



# Value chain promotion for economic development in Ethiopia

## - An introduction into the concept of *ValueLinks*

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Based on the „Value Links Manual“, gtz (2007)



## Contents

- 1** Value chains – a perspective on development
- 2** The “*ValueLinks*” concept
- 3** Scoping & selecting a value chain for promotion
- 4** The toolbox for value chain analysis
- 5** Designing a value chain upgrading project
- 6** Implementing a value chain project

Fertile land

# Factors of Competitiveness

1



Productive plantations



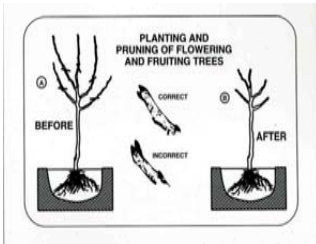
Quality control



Branding



Planting material



Harvesting technology



Cleaning grading



Packaging



Competitive Product



Know-how



Retail Marketing



Mandarine

Farm advice



Fertilizer



Safe Transport



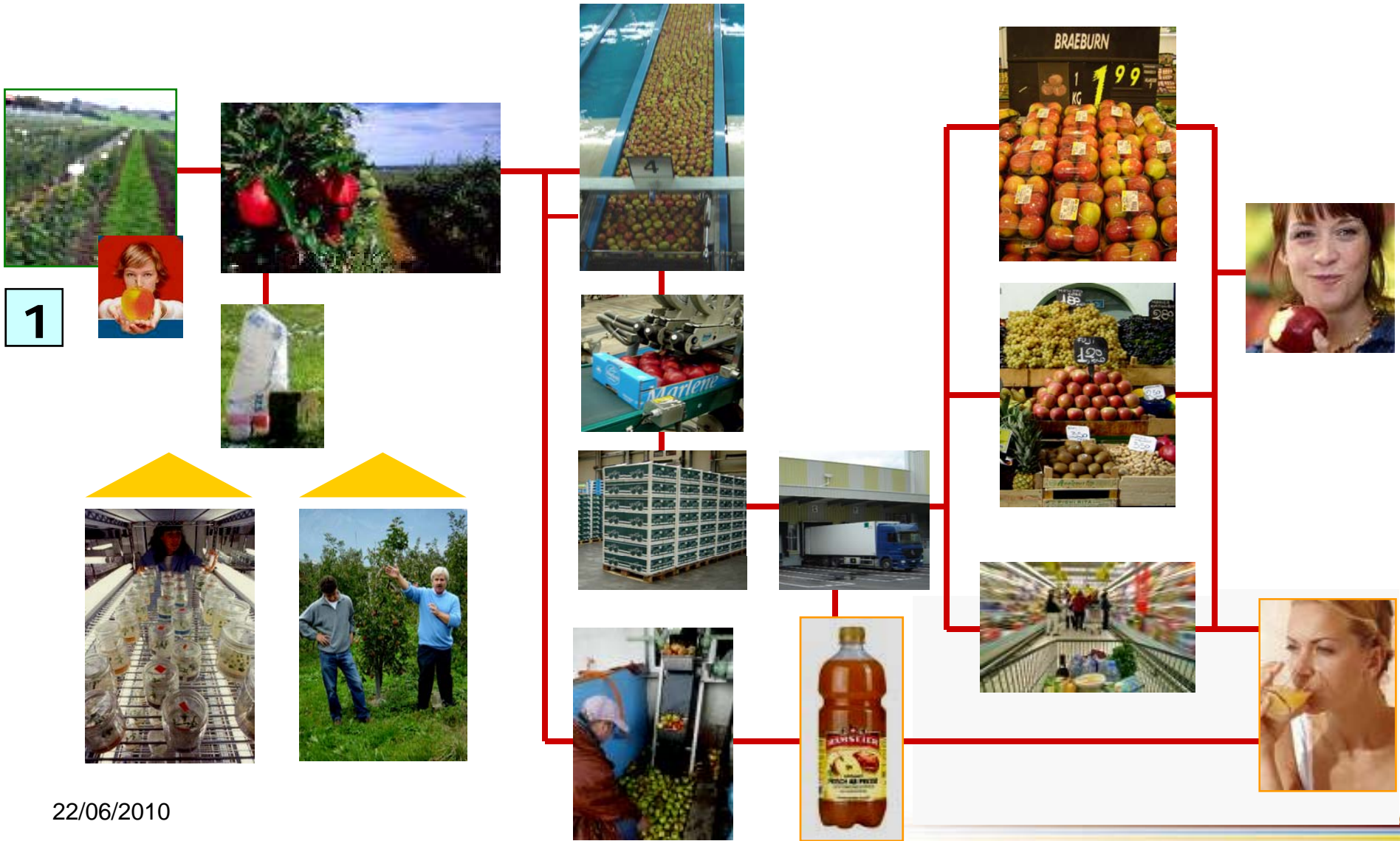
# Value chain – a definition

*“Value chain” means....*

- 1**
  - the sequence of related business activities (functions) from the provision of specific inputs for a particular product to primary production, transformation, marketing and up to final consumption
  - The set of enterprises that performs these functions i.e. the producers, processors, traders and distributors of a particular product
  - a business model for a particular commercial product using a particular technology and a particular way of coordinating production and marketing



# Apple value chain in pictures

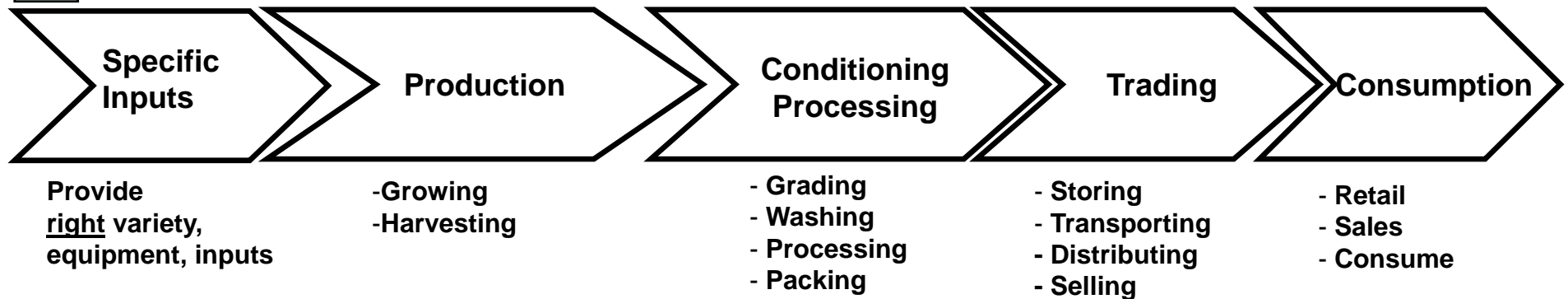


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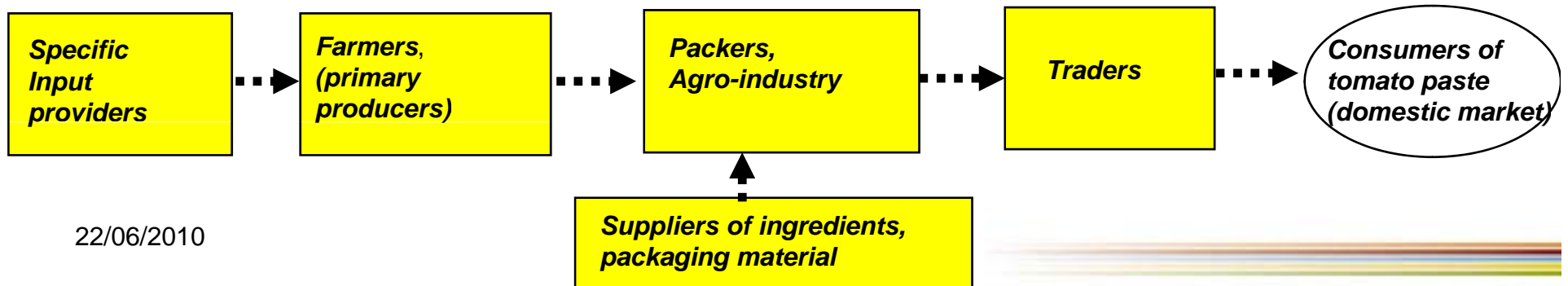
# Value Chain: visualization as map



## 1 Basic sequence of functions in the tomato paste value chain



## Categories of operators in value chains and their relations



## Increasing significance of VC

1

### ***Increasingly integrated value chains (VC)***

VC organization is a competition factor, costs are reduced through logistics (private “supply chain management”), Value chains are an instrument of quality management

### ***Conditions of market entry change in the process of globalization***

New chances for producers on global and domestic markets through integration in value chains as suppliers



# The need for coordination

## ***Uncoordinated, inefficient transactions***

- Traditional spot markets are often highly fragmented
- Small producers have little access to services, information and inputs
- Lacking trust
- Producers seek only short-term benefit

1

### ***Consequences:***

- Transaction costs are high
- Low prices
- Little value added
- Incentives for quality and innovation are weak



## What can be achieved?

1

- **Strengthening forward and backward business linkages in the value chain - improving coordination**
- **Integrating small-scale farmers and firms into global value chains**
- **Improving technology and skills**
- **Assisting Government agencies to serve business needs**
- **Introducing and enforcing grades and standards**



## Some basic principles for Value Chain promotion

1

- **Growth potential as starting point:** Build on market demand and on competitive advantages
- **Key role of private sector:** Build on private initiative and on partnerships mobilizing services and investment of companies
- **Learning process:** Development is conceived as a gradual process leading from quick improvements to more complex change
- **Multi-level approach:** Addressing enterprises, sector organizations (meso level) and the government support agencies in parallel

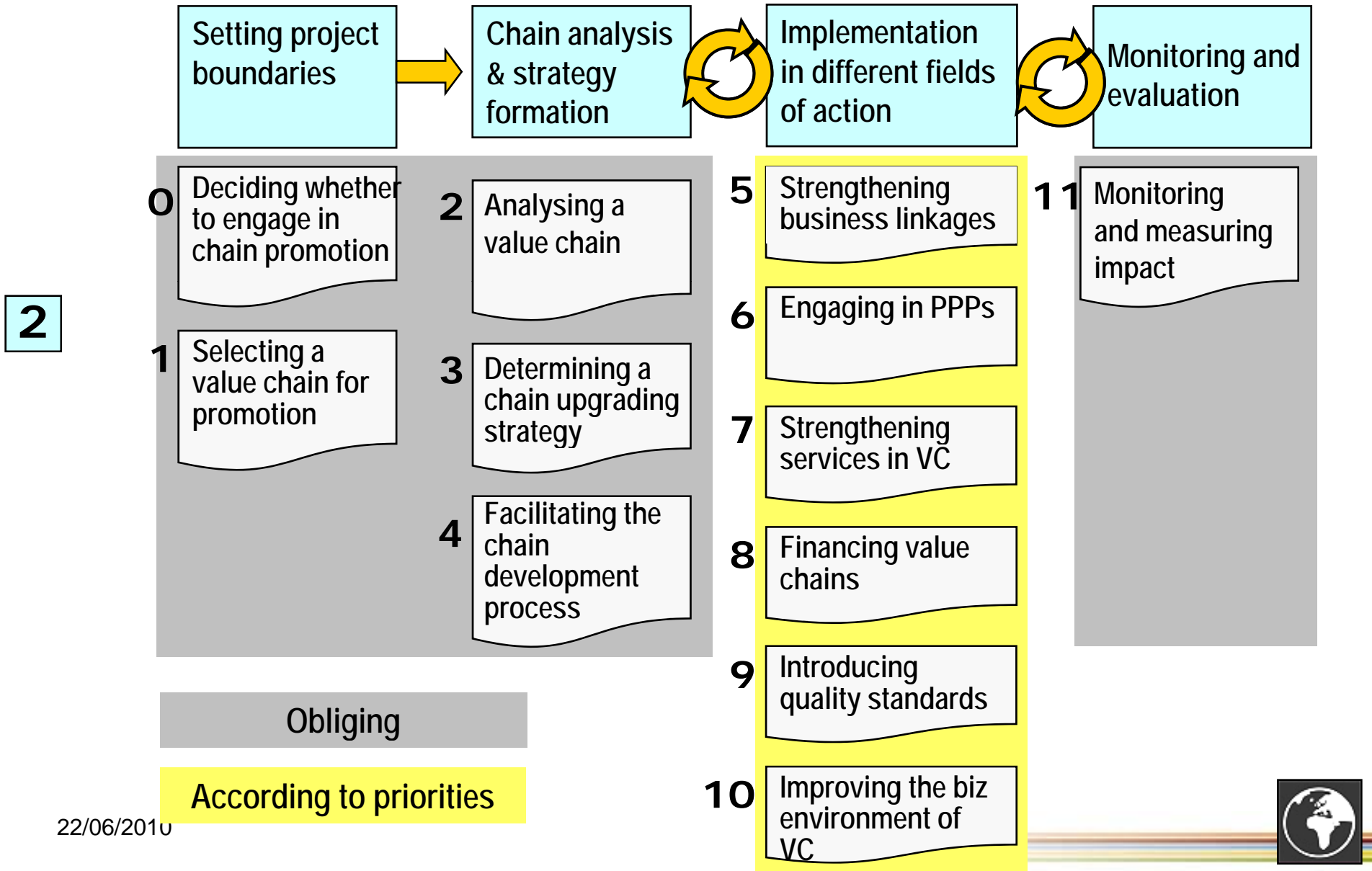


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# ValueLinks methodology - modules



## Analytical and decision-making tasks

2

<i>Modules</i>	<i>Issues / Tasks</i>
<b>0 Decide whether to engage in VC promotion</b>	<ul style="list-style-type: none"> <li>Assess potential and limits of value chain promotion</li> <li>Combine VC promotion with other development approaches</li> </ul>
<b>1 Select a value chain</b>	<ul style="list-style-type: none"> <li>Decide on the size of markets to be promoted</li> <li>Priority setting across value chains</li> <li>Conduct or support market research</li> </ul>
<b>2 Analyze the selected VC</b>	<ul style="list-style-type: none"> <li>Participatory chain mapping</li> <li>Quantify and analyze value chains in detail</li> <li>Economic analysis of VCs and benchmarking</li> </ul>
<b>3 Build a VC promotion strategy</b>	<ul style="list-style-type: none"> <li>Agree on a vision</li> <li>Analyzing constraints to upgrading</li> <li>Set operational objectives and prepare upgrading action</li> <li>Identify actors implementing upgrading activities</li> <li>Construct impact models</li> </ul>
<b>4 Facilitation of chain development</b>	<ul style="list-style-type: none"> <li>Clarify public, private, and donor roles</li> <li>Design the upgrading process, entry + exit points</li> <li>Organize chain promotion project and scaling-up</li> <li>Institutionalize collective action of chain actors</li> </ul>



## Fields of implementation and supportive action

2

<i>Modules</i>	<i>Issues / Tasks</i>
<b>5 Strengthening business linkages</b>	<ul style="list-style-type: none"> <li>▪ Fostering horizontal cooperation - professional associations</li> <li>▪ Brokering vertical cooperation - supplier / buyer contracting</li> <li>▪ Business match-making</li> </ul>
<b>6 Cooperation with the private sector</b>	<ul style="list-style-type: none"> <li>▪ Engaging private enterprises in development</li> <li>▪ Public-Private Partnership projects</li> </ul>
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<b>9 Social, ecological and product quality standards</b>	<ul style="list-style-type: none"> <li>▪ Introducing social, ecological and product safety standards</li> <li>▪ Implementing standards</li> <li>▪ Building the capacity for verification and certification</li> </ul>
<b>10 Sectoral Economic Policy</b>	<ul style="list-style-type: none"> <li>▪ Supporting private initiatives addressing business constraints</li> <li>▪ Fostering coherent VC promotion policies</li> </ul>



## Monitoring & Evaluation

*Module*

*Issues / Tasks*

**11 Impact  
Monitoring**

- Defining indicators and measuring impact
- Designing an Impact monitoring system

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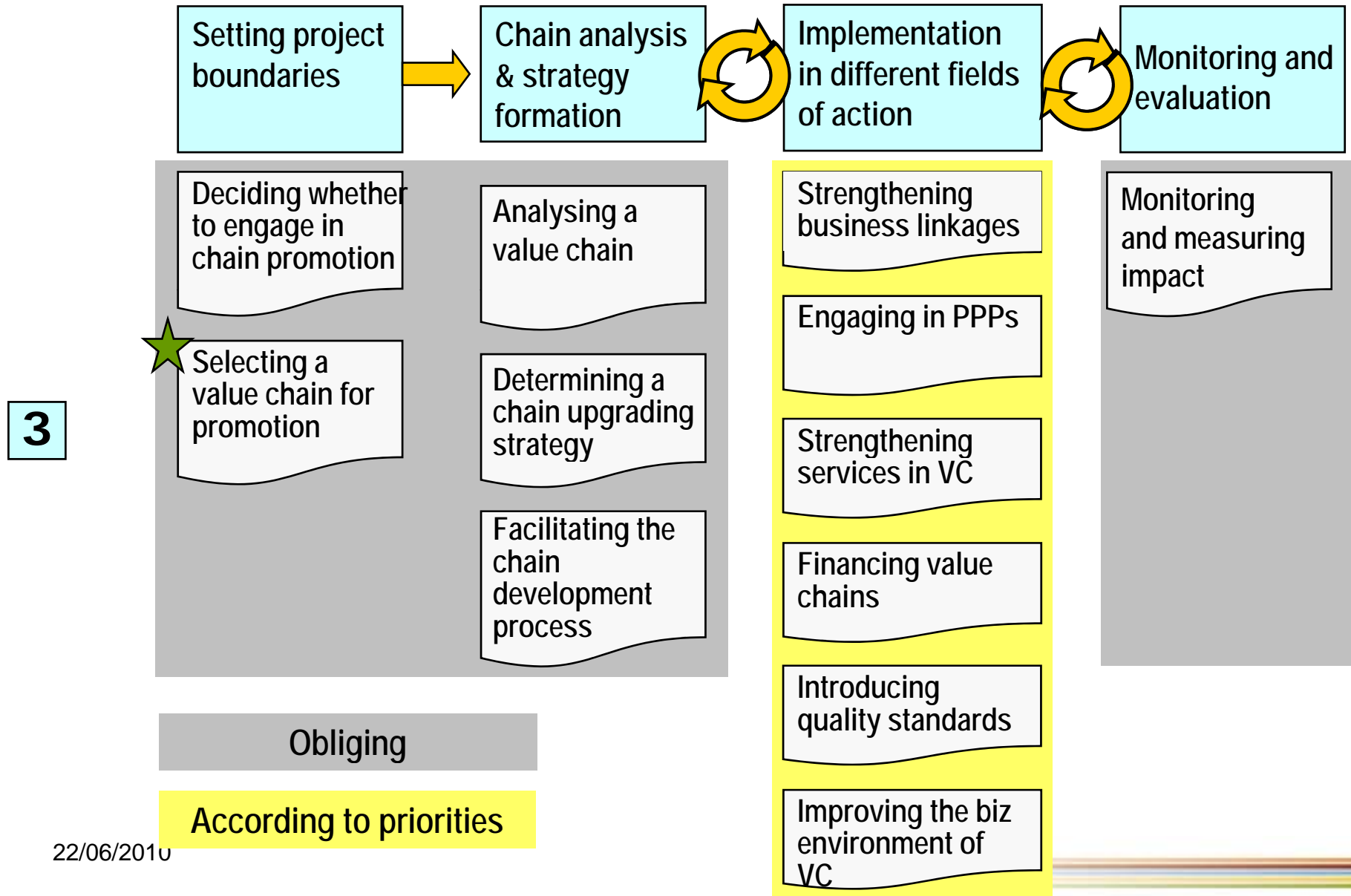


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# ValueLinks methodology - modules



# Level of (dis)aggregation

Sector	Agriculture & Food	Tourism	Textiles & Clothing
↓	<b>Horticulture</b>	<b>Wildlife Tourism</b>	<b>Clothing</b>
Sub Sector	<b>Dairy</b>	<b>Cultural Tourism</b>	<b>Textiles</b>
	<b>Meat</b>	<b>Beach Tourism</b>	<b>Carpets</b>
	<b>Flowers</b>	<b>Conferences</b>	...
	...	...	
3 ↓	--- <b>e.g. Horticulture:</b>	--- <b>e.g. Wildlife Tour.</b>	--- <b>e.g. Clothing:</b>
Chain	- <i>French Beans</i>	- <i>National Park visit</i>	- <i>Apparel</i>
	- <i>Tomatoes</i>	- <i>Animal watching</i>	- <i>Knitwear</i>
	- ...	- <i>Safaris</i>	- ...
		- ...	
↓			
Channel	according to end product / marketing system	according to marketing system	according to marketing and retail system
	- e.g. <i>table tomatoes sold in supermarkets</i>	- e.g. <i>as part of a package offered by tour operators</i>	- e.g. <i>brand name apparel sold in specialty stores</i>



# Selecting a chain to promote: Generic criteria

## Growth potential, competitiveness

- (Unmet) market demand/growth potential/potential for value adding
- Comparative advantage in national and export markets (unique product, cost advantage compared to benchmark, proximity to markets)
- Competitors and their products

3

## Poverty reduction potential, social benefits

- Potential for income creation
- Potential for employment creation
- Relevance to the poor, social inclusion, SMEs participating
- Relevance to gender
- Social and ecological standards



# Selecting a chain to promote: Generic criteria

## Prospects of success

- Conducive policy environment
- Own initiatives of VC partners, commitment
- Readiness for change
- Urgency of interventions

## Outreach

3

- Number of enterprises, number of households
- Regional coverage

## Programme-related aspects

- Relevance to components of programme, demand of partners
- Synergies/linkages/cooperation with other programmes
- Problems that may be addressed by programme, added value & own experience that can be contributed
- Relevance to mandated area

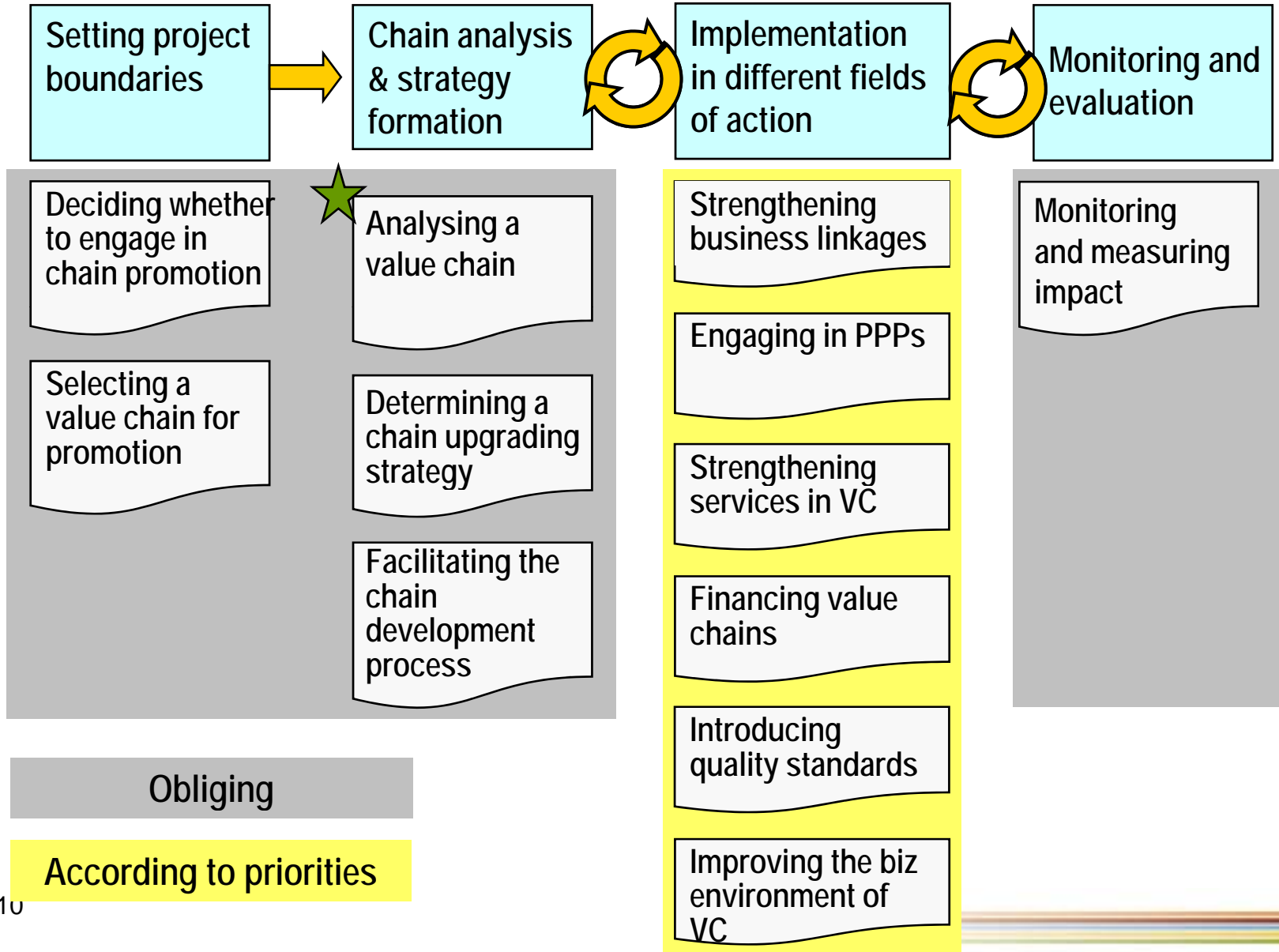


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# ValueLinks methodology - modules

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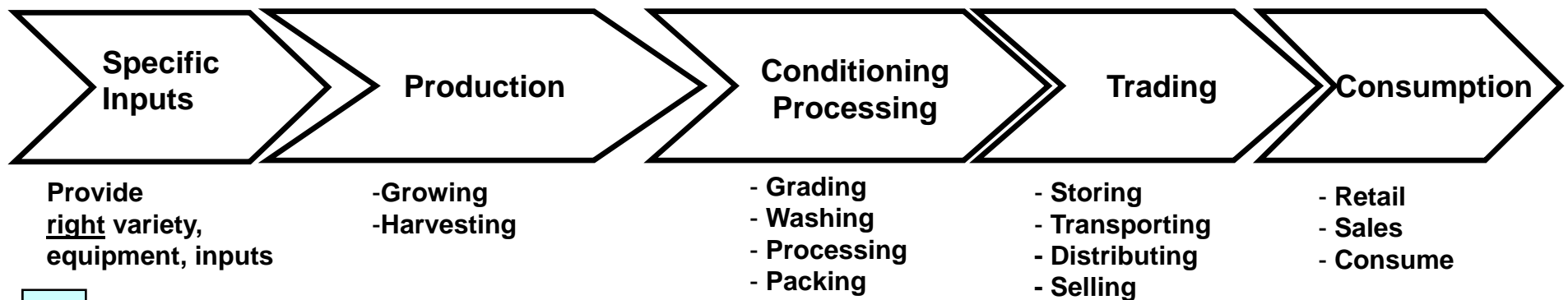


# Mapping VC functions and actors

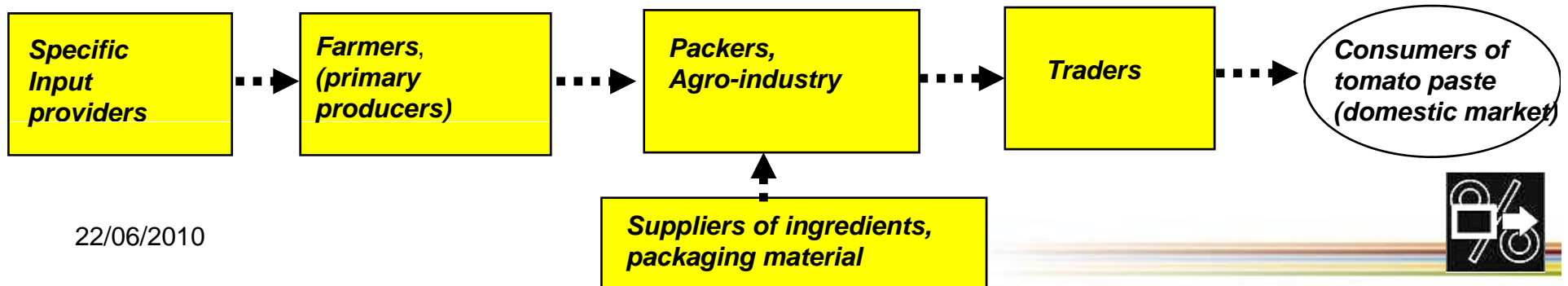
## (micro level)



**Basic sequence of functions in the tomato paste value chain**



### 4 Categories of operators in value chains and their relations



## How to proceed in mapping

- **Specify the final product and end market(s)**
- **Establish the stages/segments of the chain (specifying functions performed)**
- **Establish the main sequence of operators**
- **Assessment of the degree of chain integration**
- **Differentiate the chain into channels if appropriate**
- **Quantification of chain map**
- **Map support service providers**
- **Institutional analysis (Governance) – lead actors, market power, transaction cost**
- **Prepare thematic detail maps if required**
- **Economic analysis**

4





# Symbols for Value chain mapping

## Micro level



Generic function



Specific function



Value chain operator

**4**

## Types of chain relations



Spot market transactions



Order contracts / Forward contracting  
Persistent network relationship



Vertical integration e.g. Contract production



*Fresh apples – traditional varieties*  
 2006: 35000 t  
 average: 70000 t

**Retail**

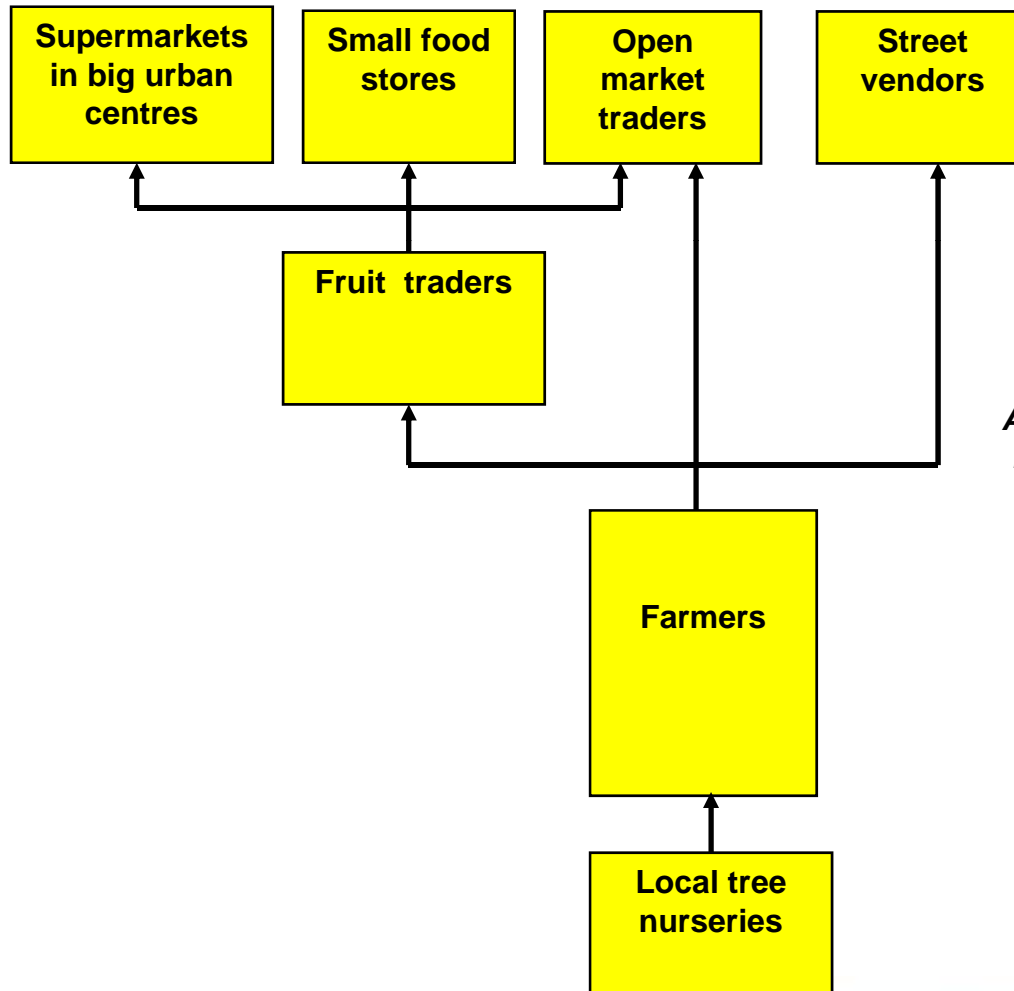
*intermediary trade (sorting for quality)*

**4**

*Sorting table/industry apples*

*Primary production*

*Provision of seedlings*



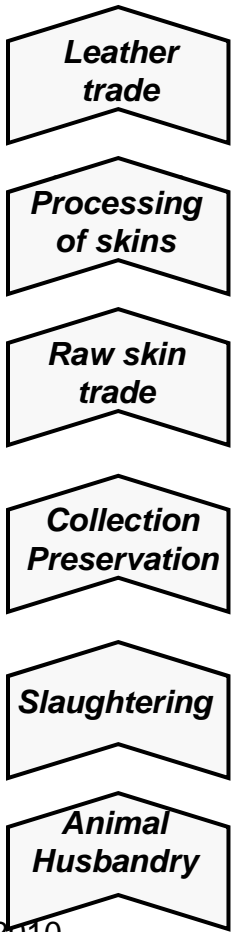
*Antonovka 3-5 Lari / kg  
 Kechura 1-2 Lari / kg*

Farmer associations

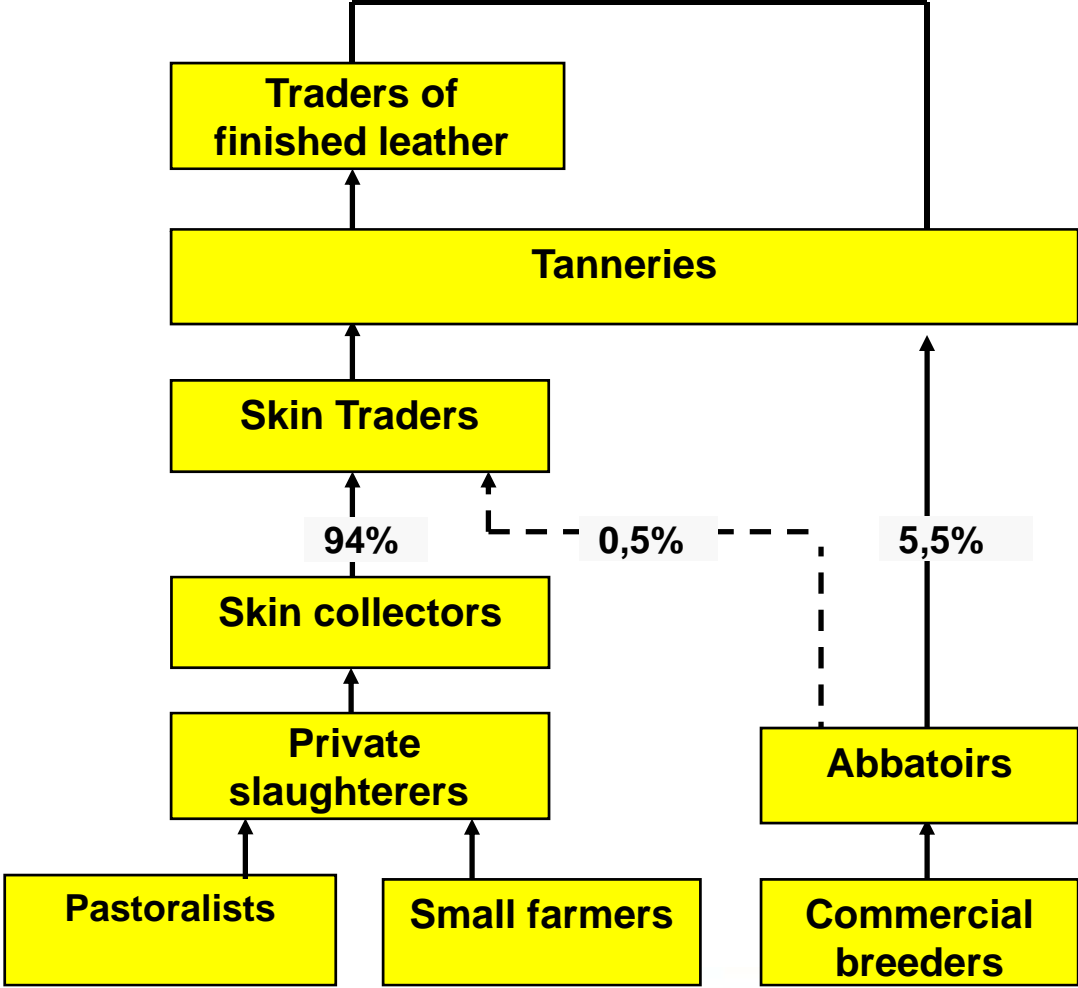
Ministry of Agriculture



# Finished leather, Ethiopia



4



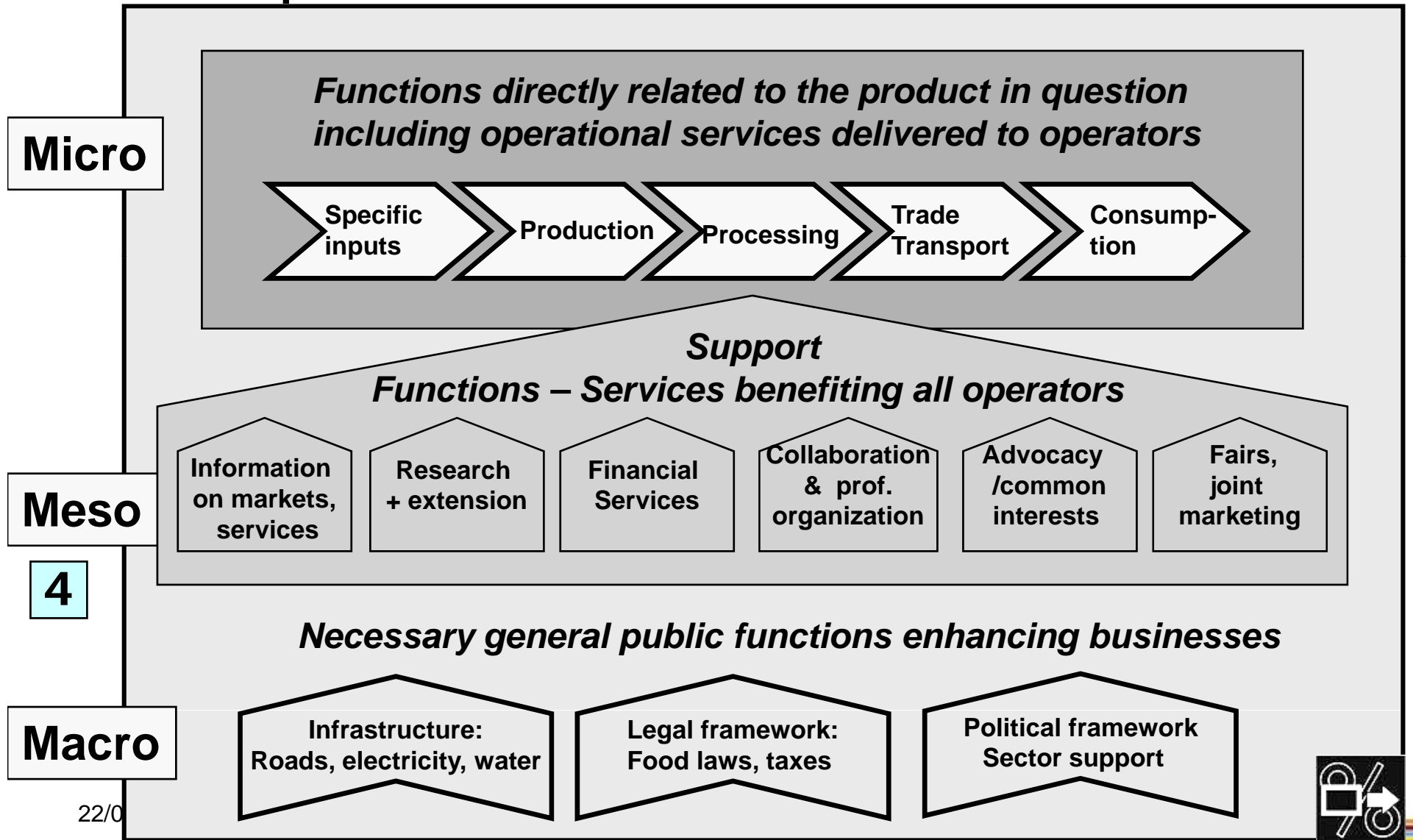
## Criteria for segmenting

- ***Type of product***
  - Conventional / organic
  - different quality grades and packaging
  - Intermediate / final product
- ***End market***
  - Domestic / export
  - End consumers / institutional buyers
  - Type of market (supermarket / street market)
- ***Technology***
  - Handmade / mechanised
- ***Chain organisation***
  - Separate firms / integrated production system
  - Small scale / large scale

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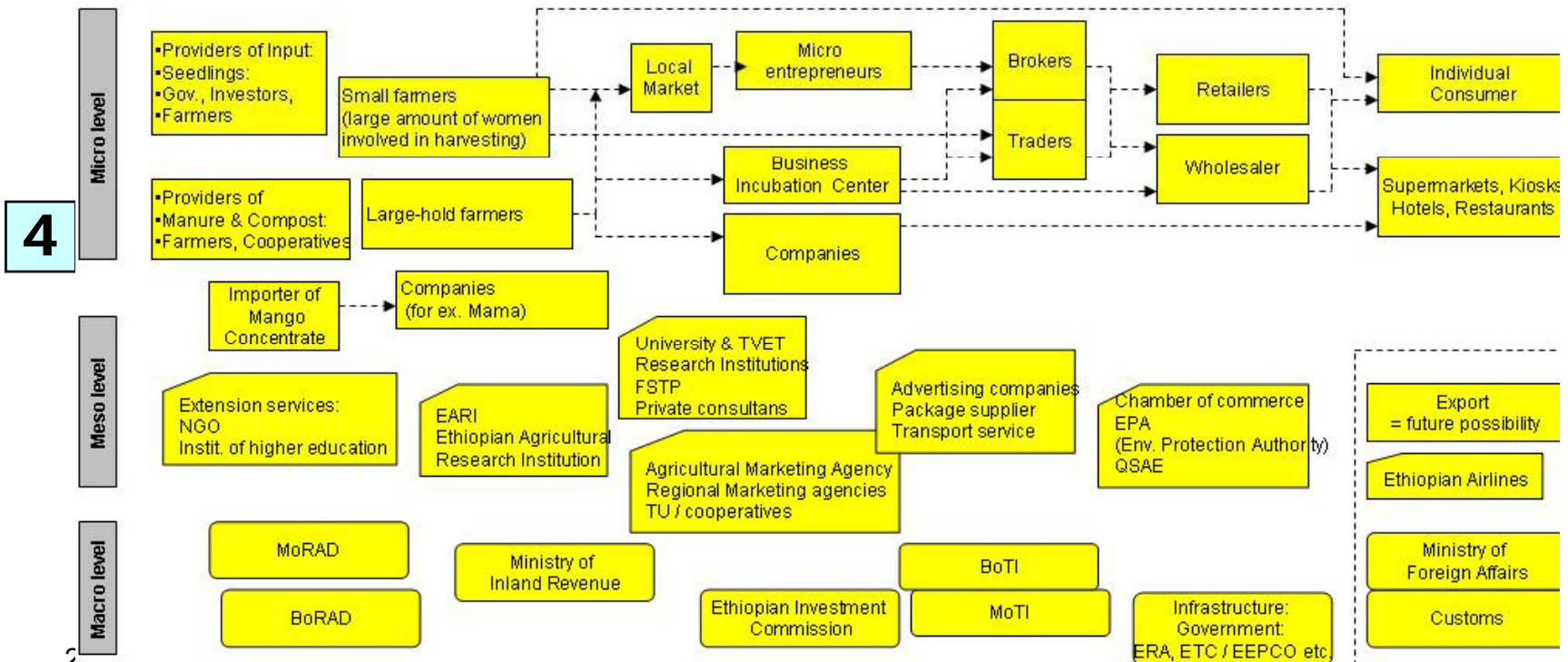


# Concept: micro, meso, macro levels



# Actors of the value chain: Example Ethiopia - Mango juice

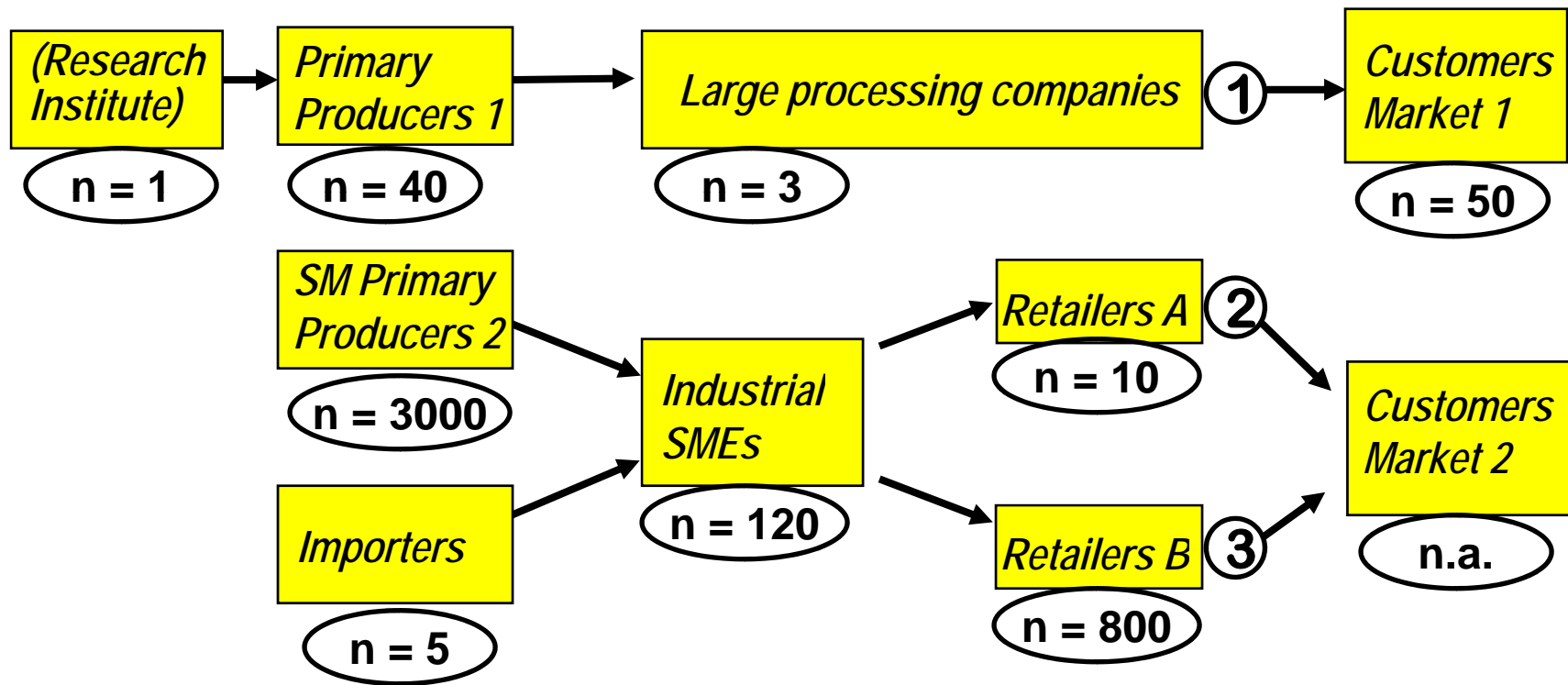
## Value chain: Mango juice for export & domestic market



# Quantifying value chains

## E.g. Numbers of involved enterprises

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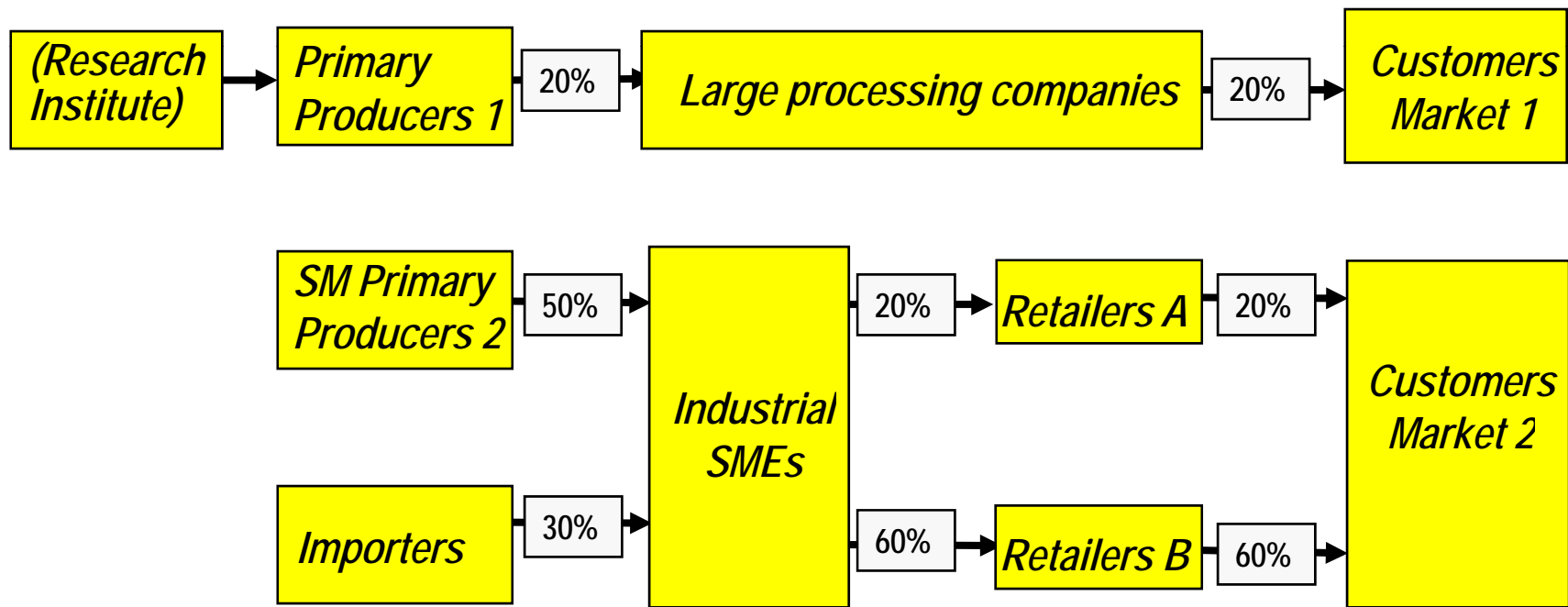


**N.B. Possible to use the map to to assess jobs, wage sums or the importance of product**



# Quantifying value chains

e.g. Production flow (volume)



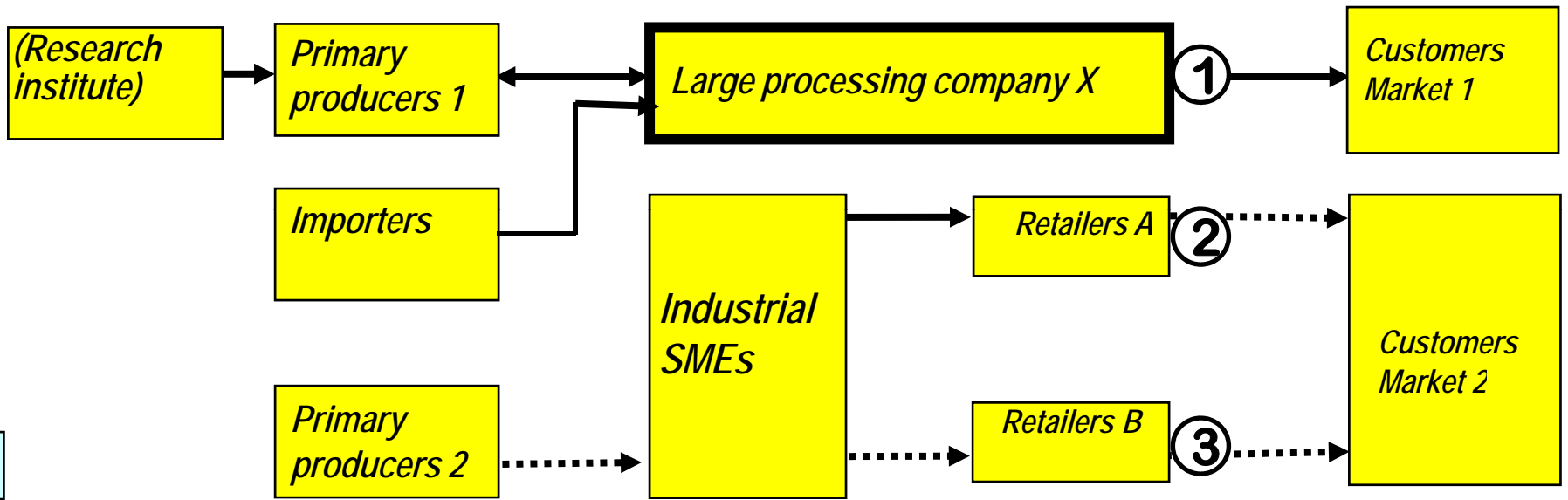
4





# Linkage between actors of the VC (vertical integration) and identification of „lead companies“

4



**Legende**

- .....→ Spot market transactions**
- Order contracts, forward contracting, persistent network relationship**
- ↔ Vertical integration, e.g. contract production**



## Economic Analysis

### *Size and market share of VCs in global and domestic markets*

- Production and consumption figures
- Export and import figures (using WTO records)
- Share of the VC in the total export value

### *Value-added along the value chain*

- Contribution of chain segments to total value

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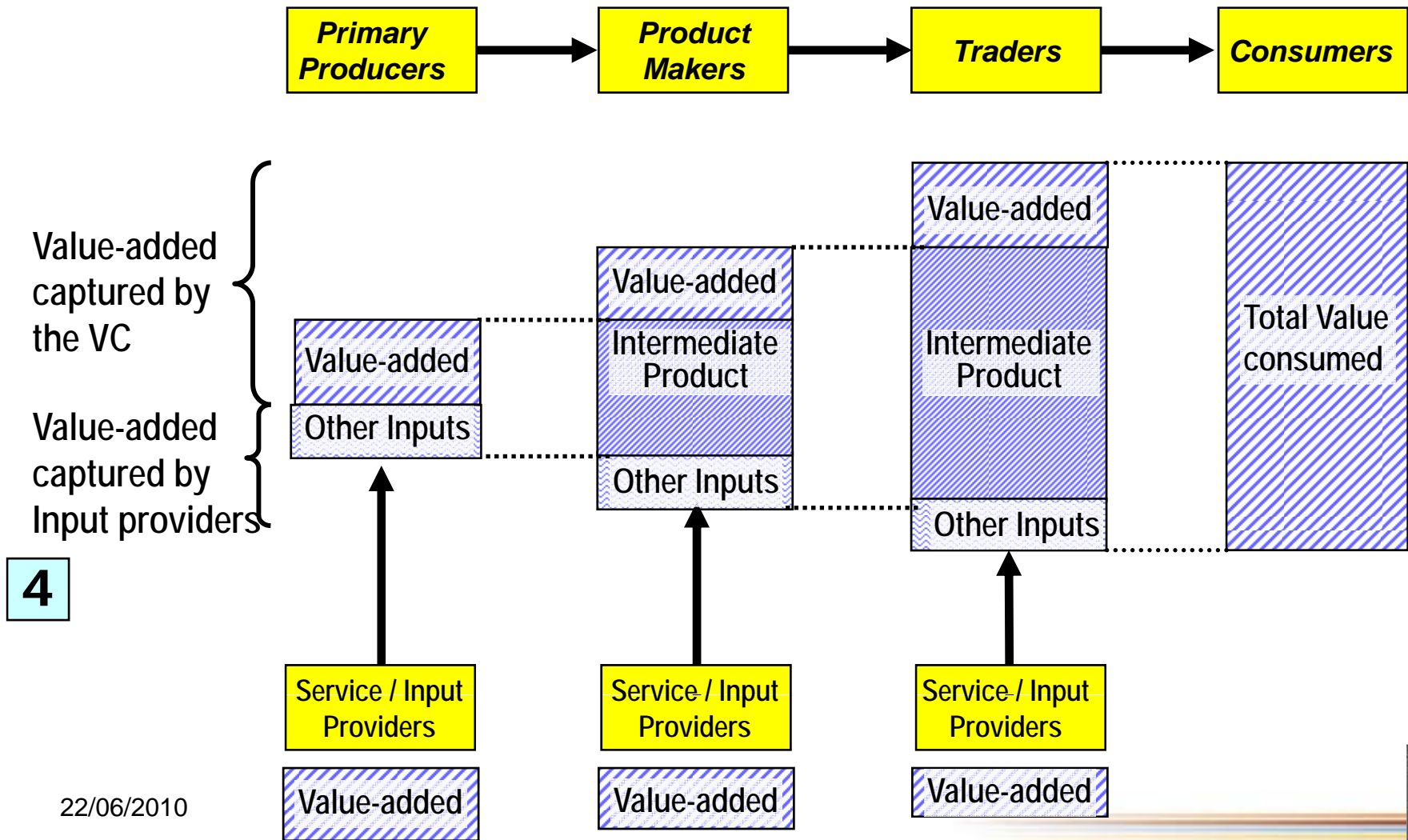
### *Profitability of the chain operators*

### *Benchmarking important VC parameters*

- Benchmarking of unit cost of production
- Benchmarking of labour and other factor productivities

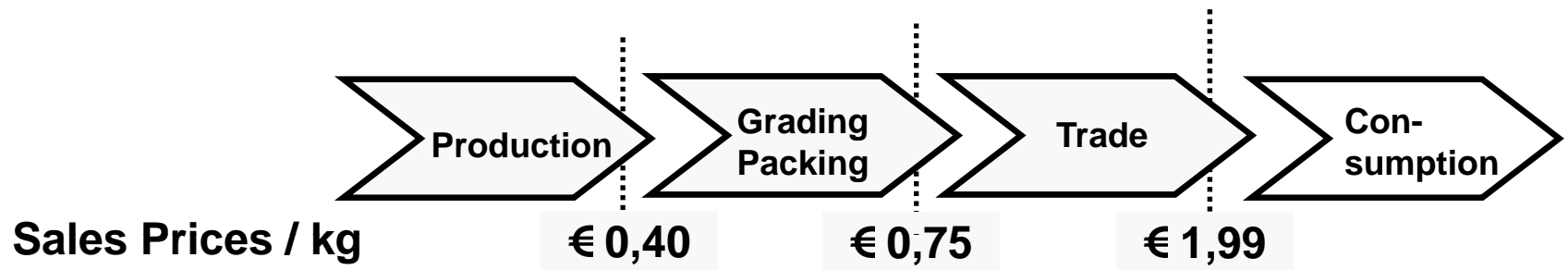


# Value-added along the value chain



# Value added and cost/margins in a given VC

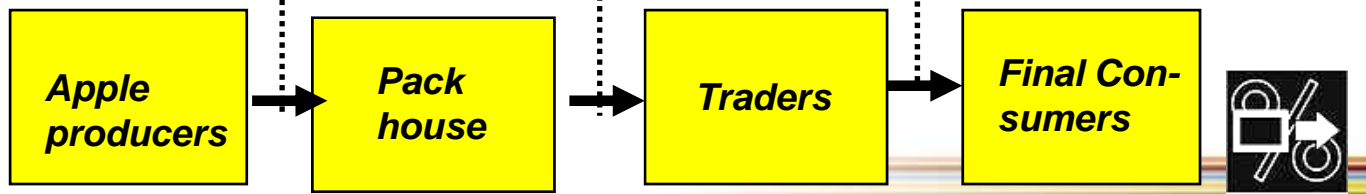
## Example: Fresh apples



Other inputs	€0,16	€0,14	€0,29
Net value added	€ 0,24	€ 0,21	€ 0,95

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Total cost	€0,32	€0,70	€1,80
Margin	€0,08	€0,05	€0,19

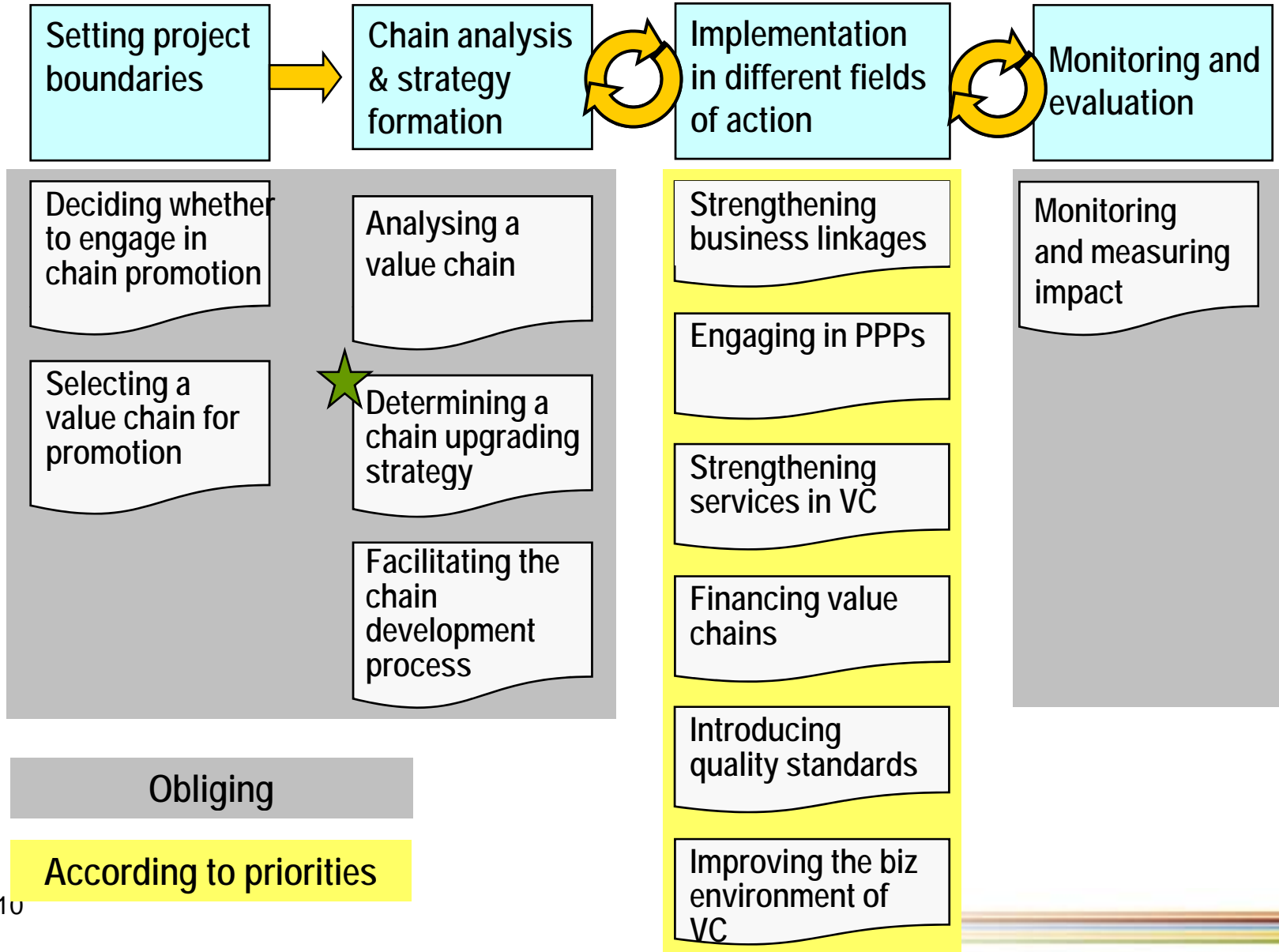


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# ValueLinks methodology - modules

5



## Designing a chain project has two dimensions

- The first concerns what the VC actors must do to become more competitive and to generate greater value added

➔ We call this the *value chain upgrading strategy*

- The second dimension concerns the role of facilitators, i.e. government and development agencies running chain development projects and providing assistance

5

➔ We call this facilitation the *value chain promotion strategy*



# Elaborating the strategy

## *Steps*

- Assess market opportunities and competitive advantage
- Agree on the vision and strategy for chain upgrading
- Analyse upgrading opportunities, constraints and the needs of chain upgrading
- Determine the fields of upgrading accordingly
- Determine actors implementing the upgrading strategy
- Agree on action to be taken
- Anticipate the impact of value chain upgrading

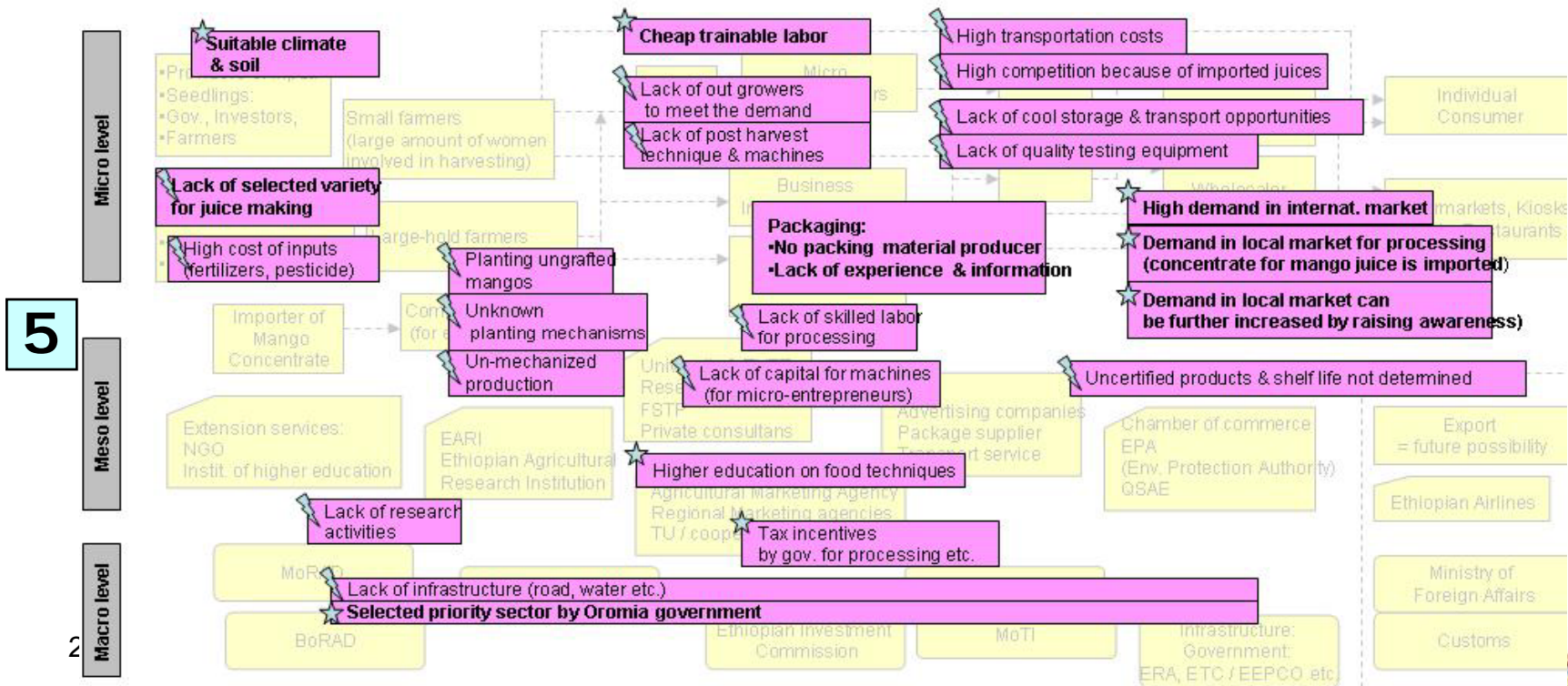
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# Vision, opportunities and constraints: Example Mango juice

**Vision: Production of a high amount of quality juice for the local & international market which will increase the income of farmers, producers & investors and contribute to the economic growth of the country**



# What has to change in the chain?

## *Identifying “fields of upgrading”*

*Constraint / need /  
opportunity related to...*

*Field of Upgrading*

**Market access**  
**Contract conditions**

**Vertical business linkages**  
**Producer associations**



**Technology, inputs**  
**Information**  
**Finance**  
**Skills**

**Service arrangements**  
**Capacity of service providers**  
**Financial arrangements**



**Quality assurance**  
**Access to specialty markets**  
**Product safety**

**Introduction of standards**  
**Implementation of standards**  
**Certification systems**



**Business environment**  
**Resource degradation**

**Private-public dialogue**  
**Sectoral economic policy**



**5**

## ValueLinks modules 5-10

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# Upgrading objectives, interventions and actors: Example Mango juice

***Vision: Production of a high amount of quality juice for the local & international market which will increase the income of farmers, producers & investors and contribute to the economic growth of the country***

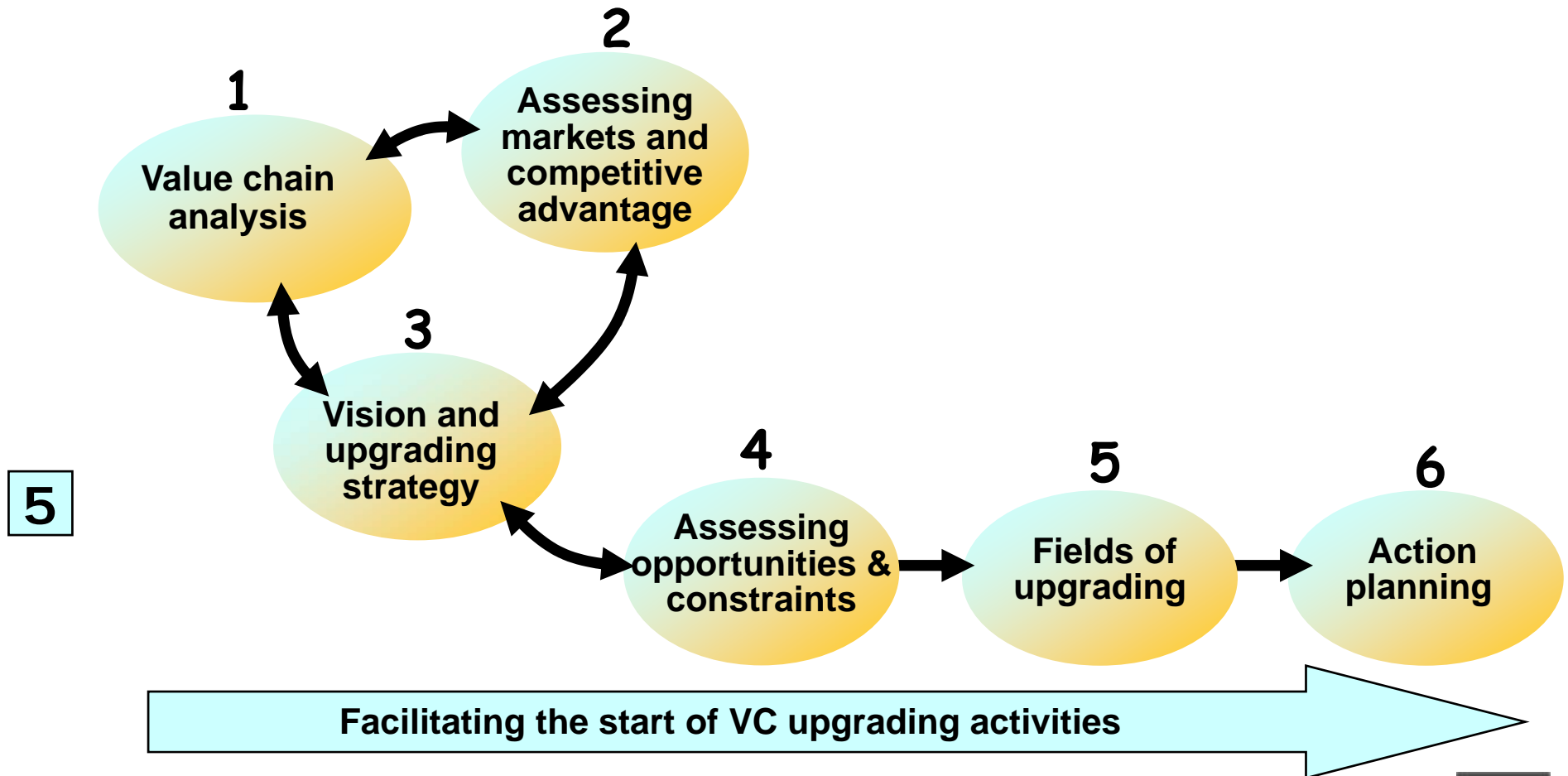
Upgrading objectives	Actions	Actors
<b>More production of suitable fruit all year</b>	<ul style="list-style-type: none"> <li>•Promotion of out growers</li> <li>•<b>Identify suitable varieties</b></li> <li>•Increase diversification of mango variety to ensure supply all year round</li> </ul>	Private sector MoARD Higher institutions research centers NGOs
<b>Processing a high amount of quality juice</b>	<ul style="list-style-type: none"> <li>•Cold house storage</li> <li>•<b>Development of small scale processing</b></li> <li>•Development of semi-processing</li> <li>•<b>Identify &amp; attract companies for processing</b></li> <li>•Improved technology &amp; machineries</li> <li>•Capacity Building – resource development</li> <li>•Development of a sub-sector association</li> </ul>	Incubation center OTITB Micro entrepreneurs Companies Donors Science & technology faculty QSAE, MoTI TVET Institutes of higher education
<b>Development of local &amp; international market linkages</b>	Promotion & awareness raising for local market <b>Market assessment (local &amp; international)</b> Participate in trade fairs Quality control Improve information exchange among all stakeholders	Consultancy companies Chamber of commerce MoFA (ministry of foreign affairs)

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# Synthesis

## *How to arrive at the value chain project*



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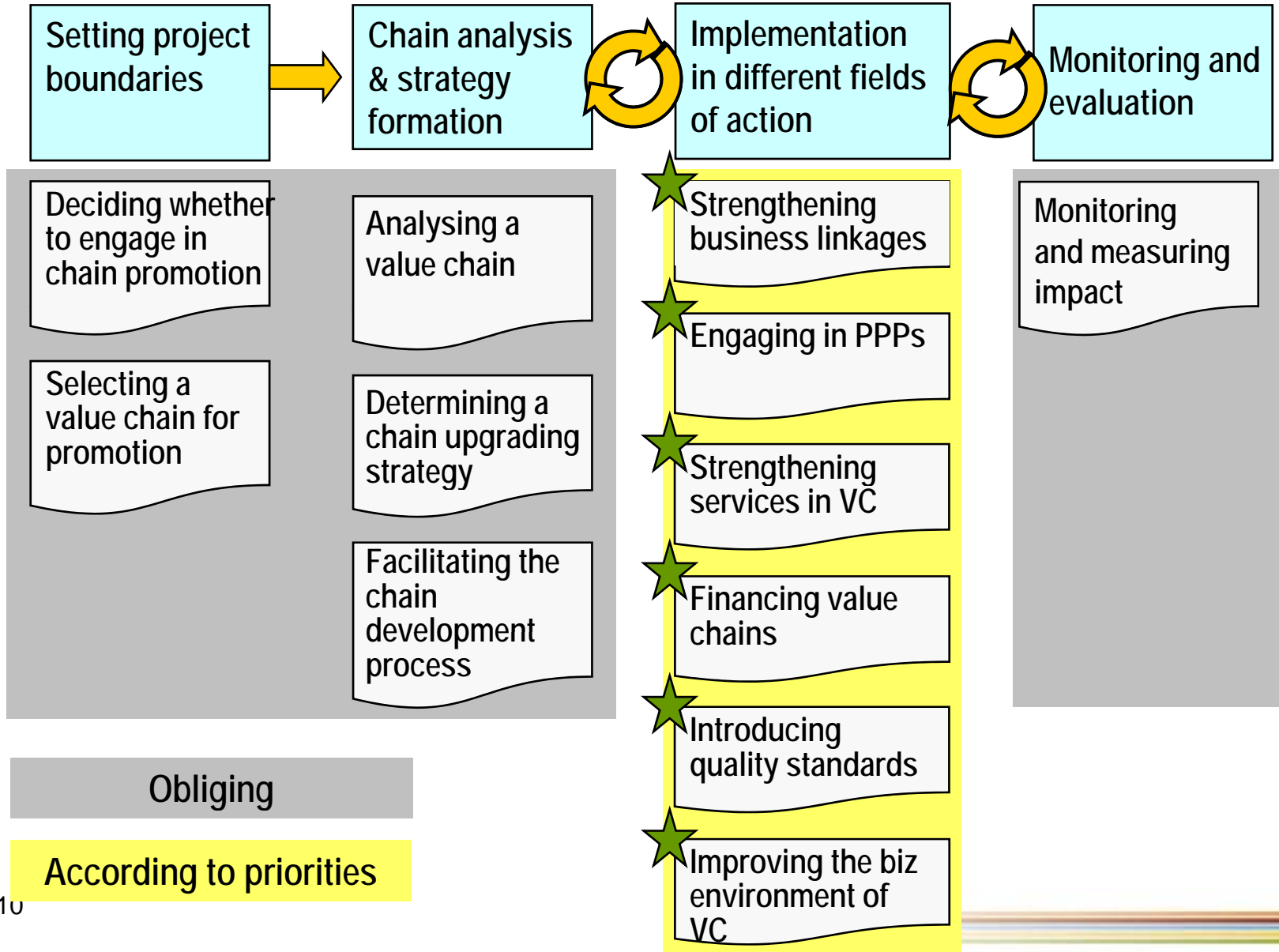


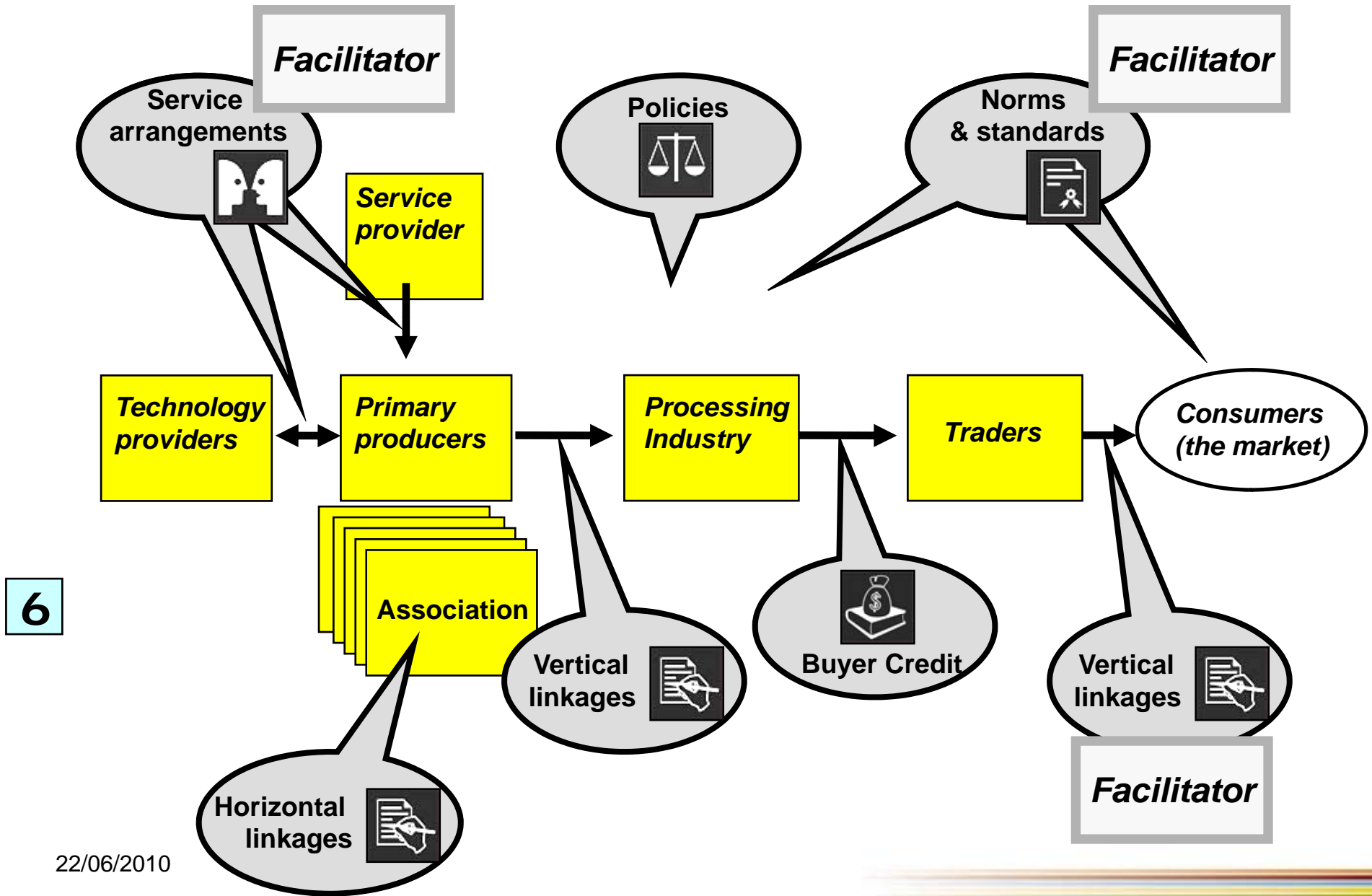
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# ValueLinks methodology - modules

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## Implementation know-how

### ***The technical aspect: Upgrading solutions***

- New and/or more sophisticated business links & contracts
- Associations, both micro and meso
- New, more appropriate, adjusted service arrangements
- Market regulation with standards and codes of conduct

### ***The facilitation aspect: How to promote solutions***

6

- Raising awareness, information
- Brokering, Mediation, facilitating meetings
- Accompanying upgrading processes
- Institutional capacity development
- Technical consultation