<table>
<thead>
<tr>
<th>DATE</th>
<th>07/Nov./2010</th>
<th>08/Nov./2010</th>
<th>09/Nov./2010</th>
<th>10/Nov./2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:30 – 9:00</td>
<td>Registration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9:00 – 9:10</td>
<td>Introduction of Participants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9:10-10:30</td>
<td>Introduction to the concept of value chains (value chain promotion and poverty relevance, definition and components of a value chain), <strong>Christin</strong></td>
<td>Discussion on group work</td>
<td>Value chain analysis- data collection (tools for RMA and detailed data collection), <strong>Christin</strong></td>
<td>Analyzing results from the value chain survey and report writing, <strong>Christin</strong></td>
</tr>
<tr>
<td>10:30-11:00</td>
<td>tea/coffee break</td>
<td>tea/coffee break</td>
<td>tea/coffee break</td>
<td>tea/coffee break</td>
</tr>
<tr>
<td>11:00-13:00</td>
<td>Group work exercise: summarizing already collected information on fin and sg value chain in Ethiopia</td>
<td><strong>Christin</strong></td>
<td>Value chain analysis-toolbox (principle of a rapid market appraisal, how to get started), <strong>Christin</strong></td>
<td>Group work exercise: preparing a template for the value chain report for HOPE and discussion of group work</td>
</tr>
<tr>
<td>13:00-14:00</td>
<td>Lunch break</td>
<td>Lunch break</td>
<td>Lunch break</td>
<td>Lunch break</td>
</tr>
<tr>
<td>14:00–15:30</td>
<td>Group work exercise: visualize results from previous exercice</td>
<td>Group work exercise: preparing an outline for the market and value chain survey in HOPE</td>
<td>Group work exercise: Testing the questionnaire for processors and traders in the group</td>
<td>Presenting example of various value chain reports and summarizing and ending the training.</td>
</tr>
<tr>
<td>15:30-16:00</td>
<td>tea/coffee break</td>
<td>tea/coffee break</td>
<td>tea/coffee break</td>
<td>tea/coffee break</td>
</tr>
<tr>
<td>16:00-17:00</td>
<td>Contd.</td>
<td>Program VC training</td>
<td>Continued</td>
<td></td>
</tr>
</tbody>
</table>
Value chain analysis - introduction

Value chain training
15 to 19 November, 2010
Adama, Ethiopia
Introduction

- Value chain (vc) approach is a holistic approach
- Instead of focusing on individual stages (e.g. production), all stages of a production process are covered
- Starting point of value chain promotion (VCP) is the market
- HOPE project covers seed systems and input supply as well as production, processing, marketing and consumption
- Many other projects in the field of development cooperation follow this approach
Introduction

Five key features of the Value Chain Approach

• Taking a market system perspective
• Driving growth through end markets
• Fostering competitiveness through improved inter-firm linkages
• Upgrading at various levels
• Facilitating improved competitiveness
Rational behind VCP

- Rational behind value chain promotion is to contribute to pro poor growth (PPG)
- The PPG concept builds on the basic premise that only economic growth and market success of poor people are capable of providing a sustainable solution to the problem of poverty

Guiding question:
Which products does the market absorb and how can poor people benefit from it?
Rational behind VCP

Definition of pro-poor growth

• The relative concept of pro-poor growth
  Economic growth is pro-poor if the incomes of the poor grow faster than those of the non-poor (so that the inequality between the poor and non-poor narrows).

• The absolute concept of pro-poor growth
  Economic growth is considered to be pro-poor if poor people increase their incomes above the poverty line, even if their share in the national income does not improve (i.e. a positive growth rate for the poor).
Pro-poor focus of VCP

- Assuring that value chain promotion is pro-poor is a question of selecting the right product market
- These are product markets and value chains that offer the greatest chances for the inclusion of poor people
- A value chain has poverty alleviation potential if
  - it is a major source of livelihoods for the poor
  - generates employment
  - offers business opportunities for poor entrepreneurs
  - or, at least, delivers products consumed by poor people
Pro-poor focus of VCP

- Fostering economic growth by making sure that the additional income generated actually benefits poverty groups.

- Achieved by strengthening the way that commercial product markets relevant for the poor function (improving access to these markets, influencing distributive outcome of market processes).

- Oriented towards business opportunities by building on the emerging economic potential of the poor.
Definition value chain

A value chain is an economic system that can be described as

- a sequence of related business activities (functions) from the provision of specific inputs for a particular product to primary production, transformation and marketing, up to the final sale of the particular product to the consumer;

- the set of enterprises (operators) that performs these functions, i.e. the producers, processors, traders and distributors of a particular product.

- a business model for a particular commercial product. This business model allows defined customers to be reached using a particular technology and a particular way of coordinating production and marketing between several enterprises.
**Definition:**

- A sequence of related business activities (functions)
**Actors**

**Definition:**
- *A set of enterprises (operators) that performs these functions*

- **Input supply**
  - Agro-dealers
  - Extension officer
  - NGOs
  - etc.

- **Production**
  - Small to large scale farmers
  - Agribusiness enterprises
  - etc.

- **Processing**
  - Farmers
  - Enterprises
  - Individuals
  - etc.

- **Marketing**
  - Farmers
  - Individual traders
  - Companies
  - etc.

- **Consumption**
  - Rural/urban households
  - Restaurants
  - Hospitals
  - etc.
Governance structure

Definition:
• A *business model* for a particular commercial product - the governance structure
Governance structure

- Type of linkages depends on the quality and sophistication of the final product.

- Un-coordinated transactions ("spot markets") efficient in local markets, or in markets for products with few quality traits.

- Linkages more stable wherever final consumers ask for high and consistent quality.
Governance structure

• Basic distinction between uncoordinated free market transactions ("arms-length" spot market relationships), persistent contract relationships and, at the other extreme, vertical integration between suppliers and buyers
Governance structure

<table>
<thead>
<tr>
<th>Governance type</th>
<th>Product complexity</th>
<th>Ability to codify information</th>
<th>Supplier capabilities</th>
<th>Degree of explicit coordination and power asymmetry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>low</td>
</tr>
<tr>
<td>Modular</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Relational</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Hierarchy</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>high</td>
</tr>
</tbody>
</table>

Source: GEREFFI ET AL., 2003
Economic parameters of interest:

- overall **value added** generated by the chain and shares of the different stages

- production and marketing **costs** and opportunity costs at each stage of the chain, and the cost structure along the chain stages

- **revenues**, **net income** and **marketing margins** at each stage of the chain

- **performance** of operators (utilization of productive capacity, productivity, profitability, break even point, etc.)
Economic structure

Parameters of interest contd.

• Revenues
  – price x volume
  – also revenues from by-products

• Net income
  – revenues – variable costs – fix costs

• Gross market margin
  – selling price – buying price

• Break even point
  – fixed costs/ (price – variable cost) = minimum quantity
Economic structure

**Economic assessment important to:**

- identify how operational and investment costs are currently distributed over the actors in the value chain (to conclude whether it is possible for the poor to enter a chain)

- identify how revenues and margins are currently distributed over the actors (to conclude whether actors and particularly the poor can increase margins)

- see how costs and margins in a chain are changing over time (to predict future growth or decline of the chain); a sector that is profitable now might not be profitable next year

- compare profits of different chains (to see whether it may be worthwhile to switch from one chain to another)

- compare the practice in the value chain to an industry standard or a best practice (to improve effectiveness and efficiency - benchmarking)
To arrive at the value-added generated by a value chain, costs of bought-in materials, components and services has to be deducted from the sales value.

**Box 2.14 Concept: Calculation of value-added**

Components of total value generated by a value chain:

\[
\text{Value-added} = \text{Total sales value} - \text{Value of intermediate goods}
\]

- **Total value generated by the value chain**
  - \(\text{price} \times \text{volume of final product sold}\)

- **Value-added**
  - Wages
  - Interests and rents
  - Depreciation
  - Direct taxes
  - Profit

- **Intermediate goods**
  - Raw material, inputs
  - Finished products
  - Operational services

- Used to pay claims of the owners of factors of production (capital, labour, land) + taxes
- Transferred to suppliers of intermediate goods

Source: own concept, based on
Econ. structure – value addition

**Example: Ketchup**

- Costs of intermediate product: 1 €
- Value of final product: 2 €
- Costs of other inputs (e.g. bottle, spices, etc.): 0.5 €
Box 2.15 Concept: Distribution of value-added along the chain

Distribution of value-added between different types of chain operators and input providers:

Primary Producers → Product Makers → Traders → Consumers

- Value-added captured by the VC
- Value-added captured by input providers

Intermediate Product

Service/Input Providers

Value-added

Total Value consumed

Other Inputs
Box 2.16 Case: Distribution of value / revenue along the chain

<table>
<thead>
<tr>
<th>Stage</th>
<th>Price received</th>
<th>Share of value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk Production</td>
<td>13 KSh</td>
<td>26%</td>
</tr>
<tr>
<td>Bulking cooling</td>
<td>16 KSh</td>
<td>6%</td>
</tr>
<tr>
<td>Trade Transport</td>
<td>17 KSh</td>
<td>2%</td>
</tr>
<tr>
<td>Pasteurizing Packaging</td>
<td>45 KSh</td>
<td>56%</td>
</tr>
<tr>
<td>Distribution</td>
<td>46 KSh</td>
<td>2%</td>
</tr>
<tr>
<td>Retail sale</td>
<td>50 KSh</td>
<td>8%</td>
</tr>
</tbody>
</table>

Econ. structure – cost analyses

Cost analyses used to:

- identify cost drivers across different stages of the chain and hence the potential for cost reduction potential of typical firms operating in the same stage

- assess the position of the value chain vis-à-vis the competitors, comparing unit cost with those of competitors (benchmarking)
Econ. structure – cost analyses

• Examples for variable costs
  – transport costs, cost of losses, wages related to production, etc.

• Examples for fixed costs
  – salaries of non-production related staff, insurance, land rent, marketing expenses, etc.

• Other costs
  – investment costs
Econ. structure – cost analyses

- Costs can be variable and fix
- Example for calculating variable costs

Box 1: Example of calculating transport costs

Assume that there are 40 m³ of space available in a truck and that it costs $500 to hire the truck. A container of 0.2 m³ holds 8 kg of tomatoes and a container of 0.4 m³ holds 10 kg of green peppers.

Then the transport cost for tomatoes per container and per kilogram is...

$500 ÷ (40 m³ ÷ 0.2 m³) = $2.50 per container
and
$2.50 ÷ 8 kg = $0.3125 per kilogram

While the transport cost for green peppers per container and per kilogram is...

$500 ÷ (40 m³ ÷ 0.4 m³) = $5.00 per container
and
$5.00 ÷ 10 kg = $0.50 per kilogram

**Box 2.17 Case: Cost calculation related to the rice value chain in Cambodia**

Cost of performing functions in production of Neang Mali Rice for export, Cambodia (in US Dollar / ton)

<table>
<thead>
<tr>
<th>Rice Production</th>
<th>Post-harvest Operations</th>
<th>Transport &amp; Shipping</th>
<th>Costs fob</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice Production</td>
<td>72,46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Land preparation</td>
<td>14,19</td>
<td>- Drying</td>
<td>3,35</td>
</tr>
<tr>
<td>- Seeding</td>
<td>4,15</td>
<td>- Milling</td>
<td>12,23</td>
</tr>
<tr>
<td>- Transplanting</td>
<td>20,09</td>
<td>- Packaging</td>
<td>2,16</td>
</tr>
<tr>
<td>- Fertilizing</td>
<td>26,00</td>
<td>- Fees &amp; Levies</td>
<td>3,43</td>
</tr>
<tr>
<td>- Harvesting</td>
<td>8,03</td>
<td>- Interest</td>
<td>2,06</td>
</tr>
<tr>
<td>Post-harvest</td>
<td>23,23</td>
<td>Transport to harbour</td>
<td>6,61</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td>- Port handling</td>
<td>10,23</td>
</tr>
<tr>
<td>Transport &amp;</td>
<td></td>
<td>- Customs clearance</td>
<td>15,30</td>
</tr>
<tr>
<td>Shipping</td>
<td></td>
<td>- Vessel loading</td>
<td>1,40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- (Shipping)</td>
<td>(14,88)</td>
</tr>
<tr>
<td>Costs fob</td>
<td></td>
<td></td>
<td>129,13</td>
</tr>
</tbody>
</table>

Opportunity costs

- The cost of an alternative that must be forgone in order to pursue a certain action or the benefits you could have received by taking an alternative action.

- Ex: A farmer grows sorghum on one acre. His total net income from this is 5000 Birr. If he would have grown maize his total net income would have been 6000 Birr (due to better yields and higher prices). His opportunity costs exceed his net income from the chosen variety. Recommendation: to switch to growing maize.

- Basic question: are the costs and margins of a chosen alternative higher or lower compared to those of another?

- Particularly important for poor people who have limited resources.
Spatial structure

• Understood as the geographic concentration or dispersion of production and marketing

• Gives an overview of the location of the single stages of a value chain

• Important for assessing the benefits for individual countries integrated in the chain

• Allows an analysis about why activities take place in a certain country (e.g. lower labor costs, historical trade)

• Important to identify possible barriers to participate in a value chain
Components of a value chain

The five core components of a value chain

- Technical structure
- Actors
- Governance structure
- Economic structure
- Spatial structure
The meso level

Additional components of a value chain

- **Meso level**
  - value chain supporters that have a direct relationship with chain operators
  - they provide support services to the whole value chain and/or represent the common interests of chain actors
  - can be business and industry associations, sector-specific agencies (technology or training institutes), specialized departments of public administration, foundations or development programs
The macro level

Additional components of a value chain

• Macro level
  – government and other public organizations that are responsible for shaping the business
Value chain analysis

Value chain analysis

– systematically maps the value chain to assess characteristics of actors, profit and cost structures, flows of goods throughout the chain, employment characteristics, and the destination and volumes of domestic and foreign sales

– plays a key role in identifying the distribution of benefits of actors in the chain through the analysis of margins and profits
Value chain analysis

Value chain analysis

– **examines the role of upgrading within the chain**. Upgrading can involve improvements in quality and product design that enable producers to gain higher-value or through product diversification

– **highlights the role of governance** in the value-chain. Governance is important to identify institutional arrangements that may need to be targeted to improve capabilities in the value-chain, remedy distributional distortions, and increase value-added in the sector.
Exercise

• The group splits in small groups of 3 to 4 persons. One group focuses on sorghum and one on finger millet.

Questions to be answered

– what is the technical structure of the value chain?
– who are major actors?
– where in Ethiopia do activities take place?
– who are important players at the meso level?
– what are important regulations on the macro level?
Value chain analysis – mapping

Value chain training
15 to 19 November, 2010
Adet, Ethiopia
Introduction

- Collecting information about a particular value chain – value chain analysis – is a precondition for value chain promotion.

- At its most basic level, a value-chain analysis systematically maps already existing information about the different components of the value chain.

- Based on these maps information gaps can be identified and an agenda for further research developed.

- Detailed information can be gathered from a combination of primary survey work, focus groups, PRAs, informal interviews, and secondary data.
Objectives

• Visualize networks in order to get a better understanding of connections between actors and processes in a value chain

• Demonstrate interdependency between actors and processes in the value chain

• Create awareness of stakeholders to look beyond their own involvement in the value chain
Guiding questions

• What are different (core) processes in the value chain?
• Who are actors involved in these processes and what do they actually do?
• What are flows of product, information and knowledge in the value chain?
• What is the volume of products, the number of actors, jobs?
• Where does the product (or service) originate from and where does it go?
• How does value change throughout the chain?
• What types of relationships and linkages exist?
• What types of (business) services are feeding into the chain?
Outline of maps

- Value chain maps need the right degree of detail that delivers sufficient information to be useful, but still remains simple enough to be easily understood.
- Instead of combining all information in just one chain map, a series of “thematic maps” covering particular aspects should be developed.
- Any chain map should fit on one page.
- A map of an entire sub sector can only show a rough overview, for a detailed resolution, a part of the first map has to be picked out and enlarged.
- Mapping always starts by drawing a basic map providing an overview of the entire value chain; it presents major segments of the value chain, operators and vertical business links.
Examples of value chain maps

Box 2.2 - Concept: Generic elements of a basic linear value chain map

Basic functions (chain links)

Provision of specific Inputs
  - Provide equipment
  - Provide inputs

Production
  - Grow
  - Harvest
  - Dry etc.

Transformation
  - Classify
  - Process
  - Pack

Trade
  - Transport
  - Distribute
  - Sell

Final sale

Categories of chain operators and their relations

Specific input providers → Primary producers → Logistics centres, Industry → Traders, → Final sales Point / Retailer
Examples of value chain maps

Box 4: Example of mapping actors

An example about mapping actors comes from the Mexican value chain of consumption honey from the Calakmul region to the domestic market. This map distinguishes actors, based on legal status and scale.

Source: A. Springer-Heinze, GTZ, 2005
Examples of value chain maps

**Source:** Market survey, 2006.

**Figure 3.** Dry grain pigeonpea marketing channels in Kenya.
Examples of value chain maps

Box 5: Example of mapping of specific activities from core processes

We turn again to the example of sedge handicraft in Vietnam.

Input provision
- Provide: Seedlings, Fertilizer, Pesticides

Cultivation
- Grow Harvest Cut Dry Split

Collection
- Collect Categorize Store Transport

Production
- Categorize Dry Weave Mold prevention Store

Export
- Collect Quality control Store Transport

Import
- Quality control Store Transport

Retail
- Store Sell

Source: Sedge handicrafts in Ninh Binh, SNV 2005
Examples of value chain maps

Box 6: Example of mapping knowledge

One of the cashcrops cultivated in Northern Laos is soybean. Mainly, these soybeans are exported to China to be processed into animal feed or for cooking oil. One of the crucial issues, as mentioned by all actors throughout the value chain, was the inconsistent quality of the soybeans.

Mapping the knowledge proved to be a useful tool in this case. After having interviewed farmers, collectors and intermediary traders (all based in Laos), it became clear that the involved actors had conflicting views on what quality requirements there actually were. The problem was that no one really knew what 'quality' meant. Another, related issue, was that the actual buyers (Chinese processing companies) had never met any of the actors on the Lao side of the border. The map looked as follows:

What are the quality requirements for 'good' soybeans?

- **Farmer**
  - Color: black-grey
  - Size: unknown, but round shape
  - Oil content: ?

- **Collector**
  - Color: black
  - Size: Unknown, round shape
  - Oil content: ?

- **Intermediary Trader**
  - Color: black
  - Size: even
  - Oil content: measured by Chinese trader, but how is Unknown
  - Other: dried properly

Source: GTZ RDMA, Soybean markets in northern Laos, 2005
Examples of value chain maps


Figure 8. Pigeonpea utilization in Kenya.
Examples of value chain maps

Box 8: Example of mapping the number of actors and number of employees

Vegetable retail in Hanoi takes place through many channels. The following example shows that these different outlets differ in number, but also in number of employees.

- **Cultivation**
  - Actors = 248
  - Market retailers
    - Employees = 1,412
- **Transport**
  - Actors = 197
  - Street vendors
    - Employees = 2,110
- **Retail**
  - Actors = 27
  - Ordinary vegetable shops
    - Employees = 289
  - Actors = 21
  - Safe vegetable stores and stalls
    - Employees = 225
- **Consumption**
  - Actors = 14
  - Supermarkets
    - Employees = 20

Based on: census by VASI, MALICA/MMWB4P, October 2004
Examples of value chain maps

Box 9: Example of mapping value added throughout the chain

In India, saris (women's dress) are made with handlooms. The following example is a map of the value chain in this sub-sector. The value is the price at which the sari is sold to the next actor in the chain.

```
Input provision → Production → Trade → Retail → Consume
```

<table>
<thead>
<tr>
<th>Value</th>
<th>Rs. 110.5</th>
<th>Rs. 248.90</th>
<th>Rs. 261.35</th>
<th>Rs. 275</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added</td>
<td>Rs. 138.4</td>
<td>Rs. 12.45</td>
<td>Rs. 13.65</td>
<td></td>
</tr>
</tbody>
</table>

What the example shows is that producers (weavers) actually add the most value, both absolutely (138.4 Rupees) and relatively (125% value addition). This tells us nothing about the profitability of the producers. To assess that parameter, an analysis of costs should be made (see the chapter on costs and margins).

Source: See Padmanand V, and Patel V.G., 2004
Examples of value chain maps

Box 10: Example of mapping relationships and linkages

The following example is based on the sedge handicraft sub-sector in Vietnam. Most linkages are persistent and returning. Except for the linkage between individual farmers and the sedge enterprises, which is a spot market relationship. This example is representative for sectors in which high quality requirements and differentiation (design of handicrafts) are crucial.

Source: Sedge handicrafts in Ninh Binh, SNV 2005
Examples of value chain maps

Box 11: Example of mapping business services

One of the major constraints of the sedge value chain in this example is the lack of business services, especially in the first steps in the value chain.

The sources and payment procedures of these business services are different: embedded, fee-based or for free (subsidized). A separate map can be drawn to make this visible.
Box 2.7 - Case: Traditional finished sheep and goat leather value chain in Ethiopia
Mapping of chain supporters (meso level)

- Animal husbandry
- Slaughtering
- Collection & Preservation
- Raw skin trade
- Processing
- Trade and Distribution

- Pastoralists
- Private slaughtering
- Collectors
- Traders of raw skins
- Tanneries
- Traders of finished leather

- NGO projects
  - USAID-funded sheep and goat improvement project

- Ministry of Agriculture Regional offices

- FAO Livestock Project

- Min. Agriculture Marketing Dept.

- Ministry of Trade & Industry, Leather Development Dept

- Ethiopian Tanneries, Footwear and Leather Garments Manufacturing Association

- Leather & Leather Product Technology Institute (LLPTI)

- UNIDO Regional Office
  - Quality and Standards Authority of Ethiopia (QSAE)

- USAID-funded Agribusiness and Trade Improvement Activity

- Ethiopian Capacity Building Programme (ECBP)

Source: ECBP/GTZ ValueLinks Training workshop in Addis, Ethiopia, August 2006
Box 2.3 - Practical hints: How to proceed in basic chain mapping

Steps in drawing an overview map of a value chain

(a) The first step always is the definition of the final product. Which product or category of product does the value chain produce?
(b) The end market / group of costumers is indicated by an oval box.
(c) The activities / functions currently performed to generate the final product are listed. It makes sense to start from the final sales point (outlet on the domestic market, or exporter) and go backwards listing the production and marketing activities necessary to sell the product on the market.
(d) The list of activities / functions needs to be aggregated establishing a sequence of 4 to no more than 7 or 8 chain links - from providing specific technical inputs up to the final sale.
(e) As a matter of principle, mapping input delivery and services at the upper end of the chain (before primary production) is restricted to highly specific inputs, making sure to clearly distinguish between the specific technology inputs - needed only for this product - and other inputs and services of a generic type. The latter are not included in the basic map but added later.
(f) After establishing the functional sequence, the main chain/channel is drawn by indicating the types of operators performing the functions. This delivers a linear progression from stage to stage (i.e. no arrows bending left and right). Secondary channels are drawn later, branching off from the main one. The procedure is different in the case of production networks in manufacturing sectors (see below)
(g) It is important to note that the value chain map only includes those operators who become owners of the product. If they source out or subcontract functions to other firms, these are regarded as “operational service providers”. They may or may not be mapped.
(h) If operators take more than one function, the box representing them is enlarged to cover the two or more functional stages they are in.
(i) In the case of export products, the border line is indicated between the domestic and foreign operators.

Source: ValueLinks Manual
Exercise

- The group splits in the same sub groups than before

Task:
Map the information that was put together in the earlier group work and identify information gaps
Value chain analysis – toolbox

Value chain training
15 to 19 November, 2010
Adama, Ethiopia
Introduction

Three steps in value chain promotion:

• Assessing growth potential when selecting a value chain for promotion (analyzing market demand)
  – requires data on annual growth of sales and factors driving likely demand trends such as urbanization (secondary data, lit research, officials, ITC)
Introduction

Three steps in value chain promotion:

• Identify market opportunities and formulate an upgrading vision and objectives
  – solid market analysis to develop a vision of chain upgrading; requires data about real market opportunities, market structure and trade barriers; quantitative data on sales volumes and prices, benchmarks in competing value chains, etc.; includes mapping the distribution channels

• Design support action in line with demand conditions
  – fine-tuning of an upgrading strategy; solutions have to be in line with market requirements
Introduction

Three steps in value chain promotion:

• Assessing the growth potential when selecting a value chain for promotion (analyzing market demand)

• Identify market opportunities and formulate an upgrading vision and objectives

• Design support action in line with demand conditions
Introduction

• First step in value chain analysis is to get an overview of the selected value chain
• Rapid market appraisal (RMA) is an appropriate tool for this
• RMA is accomplished by in-depth studies were needed
Rapid market appraisal

**Definition**

- A Rapid Market Appraisal (RMA) is an iterative and interactive research methodology, which is used to better understand complex market systems in a short time (Adapted from *Young 1994*).
Rapid market appraisal

**Background**

- Based on Rapid Rural Appraisal (RRA) and Participatory Rural Appraisal (PRA)

**Key features**

- Focus only on markets
- Facilitates a change in thinking from “production minded” to “market minded”
- Set of principles, approaches and tools
- Alternative to formal, static, structured surveys of random samples
RMA - principles

• **Client first** – clients can best describe higher expectations of a product - a “middle-man” is as much a client as the “end consumer” of a particular product

• **Insiders are the experts** - intermediaries in the product chain (from client to produce) are the experts and their knowledge and experience is important; outsiders (e.g. the RMA team) are students, not experts
RMA - principles

- **Optimal ignorance** – consider only as much information as required for a decision; a complete understanding of a system is impossible or too costly for the particular product.

- **Participation** - collected information needs to be shared with concerned stakeholders to validate and use the information; RMAs can even include selected stakeholders in the research team.
## RMA - characteristics

<table>
<thead>
<tr>
<th>Approach</th>
<th>Benefit</th>
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</table>
| Interactive                   | ■ Two-way flow of information  
                                       ■ Includes direct observation                                      |
| Iterative                     | ■ Stresses open questions  
                                       ■ Allows new information to emerge through probing  
                                       ■ Data collection and analysis follow each other repeatedly  
                                       ■ Can exclude irrelevant information                               |
| Accuracy of information       | ■ Data is analysed for relevance at the time of collection  
                                       ■ Verification of information occurs in the field from alternative sources ("triangulation") |
| Inter-disciplinary             | ■ Alternative views of the same field situation assist with accuracy    |
| Range of tools                 | ■ Does not limit itself to obtaining information only through formal tools  
                                       ■ Allows the person in the field to get information in the way he believes it best |
| Exploratory-topical content    | ■ Appraisal can be both, exploratory and topical in scope of investigation. A RMA may examine a market system both horizontally (within sub-systems) or vertically (with one commodity or a group of similar commodities) |
| Explore hypothesis            | ■ Sampling is purposive, key informants are sought                      |
RMA - objectives

RMA is a way to:

– obtain information about how a commodity sub-sector is organized, operates and performs

– identify market constraints and opportunities

– identify and diagnose policy and regulatory problems that require government (and donor) and private sector analysis, attention and action

– recommend interventions in commodity system organizations and technologies
## Lead questions and criteria:

(a) **Is there a market and how can it be characterized?**
- types of products in demand (e.g. varieties and seasonality as well as product quality and packaging as preferred by the processing industry and/or final consumers);
- market size and trends (e.g. volumes traded, consumption of different consumer groups);
- seasonality of market supplies (e.g. periods of over- and undersupply), demand peaks;
- product prices (e.g. maximum & minimum prices, price trends, fluctuations, price range);
- Requirements of buyers in terms of quality, price, volume and reliability

(b) **Who are the competitors and how do they perform?**
- competing producers/value chains (e.g. imports, supplies from other regions);
- performance of competing market participants (e.g. price, quality, market shares);
- competitive advantages of competitors (e.g. market distance);
- competing products (e.g. products used as substitutes);

(c) **What are the conditions of market access?**
- existing distribution channels (e.g. industry, export or end consumer markets)
- power of market participants (e.g. monopolies);
- infrastructure of roads and market places (e.g. rural/urban markets, storage facilities);
- product standards (e.g. laws/regulations on product safety, labelling or packaging);
- tax and tariff regimes (e.g. customs tariffs on inputs, levies on road transport);
- service offers facilitating market access (e.g. financial and information services).
RMA – qualitative data

- Quantitative data needs to be complemented by qualitative information that allows comparing the current with potential alternative states of the chain.

- Elements of the chain map are treated as variables which are changing over time; e.g., functions may be performed more efficiently, contractual relations be formalized, etc.

- Method for characterizing the chain is to attach qualitative statements about any current deficiencies, such as insufficient services, technical constraints or coordination problems to the chain elements (functions and operators) concerned.
RMA – qualitative data

Lead question for qualitative assessment

• What are the major challenges/problems actors at a particular stage are facing?
• What could be possible solutions to overcome these?
• What are critical factors of success?
RMA – qualitative data

Tools for qualitative data:

• Open ended questions
• Pair –wise ranking (if major constraints are already known)
  – prepare a matrix were major constraints are listed in the first column and first row
  – shade the area were the same constraint is mentioned in a column and a row
  – ask the respondent pair – wise (column to row) which constraint is more important
  – rank importance of constraints in regard to the number of times it was ranked most important
RMA – qualitative data

- Example for a pair-wise ranking matrix

<table>
<thead>
<tr>
<th>Problems</th>
<th>Access to funds</th>
<th>Access to inputs</th>
<th>Training and technical assistance</th>
<th>Improvement of breed</th>
<th>Pastures</th>
<th>Marketing</th>
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<td>Marketing</td>
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</table>
RMA – qualitative data

- Example for a pair-wise ranking matrix

<table>
<thead>
<tr>
<th>Problems</th>
<th>Access to funds</th>
<th>Access to inputs</th>
<th>Training and technical assistance (TA)</th>
<th>Improvement of breeds</th>
<th>Pastures</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to funds</td>
<td>Funds</td>
<td>Training</td>
<td>Funds</td>
<td>Pastures</td>
<td>Marketing</td>
<td></td>
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<tr>
<td>Access to inputs</td>
<td></td>
<td>Training</td>
<td>Improvement of breeds</td>
<td>Pastures</td>
<td>Marketing</td>
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<tr>
<td>Training and TA</td>
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<td>Training</td>
<td>Training</td>
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<tr>
<td>Improvement of breeds</td>
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</table>


RMA – qualitative data

- Example for a pair-wise ranking matrix

<table>
<thead>
<tr>
<th>Limitations</th>
<th>Frequency</th>
<th>Order of priority</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and technical assistance</td>
<td>5</td>
<td>1</td>
<td>Notes on why each decision was made.</td>
</tr>
<tr>
<td>Marketing</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Pastures</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>2</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Improvement of breeds</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Purchase of inputs</td>
<td>0</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>
RMA – qualitative data

Tools for qualitative data contd.

- Problem tree
  - starting point is the identification of the most important constraints/problems
  - additionally reasons for and effects of constraints are captured
  - most applicable in focus group discussions, focused personal interactions and workshops
RMA – qualitative data

- Example for a problem tree
RMA – qualitative data

Tools for qualitative data:

• Vision tree
• starting point is the identification of the most important change that is needed
  – additionally ways how the change can be reached and effects of the change are captured
  – most applicable in focus group discussions, focused personal interactions and workshops
RMA – qualitative data

Box 3.8 - Case: Furniture chain map indicating constraints and opportunities, Peru

Vision
Developing the US market for outdoor furniture made in Peru of FSC certified tropical wood

Source: based on a case developed in the ValueLinks Training Course, Quito, Ecuador, March 2006
RMA – How to start

• **Defining an objective** - before undertaking any research the objectives must be well defined, communicated and understood by all involved
  – e.g. to assess the market potential for sorghum

• **Identifying needed information**
  – e.g. who are important consumers? How high is the annual demand per consumer cluster?

• **Identifying key information sources** – prepare a list of persons, places. etc. from whom information should be collected. Use key stakeholders as a guide
RMA – How to start

• Defining expected results
  – e.g. list of most important consumer clusters

• Deciding on the approach to collect the needed information
  – e.g. where, when and how
  – iterative process

! Plan the RMA according to the season! You cannot conduct a market survey at times the product is not at the market!
RMA – Exercise

- Split in groups of 3 to 4 persons
- Design an outline for a RMA for either sorghum or finger millet following the previously described steps
  - Defining an objective
  - Identifying needed information
  - Defining expected results
Sources for secondary data:

• According to the objective different sources of secondary data exist

• Typically data can be obtained from Ministries, NGOs, sector relevant institutions and organizations, internet

• Search for secondary data can be combined with personal visits to gather primary information

• Before making use of secondary data, the data itself and its source need to be evaluated
RMA – data collection

**Sources for primary data:**

- Key experts (e.g. Ministries - Agriculture, Trade, Industries, etc., Woreda/District offices, statistical agencies, NGOs and various other institutes/organizations)
- Stakeholders (farmers, marketing groups, traders, processors, consumers, etc.)
- Places of interest (wholesale and retail markets, stakeholder meetings, harbour, etc.)
Tools for gathering first information:

• **Observations**
  – direct observations (end users, traders and producers) at the retail sale spot
  – careful interpretation needed. Sale at the bazaar, for instance, depend on the time of the day, the day of the week, the season.
  – interesting insights: who are actors, how many, kind of products, kind of doing business, etc.

• **Individual personal interaction**
  – the objective is general information gathering about the sector
  – prepare a list of general topic/questions of interest
  – iterative process
  – snowball system
RMA – data collection tools

Tools for in-depth information:

- **Guided/semi-structured interviews:**
  - define areas of interest and prepare a set of questions per area
  - questions serve as a kind of checklist
  - follow up/additional questions can be included
  - open ended questions, no fix answers are given
  - best through personal interviews but also possible via phone or e-mail
  - structure and order of sections is important
    - do not start with sensitive issues
    - remember time limitations
    - do not ask most important parts at the end
RMA – data collection tools

Tools for in-depth information:

• **Structured interviews with open/closed questions:**
  – interview is based on a structured questionnaire
  – structure remains the same for all interviews
  – close questions have pre-defined answers (e.g. name your three most important products)
  – open questions enable descriptive answers (e.g. kindly describe your contract model with your suppliers)
Guidelines for questionnaires:

- Structure and order of sections is important
  - Do not start with sensitive issues
  - Remember time limitations
  - Do not ask most important parts at the end
- Start interview with capturing contact details (Name, phone number, position in the company)
- Name each set of questionnaires according to the purpose (Questionnaire for sorghum processor)
## RMA – data collection tools

<table>
<thead>
<tr>
<th>RMA: Tomato products from Jalalabat</th>
<th>Objective: Tomato producers get higher profit</th>
<th>A: Product</th>
<th>B: Price</th>
<th>C: Place</th>
<th>D: Promotion</th>
<th>E: Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>From where?</td>
<td>Processing?</td>
<td>From where?</td>
<td>Seasonality?</td>
<td>Place</td>
<td>Marketing chain and prices?</td>
<td>Packing, labelling?</td>
</tr>
</tbody>
</table>

Table 4: Example of a grid for questionnaire used in semi-structured interviews
RMA – data collection tools

Tools for in-depth information:

• **Focus group discussion:**
  – group discussion of approximately 6 - 12 persons guided by a facilitator, during which group members talk freely and spontaneously about a certain topic
  – to obtain in-depth information on concepts, perceptions and ideas of a group
  – it is NOT a question-answer interaction
  – e.g. to understand marketing constraints of farmers
RMA – data collection tools

Tools for in-depth information:

- **Maps:**
  - to collect data for some specific areas of interest
  - e.g. market outlets of farmers
  - it might be an easier way to collect information, in particular if accurate figures are missing

- **Market path:**
  - definition which aspects of the product flow should be covered (e.g. locations, quantities and prices)
  - start at the production level and follow the product until consumption, collecting needed information at each stage
  - kind of a reduced value chain approach
### Example – market path

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Symbol used in figure 6</strong></td>
<td>![Symbol Image]</td>
</tr>
<tr>
<td><strong>Margin/kg</strong></td>
<td>+ 5 Som</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Batken Oblast</td>
</tr>
<tr>
<td><strong>Estimated number of traders</strong></td>
<td>25</td>
</tr>
<tr>
<td><strong>Value added</strong></td>
<td>Buys from farmers at 25 Som/kg Transport to Ferghana</td>
</tr>
<tr>
<td><strong>Volume of one shipment (per year)</strong></td>
<td>200 - 300 kg once a week (15’000 kg)</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Invests own capital Transport Informal custom clearings</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Trader 1</strong></th>
<th><strong>Trader 2</strong></th>
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<tbody>
<tr>
<td></td>
<td>+ 3 - 5 Som</td>
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<tr>
<td></td>
<td>Ferghana</td>
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<td></td>
<td>10</td>
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<tr>
<td></td>
<td>Collects and stores apricot</td>
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<tr>
<td></td>
<td>Transport Ferghana</td>
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<tr>
<td></td>
<td>Stores, retail sale to clients for 45 Som/kg</td>
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<thead>
<tr>
<th><strong>Trader 3</strong></th>
<th><strong>Trader 4</strong></th>
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<tr>
<td></td>
<td>+ 5 - 7 Som</td>
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<td>Andijon</td>
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<td>5-6</td>
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<td>Transport Ferghana</td>
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<td>Stores, retail sale to clients for 45 Som/kg</td>
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<tr>
<th><strong>Trader 4</strong></th>
<th><strong>Trader 5</strong></th>
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<tr>
<td></td>
<td>+ 5 Som</td>
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<td>Jalalabat</td>
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<td>27</td>
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<td></td>
<td>Stores, retail sale to clients for 45 Som/kg</td>
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</tbody>
</table>

Table 5: Example of “dried apricot market path” (see also map in figure 6)
RMA – data collection tools

- **Timeline:**
  - used for tracking prices, volumes or market shares
  - allows comparison of price levels of a given product in a given month over several years

Figure 8: Cotton A-index prices August 1999 to April 2002
RMA – data collection tools

- **Seasonal calendar:**
  - used in regard to various aspects (e.g. type of products available, needed storing facilities, etc.)
  - good starting point for quantified investigations
Example – seasonal calendar

<table>
<thead>
<tr>
<th>Other cash sources</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
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<td>BEER BREWING</td>
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<td>SALE OF VEGETABLES</td>
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<td>SALE OF CASSAVA</td>
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Other cash needs ↓
Data collection - guidelines

**Typical topics of interest:**

- commodity characteristics (grades, types, varieties)
- presentation of the product (weight, packaging, etc.)
- product volumes and frequency and site of product delivery (dates, periods, market site)
- consumption patterns (seasonality, trends)
- supply situation, production (demand, storage, trade flows)
- product price and form of payment, price paid (cash, credit)
Typical topics of interest contd.:

- price relationships (seasonal, cyclical, supply – demand)
- actors in the chain
- marketing behavior (vertical integration, market power)
- legal requirements for selling product, (sanitary registration, legalized invoices, etc.)
- market infrastructure (roads, markets, communications)
- government (regulation, marketing, price fixing)
Some Practical Tips for conducting an interview

Pre interview
- Be prepared with your checklist
- Have a notebook
- It is advisable to work in pairs (basing on knowledge & expertise)
- Book an appointment and give a correct and convincing reason for visit (telephone, visit..)
- Try to memorize the key issues to be asked
- Have ample background knowledge about the sub sector, so that you can discuss the product with the interviewee

During the interview
- Keep your interview to an agreed time
- Introduce yourself and the purpose of the visit and the institutions you work for, use business cards and letter of introduction
- Ask open ended questions
- Avoid interrupting the host’s responses, switch off your phone, don’t talk while s/he is talking, and always be polite.
- Engage the person, the more s/he learns from you, the more information s/he will trade with you
- Use this interview to learn who to talk to next
- Be flexible and conscious of the hosts’ time

Post interview
- Maintain relations and deliver all you promise
- Pass on a copy of the study when completed
- Return all borrowed material
- Treat detailed material confidential if asked
- Maintain contact for future.
Data collection - guidelines

Personal interaction:

- If possible conduct interviews, focus group discussions and other personal interactions with two persons; one person can take the active role and the other person can take notes and observe.

- Crosscheck information, especially in regard to business information interviewees might not be willing to provide precise and correct details; crosscheck answers with own observations, with answers from other market participants and answers to similar questions from the same person.
Personal interaction contd.:

- Formal letters using stationery of the organization executing the survey help to empower the interviewer; the letter should also inform of the survey’s objectives and emphasize that all information will be handled confidentially.
HOPE

• Rapid market appraisal to obtain basic information about the structure of and stakeholders in the sector
• In depth analysis with traders, processors and consumers
• Topics traders
• Topics processors
• Topics consumers
HOPE - exercise

- Design a (semi) -structured questionnaire for traders and processors
Value chain analysis – reporting results

Value chain training
15 to 19 November, 2010
Adama, Ethiopia
Analysis of results

• **Iterative process**
  – Data should be analyzed continuously
    • to identify still missing information
    • to identify new important actors that might need to be included
    • to improve applied methods

• **Objective oriented**
  – Ensure that data is collected and analyzed according to the formulated objectives/research questions
Analysis of results

• Triangulation
  – Actors in the same value chain might have different point of views of the same topic (ex. market trends). Each one does only see a part of the object
  – Actors in the same value chain might state different problems, but problems are correlated (ex. low prices versus bad quality = lack of information flow)
  – Triangulation means to combine the different information to one common picture
Analysis of results

Triangulation of data.
Analysis of results - tools

- Analysis of quantitative data based on common methods
- Analysis of qualitative data (constraints and potential) can be based on various tool
  - Descriptive summary of answers
  - Transforming the problem into a solution tree
  - Mapping constraints and potentials
  - SWOT analysis
Analysis of results

Box 3.8 - Case: Furniture chain map indicating constraints and opportunities, Peru

Source: based on a case developed in the ValueLinks Training Course, Quito, Ecuador, March 2006
Analysis of results - SWOT

- **SWOT** = strengths, weaknesses, opportunities and threats
- instrument for developing future strategies
- **Strength** are internal (micro level) positive factors (e.g. labor availability)
- **Weaknesses** are internal (micro level) negative factors (e.g. low education)
- **Opportunities** are external (meso/macro level) positive factors (e.g. growing market demand)
- **Threats** are external (meso/macro level) negative factors (e.g. bad infrastructure)
### Analysis of results - SWOT

- **SWOT matrix**

<table>
<thead>
<tr>
<th></th>
<th><strong>STRENGTH</strong></th>
<th><strong>WEAKNESSES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I</strong></td>
<td>High productivity in production of sorghum of medium quality</td>
<td>No capital for investing in new technologies</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>T</strong></td>
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<td><strong>E</strong></td>
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<table>
<thead>
<tr>
<th><strong>OPPORTUNITIES</strong></th>
<th><strong>THREATS</strong></th>
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</thead>
<tbody>
<tr>
<td>Growing demand for sorghum of medium quality</td>
<td>Rising quality awareness for sorghum</td>
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</table>
Analysis of results - SWOT

- Based on information from the SWOT matrix strategies can be developed

<table>
<thead>
<tr>
<th>Opportunities:</th>
<th>Strengths:</th>
<th>Weaknesses:</th>
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<tr>
<th>Threats:</th>
<th>Strategy elements for the short term</th>
<th>Strategy elements for the medium term</th>
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<th>Strategy elements for the medium term</th>
<th>Strategy elements for the long term</th>
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Report writing

- The report will be the basis for further project action
- It is not an end in itself, but should
  - Provide an overview about the current situation of the finger millet and sorghum value chain
  - Enable the team to define strategies for further action to improve the market linkages between farmers and traders
- Prepare a template for the report even before starting the market appraisal
- Report is structured along the topics of interest
Report writing

• Sections to be included in every report:
  – Table of contents, list of figures, tables, appendixes, etc
  – Acronyms, acknowledgement and executive summary
  – Introduction
  – Conceptual framework (Methods and Data)
  – Research area
  – Discussion of results
  – Conclusions and recommendations
  – References
Report writing

• Introduction
  – has to brief the reader on the topic of research. Starts from a general introduction to the topic to the precise topic of the particular research
  – states the objectives and research questions of the research
  – gives an overview about the structure of the report
  – look at print outs for an example
• Conceptual framework
  – explains the general research concept (vc approach) and applied methods of analysis
  – in case of a wide range of different methods it is advised to have two sections (conceptual framework and methods)
  – gives an overview about the data that was collected (when, where, from whom, etc.)
Report writing

- Research area
  - provides some key characteristics of the research area (location within the country, agricultural structure, etc.)
  - explains reasons for choosing the area

- Discussion of results
  - further divided in sub-chapters according to the topics of interest
  - summarizing results in words, tables and figures
Report writing

• Conclusions and recommendations
  – summarizing the meaning of and implications from the results
  – recommends further action
Exercise

- Split in groups of 3 to 4 persons
- Develop a template for a report for the value chain study that will be conducted under HOPE
- Add some keywords to each chapter that reflect the content of the chapter
Literature

Manuals

• Identifying market opportunities for rural smallholder producers. CIAT Rural Agroenterprise Development. Good Practice Guide 3.
  http://webapp.ciat.cgiar.org/agroempresas/ingles/good_practice_guide_series.htm

• ValueLinks Manual. The methodology of value chain promotion. GIZ.
  http://www.value-links.de/manual/distributor.html

• Making value chains work better for the poor. M4P.

• A rapid market appraisal toolkit. Experience and Learning in International Co-operation – Helvetas Publications, No. 3.