a cost effective means of sharing experiences and ideas among different kinds of enterprises and institutions operating within the same value chain. They can serve as a reality check, expose linkage possibilities, and foster ownership of the eventual interventions that are proposed. One of the disadvantages of this participatory approach is that it depends heavily on information provided by workshop or focus group participants and can be influenced by the particular mix of participants present at the

⁷ "Beyond Credit, A Subsector Approach to Promoting Women's Enterprises", Martha Alter Chen (ed.), Aga Khan Foundation, Canada, Harvard Institute for International Development and UNIFEM, 1996.

⁸ A Field Manual for Subsector Practitioners, Haggblade and M. Gamsler, GEMINI, 1991.

workshop. For this reason, information gathered should be cross-checked against existing documentation and/or other value chain representatives.

Some organizations prefer to limit their initial value chain analysis to the bare minimum needed to complete their program design and begin implementation. These organizations utilize an "incremental" approach and opt to dive into the value chain with an initial facilitation activity⁹. This approach is based on the premise that the best way to analyze a value chain is to develop in-depth relationships with value chain representatives, and to learn from them in an incremental fashion. The disadvantage, however, is that the implementing organization may not know in advance what it is getting into, and whether in fact commercially viable solutions will be able to impact MSMEs in a cost effective manner. There is a danger, for example, of getting involved in saturated markets where little can be done.

A summary of the various approaches to value chain analysis is shown in Table 2 below.

TABLE 2. APPROACHES TO VALUE CHAIN ANALYSIS

	Studies	Participatory (workshops, FGDs, etc)	Dive-In (learn as you go)
Methodology	<ul style="list-style-type: none"> - Uses classic approach with consultants who spend several weeks interviewing key informants, reviewing statistics, etc - Information is used as program design tool 	<ul style="list-style-type: none"> - Uses more streamlined approach, bringing together key informants/ value chain reps for workshops, focus groups, etc. - Information is used as program design tool 	<ul style="list-style-type: none"> - Target groups are selected and support initiatives begin immediately
Advantages	<ul style="list-style-type: none"> - Provides a strong analytical background to value chain issues, constraints and opportunities - Particularly appropriate for development of new products or markets 	<ul style="list-style-type: none"> - Provides initial orientation to help select appropriate support initiatives - Fosters relationships with value chain representatives and sponsor organization - Less costly than in-depth analysis 	<ul style="list-style-type: none"> - Avoids drawn out analysis (and can save costs) - Builds support initiatives on an in-depth understanding of target group needs and priorities - Adaptive to changing conditions
Dis-advantages	<ul style="list-style-type: none"> - Can be time consuming and expensive - Analysis can be excessive - Value chain reps are less represented in program design / can be agency centered and/or rigid 	<ul style="list-style-type: none"> - Analysis can be subjective and dependant on the information provided by workshop or focus group participants and therefore requires validation 	<ul style="list-style-type: none"> - Risk of getting involved in a value chain for which no promising support initiatives present themselves

It should be noted that these approaches are not mutually exclusive. In fact, experience suggests that the best approach is a combination of all three. In such a scenario, one first carries out interviews with key informants and value chain representatives to identify constraints and needed solutions. Later (one selected solutions/services have been assessed in more detail), a workshop is held with selected interviewees to validate/revise information and reflect upon potential interventions (see section 3.7). Once facilitation activities begin the implementing organization

⁹ Chen, 1996.

remains open to taking new directions as it learns more about the players and internal dynamics of the value chain.

A good starting point for conducting any analysis is to access existing studies, reports, or statistics that provide information on the targeted value chain. These can be found in government agencies, with donors, and with implementing organizations. It is also important to identify "key informants" who are particularly knowledgeable about the value chain as a whole.

3.2.2 Value Chain Mapping

A value chain map presents, in graphical form, all the major actors in a targeted value chain. It presents the different supply channels that transform raw materials into finished products and then distribute those products to final consumers; and the different markets or market segments to which products are sold. For service value chains, the map presents all of those involved in providing specific services. Draft value chain maps can be developed using information provided by key informants (individuals very knowledgeable about the value chain) and then later refined as more information is gathered. They are very useful for identifying value chain actors to interview.

Interviews should be conducted with at least a few representatives from each of the participants in the value chain - including both large and small enterprises along the different supply chains (the number interviewed will depend on the time and resources allocated to the value chain analysis activity). While conducting interviews, it is also possible to determine whether to invite the interviewee to participate in a workshop of value chain representatives to be held at a later date (if this approach is used). Information from interviews should be confirmed, to the extent possible, with other value chain representatives and/or with people who have studied the value chain.

ILLUSTRATIVE CASE: Part 5 - Value Chain Map (Green Beans for Export Value Chain)

Having selected the green beans for export value chain for analysis, initial interviews were held with key informants. This information was used to develop a map of the value chain, shown in Figure 3 below.

The main functions in the value chain are shown on the left side of the map (i.e., input supply, growing/production, brokering, exporting, transporting, and importing). At the top of the map are the final product markets (i.e., wholesale and supermarket retail markets). All of the players who fulfill specific functions are shown in the map, with lines to illustrate the linkages and relationships between them. One of the main questions that a value chain map can help answer is how products move along supply chains and flow through various channels to final markets.

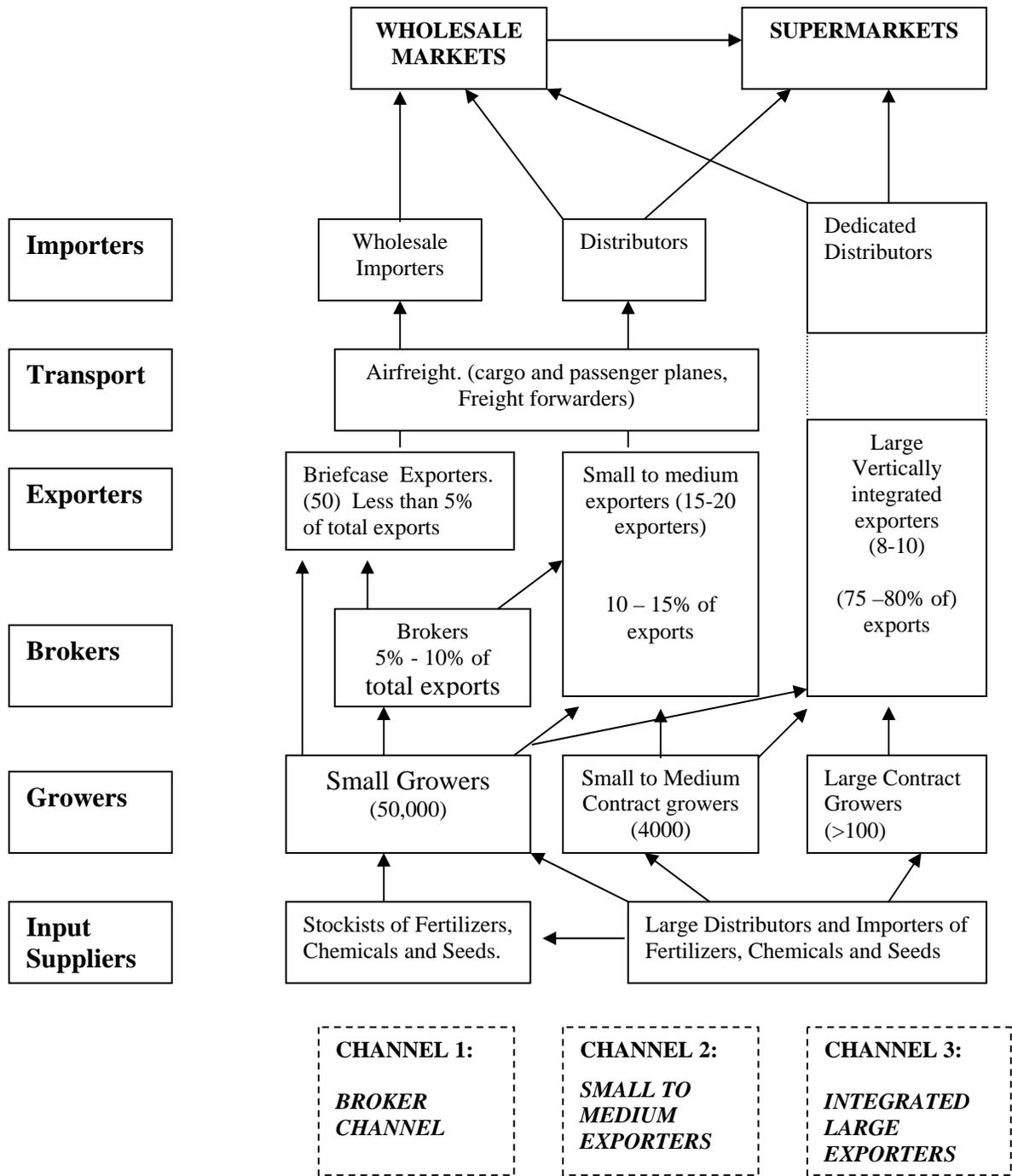
From Figure 3, three distinct product channels are evident: (1) briefcase/broker channel, (2) small to medium exporter channel, and (3) integrated large exporter channel. Each one has specific characteristics about the way that it operates, though there is some overlap between them. A brief summary of each channel is as follows:

Briefcase/broker channel – the small growers in this channel either sell to brokers or directly to small exporters. The brokers also sell to the small and medium exporters, though to a lesser extent. This channel is the weakest of the three channels, though it probably has the most actors in it. These briefcase exporters function only during the high season and are constantly looking for quality product since they do not have any regular growers.

Small and medium exporter channel – these small to medium exporters are almost all integrated backwards into the production, for at least some of their product sourcing. They provide a smaller range of products to the export market. Increasing cost and quality constraints make it uneconomical for them to deal with individual small growers, so they must work with either larger outgrower groups or larger individual farmers.

Integrated Large Exporter Channel – these exporters have integrated their operations both forwards and backwards. There are only about eight to ten firms that fall into this category, with varying degrees of integration. These large exporters have very strong market links and generally provide a fairly consistent amount of product over the course of the year.

FIGURE 3. VALUE CHAIN MAP: ILLUSTRATIVE CASE (GREEN BEANS FOR EXPORT)¹⁰



3.3 Identification of Value Chain Constraints / Opportunities

The identification of constraints and opportunities is not distinct from, but rather part of, value chain analysis. Using structured interview guides, value chain constraints and opportunities can be identified during interviews with value chain participants. The preliminary interview guide

¹⁰ Adapted from DFID report produced by Ebony Consulting International, September 2001

used in this approach, “Interview Guide for Value Chain Analysis” is designed to identify constraints and opportunities faced by the players in the value chain (see Appendix 1).

Constraints are grouped into seven broad categories (see Table 3 below). These categories are used in the interview guide to systematically look at all areas of constraint (and opportunity) that typically affect the success of a business. The constraints can then be validated as part of a value chain participant workshop, where additional constraints or issues can also be solicited.

TABLE 3. CATEGORIES OF VALUE CHAIN CONSTRAINTS / OPPORTUNITIES

CATEGORY	EXAMPLES
Technology/Product Development	<ul style="list-style-type: none"> – inappropriate or nonexistent tools/ machinery/ technologies, – lack of technical skills and production techniques to produce to buyer specification, – lack of information on product demand
Market Access	<ul style="list-style-type: none"> – lack of linkages to large buyers, – lack of marketing organizations or brokers, – lack of information on product demand, – lack of marketing techniques or methods, – lack of market outlets, – unmet market (opportunity), – high transportation costs
Input Supply	<ul style="list-style-type: none"> – poor quality of raw materials, – lack of suppliers, – existing suppliers have limited outreach
Management and Organization	<ul style="list-style-type: none"> – inability of producers to organize for economies of scale, – lack of specific training for various stakeholders in value chain (financial management, internal organization, production skills, etc.), – poor organization of large buyers or suppliers, – lack of communication and/or cooperation between different stakeholders
Policy	<ul style="list-style-type: none"> – import taxes that penalize local producers, – artificial price subsidies, – lack of regulations
Finance	<ul style="list-style-type: none"> – lack of supplier credit, – lack of access of commercial funding, – no alternatives to traditional bank lending, – inability to provide adequate collateral
Infrastructure	<ul style="list-style-type: none"> – poor road, electricity, refrigeration facilities, telecommunications, etc.

Small enterprises typically confront a variety of constraints. To grow, they may need to overcome several of these constraints at once. Constraints such as: 1) lack of skills in crop husbandry; 2) expensive irrigation equipment, and; 3) lack of respect for contracts between growers and buyers for example, might all be critical to increasing production and growth in an agricultural value chain. Yet it is often difficult to say that one is more important than another. These constraints might need to be addressed concurrently in order to have the desired impact on small-scale producers. It is frequently difficult, therefore to evaluate the relative importance of one constraint over another.

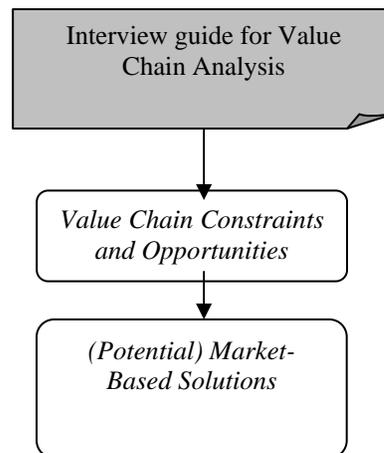
During the program design process, it may be determined that a single solution or service provider can address a variety of constraints. This approach does not, therefore, attempt to prioritize constraints. Rather, it looks at each constraint and identifies a commercially viable solution that could potentially address it. Prioritization comes later, at the solution selection step.

At that stage, linked constraints can be reviewed to assess whether they could be addressed by the same commercially viable solution.

3.4 Identification of Market-Based Solution(s)

The identification of market based (commercially viable) solutions is directly linked to the value chain constraints identified during value chain analysis. Once constraints are identified one can think of (potential) commercially viable solutions that could address them. The true feasibility of the proposed solution will be assessed in the next step. .

FIGURE 4. FLOW OF INFORMATION



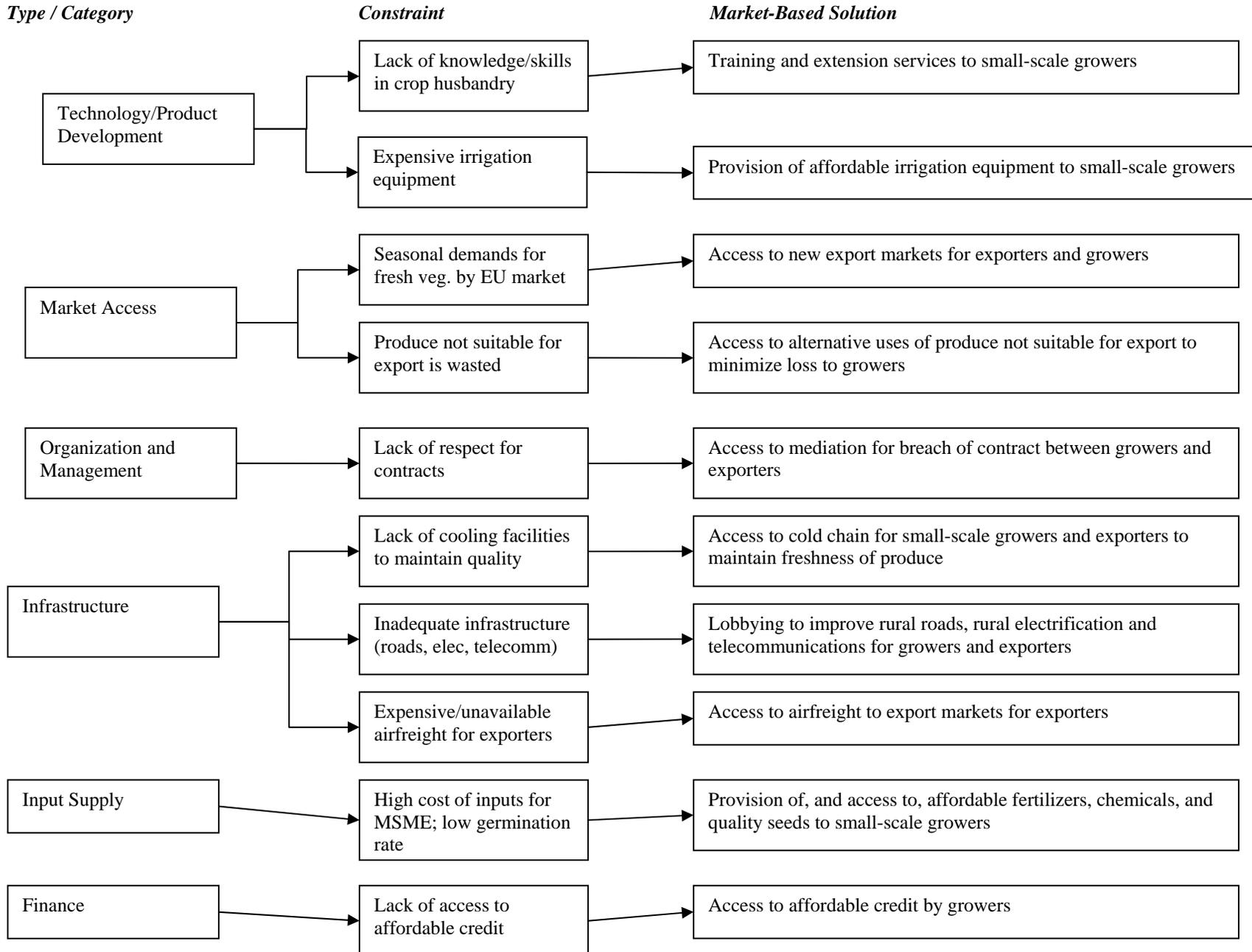
ILLUSTRATIVE CASE: Part 6 - Identification of Value Chain Constraints and (Potential) Market Solutions

During the value chain analysis of the green beans for export sector, a variety of constraints were identified that were limiting MSME production and income. Ten commercially viable solutions with the potential to address those constraints, as well as existing providers of those solutions, were also identified:

Constraints	Market-Based Solution (Potential)	Existing Providers of the Market Solution
High cost of inputs (seeds, pesticides and fertilizers) for small-scale growers. Low germination rates of seeds.	Provision of, and access to, affordable fertilizers, chemicals and quality seeds to small-scale growers.	Stockists Exporters Producer Organizations
Lack of knowledge and skills in crop husbandry by small-scale growers.	Training and extension services to small-scale growers.	Exporters Input Supply Companies Government NGOs
Expensive and sometimes unavailable airfreight for exporters.	Access to exporters of airfreight to export markets.	Cargo Airlines Charter Airlines Passenger Airlines Forwarding Agents
Expensive irrigation equipment	Provision of affordable irrigation equipment to small-scale growers.	Irrigation equipment suppliers.
Seasonal demands for fresh vegetables by the EU export market.	Access to new export markets for exporters and growers	Exporters Exporters Association
Produce not suitable for export going to waste.	Access to alternative uses of produce not suitable for export to minimize loss to growers	Exporters Research Institutions
Lack of access to affordable credit.	Access to growers of affordable credit	Micro-lending institutions Exporters
Lack of cooling facilities to maintain freshness of produce until it reaches the market.	Access to cold chain for small-scale growers and exporters to maintain freshness of the produce.	Growers Exporters
Inadequate infrastructure (roads, electricity, telecommunications)	Lobbying to improve rural roads, rural electrification and telecommunications for growers and exporters	Exporters Exporters Association Growers.
Lack of respect for contracts between growers and exporters.	Access to mediation for breach of contract between growers and exporters	Government agency

This information forms the basis of the assessments conducted in the next step of the approach.

FIGURE 5. ILLUSTRATIVE CASE - GREEN BEANS FOR EXPORT: CONSTRAINT AND (POTENTIAL) MARKET-BASED SOLUTION



3.5 Selection of Market-Based Solutions for Assessment

During this step, the market-based solutions identified earlier are short-listed and prioritized in order to select those that will be subjected to more in-depth assessment. The short listing of solutions can be done using the same short-listing tool seen earlier. This matrix ranks the potential market-based solutions against two major selection criteria: 1) potential for solution to result in increased income of target group, and 2) potential for the solutions to reach large numbers of beneficiaries. Market-based solutions that fall within a pre-determined “attractive” range are given highest priority.

The short-listing tool can help to create a short list of market-based solutions but the ultimate determination of which solutions to choose for further assessment will be a relatively subjective decision—based on a variety of factors including the priorities, goals, skills, and knowledge of the implementing organization. The type and breadth of assessment proposed will also determine the final number of market-based solutions that can be subjected to further analysis. Generally, a range of three to five potential market solutions can be assessed through interviews and participant workshops over a one to two month period of time.

Before selecting market-based solutions for further assessment it is important to distinguish between those that are “public” and “private”. Public services (e.g. most road construction, enforcement of laws, some research/extension, etc.) can be recognized for their importance, but are generally not assessed as the focus of this approach is on private solutions and services that can be sustainable through transactions between private providers and consumers.

ILLUSTRATIVE CASE: Part 7 - Ranking Potential Market-Based Solutions

A focus group discussion with representatives in the green beans for export value chain was held to determine the relative importance of solutions (and corresponding constraints). The short-listing matrix below presents the results.

Potential to Increase Incomes

- access to cold chain for small-scale growers	- exporter access to airfreight for export markets	- training and extension services for small-scale growers
- access to irrigation equipment	- access to new markets for growers and exporters	- access to affordable inputs - access to affordable credit by growers
- access to mediation for breach of contracts	- access to alternative markets for non-exportable production	- lobby to improve roads and rural infrastructure

Potential Number of Consumers

As a result of this process three market-based solutions were selected for more in-depth market assessments:

- ✓ training and extension services for small-scale growers
- ✓ access to affordable inputs
- ✓ exporter access to airfreight for export markets

3.6 Assessment of Market-Based Solutions

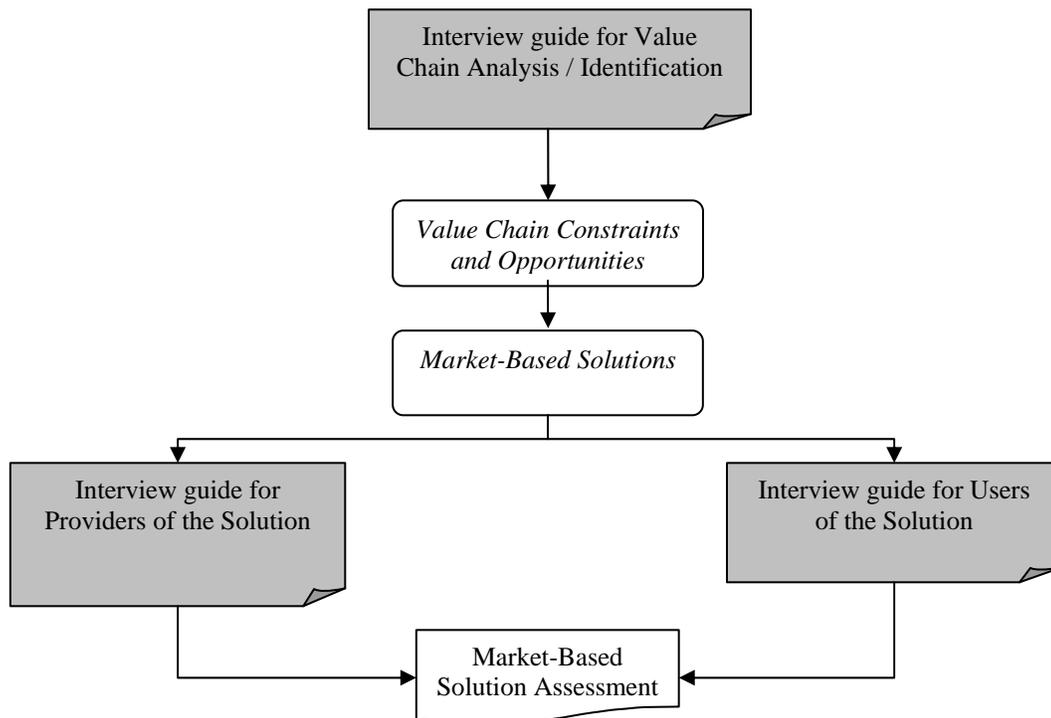
Once the market solutions are selected, they undergo a more rigorous assessment. Information and data on each targeted solution are compiled and analyzed including:

- existing providers
- market size and penetration
- frequency of use
- constraints and opportunities to the provision and use of the solution
- satisfaction with the existing solutions
- awareness of existing solutions
- proposed providers(s) to target for interventions
- feasibility of the market-based solution (how costs for the solution are covered)

This approach uses interview guides for both users and providers of proposed market-based solutions (see Appendix 2) to gather this information. Once the initial *"Value Chain Analysis"* interview process has been completed the interviewer then asks users about targeted solutions using the *"Interview Guide for Users/Beneficiaries of Market-Based Solutions."* Providers of solutions are asked questions about identified solutions through the *"Interview Guide for Providers of Market-Based Solutions."* These interview guides get at both the provision and use of the targeted solution. Once interviews with users and providers are complete the information from these interviews is combined and analyzed to produce a solution assessment report. Figure 6 below illustrates the process.

Some of the information for the market-based solution assessment will be collected concurrently with the value chain analysis, thereby saving time and resources.

FIGURE 6. FLOW OF INFORMATION



Depending on availability of time and resources for program design, additional assessment tools can also be used to complement the interview guide data Focus Group Discussion (FGD) tools can be used, for example, to further assess issues related to current and potential usage, demand, and awareness of commercially viable solutions.

3.6.1 Assessing the Feasibility of Market-Based Solutions

Part of the market solution assessment involves determining how the cost of the solution will be covered. Two ways that the costs of providing market-based solutions to MSMEs can be sustained in the market are 1) charging fees, and 2) "embedding" the solution as part of a transaction.

In the first case, fees paid by the MSMEs cover the costs of providing the targeted solutions and services. In these cases, MSMEs transact with private providers whose main activity is the provision of the targeted solution. Examples of these providers include consultants, trainers, and firms who offer management, technical, and/or logistical services, as well as suppliers who sell needed inputs or equipment to the MSMEs. They also include industry specific, stand-alone providers (illustrated in the dairy value chain, for example by providers of artificial insemination services, veterinarian services, etc).

In the second case, the providers of the market-based solution themselves cover the costs of the service to MSMEs. These providers provide solutions for "free" as part of their efforts to sell products to MSMEs (as in the case of input suppliers providing training in the use of the inputs they sell) or to ensure that the MSMEs produce a quality product that they can buy and successfully resell (as in the case of exporters training growers, or processors training milk suppliers). These solutions are sometimes called "embedded", since they are part of the commercial transaction the MSME has with the provider. Embedded solutions/services tend to be more prevalent when MSMEs are closely linked to other market actors in the supply chain, and when their ability to pay cash for services is limited. This is especially true in agriculturally-based value chains.

There are many ways to promote/develop embedded solutions depending on the nature of the solution and the relationships between provider and user. These include improving the capacity of the provider to deliver the targeted market-based solution, illustrating the cost/benefit of the solution to the provider, and demonstrating the importance of the solution to the user. In some situations embedded solutions/services are provided by a "third-party". In this case, a provider hires an independent consultant to provide the solution or services to MSMEs. For example, a vegetable exporter hires a pest management specialist to train growers who supply the exporter. In this case, there are two levels of provider: one paying for the solution (and thereby providing embedded services to MSMEs), and another providing the solution directly to MSMEs. In these cases the issues facing both levels of providers need to be considered during the assessment.

Both scenarios for covering the costs of market-based solutions to MSMEs (i.e., stand-alone and embedded) are valid and fall within the realm of solutions to be promoted. One of the strengths of this approach is its ability to identify both kinds of solutions (existing and potential) within a value chain and to identify appropriate means of promoting them.

To the extent possible, a market solution assessment should determine whether the solution will be commercially viable on its own, without donor subsidy. While a full business plan for the market solution would be ideal, this may not be possible during the assessment stage. At a

minimum, however, a rough calculation of the solution's commercial feasibility should be conducted. This can be done, together with potential providers, through focus group discussions and other participatory methods.

Determining the commercial feasibility of a stand-alone market solution is more straightforward than for an embedded service. With an embedded service, the market performance of a provider's main activity or final product is explicitly tied to the sustained provision of the service. These providers need to have strong sales of their final product in order to justify the provision of embedded services. Without adequate sales of these products they may not be interested in, nor have the means to support such services to MSMEs (for example, a dairy processor needs to have strong sales of milk in order to justify providing free training to dairy farmers).

Whether the market-based solution is embedded or not, additional costs will be incurred in the expansion of an existing solution or the delivery of a new one. An appropriate return on investment will be the primary incentive for commercial providers to expand or adopt their provision of solutions and services to users. Thus, the assessment of an embedded solution must also include analysis of projected sales increases for a provider's main products. This will also be useful in convincing providers to adopt or expand the provision of a solution for MSMEs.

ILLUSTRATIVE CASE: Part 8 – Market Solution Assessment Summary (Green Beans for Export)

In the previous part of this case (Part 7) the market-based solution entitled: ***Training and Extension to Small-scale Growers in Crop Husbandry*** was selected for more in-depth assessment. A summary extract of the ensuing assessment, is presented below.

Training and Extension to Small-scale Growers in Crop Husbandry

Description: This market-based solution involves training in crop husbandry including the correct use of fertilizers, pesticides and chemicals – providers train growers on how and when to apply fertilizers, chemicals and pesticides to improve productivity.

Constraint Addressed: Many growers of fresh vegetables for export lack crop husbandry skills which results in poor productivity and inappropriate use of chemicals and pesticides

Existing Providers of the Market-Based Solution

- Exporters: Most exporters provide training and extension services to their contract growers.
- Government
- Local and International NGOs.
- Input suppliers

Other Market Information

- Currently, there are approximately 20,000 small-scale growers of green beans for export.
- 4,000 are contract growers
- Government and NGOs reach about 2,000 growers per year
- Services provided by exporters are offered for free as part of their transaction with the growers
- Exporters sometimes contract out the provision of training to growers to private consultants

Constraints to the Provision and Use of the Market Solution*Exporters and Input Supply Companies*

- Exporters report that they lack enough resources to reach all the contract growers selling to them.
- Physically reaching growers is difficult due to bad roads.
- Growers have limited resources to pay up front for the service
- Growers cannot leave their farms for long periods of time (limits service provision to short periods).
- Some exporters lack personnel with the skills to conduct this service
- Input supply companies lack enough resources and technical staff to conduct large scale demonstrations

Government

- Limited capacity to access non-contract growers.
- Extension services are almost non-existent due to lack of resources.

Proposed Provider(s) to Target

- Exporters (embedded services - costs covered by operational revenue)
- Input Supply Companies (embedded services - costs covered by operational revenue)
- Consulting firms or individuals (costs covered by fees paid by growers and/or by exporters)

Market assessment information is presented to participants during a one-day focus group discussion with value chain representatives. This enables them to validate the information and then propose interventions to address constraints to the proposed solutions (see Section 3.7 below).

3.7 Identification of Facilitation Activities

A one-day focus group discussion with value chain actors (producers, input suppliers, intermediaries, exporters, etc.) is the principal tool used in this approach to identify facilitation interventions that can promote the targeted market solutions. The main objectives of the focus groups are to: (i) validate the assessments of market solutions in the value chain, and (ii) propose

interventions that will support the provision and use of the market-based solutions in a commercially viable way.

The focus group typically starts with validation of the major value chain constraints and related (proposed) solutions within the targeted value chain. This is followed by additional validation of the market solution assessment information, including constraints to the provision and use of the targeted solution. The majority of the workshop time, however, is spent discussing and reviewing the actual interventions needed to develop the targeted solutions. This has proven to be an invaluable tool to ground-truth preliminary findings of the value chain analysis and market solution assessments, as well as to facilitate discussion and consensus on needed interventions. Because participants are representatives of the value chain itself, it promotes demand-led solutions.

Upon completion of the workshop, needed changes to the assessment information can be made and focus group information on proposed interventions organized and refined. Interventions proposed to develop the market solutions are documented, with a proposed exit strategy for the facilitator of each intervention. All of this information is combined to complete the assessment report of each of the targeted solutions.

Some basic parameters for proposed interventions must be set during the workshop to ensure more focused and meaningful participant dialogue:

- facilitation interventions must be *realistic and feasible*
- providers must be sustainable through commercial market transactions
- strategy for implementing the proposed initiative must be clear
- must not focus on only one solution provider in the market

The objective of interventions (facilitation activities) should be to develop the sustainable provision and use of targeted market-based solutions for MSMEs. They should address the supply side by developing the capacity of private providers to improve the products or services they offer to MSMEs. They should address the demand side by making MSMEs aware of the solutions and services, and by finding innovative ways for MSMEs and providers to finance the costs.

In all cases facilitation activities should promote improved linkages between providers and MSME consumers. There are many techniques and approaches to the implementation of interventions—a full presentation of these goes beyond the scope of this paper.

ILLUSTRATIVE CASE: Part 9 - Summary of Interventions Proposed during Workshop

Once solution assessment interviews were completed (Part 8 of this case) selected value chain representatives and other providers from the Green Bean for Export value chain were invited to a one-day focus group. During this focus group they first validated/revised the information collected by the design team and then proposed a variety of interventions that were needed to address the provision and use of the targeted solutions. These included:

Market-Based Solution: Training and Extension to Small-Scale Growers in Crop Husbandry

- Develop standardized training materials that can be used by exporters in training contract growers
- Training of trainers for the exporters' staff, brokers and/or lead farmers.
- Develop database of resource people capable of providing technical training to growers
- Facilitate meetings between exporters and training resource people
- Develop and disseminate inventory of rural based sites (farm centers, etc.) for exporter-sponsored grower training

- Training of crop husbandry consultants in business planning, costing and pricing
- Develop capacity of input supply companies to use their network of distributors and stockists to expand training and demonstrations
- Training of distributors/stockists (in conjunction with input supply firms) in technical aspects of inputs they sell
- Develop the capacity of input supply associations to offer training to distributors and stockists.

Market-Based Solution: Provision of Access to Affordable and Recommended Inputs for Small-Scale Growers

- Promote supplier credit from input suppliers to exporters, who then supply inputs on credit to growers.
- Promote greater use of written contracts between growers and exporters
- Encourage input supply companies to offer smaller packages of inputs
- Information dissemination to growers on how they can seek redress from fraudulent stockists.
- Train producer groups in techniques of bulk buying to reduce prices.

Market-Based Solution: Airfreight to Export Markets (service provided to exporters)

- Work with airfreight forwarding agents to consolidate exporter shipments and facilitate the chartering of aircraft
- Promote coalition that will advocate for reduced airport service costs, landing fees, and taxes related to the export of fresh vegetables.
- Promote the development of improved loading facilities at the airport to reduce aircraft packing time

3.8 Selection of Facilitation Activities

Once a list of potential interventions has been established, each intervention can be reviewed in relation to specific criteria established by the implementing organization. This facilitates the selection of interventions to pursue during program implementation. Examples of possible intervention criteria include the:

- extent of its impact on MSMEs (leveraged effect);
- number of MSMEs that will benefit;
- cost effectiveness of the intervention (relationship between cost and impact);
- chances of the intervention resulting in sustainable commercially viable solutions;
- capacity of existing commercially viable solution facilitators to implement or manage the interventions;
- time frame for completing the intervention;
- availability of resources (human and financial) and donor interest;
- synergy of interventions among various commercially viable solutions;
- ability to promote “win-win” relationships between MSME and larger firms

The analysis of interventions is best done by a core group (no more than five people). Structured work sessions can be organized with the objective of narrowing down interventions to those that best meet the chosen criteria. Once this is done, additional information can be collected as necessary and a concept paper for implementation can be created.

In selecting interventions, it should be kept in mind that new interventions are likely to be identified once implementation begins. Interventions will need to be updated in an iterative fashion. New value chain constraints may be identified, resulting in the need for the development/expansion of additional solutions that could require new facilitation activities. This argues for the existence of a facilitator that can provide ongoing value chain analysis, solution assessments, and intervention design. The facilitator will need to continually update research and respond to changes in the markets during implementation. This role can only be played by a facilitator that maintains a big picture view of the value chain or value chain. Specific

interventions can be subcontracted out but it is best if a one facilitator can maintain a holistic, overall view.

Facilitators also need to be flexible and adaptive. They should be responsive to the changing needs of market solution providers, users, and value chain markets. They need to be open to continual learning and should employ "action-learning" that reflects upon lessons being learned and then integrates those lessons into the on-going program. Before engaging in full scale implementation of interventions to promote a particular solution, a facilitator may want to first conduct a "concept-price sensitivity test" of the solution to determine its feasibility. While this is easier with a stand-alone solution, it could also be applied to embedded type solutions—though certain services such as market access or input supply could take a long time to test.

Programs do not need to limit themselves to one intervention, or to one value chain for that matter. In fact, it is often useful to have several interventions going on simultaneously. In that way, if a major barrier arises relative to one intervention, there are still others that can move forward. In some cases it is best to implement a variety of the interventions together, in order to maximize synergy and impact. Some of the interventions could be implemented in a relatively short period of time, while others may require greater time and resources. It is important to evaluate which interventions, or combination of interventions, will have the greatest impact and cost-effectiveness to sustain the provision of services to MSMEs.

It should be noted that the “facilitators” do not need to be sustainable themselves. Their role is to implement interventions that result in sustainable market-based solutions for MSME and to provide synergies among different interventions taking place in the value chain. Finally, all interventions should include an exit strategy that describes how the facilitator will ensure that the market solutions they are promoting will be sustainable in the market, without ongoing donor subsidy.

IV. DONOR COORDINATION

Donor coordination is critical to ensuring that the implementation of this approach (as well as any other market development approach) is not undermined. Problems will arise, for example, if one donor is promoting the development of private sector providers who sustain themselves through transactions with MSMEs, while other donors are offering direct subsidies to those same providers.

Common definitions and principles, such as those presented below, can be helpful in promoting donor coordination:

1. Providers of market-based solutions must cover their costs through transactions with enterprises

The implication of this principle is that donors would not subsidize the direct provision of training, inputs, or other products/services to MSMEs. A sustainable market-based provider would be one that is able to cover the costs of the solutions they offer through fees paid by enterprises, or through their other transactions with them (case of embedded services). An organization that is “sustainable” through a wide network of donors and large clients would not count as a sustainable provider under this definition. Market-based solution providers could only be funded directly in exceptional situations where the activity to be funded can be clearly differentiated from direct provision.

2. Local organizations need to determine if they are facilitators or direct providers of market solutions

Local institutions need to determine whether they are direct providers of market solutions (products and services) for MSMEs or *facilitators* of those solutions. The definition above of a “sustainable market-based provider” would be used to help them situate themselves. If they are facilitators then their objective is not to sustain themselves through commercial provision – but rather to use donor funds to promote sustainable solutions among market actors. Donors should not fund organizations that claim to be both direct providers and facilitators of solutions.

3. Donor programs should only support providers of market-based solutions if the funding is used specifically to build or expand their capacity in providing their solution (see #1 above)

Clear parameters need to be established here to prevent a retreat to the old style of program where providers were heavily subsidized, and where market distortions were created.

4. Facilitators should have a clear exit strategy from the beginning with benchmarks for pulling out of temporary provision or ending facilitation activities.

6. Program activities should not be restricted to a limited number of market-based providers

In order to reduce the risk of market distortion, stifling of competition and problems with sole providers, donors should open up their programs to all interested private sector providers. Criteria can be set for participation, but all should be eligible if they meet the criteria and accept the terms of collaboration.

V. CONCLUSION

The approach to enterprise development program design presented in this paper is an attempt to provide practical tools to link value chain analysis with the development of commercially viable, market-based solutions. Bridging these two aspects of MSME development can result in programs that address value chain constraints and opportunities in a sustainable fashion, thereby providing long-term benefit to MSMEs.

Many elements of this approach are not new and have been used by practitioners in the past. The approach provides a systematic process to apply some of the better MSME development tools and methodologies. The ultimate objective is to identify, assess, and strengthen commercial business relationships that will result in increased MSME profitability and competitiveness.

The authors would like to invite all readers to share their views on this paper, with the objective of refining and improving the approach. As mentioned in the introduction, this approach is still evolving and not meant to be prescriptive. There are many different and valid approaches to the design and implementation of enterprise development programs—this is just one of them. As a work-in-progress, more testing and field implementation will be necessary.

The authors would like to thank USAID for funding the development of the initial version of this paper, and the many individuals who contributed their time to reviewing initial drafts and providing useful comments.

APPENDIX 1

INTERVIEW GUIDE USED IN VALUE CHAIN ANALYSIS

The following presents an interview guide used by AFE in undertaking value chain/value chain analysis. This interview guide, “**Interview Guide for Value Chain Analysis**” is conducted with value chain participants at all levels of the supply chain, and is designed to:

- identify the primary actors in the value chain, their roles, and interrelationships
- identify market channels and trends within the value chain
- identify constraints and opportunities that are holding back growth and competitiveness

The information related to the constraints and opportunities is derived from asking question from seven categories:

1. Market Access
2. Technology and Product Development
3. Management and Organization
4. Input Supply
5. Finance
6. Policy
7. Operating Environment

The completion of this interview guide is illustrated on the following pages.

Note: This guide should be used as a tool to conduct interviews, rather than given to individuals to fill out on their own.

INTERVIEW GUIDE FOR VALUE CHAIN ANALYSIS

CONTACT INFORMATION

Interviewer / Date of interview / Firm Name / Principal product or service
No. of employees / Owner (or contact) / Legal status / Address / Telephone / Email

MARKET ACCESS

1. What do you see as your main needs/opportunities in accessing markets?
2. To whom do you sell your product or service (large firms, small firms, wholesalers, exporters, retailers, direct to consumers, etc.)? What percentage goes to each?
3. How do you promote and market your products/services?
4. How strong is the market for your products/services right now? Next year?
5. Are some markets (customer groups) better than others in terms of sales and revenue growth? Which ones?
6. Do you ever collaborate with other firms on promotion and/or marketing?
7. Do you have a brochure for customers that describes your firm's capabilities?
(Attach company brochures and/or equipment lists or describe key technical capabilities)

TECHNOLOGY / PRODUCT DEVELOPMENT

1. What are your major needs/ opportunities in product design and manufacturing (or service delivery)?
2. What are your products and/or services in order of contribution to gross revenue?
3. What have you done recently to improve your products or services?
4. Please describe your important pieces of production machinery (type, age, make, features)
5. What kind of equipment or machinery could improve your business?
6. Do some of your workers need additional training? In what skills?

MANAGEMENT/ORGANIZATION

1. In the area of organization and management, what are your major needs/opportunities?
2. Who does most of the work in the areas of: general management/supervision, product design, purchasing, production, shipping, accounting, marketing, repairs, etc. (owner, employees, or external)?
3. What processes do you subcontract?
4. Do you sometimes collaborate with other firms to produce and deliver customer orders?
5. Which aspects of your business do you intend to change in the next 2 years (machinery, equipment, computers, new products, marketing strategy, quality control, management system, worker skills, etc.)?
6. What management skills would you like to strengthen in order to grow your business?

INPUT SUPPLY

1. What are your major needs/opportunities in the areas of input cost, quality, and availability?
2. Who are your *most important suppliers* and what do you buy from each?
3. Are there problems in obtaining some important inputs? Explain.
4. Have you ever purchased inputs jointly with other business? Explain.

FINANCE

1. Where do you go when you need money for your business?
2. Do you get credit from input suppliers? What are the terms?

3. Do you get production financing from your buyers? What are the terms?
4. Do you have need for additional financing at the moment? If so, what would it be used for?
5. What sources (formal or informal) have you approached for loans, and what have been the key problems, if any?

POLICY/REGULATION

1. What government policies/regulations benefit your business?
2. What government policies/regulations are obstacles to growing your business?

INFRASTRUCTURE

1. What are the most important infrastructure constraints affecting your business' growth and profitability (road/transport conditions, telephone service, electric supply, crime/corruption, storage, etc.)?
2. What is your industry doing about these problems?

BUSINESS MEMBERSHIP ORGANIZATIONS

1. Is your industry/trade sector represented by national or local business associations? If so, please name them.
2. Are you a member?
3. What are the primary functions and benefits of these associations?
4. What additional services should they provide?

FINAL OPEN ENDED QUESTIONS

1. What do you think are the strengths of your industry locally and/or internationally?
2. What are the main weaknesses of your industry?
3. What do you think is the greatest challenge facing your industry today?
4. Can you name some business owners in your industry who are leaders –for example, in terms of technology, product design, quality, or marketing?

APPENDIX 2

INTERVIEW GUIDES FOR ASSESSING MARKET-BASED SOLUTIONS

Once value chain constraints/opportunities have been identified, and once potential “market-based” or “commercially viable” solutions to respond to these have been formulated and short-listed, AFE uses the following discussion guides to assess the proposed solutions.

Existing/potential beneficiaries of the solution or service are asked about it through the use of the **“Interview Guide for Users/Beneficiaries of the Market-Based Solution”**. Existing/potential providers of the solution are asked about the solution through the **“Interview Guide for Providers of the Market-Based Solution.”** In this way, the design team is able to assess the commercial viability of the proposed solution, as well as the constraints that need to be overcome to make it successful.

These interview guides are illustrated on the following pages.

Note: These guides should be used as tools to conduct interviews, rather than given to individuals to fill out on their own.

Interview Guide for Users/Beneficiaries of the Market-Based Solution

Name of Solution/Service:

Respondent:

Contact information:

Type of company:

Position/title in business:

Location:

Number of employees:

How long in business:

Interviewed by:

Date / Time:

Introduction

We represent the _____ project. We have conducted research into the _____ industry and have found that the lack of *[name of solution]* is a constraint facing many [targeted solution user]. We are here to follow up with this issue and try to understand what the problems are and what can be done to address them. We are hoping you can help us to do this.

SATISFACTION

1. Are you satisfied (do you have problems) with the *[name of solution]* that you are currently using? Explain.
2. What could be done to solve these problems?
3. What could the providers of *[name of solution]* do to improve the *[name of solution]* they provide?

USAGE / TRANSACTION / RELATIONSHIP

4. Have you acquired *[name of solution]*? If yes, from whom?
5. How often? Has your purchase/acquisition of *[name of solution]* been increasing?
6. What are the features and qualities of good *[name of solution]* that are important to you?
7. Describe how you acquire / pay for *[name of solution]* (*fee/ embedded /etc.*)? Explain the nature of the business relation.
8. If for fee, what price was paid? How much have you spent for *[name of solution]* over the past twelve months? Do you feel that this is a fair price given what you received?
9. Have you moved to better quality *[name of solution]*? Explain. If you haven't acquired *[name of solution]* explain why.

AWARENESS

10. How did you learn about the provider you receive *[name of solution]* from and why did you choose this provider?
11. Who else do you know who provides *[name of solution]*? (ask them to describe these providers and provide us with their contact information)
12. Describe the type of *[name of solution]* they provide.
13. What percentage of businesses like yours are aware of *[name of solution]*?

QUESTIONS SPECIFIC TO *[name of solution]*

14. (*Example*) How do you determine whether improved *[name of solution]* is worth the price?

GUIDE FOR DISCUSSIONS WITH PROVIDERS OF MARKET-BASED SOLUTIONS (SUPPLY SIDE ASSESSMENT)

Name of Solution:
Respondent:
Contact information:
Type of company:
Position/title in business:
Location:
Number of employees:
How long in business:
Interviewed by:
Date / Time:

Introduction:

We represent the _____ project. We have conducted research into the _____ industry and have found that *[name of solution]* is a constraint facing many *[targeted solution users]*. We are here to follow up with this issue and try to understand what the problems are and what can be done to address them. We are hoping you can help us to do this.

CONSTRAINTS/ OPPORTUNITIES

1. What constraints do you face in providing *[name of solution]* to *[targeted solution users]*? (machines, skills, inputs, etc.)
2. What support do you need to develop your capacity to address these constraints?

DESCRIPTION (diversity of production, features/benefits, cost recovery, etc.)

3. Describe how you provide *[name of solution]* to *[targeted solution users]*.
4. How do you cover your costs of providing *[name of solution]* to *[targeted solution users]*?
5. Do you provide different *[name of solution]* to different *[targeted solution users]*?
6. What are the features and benefits (transport, after sale solutions, warranties, etc.) that you provide to make *[name of solution]* more appealing to *[targeted solution users]*?
7. How many firms provide *[name of solution]* to *[targeted solution users]*? (get contact info)
Specify if these are high/quality *[name of solution]*

UMSMERS / TRENDS

8. Which *[targeted solution users]* (type and location) do you provide *[name of solution]* to?
9. How many of these do you provide *[name of solution]* to? How much *[name of solution]* do you typically provide per year and what is the average price you charge (if it is a fee-based solution)?
10. How many people do you think can use (and acquire/pay for) *[name of solution]* in the area you operate in? Do you see the need for *[name of solution]* growing in the future?
11. How do you obtain information on what *[targeted solution users]* want?
12. How do you let *[targeted solution users]* know that you offer *[name of solution]*?

APPENDIX 3

REFERENCES

Chen, M.A. (1996). *Beyond credit: a subsector approach to promoting women's enterprises*, Aga Khan Foundation, Ottawa.

Goldmark, Berte & Campos. (1997). Preliminary Survey Results and Case Studies on Business Development Services for Microenterprise. Washington, D.C.: Inter-American Development Bank.

Haggblade, S. & Gamsler, M. (1991). A Field Manual for Subsector Practitioners. GEMINI Washington, D.C.: PACT Publications.

Meyer-Stamer, J. (2002). *Participatory Appraisal of Competitive Advantage: A Methodology to Support Local Economic Development Initiatives*. Duisberg, Germany: Institute for Development and Peace, University of Duisburg. <http://www.paca-online.de>

Miehlbradt, A. O. (1999). *Applying Market Research Tools to the Design and Improvement of Business Development Services*. Bethesda, MD: Microenterprise Best Practices (MBP) GEMINI Technical Note.

Porter, M. E. (1998). *Competitive Advantage: Creating and Sustaining Superior Performance*. Cambridge, MA: The Free Press.