



Accessing Markets through the Value Chain Approach

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Author

Rita Pilarca rita.pilarca@gtz.de

Responsible

Lorenzo Templonuevo lorenzo.templonuevo@gtz.de

Editor

Leah Divina Siton Steigerwald leah22@gmail.com
GFA Consultant

Publisher

The Private Sector Promotion Program
SMEDSEP
smedsep.ph

10F German Development Center
PDCP Bank Center Building
V A Rufino St cor L P Leviste St
Salcedo Village, Makati City 1227
PHILIPPINES

Dr Volker Steigerwald, Program Manager
volker.steigerwald@gtz.de

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Private Sector Promotion (SMEDSEP) Program
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Promoting Regional Economic Cooperation in BIMP - EAGA

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This reference document is intended for the Department of Trade and Industry (DTI) Regional and Provincial Offices, the Department of Agriculture (DA), other National Government Agencies (NGAs) and Local Government Units (LGUs) supporting industry and sector development.

Accessing Markets through the Value Chain Approach

Summary

A well functioning value chain in selected subsectors greatly contributes to improved access to markets. To remain competitive in the global trade, the small and medium enterprises (SMEs) must be integrated into the global value chain as suppliers or major actors.

The Value Chain Approach (VCA) takes a systematic view to improve the market performance of a subsector by analyzing the various functions and processes and the different actors involved. In a highly competitive business environment, organizing the stakeholders to plan and implement activities that address the constraints of a particular subsector becomes imperative. Value chains are instruments of improving quality and productivity as well as cost efficiency of subsectors.

Promoting value chains spurs economic development as it creates linkages and interaction between and among different stakeholders thus combining entrepreneurial development at the *micro* level with institutional change at the *meso* and *macro* levels.

The VCA is used by many development organizations worldwide. In the Philippines the VCA is further promoted by the German Technical Cooperation (GTZ), among others.

Overall, the Department of Trade and Industry (DTI) is taking a proactive role in replicating the Value Chain model in supporting the dominant and emerging subsectors that demonstrate market and income potential.

Rationale and Objectives

The opening of global markets for SMEs necessitates a systematic analysis of the various functions along the value chain of a priority subsector. A value chain analyzes and describes the linking and coordinating arrangements among subsector institutional players that include producers, processors, traders and distributors of a particular product. It is also defined as a sequence of productive processes (functions) from a provision of specific inputs for a particular product to primary production, transformation, marketing and up to final consumption. Furthermore, it is an economic model which combines the selection of a product and the appropriate technology with a particular way of

organizing the actors in order to access the market.

The VCA contributes to the development of a certain subsector since it results in

- **economic viability and sustainability**
Services to address constraints are developed by service providers. SMEs in the value chain pay for using these services out of their income
- **creation of linkages and economic structure**
Economic development results from increasing division of labor and cooperation between actors in a subsector
- **coordination of public and private roles**
Combining the entrepreneurial development at the micro level with institutional change at the meso and macro levels
- **self reliant development**
Focus on facilitating economic development process through subsector players' self initiated action.

History

In the Philippines three different GTZ supported projects promote different value chains within their respective work context.

In 2006, the Private Sector Promotion (SMEDSEP) Program jointly implemented by the Department of Trade and Industry (DTI) and the German Technical Cooperation (GTZ) has developed the following

Vision Visayas the location of choice for competitive SMEs

Mission Facilitate the development and replication of sustainable models for improving the local business climate (especially for SMEs) in the Visayas

Initially, there were four models developed and tested during the first phase of the program. These were Business Development Services (BDS), Local and Regional Economic Development (LRED), Financial Services (FS) and streamlining Business Permits and Licensing System (BPLS).

In the analysis of the different priority subsectors identified in the BDS model in the Visayas, the need to bring together the different players became a necessity by looking at the subsectors'

value chains. This, therefore, gave birth to the subsector analysis using the VCA in the program.

In Central Visayas, tourism was recommended by the DTI as the priority subsector where all the players have to be coordinated. Tourism is a common sector that is dominant in all the four provinces. Being an emerging service sector, each province had focused on the following subsectors

- Cebu – Health and wellness tourism
- Bohol – Ecotourism
- Negros Oriental – Edutourism¹
- Siquijor – Ecotourism.

The Tourism Value Chain mapping and analysis has brought together the actors (private sector) and enablers (government, sector organizations). Subsequent subsector workshops have showed visible signs that the VCA can bring together both the private and public sectors for the promotion of convergence and cooperation. Core groups from the private sector were also organized to serve as champions.

Given the encouraging signals, the VCA is taken by SMEDSEP as a model that will bring together various actors to implement activities based on identified constraints of the subsector.

The VCA is further applied and promoted within the frame of the Environment and Rural Development (EnRD) Program, specifically in its Agribusiness component. The goal of the component is to increase environmentally friendly production, productivity and income. In Region 8, part of the working area of the program, the coconut and the abaca industries have been identified as major economic growth potentials for the region and with a direct possible impact on the livelihood of many small farmers. Subsequently the coconut and the abaca value chains have been analysed in order to identify major bottlenecks which hamper the industries' development. Results have been discussed with various stakeholders from the private and public sector at different levels. The focus was to come to a joint agreement about the major constraints and to identify the most strategic interventions to address these constraints jointly. The strengthening of linkages between the different actors and the promotion of private – public

¹ Edutourism – Education Tourism

dialogue play a major role in bringing this process forward.

The VCA is being applied in a wider international context involving four countries in the Brunei Indonesia Malaysia Philippines - East ASEAN Growth Area (BIMP - EAGA). The GTZ supports the region in its efforts to promote sustainable

economic cooperation in the areas of cross border trade, investment and tourism. The VCA is used to facilitate linkages to harness geographic factors that will lead to improved industry competitiveness at the regional level (See boxed story).

Facilitating Cross Border Value Chains in BIMP - EAGA

"We welcomed the efforts undertaken to establish sub-regional value chains in the 1) oil palm industry; 2) seaweeds industry; 3) tourism; and 4) halal poultry. The VCA (VCA) will strengthen coordination among the national and local government institutions to ensure swift responses to private sector requirements... We urged GTZ to continue to support the implementation of the action plans for industry value chains..." (Excerpt from BIMP - EAGA Leaders' Joint Statement, 21 November 2007, Singapore)

No less than the four Heads of States of BIMP - EAGA acknowledged the usefulness of the VCA in promoting economic cooperation in the region in an official statement issued during the BIMP Leaders' Summit in November 2007.

The GTZ started introducing the VCA in BIMP - EAGA in July 2007. Even for less than a year of following its methodology, the approach proves to be a good instrument in setting a common industry goal and foster collaboration among the value chain players in pursuit of mutually beneficial objectives in the region.

The four industries where the approach is applied are priority sectors selected by BIMP - EAGA as indicated in its Roadmap and Action Plan for 2006 - 2010. These industries namely, seaweeds, tourism, palm oil and halal products are considered to have tremendous potential for exports and economic cooperation among the four countries. The combined seaweed exports of BIMP - EAGA rendered it to be the top supplier of commercial seaweeds worldwide with 80 percent market share. The tourism industry, on the other hand, has a lot of potential for foreign exchange earnings with its vast natural resources (such as richest marine biodiversity in the Coral Triangle, two of the four largest rainforests on earth), diverse and rich cultural heritage and tribal communities as well as ecoparks. For palm oil, Indonesia and Malaysia are the top suppliers of palm oil products. Its development has to be environmentally and sustainably managed. For the halal industry, the products made in BIMP - EAGA which has a prominent Muslim population have tremendous opportunities to have a slice of the approximately USD150 billion global demand.

Between July 2007 and October 2007, the Project embarked on a series of VC workshops for the four subsectors. Value Chain Core Groups were established - composed of members from public and private sectors such as national ministries, private enterprises, sector associations, promotional institutions and representatives from the farming sector. The GTZ presently coordinates the activities of the four VC Core Groups with partner subgroups taking up the responsibility to implement activities or contribute to it.

Specifically, the GTZ Project follows the procedures outlined below

- data collection and selection of VCs Activities included short studies on industry / subsector in each of the four countries. For seaweeds, a full-blown value chain study was developed in partnership with the International Finance Corp (IFC). On palm oil, an indepth stakeholders' analysis in BIMP - EAGA was prepared.
- VC Analysis and Strategy Development Participated by representatives from both public and private sectors, these workshops produced the VC maps, identified the key intervention areas and VC action plans to drive the growth of the subsectors.
- VC Action Plan implementation The activities identified per VC are being undertaken for a period of one to one and a half years.
- M & E A baseline data from secondary data sources from various databases are prepared.

Hereunder are the common areas where GTZ is involved in the development of the four VC's in BIMP - EAGA

- institutional issues related to the promotion of the respective VCs, such as regional sector promotion structures, information and communication platforms
- harmonized standards and certification procedures
- documentation / dissemination of best practices related to technology, production systems, quality processes;
- training and capacity building.

The VC Action Plans have a one to one and a half years timeline. Validation workshops are planned by the end of the period to determine up to what extent the plans have been achieved and the degree by which the goals are attained.

The VCA should clearly be one of the focal areas of the GTZ since it provides opportunities to produce concrete impacts on the economic cooperation and on the development and improvement of the four countries' collective competitiveness. It was hoped that even a higher share of the available resources should flow into the VCA from partner governments, private sector and other development partners.

Mary Jean T Roxas | GTZ - BIMP - EAGA Value Chain Coordinator | Jean.Roxas@gtz.de

Results

The VCA has been widely used by different development organizations worldwide and has generated positive results. In the Philippines, different programs and projects of the GTZ have made use of the approach and it has resulted in

- intensified regional trade among Brunei Darussalam, Indonesia, Malaysia and the Philippines (BIMP) in the tourism, carriageenan and seaweeds subsectors
- the development of the export market for the milkfish (bangus) industry in Western Visayas. Bangus producers from the region were organized and linked to buyers from Germany.
- the participation of the coconut and the abaca farmers in Leyte in crafting the sector strategies thus promoting pro poor growth and spreading the economic benefits across the value chains.

In Central Visayas, particularly Cebu and Bohol, encouraging results were displayed in the tourism sector. While it is still in the early stage of implementation, the following have been achieved

- **commitment and support of the players were solicited**

Different government agencies like the Department of Trade and Industry (DTI), Department of Health (DOH) and Department of Tourism (DOT) in Region 7 began working together to support the sector. Private sector organizations like the Hotel and Restaurant Associations, Medical Society, Spa and Wellness Association of Cebu, tour operators

and travel agencies have bonded together and formed a Council to ensure implementation of the Action Plan.

- **selected subsectors value chains were mapped and analyzed**

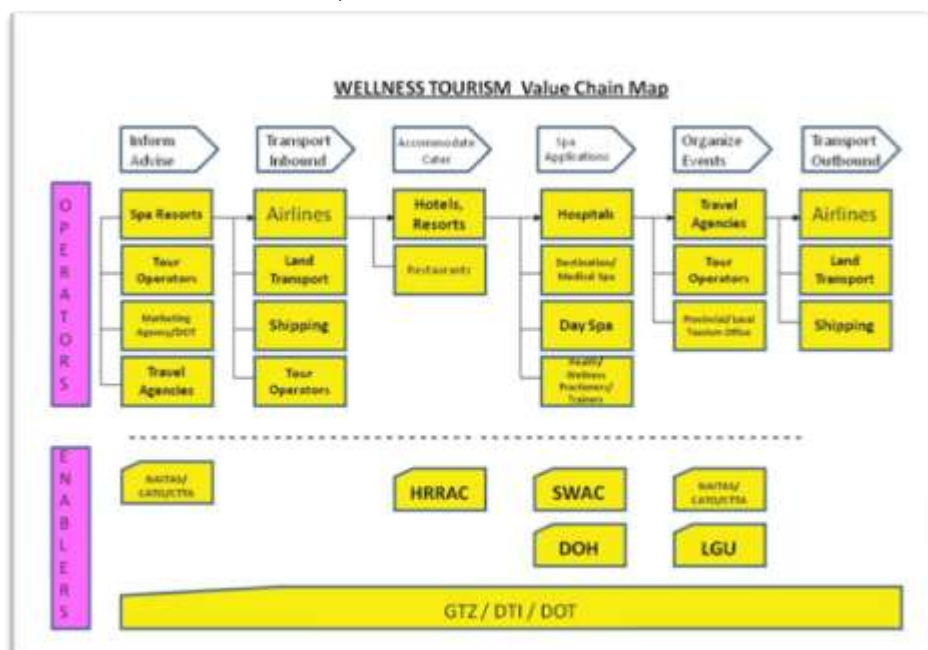
Workshops were conducted to map the value chains of the different subsectors. The mapping covers the different functions, the actors and the enablers. Value chain maps on medical tourism, health and wellness, ecotourism and edutourism were prepared. Please refer to sample map below

- **chain upgrading strategies were formulated**

Value chain mapping and analysis identified the opportunities and constraints in each of the functions of the chain. With this, a vision was formulated building on the opportunities and strategies that were developed from the constraints identified. For Cebu, an Action Plan was prepared covering the period 2008 to 2010 for the medical and health and wellness tourism.

- **steering committees and core groups were organized**

Health and wellness and medical tourism subsectors in Cebu organized a Steering Committee composed of government and private sectors. This committee shall see to it that the Action Plan is carried out.



Key Implementation Steps



No.	Key Steps	Activities	Outputs	Timeline	Resources Required	Responsible Persons
1	get <i>buyin</i> of sector representatives and relevant government agencies in adopting VCA (VCA)	<ul style="list-style-type: none"> organise a multisector, multistakeholder workshop conduct VCA Orientation decide on adoption of VCA in subsector promotion 	VCA Orientation Workshop	one half day	<ul style="list-style-type: none"> workshop budget Resource Person on VC 	DTI, other replicators
2	select subsector for promotion using VCA	<ul style="list-style-type: none"> agree on selection criteria shortlist subsectors that meet criteria select subsectors based on agreed criteria <p><i>Alternative: use SMED Plan priority sectors</i></p>	list of selected subsector(s)	one half day	<ul style="list-style-type: none"> workshop budget facilitator 	DTI, other replicators, sector representatives, national government agencies, LGUs
3	analyze subsector's value chain (specific studies might be necessary; as a result a VC map could be prepared)	<ul style="list-style-type: none"> prepare Value Chain Map quantify and analyze value chain in detail 	Value Chain Map	one half day (this could take much longer, depending on the scope of the VC and the way the analysis is conducted)	<ul style="list-style-type: none"> workshop budget facilitator 	private sector representatives, national government agencies, LGUs

No.	Key Steps	Activities	Outputs	Timeline	Resources Required	Responsible Persons
4	develop subsector's Value Chain Upgrading Strategy	<ul style="list-style-type: none"> analyze opportunities and constraints of subsector develop and agree on a vision and strategies identify activities and actors to implement them 	<ul style="list-style-type: none"> SWOT Analysis vision statement Action Plan success indicators 	one day	<ul style="list-style-type: none"> workshop budget facilitator 	sector representatives, national government agencies, LGUs
5	facilitate subsector's value chain development process	<ul style="list-style-type: none"> clarify roles of private and public sectors design process and set entry and exit points identify facilitator for Value Chain create Value Chain Core Group headed by a private sector champion 	<ul style="list-style-type: none"> roles of private and public sectors defined facilitator and Core Group members named 	one day	<ul style="list-style-type: none"> workshop budget facilitator 	private sector representatives, national government agencies, LGUs
6	implement fields of action ²	<ul style="list-style-type: none"> strengthen private business linkages engage in public - private partnership strengthen services in Value Chain facilitate financing the Value Chain facilitate development and implementation of relevant standards support private initiatives addressing macro level constraints 	<ul style="list-style-type: none"> business match-making agreements on Public - Private Partnership (PPP) Business Development Services (BDS) and BDS providers identified standards developed resolution endorsing policy changes to improve business environment 	one year	operating budget from different government agencies (enablers) and private companies (actors)	Facilitators, VC Core Group, NGAs and LGUs as enablers, private companies as actors
7	monitor and manage impact	verify whether indicators agreed in the Action Plan were met	results verified	one month		DTI, other replicators, facilitator, VC Core Group

² *Fields of action* refers to areas of intervention. They are specified on the basis of the constraints identified.

1 *get buyin of sector representatives and relevant government agencies in adopting VCA (VCA)*

A well functioning value chain will only materialize if all stakeholders give their full support and commitment. The decision to adopt the VCA as a model for sector promotion and development must be secured from major stakeholders and sector representatives from the very start.

2 *select subsector for promotion using VCA*

In deciding which subsector to be prioritized, the stakeholders shall agree on criteria (maximum of three) to be used in the selection. Some criteria that can be used are as follows

- a growth potential, competitiveness
 - i unmet market demand, growth potential, potential for value addition
 - ii comparative advantage in national and export markets
 - iii unique product
 - iv proximity to market
 - v competitive in cost and price
- b poverty reduction potential, social benefits
 - i potential for income creation
 - ii potential for employment creation
 - iii relevance to the poor
 - iv impact on women
 - v social and ecological standards
 - vi relevance to SMEs
- c prospects for success
 - i conducive policy environment
 - ii own initiatives and commitment of Value Chain partners
 - iii readiness for change
- d outreach
 - i number of enterprises
 - ii number of households

3 *analyze subsector's Value Chain*

In mapping a Value Chain, the following steps are suggested

- specify the final product and end market(s)

- establish the stages, segments of the chain (specifying the functions performed)
- establish the main sequence of operators
- differentiate the chain into channels if appropriate
- map support service providers
- prepare thematic detailed maps if required.

It is important that the map meets the following requirements

- make sure that the map has clear message
- avoid overload of information – not more than two or three channels at a time
- separate micro from macro analyses
- the map has to be understandable to people who have not participated in its elaboration.

4 *develop subsector's Value Chain Upgrading Strategy*

The following principles are important in formulating strategies

- build on the market and development potential
- identify potential objectives and actions relating them to the vision and strategy
- stick to clear division of tasks between private and public actors contributing to chain development
- identify chain actors and internal facilitators assuming responsibility for upgrading action.

5 *facilitate subsector's chain development process*

The facilitators play a crucial role in making sure that the strategic goals are met. The following guiding principles may help

- build on own initiatives of private enterprises and work with chain leaders as partners (champions)
- stick to a clear division of work between private and public actors contributing to chain development

- cultivate development as a learning process
- go for quick visible results to gain momentum while being prepared for long term support
- move from simple initiatives for improving the functioning of the chain to more complex structural change
- make sure this is a win - win game
- ensure coordinated efforts of different donors, development organizations along the Value Chain to optimize cooperation and synergy

6 *implement fields of action*

The implementation of the Action Plan will be the responsibility of all the actors of the chain. Fields of action vary depending on the constraints identified. It must be clear that external agencies facilitate upgrading by collaborating with appropriate partners within the Value Chain. They should NOT directly work on upgrading the chain. It would be the private companies or Value Chain operators who will work on upgrading the chain.

As facilitators, they shall

- create awareness, enhance understanding and trust
- help stakeholders get to know each other, discuss identified constraints and work out solutions
- enhance business linkages
- enhance new business transactions and investment
- facilitate joint learning of VC stakeholders and process innovation
- facilitate capacity development and institution building.

7 *monitor and manage impact*

It is important to measure the results of the model. This may be done by checking whether what was planned was actually implemented. Should gaps surface, manage the model by steering it back to the intended course. When substantial results become evident, success stories may be documented and shared to potential replicators of the VCA.



Analysis and Lessons Learned

The list below summarizes some analyses and lessons learned in the use of VCA.

Using the VCA and selecting subsector for promotion

- The different stakeholders should understand first why the VCA shall be used in subsector promotion. This is to get the buy in of all the operators and enablers of the chain.
- When the VCA is understood, the selection of the chain should follow certain criteria (maximum of three) that are jointly agreed by the stakeholders. This is to promote transparency. The sectors to be selected shall be supported and will not be questioned.

Value Chain analysis and strategy

- Primary and secondary data can be used in analyzing the Value Chain. Expensive surveys and too much research shall be avoided in order not to drain the resources of the replicators. Both the government and private sector can be a rich source of information about the chain and these information can be taken through key informant interviews and focus group discussions.
- In the strategy formulation, the political environment should also be considered. Strategies to be developed must directly contribute to the strategic goal of the Value Chain and doable within the timeline agreed.

Implementation

Facilitators must have a good knowledge of the chain so that he or she can provide coaching role to the different actors of the chain. Knowledge of the market is also an advantage.

- It is advisable to create quick wins³ to achieve momentum and interest from the stakeholders. Visible results like new markets, product improvements and others shall be highlighted.

- In order to sustain the Value Chain initiative, there is a need to form or organize a Value Chain Core Group that is private sector led. The role of the private sector is very crucial in making sure that the planned interventions will be carried out because they are the ones who will directly benefit from the initiative. Consider the time frame and scope of project before deciding to use the Value Chain approach

Conclusions

Value Chain analysis is a very powerful tool for analyzing industries / sectors and providing the strategic framework

- Value Chain upgrading requires a neutral and strong facilitator
Value Chain intervention / upgrading is not a *cure it all*. For successful upgrading there are critical success factors that must be met.

Critical success factors are

- there must be strong incentives to cooperate or at least to coordinate within the chain
- existing Value Chain Core Group of highly motivated stakeholders (not just public sector!)
- the buyin of chain leaders is crucial.

³ Quick wins are initiatives (like projects) that bring about intended results in a relatively short period of time, say six months to one year.

Resource Persons

Aster Caberte

Regional Director
Department of Trade and Industry (DTI) Region 7
WDC Building, Burgos St corner Osmena Blvd
Cebu City 6000
dti.gov.ph

Rita Pilarca

Senior Adviser
Deutsche Gesellschaft fuer Technische
Zusammenarbeit (GTZ) GmbH
10F PDCP Bank Center, Leviste St corner Rufino St
Salcedo Village, Makati City 1228
rita.pilarca@gtz.de
smedsep.ph
gtz.de/philippines

GTZ Value Chain Core Group

Cecilia Astilla, Anja Gomm, Juliana Hinterberger
Rita Pilarca, Peter Richter and Jean Roxas

Deutsche Gesellschaft fuer Technische
Zusammenarbeit (GTZ) GmbH
10F PDCP Bank Center, Leviste St corner Rufino St
Salcedo Village, Makati City 1228
gtz.de/philippines

GTZ is an international cooperation enterprise for sustainable development with worldwide operations owned by the German Government.

For 30 years, it has been providing forward looking contributions to political, economic, ecological and social development in partner countries. GTZ supports reform and change processes in an increasingly globalized world, often working under difficult conditions. GTZ's major approach to facilitate change is promoting capacity development of people and partner organizations as well as improving institutions and frame conditions in partner countries.

The joint projects and programs are outcome and impact oriented. They contribute towards socioeconomic progress.

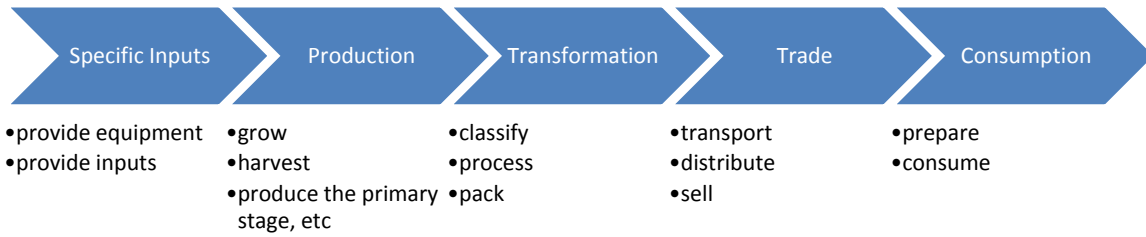
The Private Sector Promotion (SMEDSEP) Program, a development cooperation project between the Republic of the Philippines and the Federal Republic of Germany, aims to improve the Business and Investment Climate for Small and Medium Enterprises (SMEs) in the Philippines, especially in the Visayas. SMEDSEP contributes to the efforts of the Philippine Government to improve the framework conditions for private sector development in the country.

SMEDSEP is implemented in partnership with the Department of Trade and Industry (DTI) at national, regional and provincial levels and the German Technical Cooperation (GTZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

The Environment and Rural Development Program (EnRD) and specifically its Agribusiness component is implemented in close cooperation with the Department of Agriculture, respective LGUs, the DTI and other agencies.

Annex 1 Sample Value Chain Map

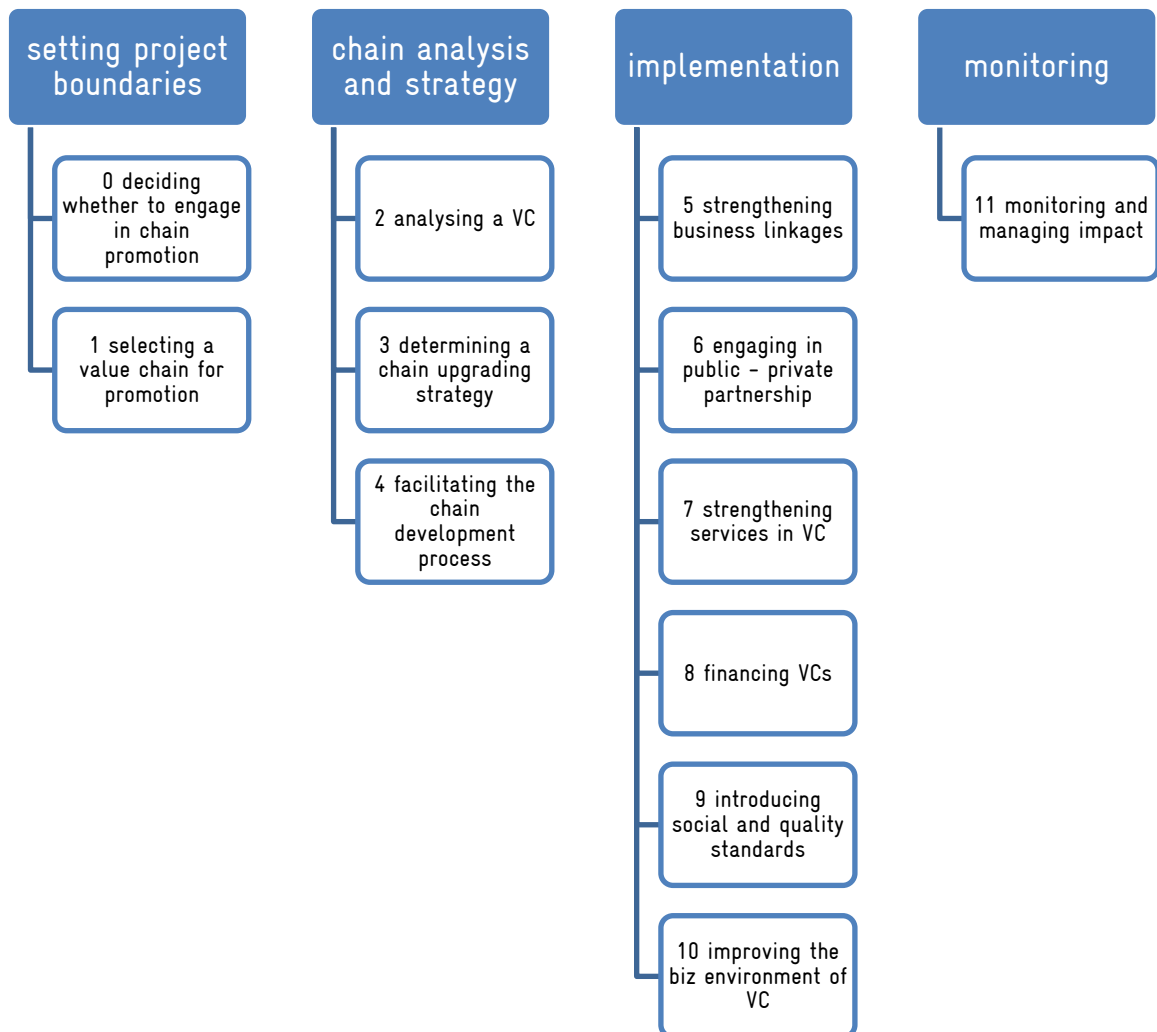
Basic sequence of functions in an *agribusiness* value chain



Categories of operators in value chains and their relations



Annex 2 Valuelinks® Modules



Annex 3 Value Chain Tasks

	<i>Steps</i>	<i>Issues and Tasks</i>
Analytical and decision making tasks	deciding whether to engage in Value Chain (VC) promotion	<ul style="list-style-type: none"> • assessing potential and limits of VC promotion • combining chain promotion with other development approaches
	selecting a VC	<ul style="list-style-type: none"> • determining the scope of VCs to be promoted • conducting and supporting market research • setting priorities across alternative VCs
	analysing a VC	<ul style="list-style-type: none"> • VC mapping • quantifying and analysing VCs in detail • economic analysis of VCs
	determining the chain upgrading strategy	<ul style="list-style-type: none"> • agreeing on a vision • analyzing opportunities and constraints to upgrading • setting operational upgrading objectives • identifying actors to implement upgrading activities • anticipating the impact of chain upgrading
	facilitating the chain development process	<ul style="list-style-type: none"> • clarifying public, private and donor roles • designing a process and setting entry and exit points • organising the chain promotion project and scaling up • institutionalizing the collective action of chain actors
Fields of implementation and supportive action	strengthening private business linkages	<ul style="list-style-type: none"> • brokering vertical cooperation - supplier / buyer contracting • fostering horizontal cooperation - producer associations • business matchmaking
	engaging in public - private partnership	<ul style="list-style-type: none"> • engaging private enterprises in development • concluding public - private partnership agreements
	strengthening services in VCs	<ul style="list-style-type: none"> • assessing service needs and service markets • strengthening private service markets and arrangements • improving the responsiveness of public service providers • strategic use of temporary support services
	financing VCs	<ul style="list-style-type: none"> • brokering VC financing arrangements • publicly funding chain development
	introducing social, ecological and product quality standards	<ul style="list-style-type: none"> • facilitating the development of standards • accompanying the implementation of standards • developing the capacity for the verification of standards
	improving the business environment of chains	<ul style="list-style-type: none"> • supporting private initiatives addressing macro level constraints • fostering a coherent VC promotion policy
Monitoring	monitoring and managing impact	<ul style="list-style-type: none"> • formulating impact hypotheses of VC promotion • verifying impact hypotheses • managing for development results

