



Suite 304  
4600 North Fairfax Drive  
Arlington, VA 22203 USA  
+1 703-243-9172  
fax +1 703-243-9123  
[www.actionforenterprise.org](http://www.actionforenterprise.org)

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

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ACTION FOR ENTERPRISE

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## EXECUTIVE SUMMARY

The approach presented in this paper combines the strengths of value chain<sup>1</sup> analysis with the promotion of sustainable, market-based solutions (MBSs) 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 results that are sustainable in the long run and that do not distort local markets. AFE's program design approach includes collaborating with and supporting the initiatives of Lead Firms (also referred to as Inclusive Businesses) that have the potential to increase their competitiveness and support the development of other stakeholders in their value chains.

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

***Step 1: Value Chain Selection*** – Selection criteria such as unmet market demand, number of MSME's in the value chain, and the presence of market actors with incentives to invest in their relationships with MSMEs are used to select value chains for more detailed analysis and targeting.

***Step 2: Value Chain Analysis*** - During the analysis phase, a value chain map is developed that graphically presents the relevant market actors and their relationships with one another. Interviews are then conducted with value chain participants and “key informants” to identify constraints in the areas of market access, input supply, technology/product development, management and organization, policy, finance, and infrastructure. This is combined with an understanding of value chain governance structures and methods of inter-firm cooperation.

***Step 3: Identification of Market-based Solutions*** - During this step, commercially viable, market-based solutions (MBSs) (*potential at this point*) are identified that can contribute to the competitiveness of the value chain and address the constraints identified in Step 2. Techniques for prioritizing these MBSs, such as short-listing matrices are used.

***Step 4: Assessment of Market-based Solutions*** - During this step, the MBSs identified in Step 3 are assessed to identify: a) private sector providers (Lead Firms) with commercial incentives to provide the targeted solutions in a sustainable manner; b) challenges they face in providing the solutions, and; c) the number of MSMEs that could benefit.

***Step 5: Identification of Facilitation Activities*** - During this step, the Lead Firms identified in Step 4 are invited to propose initiatives that will help them overcome the challenges they face in providing targeted MBSs in a sustainable manner. This is done through “invitations for applications”, focus groups, strategic planning sessions, question guides, and in-depth discussions. Interventions proposed by these Inclusive Businesses that meet program requirements can then be supported with both technical and financial assistance (on either an individual or cross-company basis).

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<sup>1</sup> 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.

**Step 6: Structuring Collaboration and Monitoring Performance** - Performance measurement systems are then developed based on a causal model that connects project facilitation activities to intermediate and final results. These systems are based on a series of cause-and-effect relationships starting with project activities and proceeding to outputs, outcomes, and ending with intended impacts. Formal agreements are also established with the participating market actors.

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/farmers (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 incomes.

This approach uses a series of tools 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 MBSs are targeted, additional tools are used to gather information from providers and users. 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 to the identification of potential MBSs.

<b>Constraints</b>	<b>(Potential) MBS</b>	<b>Existing Providers of MBS</b>
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 <i>Government</i> <i>NGOs</i>

The commercial viability of the targeted MBS(s) is critical in getting the private sector to establish or expand provision of the MBS. If a full business plan is not possible during the assessment stage, a rough calculation of the economic feasibility of the MBS 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 presented in this paper also looks at whether MBSs are offered on a "fee basis" or whether they are "embedded" (offered with no additional cost) 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 MBSs within a value chain and to identify appropriate means of promoting them.

## I. INTRODUCTION

The approach presented in this paper combines the strengths of value chain<sup>2</sup> analysis with the promotion of sustainable, market-based solutions (MBSs) that respond to the recurrent needs of micro, small, and medium scale enterprise (MSMEs – including farmers). Value chain analysis is important in understanding markets, inter-firm relationships, and critical constraints that limit MSME growth and industry competitiveness. Collaboration among private sector market actors to address value chain constraints can result in MBSs that are sustainable in the long run and that do not distort local markets.<sup>3</sup>

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 presents general principles for the design and implementation of value chain and market development programs. Included in the appendices are several tools for program design.

Throughout the paper, a 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 design work conducted by Action for Enterprise (AFE) it is meant to be illustrative.

## II. 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 positive impact and scale, and; 3) avoid distorting private sector markets.

Experience among many practitioners has 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 MBSs (as described above) an approach emerges that can result in programs with significant impact on MSME's as well as improved competitiveness of the targeted sectors as a whole.

This approach combines the strengths of value chain analysis with methods for promoting sustainable MBSs that result in MSME and industry competitiveness. It allows practitioners to understand market dynamics, identify major constraints and opportunities, and promote sustainable economic solutions to identified constraints.

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<sup>2</sup> 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

<sup>3</sup> This includes micro, small- and medium-scale enterprises.

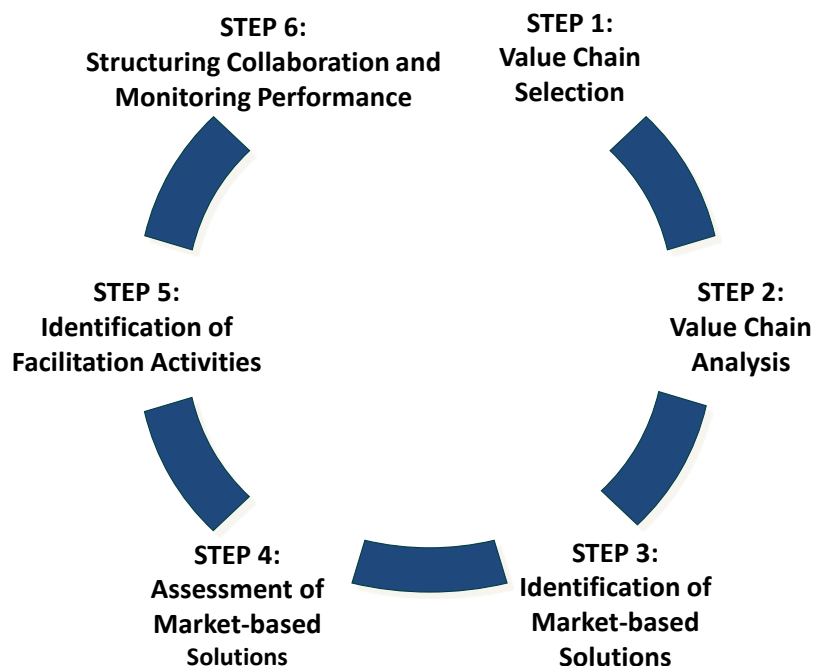
Many donors, practitioners, and projects are already using a value chain approach for their enterprise development programs. These include programs targeting specific agricultural products, manufacturing activities, and professional associations. The approach presented in this paper can help ensure that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

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: 1) provides a means for prioritizing MBSs that will have the greatest impact on the value chain and participating MSMEs (this step is often lacking in other programs), and; 2) 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 facilitation activities 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, facilitation, and enterprise development.

### **III. DESCRIPTION OF APPROACH**

The approach to program design presented in this paper is comprised of six 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 identifies new or existing market-based solutions (MBSs) in the value chain that have the potential to address identified value chain constraints in a commercially viable manner. Step four begins the MBS assessment stage, and involves selecting MBSs identified in step three for more in-depth assessment. In step five, facilitation activities are identified that will support the development/expansion of the targeted MBSs and result in sustainable and commercially viable solutions to MSMEs. Finally, in step six performance measurements systems are designed and implemented to gauge the performance of the initiatives, and formal agreements are developed with participating market actors.

**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 market actors and other 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 sectors<sup>4</sup>. 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.

The information gathered is then used to create an initial list of value chains using selection criteria based on the development program's goals and objectives. Once the initial list of potential value chains has been determined, it is important to have a structured method of determining which final value chains will be selected from this list. To add structure to this inherently subjective process a shortlisting matrix and ranking tool can be used.

<sup>4</sup> The websites of the International Trade Centre of the UNCTAD/WTO ([www.intracen.org/ByCountry.aspx](http://www.intracen.org/ByCountry.aspx)) and the World Bank ([www.worldbank.org/en/country](http://www.worldbank.org/en/country)) 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 gender 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 sectors identified as priorities could target several 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
Unmet Market Demand	<ul style="list-style-type: none"> <li>• Evidence of strong effective demand for products being produced</li> <li>• Demand for products exceeds supply</li> </ul>
Growth Potential	<ul style="list-style-type: none"> <li>• Potential for market expansion (low risk of decline)</li> <li>• Potential in the short, medium, and low term</li> </ul>
Ability to Differentiate from International Competitors	<ul style="list-style-type: none"> <li>• Products are competitive with existing and potential suppliers from other countries (lower cost, better quality, etc.)</li> <li>• Lack of emerging producers who might offer more competitive products</li> </ul>
Potential Increase in MSME Income	<ul style="list-style-type: none"> <li>• Potential for increased MSME earnings in target group</li> <li>• Potential for increased employee/labor income</li> </ul>
Presence of Lead Firms with MSME Linkages	<ul style="list-style-type: none"> <li>• Number of firms with incentives to invest in businesses relationships they have with MSMEs they buy from or sell to</li> <li>• Potential for increasing the number of these lead firms</li> </ul>
Potential for Employment Generation	<ul style="list-style-type: none"> <li>• Potential for enterprises (large and small) to create new employment opportunities</li> </ul>
Potential number of MSMEs	<ul style="list-style-type: none"> <li>• Potential number of MSMEs participating in the value chain (including their employees)</li> </ul>
Government/Donor Involvement	<ul style="list-style-type: none"> <li>• Government or donor involvement in value chain can have positive or negative implications <ul style="list-style-type: none"> <li>– Could result in favorable policies and services</li> <li>– Other donor programs can provide synergy</li> <li>– Direct government involvement can decrease value chain efficiency</li> </ul> </li> </ul>
Favorable Business Environment	<ul style="list-style-type: none"> <li>• Existence of policies/regulations that support the value chain</li> </ul>
Institutional Mandates	<ul style="list-style-type: none"> <li>• Participation of women</li> <li>• Environmental impact, etc.</li> </ul>



**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)
- craft export
- 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 Number of MSMEs (including employees)
3. Potential for Employment Generation
4. Government or Donor Interest / Existing MSME Support Programs

**3.1.2 Identify an Initial List of Value Chain Candidates**

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 two principle selection criteria. For example, in Figure 2 below, the two principle selection criteria, "unmet market demand" and "potential number of MSMEs (including employees)" are presented - one on each axis of the matrix. Any value chain that falls within the shaded area (i.e., low/medium unmet 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 Number of MSMEs  
(incl. employees)

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

**Unmet 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 part two of 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 Number of MSMEs (incl. employees)**

	– <b>craft export</b>	– <b>green beans</b> – <b>dairy (milk)</b>
– <b>avocados</b> – <b>beef</b>		– <b>tourism</b>
	– <b>poultry</b> – <b>building construction</b> – <b>wood furniture</b>	

**Unmet 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 craft export was less clear cut. Since the potential number of MSMEs was deemed relatively more important than potential market demand to the organization, the craft export value chain was rated higher than tourism. Thus, a short-list of three value chains was identified: green beans for export, dairy (milk), and craft exports.

During this process, development programs can also subject prioritized value chains to “filters”, such as environmental impact, that all prospective value chains must adhere to.

**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).

Information to establish the score for each criteria can be gathered from individual interviews of key informants, during focus group discussions, or internally based on available primary and secondary data of the value chains. 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 part three of the illustrative case below.

***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. 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:

1. Unmet Market Demand (weighted 3x)
2. Potential Number of MSMEs (weighted 2x)
3. Potential for Employment Generation (weighted 1x)
4. Government or Donor Interest / Existing MSME Support Programs (weighted 1x)

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" value chain 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 Number of MSMEs* - About 5,000 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 their number of employees

*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 value chains (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>Craft export</i>
Unmet Market Demand [weighted 3x]	4	3	2
Potential Number of MSMEs [weighted 2x]	4	4	3
Potential for Employment Generation	3	3	3
Government or Donor Interest / Existing MSME Support Programs	3	4	2
<b>Total Weighted Score</b>	<b>26</b>	<b>24</b>	<b>17</b>

Using the scoring results, green beans for export was rated as top priority, dairy (milk) was second, and the craft export 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 primary actors in value chain, their roles, and interrelationships (market systems)
- Identify sales markets, unmet demand, and international competitors
- Identify supply channels and trends within value chain
- Identify constraints and opportunities that inhibit value chain growth and competitiveness

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 begins<sup>5</sup>.

The classic, more traditional approach for value chain analysis is a formal study. If time and resources are available, in-depth studies can be very valuable as they provide a thorough analysis of the dynamics within a value chain. One of the disadvantages of this type of analysis is that it is easy to get caught up in the intricacies of value chain mapping, statistics, etc., and so lose sight of the final goal (i.e., identifying value chain constraints that are blocking MSME growth and competitiveness, and the corresponding MBSs 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 group discussions with value chain representatives to validate and complement the secondhand information gathered. Focus group discussions with value chain representatives are a cost effective means of sharing experiences and ideas among different of enterprises and institutions operating within the same value chain. They can serve as a reality check, expose linkage opportunities, and foster ownership of the eventual interventions that will be 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 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

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<sup>5</sup> "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.

"incremental" approach and opt to dive into the value chain with an initial facilitation activity<sup>6</sup>. 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 understand the complexity of the market system it is engaging, and whether or not 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 to address the constraint (market saturation).

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

**TABLE 2. APPROACHES TO VALUE CHAIN ANALYSIS**

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

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 MBSs 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 makes program adjustments as it learns more about the players and internal dynamics of the value chain.

Whichever approach is used, a good starting point for conducting the market analysis is to access existing studies, reports, or statistics that provide information on the targeted value chain. These

<sup>6</sup> Chen, 1996.

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 *Elements of Value Chain Analysis*

Experience has shown that despite a variety of different value chain analysis methods, all analyses have similar elements. These elements include:

- End markets and competitiveness
- Relations among participants (shown in a value chain map)
- Governance structures, and
- Constraints

These elements are described in more detail below.

#### *End Markets and Competitiveness*

A value chain's competitiveness and potential for growth are ultimately determined by final consumers and buyers in the marketplace. For this reason it is necessary to thoroughly assess several aspects of the end markets:

- **Unmet market demand** – *is there evidence of strong effective demand for the products being produced? Is there unmet demand for the products?*
- **Trends** – *What are consumer preferences? What are domestic and global trends? Are there new innovations in the value chain?*
- **Growth potential** – *What is the potential for market expansion? What are the risks of market decline? What is the growth potential in the short, medium and long term? Are local production factors (land, labor, infrastructure, etc.) conducive to growth?*
- **Competitiveness** – *Are market actors able to sustainably produce quality products, increase sales and income, and meet market demand? Are market actors able to develop and maintain an edge over market rivals?*
- **Threats to competitiveness** – *Is there a threat of new entrants taking market share? Is there a threat of substitute products?*
- **Global benchmarking** - *How do global buyers perceive the country's value chain compared to other global suppliers?*

Assessing end markets also has benefits for a development program. The information gathered can help validate the choice of the value chain and ensure that the value chain criteria which were determined earlier apply to the value chain as expected. If it is discovered that the criteria do not actually apply (targeted producers are not as heavily involved as expected, for example), it may be possible at this early stage to "back out" with minimal costs incurred and to select a different value chain.

#### *Relations among participants (shown in a value chain map)*

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. 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. The practice of drafting a value chain map helps develop a “big picture” view of the market, provides helpful information about overall market trends, and validates and triangulates information from all market actors. In addition, they are very useful for identifying value chain actors to interview and to begin identifying major constraints and challenges that market actors face.

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 verified, to the extent possible, with other value chain representatives and/or with other 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.

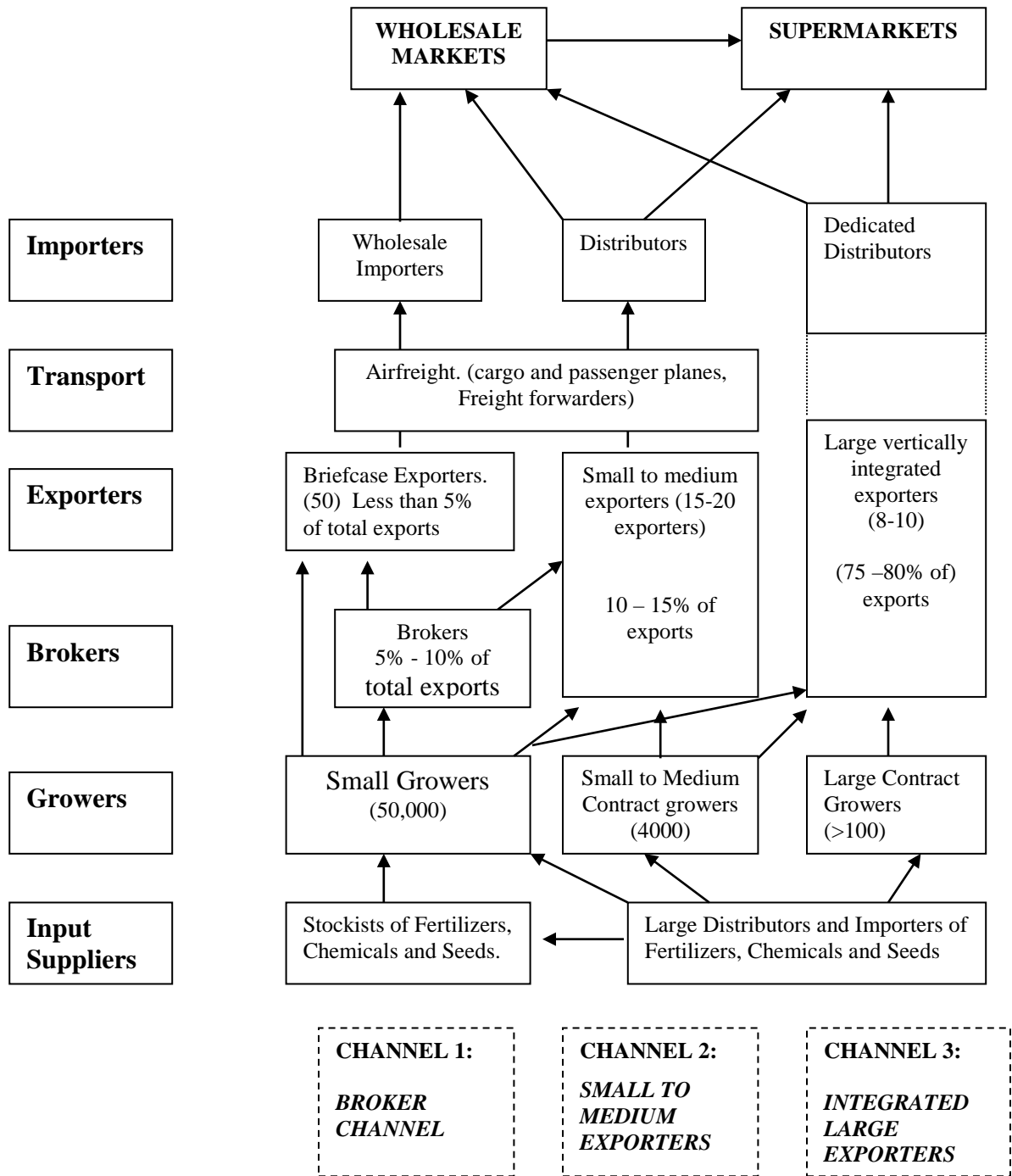
From Figure 3, three distinct product channels are evident: (1) briefcase/broker channel, (2) small to medium exporter channel, and (3) integrated large exporter channel. Each one has specific characteristics about the way that it operates, though there is some overlap between them. A brief summary of 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)<sup>7</sup>**



*Governance Structures*

In analyzing the interactions between different market actors, it is also necessary to identify the rules that govern of those interactions, often referred to as “Governance Structures”. "Governance" here refers to the nature of relationships between buyers and sellers, including the extent of their interactions with one another. Determining the governance structures within value

<sup>7</sup> Adapted from DFID report produced by Ebony Consulting International, September 2001

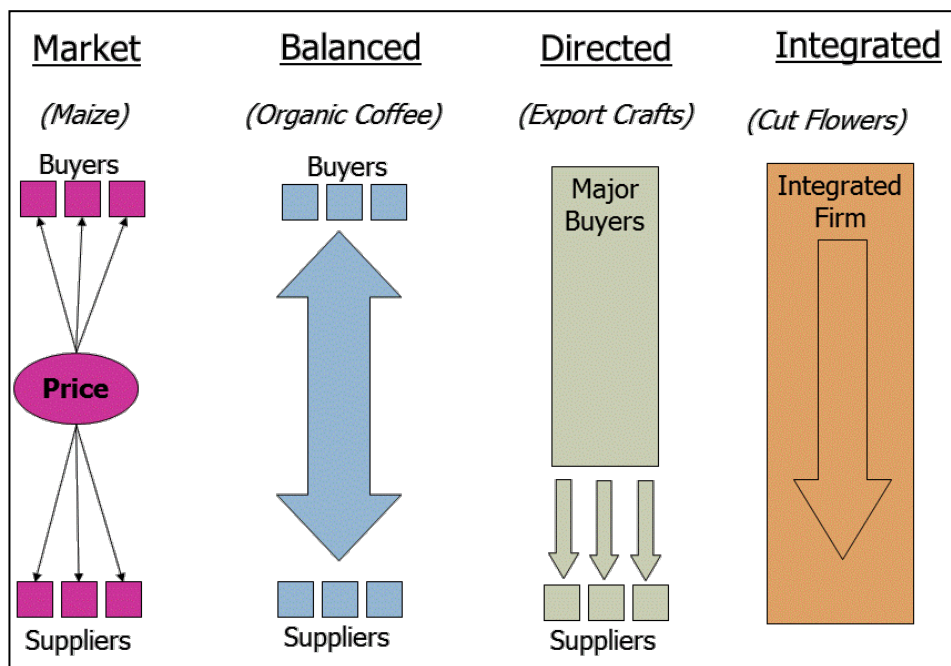


chains helps answer questions such as “who decides what is produced” and “how is the buying/selling structured”. The four basic types of governance structures which commonly occur between market actors include:

- **Market-based** – Many customers and suppliers exist, and repeat transactions are possible. Because there is little to no formal cooperation among participants (transactions between buyers and sellers are at “arm’s length”) information flows are limited and no technical assistance is available.
- **Balanced** – Buyers and sellers are interdependent. Suppliers have various customers. There is intense information flow in both directions. Both sides have capabilities which are hard to substitute. Commitment to solve problems through negotiation rather than threat. Fairly autonomous decision making among participants. There is cooperation but no one dominates.
- **Directed** - main buyer takes at least 50 percent of output. Buyer defines the product (design and technical specification) and monitors supplier performance supplier’s exit. Suppliers’ options more restricted than buyers’. Buyer provides technical assistance and “embedded support.” Buyer knows more about the supplier’s costs/capabilities than supplier knows about the buyers’.
- **Integrated** - Vertically integrated firm(s) integrate most VC functions into their internal operations. Supplying MSMEs sometimes owned by buyer or vice versa. Very limited autonomy to make decisions at the local level.

It is common to find that two or more different types of governance structures within a single value chain. Figure 4 shows graphical representations of each of these structures.

**FIGURE 4: TYPICAL GOVERNANCE STRUCTURES<sup>8</sup>**



#### *Identification of Value Chain Constraints*

Using structured interview guides, value chain constraints can be identified during interviews with value chain participants. The preliminary interview guide used in this approach, “Interview Guide for Value Chain Analysis” is designed to identify constraints and opportunities faced by

<sup>8</sup> Source: *The Governance of Global Value Chain*; Gereffi, Humphrey, Sturgeon

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 that typically affect the success of a business.

**TABLE 3. CATEGORIES OF VALUE CHAIN CONSTRAINTS**

<b>CATEGORY</b>	<b>EXAMPLES</b>
<b>Technology/Product Development</b>	<ul style="list-style-type: none"> <li>– small-scale farmers lack access to appropriate tools and machinery (technologies) which decreases their yield</li> <li>– craft producers lack access to new designs which limits their sales to buyers in up-scale markets</li> <li>– lack of technical skills of MSME's to produce to buyer specifications reduces their income and market</li> </ul>
<b>Market Access</b>	<ul style="list-style-type: none"> <li>– lack of linkages to large buyers decreases sales potential of MSME's</li> <li>– lack of information on standards reduces MSME's ability to produce to buyer specifications,</li> <li>– lack of intermediaries or brokers limits market outlets for MSMEs</li> <li>– high transportation costs increases the price of MSME production</li> </ul>
<b>Input Supply</b>	<ul style="list-style-type: none"> <li>– high prices of inputs restricts use by small-scale producers</li> <li>– use of poor quality raw materials by MSMEs results in inferior products unable to meet market demands</li> <li>– MSME's in remote rural areas lack access to inputs which reduces their productivity</li> </ul>
<b>Management and Organization</b>	<ul style="list-style-type: none"> <li>– MSMEs lack ability and time to conduct accounting which increases costs</li> <li>– MSMEs lack skills to develop business plans which decrease sales</li> <li>– high rejection rates due to poor quality result in loss of income for MSME producers and buyers</li> </ul>
<b>Regulatory / Policy</b>	<ul style="list-style-type: none"> <li>– import taxes on inputs increases producer costs</li> <li>– artificial price subsidies prohibit the emergence of MSME producers</li> <li>– export tariffs increase exporter costs and decreases global competitiveness of the value chain</li> <li>– lack of government contracting procedures that favor MSMEs reduces their opportunity to engage in public sector bids</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>– farmers are unable to pre-finance improved inputs, resulting in reduced yields</li> <li>– exporters lack access to commercial funding which limits their purchases from small-scale producers</li> <li>– inability of MSMEs to provide adequate collateral decreases their access to working capital loans</li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>– poor roads (or electricity, refrigeration facilities, telephones, etc.) increases the price of final products and makes competing with imports more difficult</li> </ul>

An additional category, socio-cultural, may also apply but is defined by the local culture. Examples of this may include the existence of a caste system, traditional gender roles, etc. As it these types of constraints are contextual and are usually beyond the reach of a development project, the category is not included in the seven constraint categories but should be considered as needed.

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 difficult, therefore to evaluate the relative importance of one constraint over another.

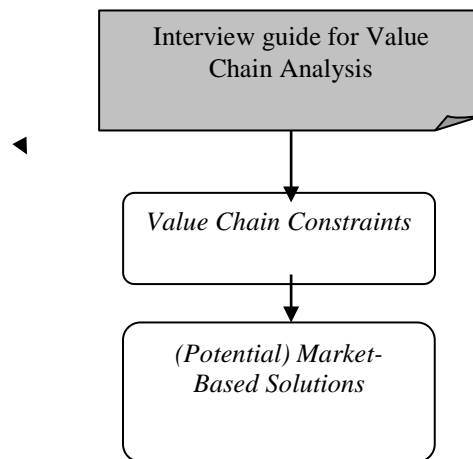
During the program design process, it may be determined that a single MBS provider can address a variety of constraints. This approach does not, therefore, attempt to prioritize constraints. Rather, it looks at each constraint and identifies a commercially viable solution (MBS) that could potentially address it. Prioritization of the MBSs then comes later, at the MBS selection step. At that stage, linked constraints can be reviewed to assess whether they could be addressed by the same commercially viable solution.

### 3.3 Identification of Market-Based Solution(s)

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

MBSs are commercially viable solutions which address business constraints in a sustainable manner and strengthen existing transactions between target MSMEs and other market actors. These types of MBSs can include provision of training, access to inputs, provision of design services, access to international markets, etc.

**FIGURE 5. FLOW OF INFORMATION**



In the following table, constraints, potential MBSs, and existing providers of the MBSs has been determined for the illustrative green beans for export case.

***ILLUSTRATIVE CASE: Part 6 - Identification of Value Chain Constraints and (Potential) MBSs***

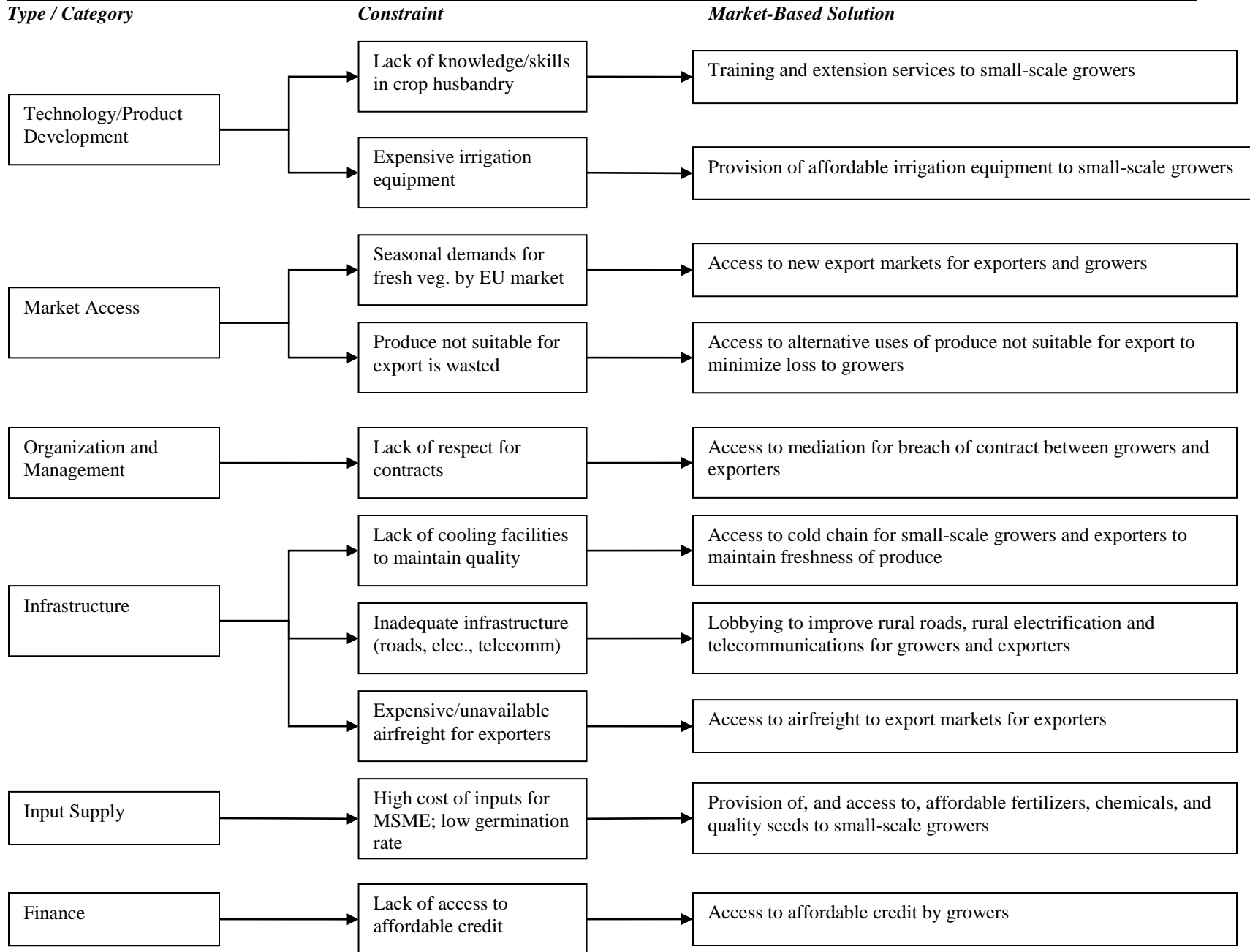
During the value chain analysis of the green beans for export sector, a variety of constraints were identified that were limiting MSME production and income. Ten potential MBSs with the potential to address those constraints, as well as existing providers of those solutions, were also identified:

<b>Constraints</b>	<b>Market-Based Solution (Potential)</b>	<b>Existing Providers of the MBS</b>
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 provision of 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.

As we can see in Figure 6 below, the constraints identified above are organized by category of constraint.

**FIGURE 6. ILLUSTRATIVE CASE - GREEN BEANS FOR EXPORT: CONSTRAINT AND (POTENTIAL) MARKET-BASED SOLUTION**



While it is not shown in the figure below, it is important to note that it is not necessary for constraints and MBSs to have a one-to-one relationship. For example, one constraint may have multiple potential MBSs, or one MBS can address two or more constraints.

***Prioritization of Market-Based Solutions for Assessment:*** At this point the MBSs identified earlier are short-listed and prioritized to identify those that will be subjected to more in-depth assessment. The short listing of MBSs can be done using the same tool seen earlier. This matrix ranks the potential MBSs against two major selection criteria: 1) potential to increase value chain growth and competitiveness, and; 2) potential number of MSMEs in the target group that will benefit, either directly or indirectly. MBSs that fall within a pre-determined “attractive” range are given highest priority.

The short-listing tool can help to create a short list of MBSs but the ultimate determination of which MBSs 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 MBSs that can be subjected to further analysis. Generally, a range of three to five potential MBSs can be assessed through interviews and focus group discussions over a one to two month period of time.

Before selecting MBSs 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 sector solutions and services that can be sustainable through transactions between private providers and consumers.

***ILLUSTRATIVE CASE: Part 7 - Prioritizing 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 MBSs (and corresponding constraints). The short-listing matrix below presents the results.

**Potential to Increase Value Chain Growth and Competitiveness**

– 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

**Number of MSMEs in Target Group that will Benefit (Directly & Indirectly)**

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

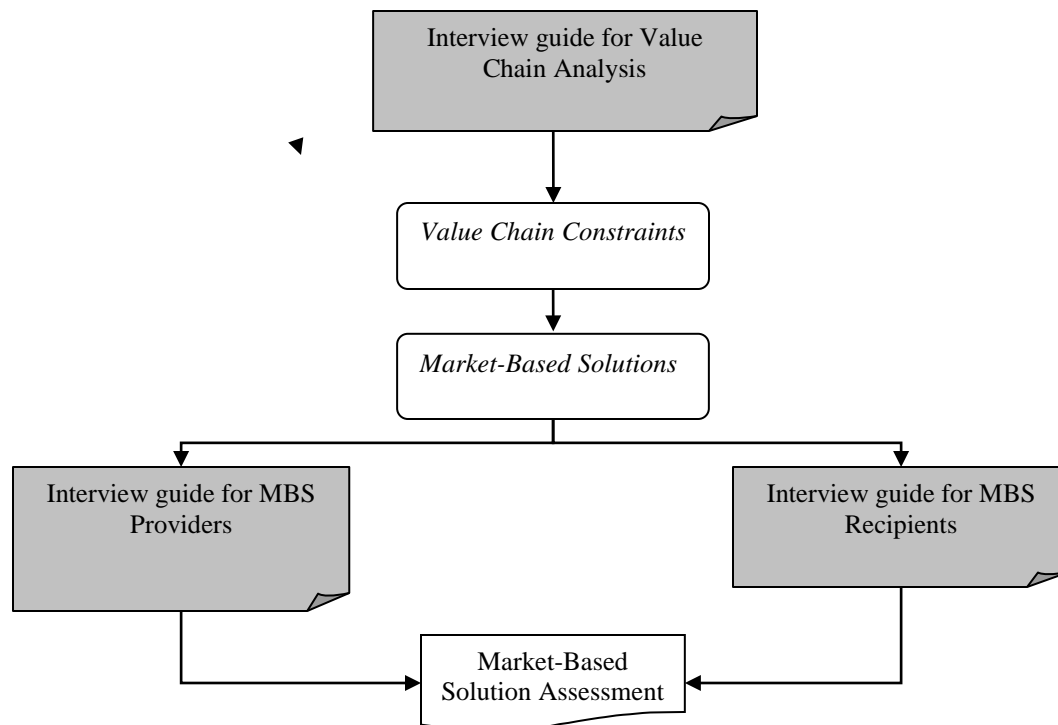
### 3.4 Assessment of Market-Based Solutions

Once the MBSs are selected, they undergo a more rigorous assessment. This assessment helps determine whether or not the MBS can be commercially viable. It is at this step that potential private sector MBS providers are identified, as well as incentives and challenges to provision. Later into the program design process, program facilitation activities will be based on helping private sector providers address the challenges identified during MBS assessments. Information and data on each targeted MBS are compiled and analyzed including:

- Existing providers
- Number of potential and actual users (beneficiaries)
- Nature of commercial relationship between providers and users (support services, how long has relationship been going on, trust, etc.)
- Incentives of market actors to provide or use solution
- Challenges to provision and use of the solution
- Awareness of the MBS among potential users
- Proposed provider (s) to target for facilitation activities
- Commercial viability of the MBS

Structured interview guides are used to help projects gather the needed information from both providers and beneficiaries of proposed MBSs (see Appendix 2). Once the initial "*Value Chain Analysis*" interview process has been completed the interviewer then asks users about targeted MBSs using the "*Interview Guide for Lead Firms + Beneficiaries of Market-Based Solutions.*" Providers of MBSs (LFs) are asked questions about identified MBSs through the "*Interview Guide for LFs (Providers of Market-Based Solutions).*" Once interviews with MBS providers and recipients are complete the information from these interviews is combined and analyzed to produce a MBS assessment. Figure 7 below illustrates how interview guides are used to gather and compile information, leading to an MBS assessment.

**FIGURE 7. FLOW OF INFORMATION**



To save time and project resources, some of the information gathered during the value chain analysis can also be applied to the MBS assessment. In addition, additional assessment tools can be used to complement the interview guide data if time and resources allow. 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.

### **3.4.2 Identifying MBS Providers (Lead Firms)**

Existing or potential MBS providers, also known as “Lead Firms” (LFs), are identified during the MBS assessment. LFs include: a) small, medium, and large firms that have forward/backward commercial linkages with targeted MSMEs; b) dynamic market actors that can promote greater integration of MSMEs into value chains, and: c) companies which provide important goods and services to MSMEs. Examples include input suppliers, buyers of MSME products, brokers/ traders, exporters, consultants/ service providers, and training organizations. It is not necessary for a LF to be a “leading firm” in the industry, although they may be. Note that while NGOs, government agencies, and donor programs sometimes provide needed products/ solutions to MSMEs in the value chain, their provision is typically not market-based or sustainable.

There are many advantages for development organization to target LFs as providers of market based solutions. As established market actors, LFs have incentives to sustain positive relationships with MSMEs beyond the development program’s life, and so sustainability of the MBS is greatly improved. LFs also have broad networks within the market and can apply the MBS to a greater scale at a much faster pace than a development project that has to establish new connections with MSMEs over a large geographic area. In a competitive market, LFs providing MBSs (which help both MSMEs and the LF) will establish new market standards, thus driving sustainable growth and innovation in the industry.

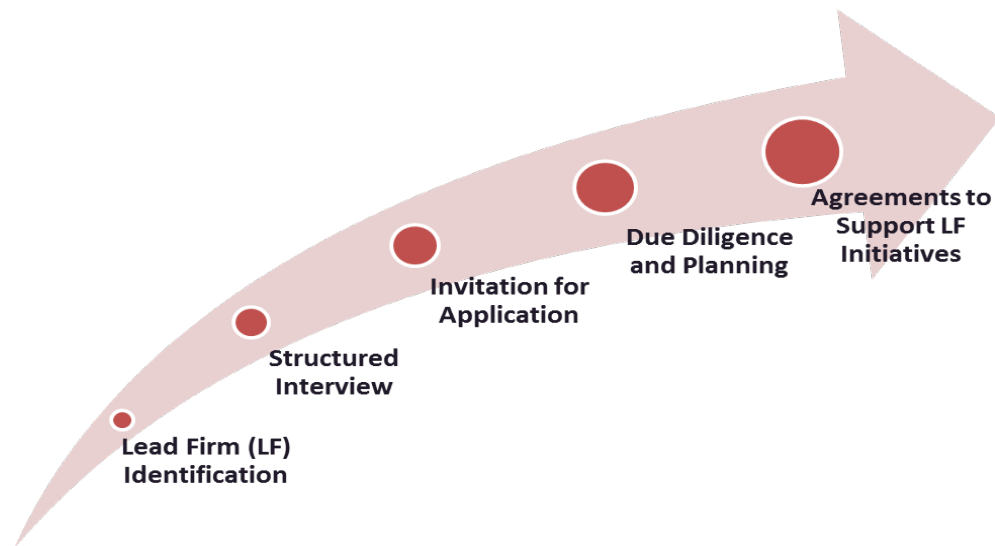
In most cases it is better for a project to work with as many LFs as project resources will allow. While working with one LF is simpler and lower cost, working with more than one is important. Collaborating with more LFs stimulates competition and increases the quality and number of choices of the products or services that the LFs offer. In addition, it help increase the project’s impact while avoiding problems that may occur if the project’s one (and only) initiative is not successful.

If there are currently no LFs providing the needed products or services to MSMEs, the project still has opportunities to facilitate the provision of the MBS. For example, companies which offer the products or services may be interested in expanding their reach into a new region (such as an input supply company expanding sales to a remote area). It may also be possible that existing LFs in the value chain can integrate new functions into their activities. An example of this would be a processor previously sourcing from traders developing direct procurement systems with producers. If these are not options, a final option would be for the project to support the emergence of new LFs that can provided the products or services needed by MSMEs (supporting a new LF investing in fresh milk wholesaling using a chilling tank, for example).

AFE has developed a series of tools which are used to initiate and then manage collaboration with LFs. These tools are shown in the graphic below, which is followed by brief descriptions of each. For an in-depth guide for each of these tools, see AFE’s “Handbook for Working with



Lead Firms in a Value Chain Context” which can be found at [www.actionforenterprise.org](http://www.actionforenterprise.org) (due to be published in December 2013).



**Lead Firm Identification** - Two tools for identifying lead firms, and making an initial determination as to whether they meet established criteria are: 1) structured interview guide, and; 2) inviting firms to submit “expressions of interest” (EOIs). The goal of the EOIs is to identify LFs that fit the DO’s criteria for collaboration. An example EOI request (prepared as a newspaper ad) is presented below in Figure 8.

**FIGURE 8. REQUEST FOR EXPRESSIONS OF INTEREST**

***Request for Expression of Interest from Agricultural Input Supply Companies***

An international development organization is inviting agricultural input supply companies to submit expressions of interest to build their capacity to provide greater access to quality inputs for small scale farmers (less than 4 acres). The opportunity to benefit from technical support from the project is open to all agricultural input supply companies which meet the following criteria:

- must currently be selling products (either directly or through their distributors) to at least 500 small-scale farmers.
- must have been in operation for at least one year.
- must be selling products of acceptable quality that respond to the needs of small-scale farmers.
- must have policies in place to ensure that no dangerous or illegal products are sold to farmers.
- must have commercial interest and incentives to invest in the farmers they sell to through training, new products, field days and/or other forms of support.
- investment in the proposed initiative must be at least 30% of the cost of the initiative.
- NGOs, consulting firms, and associations are not eligible to apply.

Interested companies are requested to send an email to [email] to request the application format. Phone inquiries can be directed at [phone number]. All expressions of interest are due by [date].

**Structured Interviews** - LFs are often identified during value chain analysis or as part of a request for EOIs - based on their ability to provide needed products/services/support to targeted

MSMEs in a commercially viable manner. Once identified, the development program can use interviews to determine whether the LFs meet their selection criteria. These interviews may be conducted in addition to interviews already conducted during the value chain analysis and can be followed up with references from suppliers, buyers and/or service providers. *See appendix 2.*

***Invitations for Application*** – see section 3.5.2

***Due Diligence and Planning*** - In evaluating an application submitted by a LF the development program should also conduct due diligence of the proposed LF. Development program managers should establish a due diligence checklist (that includes site visits) that can be used for the review of LFs before agreements are signed.

***Agreements to Support LF Initiatives*** – see section 3.6 for information about Memorandums of Understanding (MOUs) and MOU Addendums.

For additional guidance on working with Lead Firms (Inclusive Businesses) see “Tools and Methodologies for Collaborating with Lead Firms” on [www.actionforenterprise.org](http://www.actionforenterprise.org).

### ***3.4.2 Assessing the Feasibility of Market-Based Solutions***

Part of the MBS assessment involves determining how the cost of the MBS will be covered by the targeted LFs. Two ways that the costs of providing MBSs to MSMEs can be sustained in the market are: 1) charging fees, and 2) "embedding" the MBS as part of a transaction.

In the first case, fees paid by the MSMEs cover the costs of providing the targeted MBSs. In these cases, MSMEs transact with private providers whose main activity is the provision of the targeted product, service or solution. Examples of these providers include technical consultants, trainers, and input supply companies. 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.). The feasibility of fee-based MBS can be determined by a review of projected costs and revenues generated by the MBS, analysis of competition, etc.

In the second case, the LF providers of the MBS cover the costs of the MBS to MSMEs. These providers provide MBS 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 MBS are sometimes called “embedded” MBS, since they are part of the commercial transaction the MSME and the LF provider. Embedded MBS 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 the MBS is limited. This is especially true in agriculturally-based value chains.

There are many ways to promote and develop embedded MBS 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 MBS, illustrating the cost/benefit of the solution to the provider, and demonstrating the importance of the MBS to the MSME user. In some situations embedded MBSs are provided by a "third-party". In this case, a LF provider hires an independent consultant to provide the MBS 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 MBS provider: one paying for the MBS (and thereby providing embedded MBSs to the MSMEs), and another providing the MBSs directly to MSMEs. In these cases the issues and challenges facing both levels of provider need to be considered during the assessment.

Determining the commercial feasibility of embedded MBSs is more difficult than for a stand-alone service. With an embedded MBS, the market performance of a LF provider's other products and services is explicitly tied to the sustained provision of the MBS. These providers need to have strong sales in order to justify the provision of embedded MBSs. 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 training to dairy farmers).

Both scenarios for covering the costs of MBSs 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 MBSs (existing and potential) within a value chain and to identify appropriate means of promoting them. Regardless of the type of MBS, additional costs will be incurred in the expansion of an MBS or the delivery of a new one. Thus, the assessment of an embedded MBS must also include analysis of projected sales increases for a LF provider's main products. This information will be useful in convincing providers to adopt or expand the provision of an MBS for MSMEs.

### 3.4.3 Presentation of the MBS Assessment

Information gathered during the MBS assessment of the illustrative case is presented below.

#### ***ILLUSTRATIVE CASE: Part 8 – MBS 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.

**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, and input suppliers.

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

**Challenges for 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

**Incentives for Exporters and Input Supply Companies** - Exporters have an incentive to train producers in order to get a high quality product that will meet market standards. Input supply companies have an incentive to train producers so producers understand how to successfully use their products, to develop producer loyalty and to increase market share

#### **Proposed LF 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 MBSs (see Section 3.7 below).

### 3.5 Identification of Facilitation Activities

Using this approach, the DO's role is to support the initiatives of LFs to improve/ expand the MBSs they provide to targeted MSMEs, not to provide MBSs directly to MSMEs. This promotes sustainable impact that will continue through the LFs after the development program ends. In addition, the value chain is improved through increased competitiveness and improved inter-firm relationships. Facilitators do not distort markets by setting themselves up as a market actors.

#### 3.5.1 Lead Firm Interventions

LF interventions are activities undertaken by LFs to improve their competitiveness and expand or develop the products, services, and support they provide to MSMEs they buy from or sell to. These are typically interventions that the LF would not otherwise undertake in the near term due to risk, cost, and lack of technical support. ***LFs take responsibility for organizing and implementing these activities*** and they must be activities that the DO can justify supporting based on the impact they will generate for targeted MSMEs. Examples are presented below.

#### ILLUSTRATIVE LF INTERVENTIONS / INITIATIVES

- **Access to markets** - participate in trade shows or exhibitions, visit potential buyers, receive visits from potential buyers, gain certifications (organic, ISO, HACCP, GlobalGap, etc.), develop websites / build online marketing presence, conduct market assessments and develop marketing strategies
- **Sale of products or services needed by MSMEs** - develop demand for their MSME products or services, conduct market research for MSME markets they sell to, adapt products or services to specific needs of targeted MSMEs, develop/improve distribution networks, develop alternative financing or payment mechanisms that promote MSME access to their products/services
- **Procurement from MSMEs** - identify MSME suppliers, develop outgrowing operations, development of collection points, build capacity of MSME suppliers through training, technical assistance, demonstrations, field days, etc., develop aggregation models / procurement models (for purchasing in economies of scale), develop credit programs for MSME suppliers, develop seed multiplication programs and introduction of higher yielding varieties (seeds can be provided/sold to LF's MSME suppliers)
- **Access to finance** - create linkages with financial institutions and work with them to adapt their lending products, develop system for mobile payments, business plan development, develop tripartite arrangements between LF, banks and MSME producers they source from, develop crop insurance schemes with insurance companies
- **Technology/Operations/Product development** - access technical specialists (e.g. product design, processing, storage, etc.), conduct learning/exposure visits to companies with exemplary operations, conduct visits to suppliers of needed equipment and inputs, develop improved IT skills, optimize product development processes, conduct strategic review of product portfolios, develop R&D capacity, identify sources of finance for new equipment and materials
- **Management and organization** - develop improved management information systems, develop business plans (e.g. new investments, update current plans based on latest competitive/technology factors, expand operations, develop direct procurement operations with producers, etc.), develop management systems (financial, inventory, HR, administration etc.), develop quality control / quality assurance / traceability systems, build capacity of staff.
- **Resolution of policy and regulatory issues** - establish or revise industry standards for products or services, establish or revise industry codes of conduct, create or strengthen coalitions or associations to lobby for specific changes in policy or regulation or carry out industry-wide assessments, etc.

By providing strategic support and “facilitating” LF initiatives DOs can play an important role in improving competitiveness, inter-firm relationships, and benefits to all value chain participants.

### 3.5.2 *Invitations for Applications (IFAs)*

“Invitation for Applications” (IFAs) can assist LF’s to identify and propose interventions that they will be responsible for organizing and managing and which can be facilitated with strategic support by the DO. The components of an IFA are described below.

#### **Components of an IFA**

***Objectives of the Development Program*** - Describes the development program’s objectives.

***Eligibility requirements*** - Provides the criteria that LFs must meet to participate in the development program.

***Potential support amounts (optional)*** - Establishes the range or maximum amount of financial support that the development program is willing to provide to the LF to support its initiatives.

***Illustrative LF Initiatives/Interventions*** - Provides examples of initiatives that the development program could support (See examples in section 3.1 above).

***Percent of LF Activities that must involve Direct Interaction with MSMEs (optional)*** - Stipulates the percentage of the proposed intervention budget that must be allocated towards direct interaction with MSMEs in the development program’s target group (such as producer trainings).

***Cost share rules*** - Sets the limitations of what financial support can and can’t be used for. Typically financial support *cannot* be used towards the purchase of fixed assets or for working capital such as rent or salaries. This section also clarifies that a significant investment is required by the LF themselves.

***Description of approval/implementation process*** - Lays out the process that will take place before the development program gives final approval for technical and financial support.

***Instructions and format for completing application*** - Provides a detailed explanation of the expected format for the application submission, including the technical narrative and budget.

***Conditions and confidentiality*** - Explains legal and confidentiality issues.

*(see Appendix 3 for an example IFA)*

The IFA process is not a competitive ‘winner takes all’ exercise. All LFs that submit an application with proposed initiatives that meet the development program’s established criteria should be eligible for support. LF initiatives should be activities that the LF might not otherwise carry out on its own in the near term due to risk, personnel and financial costs, or lack of technical skills. By offering strategic technical and financial support, the DO provides incentives for the LFs to undertake these investments and initiatives. It thereby helps to “buy down the risk” and encourages LFs to move forward.

Once applications are submitted the development program conducts a careful review and invites the LF to participate in discussions designed to clarify and improve their proposed initiatives. This might entail supporting the LF to develop a strategic or business plan for their initiative, or developing a careful planning and timetable. DOs can also assist the LFs to prepare their applications. A LF application should not be judged based on writing style, but rather on the contents. Working with LFs to elaborate and clarify their plans should be seen as a form of technical support and the beginning of a collaborative process.

Applications from LFs can also result in the identification of “**cross-company**” interventions that could benefit several LFs in the value chain. Examples of these might include exposure visits, training activities, addressing policy issues, etc. After reviewing several applications from different LFs the development program might see such opportunities and then propose such cross-company activities to the LFs.

### *Technical Support for LF Interventions*

Development programs can provide a variety of technical support to help facilitate the success of LF interventions. This support begins during discussions and negotiations about the LF's application during which time the development program supports them to clarify and plan their proposed initiatives. Further examples of development program technical support include assisting LFs to:

- develop business and marketing plans for new initiatives
- develop strategies for outgrowing operations
- organize training of trainers for company staff
- plan and organize field days and demonstration plots
- prepare for trade shows and exposure visits
- access technical specialists with specialized knowledge and skills
- link with financial institutions and input supply companies
- identify and adopt information communication technologies
- conform with industry standards and buyer requirements
- prepare job descriptions for staff positions related to new initiatives

### *Financial Support for LF Interventions*

In addition to technical support, collaboration between development programs and LFs often includes financial support (cost share) where the development program helps to offset some of the costs and mitigate the risks that the LF faces in making new investments (investments that will benefit producers they buy from or sell to). Seen another way, sharing the cost of interventions with the LFs can provide incentives for the LF to move forward with an initiative that otherwise they might not be willing or able to do in the near term. In order to promote sustainability however, DOs should limit their cost share to capacity building and pilot activities and not subsidize LF assets or recurrent operating costs.

## **3.6 Structuring Collaboration and Monitoring Performance**

### *Structuring Collaboration*

Carefully structuring collaboration with LFs is done through Memorandums of Understanding (MOUs) and Addendums to the MOUs. An MOU provides a general overview of the type of activities to be promoted (along with general legal provisions) but that does not make firm commitments from the development program for technical or financial support. In this way, the MOU establishes a broad understanding of the purpose and objectives of the collaboration. An example of a general MOU can be seen in Appendix 4.

MOUs are then “amended” using “technical and financial support addendums” that specify how the DO will support specific LF initiatives/ interventions. See Appendix 5 for an example of an MOU addendum. Advantages of having a general MOU followed by more detailed addendums include: signing a general MOU shows commitment without allocating resources yet, MOUs can show progress to donors (while LF interventions are developing), addendums allow and encourage flexibility through an “incremental approach” in which learning takes place and trust develops with the LF as the program progresses.

### *Monitoring Performance*

Once activities are underway, special care is made to closely monitor both implementation and impact of the LF interventions. Three systems are used to ensure that this is accomplished:

- 1) Monitoring Checklists for specific LF interventions
- 2) Monitoring and evaluation systems for the development project
- 3) Technical and financial reporting from LFs

Development project monitoring and evaluation (M&E) systems are designed with a clear causal model when working with LFs which describe the major cause and effect assumptions of the program, and measure performance at the MSME-level, MSB level, and at the program level. Figure 11 below shows illustrative steps for monitoring and evaluating performance of the development program working with LFs.

**Illustrative steps for monitoring and evaluating performance of a development program working with LFs:**

- Step 1: Review DO program indicators
- Step 2: Discuss program indicators with lead firms
- Step 3: Sign Memorandum of Understandings (MOUs) with lead firms
- Step 4: Conduct baseline data collection with lead firms\*
- Step 5: Baseline data entry
- Step 6: Semi-annual LF level data collection and entry\*
- Step 7: Semi-annual program-level data collection and entry (information not directly related to LFs transactions with MSMEs)
- Step 8: Reporting

*\* Information gathered from LFs on purchases from, sales to MSMEs is used to determine impact on MSMEs*

Financial and technical reporting information is gathered from LFs in a consistent and simple manner, again to avoid overburdening the LF which most likely also has its own internal reporting systems. Financial reports submitted by LFs include an invoice (presenting expenditures made by the LF for activities, cost share percentages, and the total amount approved in the MOU Addendum) and supporting documentation (including a cover sheet summarizing costs incurred by line item and with relevant receipts or other documentation).

#### **IV. GENERAL PRINCIPLES**

The following principles can be helpful in program implementation and 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. MBS 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 MBSs*  
Local institutions need to determine whether they are direct providers of MBSs (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.*

5. *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.

Additional principles for facilitation of value chain and market development programs include:

**Promote Relationships between LFs and other market actors in VC**

- ✓ DO should stay out of commercial, intermediary, or negotiation roles in VC
- ✓ allow LFs and producers to determine most appropriate structures for buying/selling without DO imposing preconceived organizational structures
- ✓ recognize it takes time for DOs to gain credibility with LFs

**Professionalism**

- ✓ manage collaboration with LFs in businesslike fashion; deliver what is promised
- ✓ ensure LF information is kept confidential; be clear that sensitive LF business information will not be shared with others

**Transparency / Neutrality**

- ✓ act in impartial manner and recognize important role of ALL market actors in VC; no bias for one market actor (or organizational structure) over another

**Understand Private Sector and Business Principles**

- ✓ demonstrate understanding of private sector competitive and operating environment
- ✓ recognize LFs as innovators, economic drivers, etc.
- ✓ understand and appreciate LF risks



## V. CONCLUSION

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

The authors would like to invite all readers to also review Action For Enterprise's "Handbook for Working with Lead Firms in a Value Chain Context" which can be found at [www.actionforenterprise.org](http://www.actionforenterprise.org) (due for publishing in February 2014). The handbook provides an in-depth guide for engaging and collaborating with private sector Lead Firms, which is only briefly described in this paper.

## **APPENDICES**

Appendix 1: Interview Guide Used in Value Chain Analysis

Appendix 2: Interview Guides for Assessing Market-Based Solutions

Appendix 3: Invitation for Applications (IFA)

## Appendix 1: Illustrative Interview Guide for Value Chain Analysis

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

### **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, Trends, and Governance**

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. Describe the relationships you have with these buyers (who determines what to produce, product specifications, prices, and amount purchased?). How much input do you have?
4. How do you promote and market your products/services?
5. How strong is the market for your products/services right now? Next year? What trends do you see?
6. Are some customer groups better than others in terms of sales and revenue growth? Which ones?
7. Do you ever collaborate with other firms on promotion and/or marketing?
8. Who are your major competitors?
9. Do you have a means of communicating information about your firm to others?  
(Attach any brochures, list of products, etc.)

### **Standards and Certifications**

1. What standards or certification requirements do your products need to conform to?
2. Who sets these standards and requirements?
3. Who helps you to conform to these standards and requirements?
4. Do you have any problems in this regard?

### **Technology / Product Development**

1. What are your major needs/ opportunities in product design and manufacturing (or service delivery)?
2. What other products do you produce/sell? What percentage does each product represent in terms of your gross revenue?
3. What have you done recently to improve your products or services?
4. Is your current equipment or machinery an impediment to growth? Explain. If so, what kind of equipment or machinery could improve your business?
5. Is the current level of your workers training holding back growth? If so, what additional training do they need?

### **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 functions do you subcontract/outsource?
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?
6. Other (repayment rates in the sector, risk management insurance, etc.)

**Policy/Regulation**

1. What government policies/regulations benefit your business (registrations, inspections, subsidies, incentives, etc.)?
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? If not, why?
3. What are the primary functions and benefits of these associations?
4. What additional services should they provide?

**Final Open Ended Questions**

1. What are the major incentives you have for investing in / promoting change in the value chain?
2. What risks or constraints do you face in making these investments?
3. What do you think are the strengths of your industry locally and/or internationally?\*
4. What are the main weaknesses of your industry?
5. What do you think is the greatest challenge facing your industry today?
6. Can you name some business owners in your industry who are leaders –for example, in terms of technology, product design, quality, or marketing?
7. How did you get into your business?

*\* If success factors for international competitiveness have been pre-determined then respondents can be asked to rank their country on a scale of 1 - 5.*

## Appendix 2: Interview Guides for Assessing Market-Based Solutions

### Illustrative Structured Interview Guide for Potential Lead Firms (*Providers of MBS*)

This illustrative guide should serve as checklist to ensure that questions are addressed in interviews with LFs. It **should not be used as a questionnaire**.

**Introduction:** We represent the [name of project]. We have conducted research into the [name of VC] industry and have found that [name of market-based solution] is a constraint facing many [targeted MSMEs]. 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. The [name of project] will be developing a program of support to the [name of VC] sector and this information will be useful in developing this program. Depending on the results of the program design, firms like yours could be invited to participate.

#### Part I: General company information, position in value chain, competitive advantage, etc.

Company Name and Contact Information
Description of products or services they sell
Description of market trends and demand for their products or services
Geographic coverage where they sell their products or services
Company size and number of staff
Years in business
What differentiates your firm from your competition? What is your unique selling point or strength?
Are you participating in/or a member of any professional associations? Do you participate in any industry forums?
Have you made any recent investments to develop or expand your company?
Description of how and where the company sources raw materials
Supply/distribution map (showing how products or services are sourced and distributed)
What types of investments have you made (or are you planning to make) to “upgrade” or strengthen the MSMEs that you buy from or sell to?
Description of major constraints affecting your overall business
Please list any other companies similar to yours that are in your industry? Which ones have the largest market share? Which are most innovative?
Are you currently working with any donors or development organizations?

**Part II: Specific Information on Product, Service, or Support that LF Provides (or Could Provide) to MSMEs They Buy from/Sell to<sup>9</sup>**

Product/service/support #1	[Describe product/service/support] to [targeted MSMEs / DO target group]
<b>General Information</b>	<ul style="list-style-type: none"> <li>– How many MSMEs do you currently carry out <u>[direct procurement, sale of inputs, technical support, etc.]</u> with and where?</li> <li>– Describe the size of these MSMEs and the scale of your transactions with them.</li> </ul>
<b>Incentives/ Risks/ Constraints</b>	<ul style="list-style-type: none"> <li>– What incentives do you have for carrying out <u>[direct procurement, sale of inputs, technical support, etc.]</u> to <u>[targeted MSMEs]</u>?</li> <li>– What challenges or risks do you face in carrying out <u>[direct procurement, sale of inputs, technical support, etc.]</u> to <u>[targeted MSMEs]</u>?</li> <li>– What support do you need to reduce risks or develop capacity to address these challenges?</li> </ul>
<b>Description</b> (diversity of production, features/ benefits, cost recovery, etc.)	<ul style="list-style-type: none"> <li>– Describe how you conduct <u>[direct procurement, sale of inputs, technical support, etc.]</u> to <u>[targeted MSMEs]</u>.</li> <li>– How do you cover your costs of carrying out <u>[direct procurement, sales of inputs, technical support, etc.]</u> to <u>[targeted MSMEs]</u>?</li> <li>– What are the features and benefits (e.g., transport, after sale market solutions, warranties, etc.) that you provide to make <u>[direct procurement, sale of inputs, technical support, etc.]</u> more appealing to <u>[targeted MSMEs]</u>?</li> <li>– How many firms carry out <u>[direct procurement, sale of inputs, technical support, etc.]</u> to <u>[targeted MSMEs]</u>? (get contact info)</li> <li>–</li> </ul>
<b>Users / Trends</b>	<ul style="list-style-type: none"> <li>– How many <u>[targeted MSMEs]</u> do you carry out <u>[direct procurement, sale of inputs, technical support, etc.]</u> for?</li> <li>– How frequently do you carry out <u>[direct procurement, sale of inputs, technical support, etc.]</u> to? What is the volume or scale of your <u>[direct procurement, sale of inputs, technical support, etc.]</u> per year?</li> <li>– How many <u>[targeted MSMEs]</u> do you think can use (and acquire/pay for) the <u>[direct procurement, sale of inputs, technical support, etc.]</u>?</li> <li>– Do you see the need for <u>[direct procurement, sale of inputs, technical support, etc.]</u> growing in the future?</li> <li>– How do/will you obtain information on what <u>[targeted MSMEs]</u> want?</li> <li>– How do/will you let <u>[targeted MSMEs]</u> know that you carry out <u>[direct procurement, sale of inputs, technical support, etc.]</u>?</li> </ul>

\*\* Repeat Part II for each LF product/service/support (MBS) provided to targeted MSMEs.

**Part III: Describe any initiatives you would like to carry out to improve or expand your capacity to provide (targeted MBS) to (targeted MSMEs)**

<sup>9</sup> If a specific product, service or support required by MSMEs is not known at this point, can use “products, services and/or support to MSMEs you buy from/sell to” (on generic basis)

## **Illustrative Interview Guide for MSMEs Transacting with Lead Firms (Users/Beneficiaries of the Market-based Solution)**

Name of Market-based 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 the lack of *[name of market-based solution]* is a constraint facing many *[targeted MSMEs]*. 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.

---

### **Incentives / Risks / Satisfaction**

1. What incentives do you have for using/purchasing *[name of market-based solution]*?
2. What are the risks/constraints you face in using *[name of market-based solution]*?
3. Are you satisfied (do you have problems) with the *[name of market-based solution]* that you are currently using? Explain.
4. What could be done to solve these problems?
5. What could the providers of *[name of market-based solution]* do to improve the *[name of market-based solution]* they provide?

### **Usage / Transaction / Relationship**

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

### **Awareness**

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

### **Questions Specific To [name of market solution]**

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

## Appendix 3: Example Invitation for Applications (IFA)

### INVITATION FOR APPLICATIONS PROGRAM TO SUPPORT AGRICULTURAL SUPPLY CHAINS IN KUMAR

**AFE Kumar** is a donor funded activity which aims to expand Kumar's ability to compete with increasing effectiveness in domestic and global marketplaces. **Action for Enterprise (AFE)** is an implementing partner of the project charged with the goal of strengthening linkages between food processors and agricultural producers.

AFE is inviting selected **agribusiness companies** (buyers, exporters, wholesalers, etc.) working in Kumar to submit applications to:

1. build their capacity to provide support to producers they buy from;
2. improve their competitiveness, and/or;
3. expand the number of producers they buy from

Financial support agreements ranging from *Shs 5,000 – Shs 7,500* will be negotiated with selected companies based on the selection process described below. These funds must contribute to a significant investment (in cash or in-kind) that will be made by the companies themselves. AFE program staff will also support the successful applicants in the implementation of their activities. Applications must be submitted in accordance with the format described and received no later than **December 31<sup>st</sup>, 2013**.

**Background** - The objective of the AFE program in Kumar is to promote mutually beneficial (win-win) relationships between market actors in the agribusiness industry. As part of this effort, AFE is implementing a program to support various agricultural supply chains in Kumar. AFE realizes the importance of private sector companies to drive change and provide technical support, inputs, and market access to the producers they transact with. AFE is therefore seeking to collaborate with selected companies in order to support initiatives that will improve their competitiveness and build their capacity to provide improved or expanded support to producers they buy from. Such companies may include exporters, processors, and wholesale buyers who employ or engage small-scale farmers in growing the crops that they need.

**Illustrative Areas for Support** - Proposed activities should contribute to the company's ability to improve, expand or develop support they provide to producers they buy from or sell to. Examples of activities that could be supported include, **but are not limited to**, the following (*company would be responsible for organizing and managing these activities with technical and/or financial support from AFE*)

- Producer training / extension activities
  - a. Development of training modules
  - b. Company led training/coaching of new or existing producers in improved production and post-harvest handling techniques
  - c. Organization of demonstration plots to expose producers to improved production practices and/or new varieties
  - d. Capacity building of company staff / lead farmers to provide improved extension and training services to producers
  - e. Introduction of sustainable production methods
- Introduction of new varieties
  - a. Identification and testing of new crop or product varieties
  - b. Seed development programs / trials
- Procurement
  - a. Development of new / innovative procurement models in rural areas
  - b. Development, improvement, or expansion of outgrowing (contract farming) operations
  - c. Investigation into new areas where products can be produced and/or sourced from small-scale producers



- Technology
  - a. Introduction of new or improved tools/equipment for producers
  - b. Technical support in developing post harvesting techniques that will benefit producers company is sourcing from
  - c. Technical support for company to develop or improve its final products (quality, packaging, labeling, product diversification etc.)
  - d. Introduction of new methods for post-harvest storage, and/or methods to preserve product freshness and value.
  
- Exposure Visits / Business to Business meetings
  - a. Learning visits in Kumar or to other countries to identify:
    - Sources of tools or equipment
    - Sources of raw materials
    - New production technologies
    - Innovative ways of organizing procurement between producers and buyers
    - New techniques for achieving high productivity/quality/lower costs from farm gate through to retail
    - Techniques to identify and eliminate diseases
  
- Market access
  - a. Technical support to meet requirements of new markets
  - b. “Buyer-Seller Meets” (meetings in Kumar or another country where companies meet with potential buyers in person – mostly for exports)
  - c. Company conducts meetings to inform producers about the products they are interested in buying from, or selling to them.
  - d. Technical support to improve decoration/organization of trade show stands
  - e. Development of promotional materials, catalogues, web pages, etc.
  - f. Trade show participation (*financial support for trade show participation will not be included at this time, but could be included in the future*)
  
- Management Systems
  - a. Development of business plans
  - b. Strategic planning exercises
  - c. Improving quality management (QM) systems at different levels of supply chain – from producers through to companies (assess quality gaps at different stages of production, develop guidelines for QM systems, develop QM checklists, disseminate QM standards with producers, safety regulations, etc.)
  
- Policy/Regulation
  - a. Organization of a coalition of market actors to lobby for specific government policies that will support the growth in agribusiness sectors

This list is non-exhaustive. It is simply to provide examples of company initiatives that could be supported by AFE. Any combination of these activities is encouraged. However, all supported activities must show how they will create sustainable impact for the producers that the company buys from or sells to.

***AFE financial support funds cannot be used for:***

- Working capital (day to day operations for purchasing, rent, salaries, etc.)
- Direct payment to producers
- Fixed assets (computers, looms, equipment, etc.)

***General Criteria*** - Criteria for applicants eligible for this program include:

- They must have existing commercial (buying or selling) relationships with at least 50 producers (includes laborers working for those producers).
- They must have a fully developed and marketable product and should have been in operation for at least the past two years. They must have commercial interest and incentives to invest in the producers they buy from through training, provision of inputs, and/or other forms of support.

- Their investment in the proposed initiative must be at least 30% of the cost of the initiative (in cash or in-kind).
- **At least 60% of proposed activities/budget should be for activities where the company develops/improves the direct support it provides to producers (training, introduction of new products, technologies, quality management, etc.)**
- Program is not eligible for NGOs, consulting firms, or associations

After review of the applications, AFE may determine that some of the proposed activities (such as exposure visits) might be best pursued as “cross-company” interventions, with several companies participating (an example could be an exposure visit to identify new kinds of packaging). This could have the effect of reducing costs and promoting lateral learning among the participating companies. This assessment (as well as discussions with the Applicants) will take place once Applicants have submitted their applications.

**Expected Results** - While it is expected that participating companies will benefit from these activities, it is also expected that activities supported under this program will demonstrate a clear linkage to expanding the number of producers the companies are transacting with, skills upgrading, and/or improved revenues for producers.

**Preparation of Applications** - Support from AFE may be given to several different companies. All applications will be evaluated based on the criteria in the table below and the general criteria given above. **All applicants that meet the criteria will be considered for financial support.** Applicants are invited to discuss their ideas and request advice from AFE in the preparation of their applications.

### INSTRUCTIONS AND FORMAT

<p><b>Cover Page</b>  <i>Name and Address of Applicant (address, phone, fax, email)</i>  <i>Date of Submission</i>  <i>Lead Person to Contact</i>  <i>Reference: AFE Agribusiness Sector Application</i></p>
<p><b>Activities and Impact (up to 2 pages):</b>  <i>Clear description of proposed activities including how they will contribute to improved competitiveness of the Company and how they will support producers they source from.</i></p>
<p><b>Personnel (up to 1/2 page):</b>  <i>Describe the name and qualifications of the people who will be responsible for implementing the activities.</i></p>
<p><b>Experience (up to 1/2 page):</b>  <i>Brief description of past or current initiatives that company has conducted similar to those proposed, or why the company feels it is qualified to successfully conduct the proposed activities</i></p>
<p><b>Sustainability (up to ½ page):</b>  <i>A clear description of how the activities will result in increased and sustainable commercial relationships between the company and producers, and how the company will be able to continue these commercial relationships and provide support to the producers once the program ends.</i></p>

Applications will be accepted in English and must be no more than four pages in length (not including the budget or budget notes). AFE will select applicants that meet criteria by January 15, 2013. At that time, more detailed activity planning will take place between AFE and the applicants. This planning will include:

- Detailed discussions and agreement on strategy, budget and timing for different activities.
- Discussions on how technical support from AFE staff and consultants can be provided to support the agreed upon activities.
- Discussions on how combined technical support or “cross-company activities” might be organized with several Companies.

Technical and financial support activities will begin in February 2013. All supported initiatives must be completed by October 31, 2014.

Please submit an electronic copy of the application by December 31<sup>st</sup>, 2012 to the AFE representative at email [applications@actionforenterprise.org](mailto:applications@actionforenterprise.org). Please include the name of the lead contact person who will be involved with the application process as well as the telephone and email contact information.

**Conditions** - Issuance of this request for application in no way constitutes a commitment by AFE or [donor agency] to execute any agreement or to pay any costs incurred by any applicant in submitting an application.

Please note that AFE **will fully respect the confidentiality** of all companies involved in the program. A joint memorandum of understanding between AFE and the Company will be developed, with detailed activities clearly defining the respective responsibilities, roles, and obligations of each party. Successful applicants must be willing to share information with AFE regarding their purchases from targeted producers. AFE (on a sample basis) will conduct interviews with these producers to gather information on impact and to monitor progress.

**INSTRUCTIONS FOR COMPLETING THE BUDGET**

Each applicant will prepare a budget using the format below. If possible (though not mandatory) applicant should prepare and send this budget as an additional file in Microsoft Excel format. ***Applicant must contribute at least 30% to proposed costs.***

	Line Item	Budget Notes (describes line item in more detail)	Cost/ Unit	Days/ Unit	People/ Number	Total Cost (Shs)	Company Cost- Share (Shs)	AFE Cost- Share (Shs)
1								
2								
3								
5								
6								
7								
8								
9								
10								
11								
	<b>Total AFE cost share (70%)</b>							
	<b>Total Company cost share (30%)</b>							

*\* Please contact AFE for any assistance or questions you may have.*