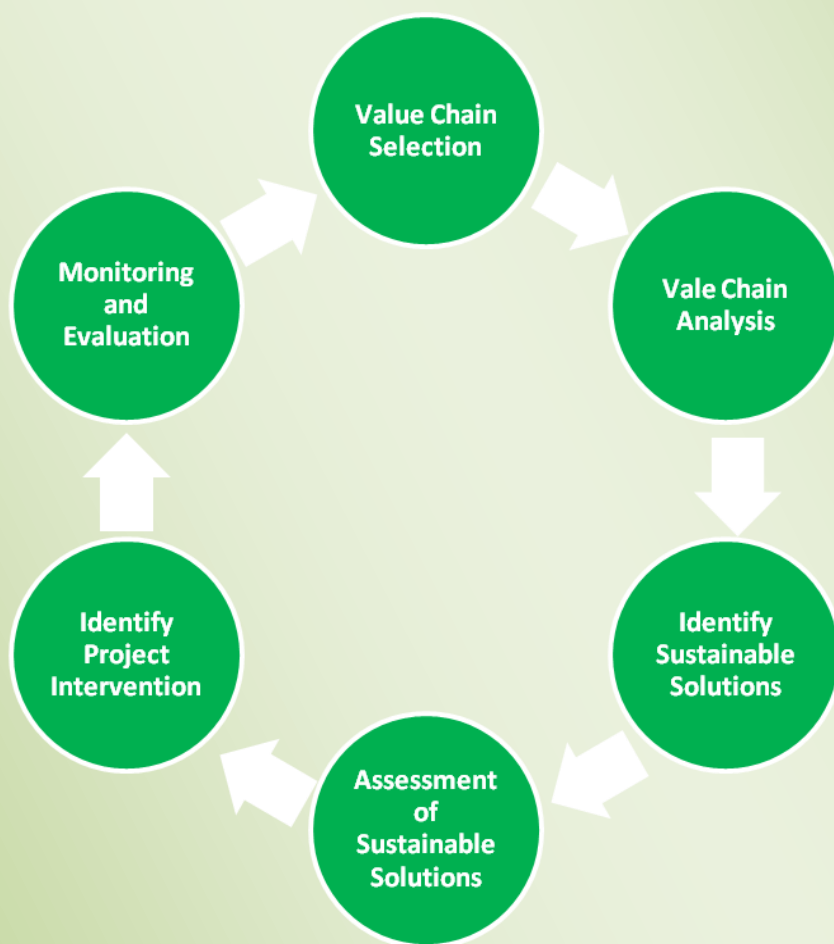


Guideline for Value Chain Analysis and Development



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Guideline for Value Chain Analysis and Development

Introduction

Farming in Laos is in transition from subsistence based farming system to commercialization in agriculture production with increased interaction with the markets. The livelihoods of the small holder farmers are linked to markets in many ways.

Traditionally markets were conceptualized and analyzed as being characterized primarily by spot market transaction, however, there is increasing trend and opportunities for the smallholders to participate in and benefit from market activities that are influenced by the process of value chain development.

Lao extension approach (LEA) was approved by Ministry of Agriculture and Forestry in 2005 as the Government approach for agriculture extension. NAFES has implemented the approach in all the 17 Provinces in the country.

The implementation of the Lao Extension Approach (LEA) involves 7 steps, as follows:

1. Introduction meetings at village level
2. Training Needs assessment
3. Formation of farmer learning groups
4. Implementation of learning activities
5. Participatory monitoring and evaluation
6. Farmer to farmer exchanges
7. Appointment of Village Extension Workers

To improve the quality of the extension services, NAFES is now promoting the concept of 'LEA+' and value chain analysis and development is a part of the operational module of 'LEA+'. The value chain analysis and development module is expected to improve the competitive strategy of the agriculture commodity with shared benefits along the chain actors with **more emphasis** on the small holder's producers.

What is Value Chain (VC)?

Value Chain is a set of activities that move a product from the production to the users and consumers.

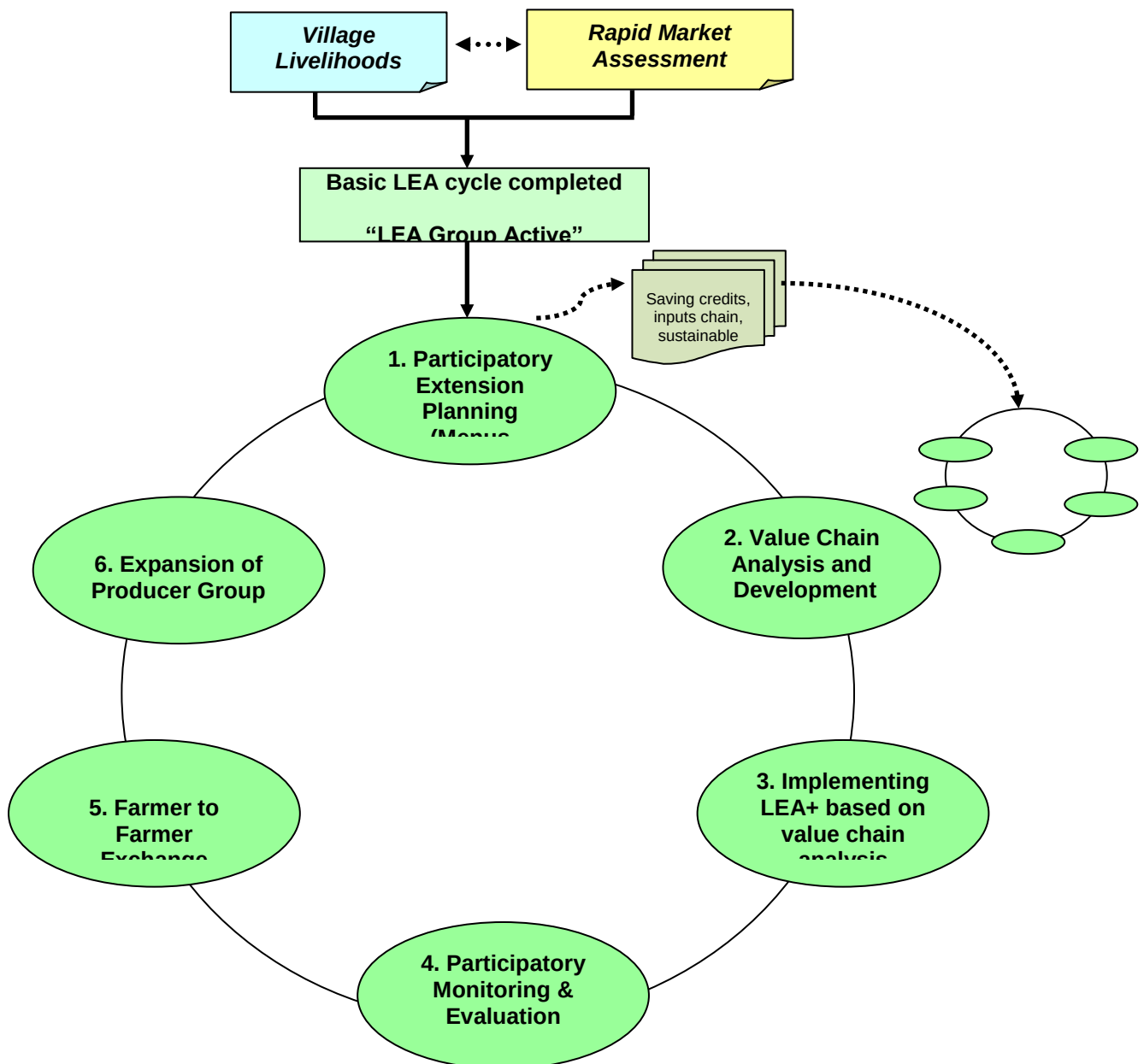
Example: Rice VC is all activities that move rice from farmers to consumers. They include input supply, planting, harvesting, rice trading, milling, wholesaling and retailing.

What is VC development?

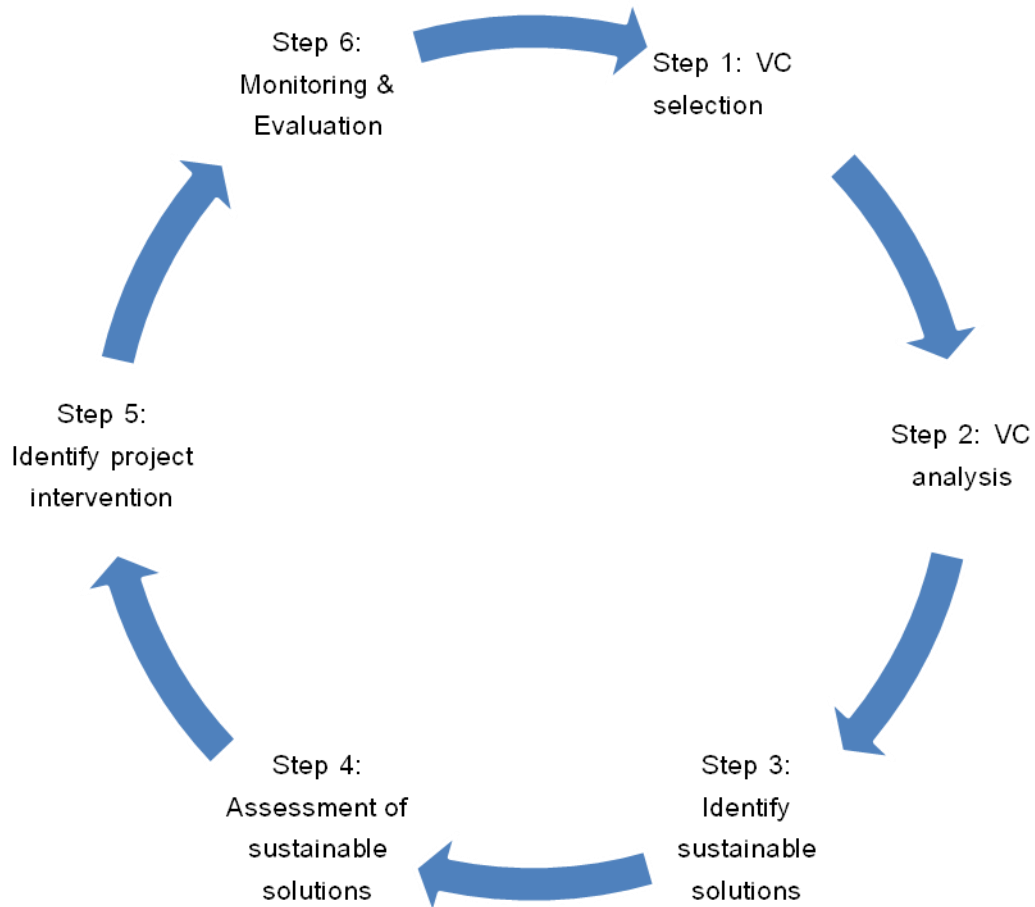
VC development is the activities that make the movement of the product from producers to the users/consumers smoothly in terms of quality, quantity, costs and time. VC development helps in increasing the efficiency and productivity throughout the chain.

Example: The rice VC development activities may include the reduction of waste, improvement of rice quality by using improved seeds and better planting techniques or improvements in milling technique.

Integration of value chain development and analysis into the Lao Extension Approach is schematically given in Figure 1. Organizing a value chain analysis and development participatory with the stakeholders will help in identifying the major constraints and develop appropriate intervention (solutions) that will increase the competitiveness of the whole sector.



Steps in organising Value Chain Analysis and Development approach are as below:



Part 1: VC selection

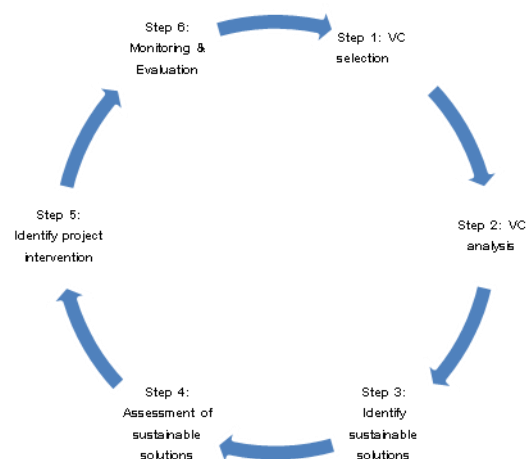
Step 1.1: Identify a list of products for selection

In this step, list down the products that you want to analyze. They should be the ones with potentials for growth.

Write down the products below:

Product 1:

Product 2:



Product 3:

Product 4:

Product 5:

Product 6:

Step 1.2: Initial selection of the products

In this step, 2 criteria will be used to screen the products down to 3 (max not more than 4). Those products falling into the highlighted area will be selected.

Unmet Market Demand and Growth

High		- tourism	- green beans - rice
Medium	- avocados - beef		- crafts
Low		- poultry - building construction - wood furniture	
	Low	Medium	High
	Number of Farmers and SMEs		

Unmet Market Demand and Growth

High			
Medium			
Low			
	Low	Medium	High
	Number of Farmers and SMEs		

Step 1.3: Identify criteria for the final selection

In this step, list down the priority criteria to select one product/service for the further analysis.

Example of the criteria as below:

- Unmet market demand
- Potentials for growth
- Potentials for being competitive
- Potential for increasing income
- Availability of a leading company working with farmers
- Potential for income generation
- Number of farmers and SMEs including employees
- Support of the Government/projects/donors
- Favorable business environment
- Other mandates of the organizations (gender, rural development vs. urban development, environmental impact)

Among the criteria above, select and write down the important criteria in the list below. (2 criteria that must be included are Unmet market demand and growth and number of farmers and SMEs).

Criterion 1: Unmet market demand and growth

Criterion 2: Number of farmers and SMEs

Criterion 3:

Criterion 4:

Criterion 5:

Criterion 6:

Step 1.4: Initial data collection for VC selection

Source of information:

- 1) Reports, statistics from government offices, private sector and international organizations
- 2) Fieldwork
 - Conduct field trip to collect data thru focused group discussion and/or individual interview
 - Questions should be relevant to the criteria or use the tool in the AEDP Phase 1: product selection (5 steps in 1.1)

The data shall provide an overview of the product/service in terms of production, market demand, constraints and opportunities. The data should be related to the criteria above so that it helps to make judgment in the next step.

Step 1.5: Prioritization of the product

In this step, the screened products will be prioritized based on the criteria chosen in order to select only one product/service for the VC analysis. This can be done by writing down the criteria into the table. After that, consider the weight of importance for each (3 levels of weight: 1- least important, 2-medium important and 3-most important) and give score to each criterion for each product/service (1-weak, 2-

Elements of Value Chain Analysis



SNV December 2007

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Step 2.1: Develop initial map with the possible actors

Identify major actors that are possibly involved in the VC (who and their functions) in order to identify the targets for interview.

In this step, the map illustrates the movement of the product along the chain from input supply, production, trading, processing up to consumption.

Actor	Functions

[illegible]

Guidelines for Value Chain Analysis and Development 8

- No of staff:
- Legal form of business:
- Address, contact, email:

Information about market:

- Whom do you sell to? (big businesses, small businesses, wholesalers, retailers, consumers). Contact address of the buyer .
- What is the percentage of sales for each types of customers? Why? What is the volume?
- What is the business term? (cash payment, credit, by contract, delivery terms)
- How do you promote your product/service?
- How many similar businesses to yours are there?
- Have you ever have joint promotion with other similar businesses? Why?
- Pls give the info in this table:

Items	2007		2008		2009		2010	
	Unit price	Qty	Unit price	Qty	Unit price	Qty	Unit price	Qty
1)								
2)								
3)								

- Does your product/service meet the market demand? Why?
- What would be the trend for your product/service in the next 3 and 5 years?
- What is your plan for the business in the next 3 to 5 years?
- What is the unit cost?
- What are problems or needs that you have in terms of marketing?

To find out the market trend and the competitiveness, the following questions can be asked:

Unmet market demand

- Do you think your product can fulfill the needs? Why do you think so?

- What are the features of your product that the customers require but you cannot fulfill?

Trend

- What is the customers' preference from the past up to now in terms of quantity and quality?
- What do you think is the preference and demand of the domestic and global market?

Growth potential

- Does the number of existing and potential customers increase? In both domestic and global market?
- What would be the reason for making the demand decrease?
- What do you think about the short-term, medium-term and long-term demand for the product?
- Do the local input supplies (land, labor, infrastructure) support the production expansion?

Competition

- In the domestic and global market, who among the VC actors can expand their market shares? Who likely enters to the market?
- What are products that are the substitutes of the product?
- What are the difficulties in selling the product?

Product development and technology:

- What technology is required for the production of your product? What do you use? Why? What tools are the most important? Why?
- What kind of equipment could help you to improve the business? Why?
- What have you done so far to improve the product/service?
- Are your staff able to use the machinery and equipment well? Have they been trained? What skills do they need?
- Do you have any problems or needs in terms of product development/technology?

Management:

- Staff of which department do you need most?
- Have you ever done a joint production with other similar businesses to fulfill a certain order?
- What managerial skills do you need to improve?
- What are your problems and needs in terms of management?

Raw material:

- Which type of raw material is the most important for your business? Where do you buy from? How many suppliers do you have? What are the terms (buying in cash, in credit, having contract, delivery terms)
- Have you ever made a joint order of raw materials with other similar businesses? Why?
- What are the problems/needs that you have with raw material supply?

Finance:

- What is the financial source of your business? (bank, own saving, relatives, informal borrowing, interest and terms?)
- What is the percentage of your own money? What is the biggest source of your finance?
- Whom do you owe? (supplier, other service providers)? What are the terms?
- Have you ever received credit from clients? What are the terms?
- Do you currently need finance? For what?
- What are your problems/needs for finance?

Policies and regulations:

- What policies/regulations are favorable to your business? Explain
- What policies/regulations hinder your business? Explain
- What policies/regulations do you think would be required to help your business operation?

Infrastructure:

- What infrastructure is the most important to your business? (road, transportation, telecom, electricity...). Explain
- What are the solutions for the infrastructure problems?

Business Association:

- Is there any association of the business of your type? (if yes, specify the name)
- Are you a member? Why or why not?
- Explain the roles, mandates of the association/group, benefits and difficulties of being the member

- What services do you think the association/group should have in order to help the members to improve and expand their businesses?
- Are you a member of any other association/group? Explain (name of the association/group, activities, Pro's and Con's)

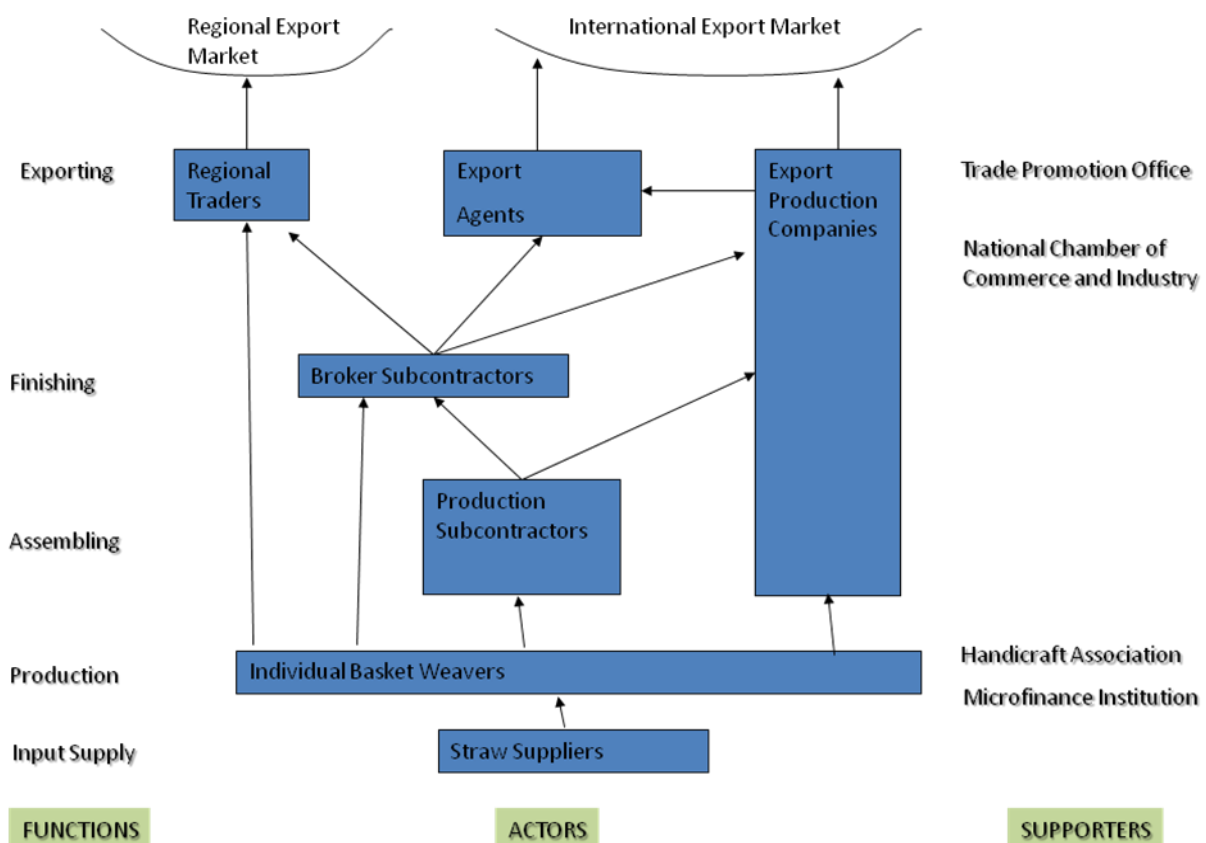
Other questions:

- What do you think the strong points of the product/service or of the industry are locally and globally?
- What are the strong and weak points of the product/service or the industry?
- What are the challenges of your industry? Explain
- List the names and contact (if possible) of the leading entrepreneurs in the industry? (in terms of technology, product design, quality and marketing)

Step2.3 Developing the VC map according to the actual data

Once the data collection completes, develop the VC map based on the actual data (the map could be similar or slightly different from the initial one developed in Step 1).

The map shows (1) actors, (2) functions, (3) supporters and what are the supports.

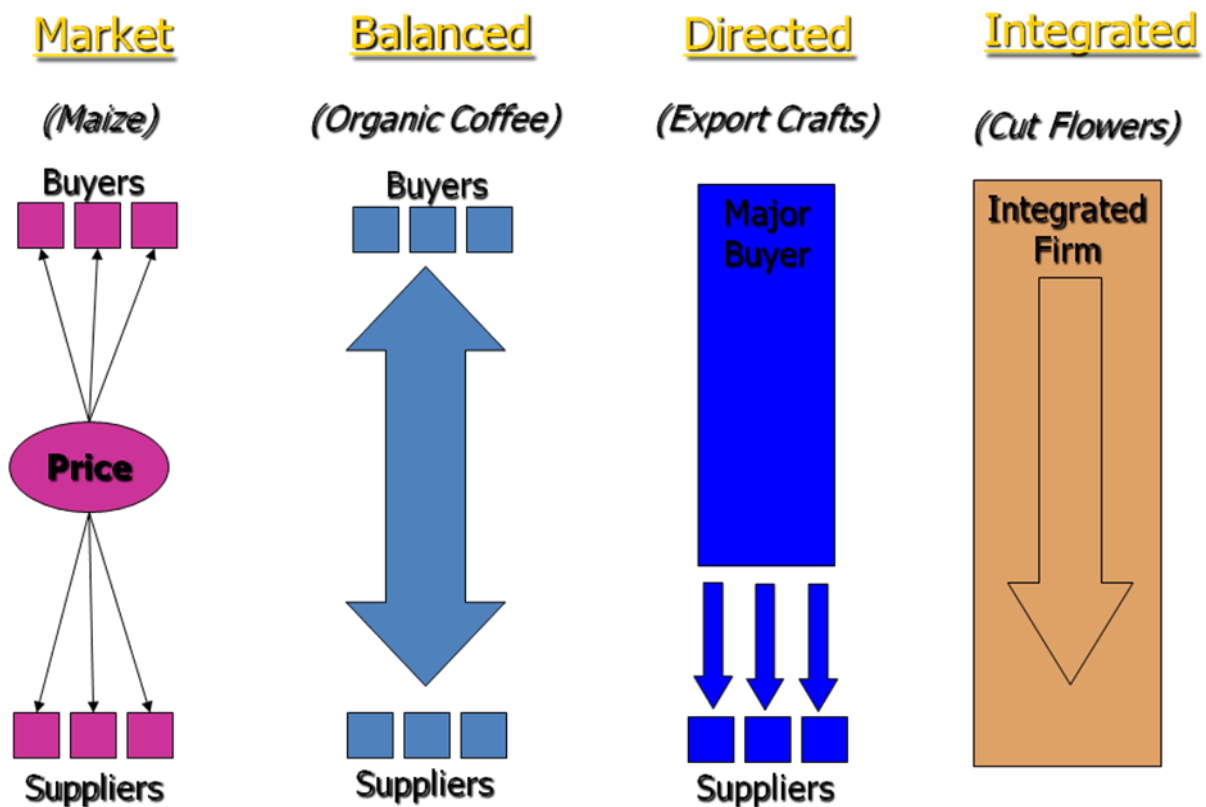


Step 2.4: Write a report on VC analysis

In this step, collected data will be combined in the written report format (see Annex 1 for what should be included in the report)

Main information in the report format includes:

1. Value chain mapping (see example of value chain mapping in Part 2, Step 2.3)
Provide overview of value chain mapping
2. Relations amongst participants/actors
Giving detail description on how participants/actors interact to each other
3. Market trends and competitiveness
Presenting information on demand side in terms of demand trend in the past and foresee in the future and
4. Governance structure
Identify commodity value chain in what type of governance structure



5. Constraints and opportunities
Wording for constraint of value chain should consist of a) specify type of constraint, b) whom belongs to constraint and c) the effect of the constraint (See examples of constraints in Step 2.5)

Step 2.5: Categorizing constraints and opportunities

In this step, note down the constraints and opportunities in the relevant categories in the table below:

Types	Constraints/Opportunities
Product development/ constraints	1)
	2)
	3)
Market access	1)
	2)
	3)
Management and organization	1)
	2)
	3)
Policy	1)
	2)
	3)
Finance	1)
	2)
	3)
Input supplies	1)
	2)
	3)
Infrastructure	1)
	2)
	3)
Others	1)
	2)
	3)

Examples of Value Chain Constraints/Opportunities

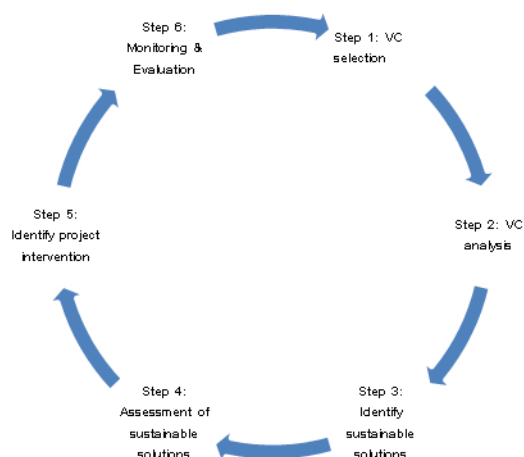
Type	Value Chain Constraints/Opportunities
Technology/Product Development	- Small-scale farmers lack access to appropriate tools and machinery (technologies) which decrease their yield
Market Access	- Lack of information on standards reduces farmers/SMEs' ability to produce to buyer specifications
Organizational and Management	- Inability of producers to organize for economies of scale limits their opportunities to access higher value markets

Part 3: Identification and selection of the market-based solutions

Step 3.1: Based on the constraint/opportunity table, formulate the market-based solutions

The principles in formulating solutions are:

- Should start with:
 - Access to...
 - Provision...
 - Training...
- Should indicate for whom the solution is
- Should not state who is the provider or potential provider



Examples

Type	Market-based solution
Product development/ technology	• Access to appropriate machinery for small-scaled farmers
Market access	• Provision of quality and product requirement of clients to the enterprises
Organization & Management	• Access to accounting services for enterprises
Rules and policies	• Advocacy for: • Reducing import tax of input supplies • Reducing export tax for exporters
Finance	• Access to supply in credit for small scale farmers
Input supplies	• Access to quality input for farmers
infrastructure	• Advocacy for rural road construction

Based on the examples above, write down the market-based solutions for the identified constraints:

Type	Constraint	Market-based solutions
Product development/ constraints	1)	
	2)	
	3)	
Market access	1)	
	2)	
	3)	
Management and organization	1)	
	2)	
	3)	

Policy	1)	
	2)	
	3)	
Finance	1)	
	2)	
	3)	
Input supplies	1)	
	2)	
	3)	
Infrastructure	1)	
	2)	
	3)	
Others	1)	
	2)	
	3)	

Step 3.2: Selection of the market-based solutions using the matrix

After identification of the market-based solutions, this step is to prioritize them based on 2 criteria in the matrix below for the further assessment.

Potentials for growth and competitiveness

High			
Medium			
Low			

Low

Medium

High

Benefiting farmers and SMEs (directly and indirectly)

Potentials for growth and competitiveness

High		Provision of info. about quality and product requirement of clients to enterprises	Access to inputs in credit for small scale farmers
Medium			Advocacy for reducing import tax of input supplies
Low		Access to accounting service for enterprises	
	Low	Medium	High

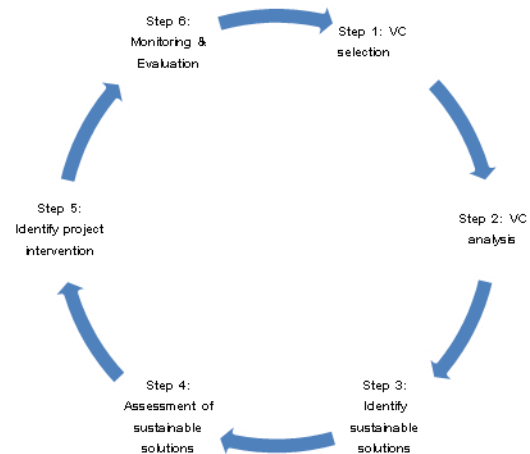
Benefiting farmers and SMEs (directly and indirectly)

Part 4: Assessment of market-based solutions

Step 4.1: Collecting data for assessing the market-based solutions

Sources:

- 1) Market based solution users and providers
- 2) Field work
 - Interview or conduct focused group discussion with target group
 - The following questions can be:



Questionnaire for the Market-Based Solution Users

- Solution:
- Interviewer:
- Interviewee:
- Contact, incl email:

Date:

- Business name:
- Legal business form:
- No of employees:
- Years of operation:

Satisfaction:

- How are you satisfied with the providers of (name of the solution) that you are using?
- How could the service be improved?

Frequency of using the service and relationship:

- From whom do you use (name of the solution)? Specify name and
- How frequently do you use it? Is the frequency increasing? In percentage?
- Which feature and quality of (name of the solution) is the most important to you?
- Explain the ordering and payment terms and the relationship with the suppliers
- How much do you pay for this service per year?
- Do you think the price is appropriate and fair? Why?
- Have you ever changed to a better provider? Why changed? Why not changed?

Services:

- How do you know this provider? Why do you select him/her?
- Where are the similar providers? How many people? Contact? Explain the service? What are strong and weak points?
- How many similar businesses use the same provider(s)? (%)

Questionnaires for Market Based Solution Providers

- Market-based Solution:
- Interviewer:
- Interviewee:
- Address, email:

Date:

- Name of business:
- Legal business form:
- Number of staff:
- Years of operation:

Constraints/Opportunities:

- Do you have any constraints or problems in providing (solution)? (machinery, skills, inputs)
- What support would you need to improve your ability in solving those constraints?

Services:

- Explain the way you provide the service
- How do you do to cover the costs and make profit?
- Do you have different services to different segments of customers? how?
- What promotional activities do you have to attract the users? (transportation, after-sales services, guarantee)
- How many similar businesses are there? Contact? How are their services compared with yours? Which aspect is better, which one is worse?

Users' trend

- ✓ Who are the main segments of customers? Where?
- ✓ How many of them?
- ✓ What is the selling price? What is ave. amount a customer pays every time?
- ✓ In your market, how many customers are there, who you think can afford your service? Do you think the number of customers will increase? In percentage?
- ✓ How do you measure the market demand?
- ✓ How do you do to adv for your business?

Step 4.2: Indicate who are the potential solution providers for the market-based solutions in Part 3

In the table below, indicate the existing and potential solution providers:

Constraints	Market-based solutions	Existing and potential providers
1)	1)	1.1) 1.2) 1.3)

2)	2)	2.1) 2.2) 2.3)
3)	3)	3.1) 3.2) 3.3)

Example:

Constraint	Market-based solutions	Existing and potential providers
1) Small scale farmers do not have access to credit for input supply, which causes low yield	1) Access to input credit for small scale farmers	1.1) APB 1.2) Village fund 1.3) Input suppliers 1.4) Traders
2) Enterprises do not have information about product and quality requirement. Therefore, they are not able to produce as the export market requires	2) Provision of information about product and quality requirement for enterprises	2.1) Big exporter 2.2) Chamber of commerce 2.3) Exporter association

Step 4.3: Add information in the assessment table (1 table for 1 solution)

In this step, write down the relevant info about the providers that are collected from the discussion or interview in Step 1:

Market-based solution: solution 1
Constraint (of the market-based solution):
Existing and potential providers: Provider 1: Provider 2: Provider 3:
Constraints of the solution providers (by types of the providers): Provider 1: Provider 2: Provider 3:
Business viability of the solution (by types of the providers): Provider 1: Provider 2: Provider 3:
Constraints of the solution users:
Proposed solution providers: (including the motivation for them to provide the solution)

Example

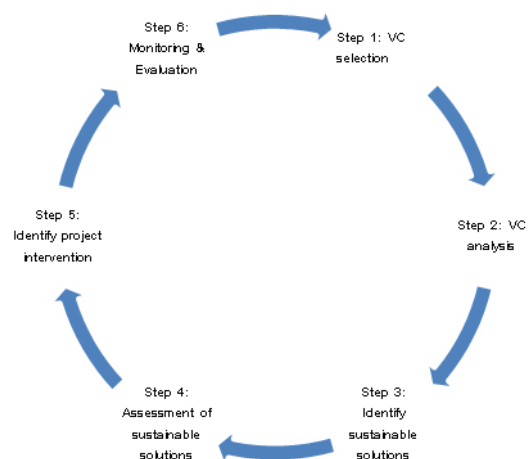
Market-based solution: Access to input credit for small scale farmers
Constraint (of the market-based solution): Small scale farmers do not have access to credit for input supply, which causes low yield
Existing and potential providers: Provider 1: APB Provider 2: Village fund Provider 3: Input suppliers Provider 4: Traders
Constraints of the solution providers (by types of the providers): APB: does not provide micro loan, requires collateral. If no collateral, the bank provides only for groups Village fund: provides loan only to members, membership is not advertised broadly Input suppliers: do not trust farmers that they will return money Traders: do not have experience in giving loan, do not have much working capital
Business viability of the solution (by types of the providers): Provider 1: gain interest Provider 2: gain interest Provider 3: sell more products Provider 4: buy more products at the quality required
Constraints of the solution users: Farmers do not like to borrow or once they borrow, they use loan not in the correct purpose
Proposed solution providers: (including the motivation for them to provide the solution) 1. Village fund 2. Input suppliers 3. Traders

Part 5: Identification and selection of facilitation activities

This Part is done through a Stakeholder workshop to present the findings of the analysis and to gather feedback and commitment of different actors in the value chain to solve the obstacles and improve the chain.

Step 5.1: Organize consultative stakeholder meeting

- 1) **Participants:** VC team, subject specialists who can provide comments on the constraints and solutions, possible representative of the solutions providers and users from the Government agencies, private sector, producers and the NGOs
- 2) **During the meeting:**
 - a. present the findings of the VC analysis,



- b. discuss about the constraints and the possible solutions
 - c. design intervention based on the constraints
- 3) After the workshop:** Based on the identification of the interventions, these activities should be organized by the identified solution providers. More follow-up meetings among the solution providers will be organized to get agreement on the activities and to share the progress of the interventions.

Step5.2: Note down the facilitation activities suggested in the meeting in the table below

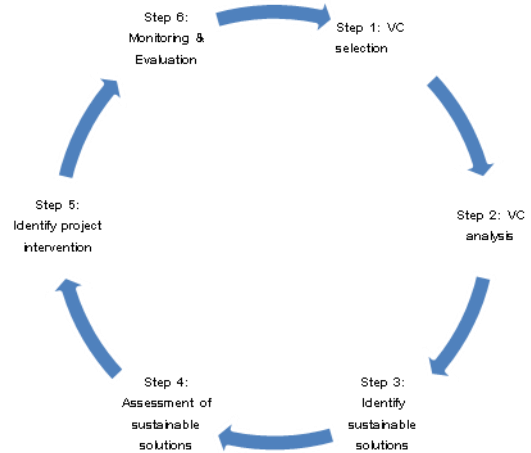
Constraint:
Market-based solution:
Solution providers:
Constraints of the providers:
Project facilitation activities: 1) 2) 3) 4) 5)

Example:

Constraint: Small farmers do not have access to input credit, which causes a low yield
Market-based solution: Access of the small farmers to input credit
Solution providers: 1. Village fund 2. Input suppliers 3. Traders
Constraints of the providers: Village fund: provides loan only to members, membership is not advertised broadly Input suppliers: do not trust farmers that they will return money Traders: do not have experience in giving loan, do not have much working capital
Project facilitation activities: 1) Encourage the village fund to broaden membership 2) Organize accounting training to the village fund 3) Organize consultative meeting about input supply between farmers, input suppliers and traders 4) Assist in negotiating and drafting contract between farmers, inputs suppliers and traders

Part 6: VC Evaluation

The evaluation shall be done after the delivery of project interventions. However, the project planners have to clearly design the indicators in order to measure the level of achievement of the project.



Step 6.1: Decide at which level the evaluation will be

- 1) Farmers and SMEs
- 2) Market-based Solution
- 3) Project

Step 6.2: Decide on the results and impacts of the VC project

In this step, write down the facilitation activities and the results as well as the impact at each level

Project activities	Results	Impact		
		Farmers & SME	Market-based Solutions	Project
1)				
2)				
3)				
4)				
5)				

Example:

Project activities	Results	Impact		
		Farmers &	Market-	Project

		SME	based solution	
1) Encourage the village fund to expand membership	New members increase 30%	Farmers have more savings to buy inputs	Higher yield Village fund continues expanding	Compare impact and project costs
2) Organize accounting training	Improved accounting system			
3)				
4)				
5)				

Annex 1: Value Chain Analysis Report Format

The content of the VC analysis report is:

1. Introduction

1.1 Background

Explain the background of this study, why this study is conducted. Explain the policies/strategies of the government, project objectives, local resources availability, production tradition, market potentials.

1.2 Study objective

Explain the objective of the study

1.3 Study scope

Explain where the study conducted, the source of info., sampling size.

1.4 Study methods

Explain the main methods such as reviewing secondary data from reports and statistics of the government, project, research institutes and collecting primary data thru interview, focused group discussion.

1.5 Time schedule

Explain the time schedule of the study from the data collection to the report completion.

1.6 Study team

Explain the team members, their names, positions and organizations.

2. Analysis

2.1 Market trend

Explain what will likely happen based on the information collected at the part about market.

Example: The interview with the farmers shows that their production and sales increases very year, which indicates that the market is expanding.

2.2 Competitiveness

Explain what the farmers/producers can do better than their competitors, which comes from the part about technology and product development.

Example: The yield in the Vientiane capital is 4 tones/ha while in Khammouane it is 3 tones/ha. This shows that the farmers in Vientiane can compete with the ones in Khammouane in terms of volume because of the better techniques (this is an example only. In reality, other factors might be involved as well).

2.3 VC map

Draw the VC map and describe the movement of the product along the chain. Explain briefly about the actors and their relationship with other actors in the chain.

2.4 Key actors in their relationship

Describe in details about the functions and roles of the key actors in the VC and their relationship. This information derives from the interview in all 7 parts of the questionnaire.

2.5 Supporting agencies

Describe the roles of the supporters, which come out from the interviews.

2.6 Organizational structure

Describe how the VC is structured, which will not come out from the individual interviews but the observation and assessment of the team who is carrying out the VC analysis. However, in some cases, we could derive from the part about policy and regulations. Example: The sesame farmers in Taling village – Talang district reported that the traders cut the price because there is only 1 sesame trader who is allowed to buy, therefore, the farmers do not have a chance to negotiate. It also means that the VC structure likely falls under the “directive” type.

2.7 Constraints and opportunities

Constraints

Describe the constraints of each actor in the VC, which can be derived from the part about the constraints in all 7 aspects in the questionnaire.

Opportunities

Describe the opportunities for each actors in the VC, which can be taken from the questionnaire.

Example: The Lao Government exempts the export tax and the Chinese Government also exempts the import tax for the Lao sesame, which increases the competitiveness of the Lao sesame in the export market.