Guidance note for value chain programmes

Design and management of interventions

The following guidelines were derived from a writers workshop held in China in November 2009, where some 20 staff of IFAD projects in the Asia and the Pacific region analysed nine cases. The case specific findings are translated into (30) generic recommendations to assist IFAD in designing and managing interventions.

Originally drafted by Hans Posthumus for IFAD Asia, 2009

1. Identification

1.1. Is the value chain approach the appropriate solution to the selected target group (isolation, resources, risk-taking ability, food insecurity) and is the project structure and approach appropriate for the value chain approach?

2. Project design

2.1. Ensure a thorough assessment of the sub sector and value chains by industry experts, those with product and business expertise and experience, using tools such as sub sector mapping and specific dimensions of interest (market segments, volumes, margins, technologies, capacities, etc) for the relevant part of the sub sector and chains.

2.2. Define and apply the selection criteria to select the potential sub sectors and value chains. Involve key stakeholders but ensure they are informed enough to be able to contribute to the selection process. The sub sector analyses will need to be done by experts, providing the basis for a participatory selection process by the stakeholders.

2.3. Ensure there is a balance between the number and complexity of value chains that will be targeted given the maturity and governance of the sector, the envisaged intervention modalities (hands-on/ hand-off) and the project capacity.

2.4. Ensure that the project goal, approach, principles and overall strategy is clear, consistent and coherent. Clarity at the outcome / impact level (in the design stage) will guide the design of activities and outputs (at the design and during the implementation stage).

2.5. Ensure flexibility in the design to react to changing conditions and opportunities; monitor sub sector development and annually include a ‘validation/revision’ of the interventions.

2.6. If the sub sector is very dynamic or the period between analyses and project implementation will be more than 9 months, start implementation with a validation of the value chain analyses and if need be, adjust intervention strategies.

2.7. Ensure a gradual and natural sequencing of interventions; avoid too many interventions at different levels with different instruments simultaneously.

2.8. Give preference to initiatives of the private sector to take the lead in the development of the value chain but ensure they lead to improvements for beneficiaries. Set conditions for support, ensure complementary interventions for the target group.

2.9. Ensure financial instruments are realistic and effective. Whether financial support for value chain actors is provided at prevailing market conditions or at more attractive conditions needs to be traded-off against the bankability of such investments and the effect of that intervention on the performance of the chain and its effect on the intended beneficiaries.

2.10. All interventions should lead to sustainable commercial business models: the actors in the value chain should be engaged in ' doing business' that no longer require (subsidized) support; fFinancial and non financial service providers should be selling services to the chain actors in a commercial (non-subsidised) manner.

3. Management

3.1. Project managers and staff are key to success. Ensure that qualified managerial and technical staff is hired, especially with expertise and experience in business development and the selected commodities.

3.2. Ensure that project management steers the value chain analyses and design of interventions and is able to 'manage consultants' – reduce dependency of consultants and increase the ability to undertake analyses and development by project and partner staff.

3.3. Create a practical in-house monitoring system (at output, outcome and impact level) that informs management on time; to learn from implementation and adjust interventions.

3.4. Ensure that partners (often contracted providers) are able to play their intended roles. Define the required profile (expertise, skills, experience, attitude) and scan, score and select the potential partners on that profile. Define gaps and if necessary invest in building their capabilities. Distinguish between the various roles in value chain development (group strengthening, business development, marketing, facilitating, etc.) and contract expert partners for specific tasks.

4. Interventions

4.1. All interventions should lead to (ultimately) a better position of the small holders; in terms of sustainable and increased income (price, cost, productivity and scale).

4.2. Creating access to markets most likely also implies improving production to meet the potential demand (productivity, consistency, quality and expansion) – pay simultaneous attention to both production and marketing.

4.3. Give preference to improving existing / emerging value chains, and justify the choice for creating new value chains or introducing new commodities when these are considered (investments, risks, and returns).

4.4. Focus on improving efficiency in the chain; improved performance creates win-win situations of which all value chain actors should benefit. This might imply shortening the chain, if intermediaries do not add value and their function can be taken over by others.

4.5. Select value chains in line with the available infrastructure and capacity of the beneficiaries; avoid introducing for example perishables in weak environments, or creating complex chains (such as certification, exports, cold chains) with weak emerging farmer organisations.

4.6. Verify whether product positioning, branding and certification can improve the position of the producers; they can create comparative advantages and increase negotiation powers.

4.7. Adding function like processing or trading to producer organisations may increase their margins but be careful with adding too many functions too early; only when they can perform those functions more efficiently (increased margins - coordination – scale) and they can bear the risks involved. Go step by step, build on increasing capabilities.

4.8. When farmer organizations are to create and operate commercial entities (processing, trading) ensure that realistic business plans are made and ensure that professional staff is employed and capable to manage them.

4.9. Seek leverage points; improving the demand upstream by strengthening value chain actors downstream should be more effective than providing direct support to many farmers downstream.

4.10. Aggregation (farmers and produce) reduces transaction costs, brings economies of scale and increases negation powers. Be aware that cooperatives do not necessarily have to become value chain actors but can also be very effective as (commercial) service providers.

4.11. Collective marketing requires coordinated planning and clustering, without it collective marketing does not reduce uncertainty and hence transaction costs. Ensure that primary processing becomes a farmer's or group activity.

4.12. Focus on improving the capacity and link between existing service providers and value chain actors (improve that commercial relation), avoid providing direct services to value chain actors; they are temporary, subsidized and not sustainable.

4.13. Embedded services by chain actors can be very effective and sustainable; transaction costs are low and cash payments are avoided. Quality improvement and technology transfer are typical examples. Consider complementary roles by others (capacity builders) such as group formation, business, and management and negotiation skills.

4.14. Minimize creating new parallel project or government structures (committees) but select the most appropriate existing structures and strengthen their capacity.

4.15. Distinguish between value chain facilitation (aimed at strengthening the value chain itself and its performance) and capacity building (aimed at one actor, often of a farmers' organization by an NGO). Ensure you identify and contract the right partners (vision, knowledge, skills and attitude).

4.16. Pilots should prove that the intervention or business model will work; focus on a few interventions or advanced groups in order to be able to prove it, rather than embarking on many new groups within a relative short time span – you exit too early.