VALUE CHAIN/MARKET SYSTEM
PROGRAM DESIGN:
Promoting Market-based Solutions for
Micro, Small, and Medium-Scale Enterprises (MSMEs)
Action for Enterprise (AFE)
April 2017

Orientation Goal

To present participants with the concepts and tools to
design value chain/market system development programs
that promote market-based solutions for
MSMEs* which contribute to poverty alleviation.

* Micro, small, and medium-scale enterprise (includes farmers)

What is a Value Chain?

Definition:
Value chains encompass the full range of activities and
services of market actors required for a product or
service from beginning to end use and beyond

Includes farmers/producers, processors, input suppliers,
exporters, retailers, etc. (both vertical and horizontal
linkages)

Can be defined by particular finished product or service
(wood furniture, green beans for export, etc.)

What is a Market System?

A market system is the network of buyers, sellers and other actors that
come together to trade in a given product or service

The participants in a market system include:

Direct market players – producers, buyers and consumers who drive
economic activity in the market

Suppliers of supporting goods and services such as inputs, finance,
equipment and business consulting

Entities that influence the business environment such as regulatory
agencies and business associations

A market system can be specific to a product (coffee, mangoes, dairy) or a
cross-cutting sector (inputs, finance, technology services, etc.)
While there are some nuanced differences, all of these “approaches” share the same basic premises including:

- facilitation
- understanding of markets and market systems
- promoting linkages and relationships among market actors
- sustainable impact

- Basic principles are the same
- Similar “approaches” being used in programs that use all these titles
- Challenges in assessing impact using traditional methods
- In terms of what works or not – programs that do these things well will have more success than others – no matter what category they go by!

Combining Value Chain/Market System Approach with Sustainability of Impact

- Focus on Value Chains/Market Systems
- Focus on commercial viability of solutions and sustainability of program impact

Small Group Discussion:
Traditional Approaches to Enterprise Development

- Break-off into four small groups
- Small Group Report-back:
  - read program description
  - weaknesses of the approach
  - general recommendations for future programs

Technology Program

- A technology development project is funded to support small scale rice growers. It imports rice hullers and distributes them to farmer groups, providing technical support and repair services for the hullers. During this time rice production increases significantly and farmers earn more money. After two years the project ends and the technical assistance team leaves. A year later the hullers begin to break down and there are no spare parts or qualified repair people. The rice hullers are abandoned and the farmers go back to their traditional farming techniques.

Management Training Program

- A development program is established to provide management training to small enterprises. The program contracts with training organizations to offer subsidized training. Before the donor program some of the consultants had begun offering training to enterprises for fees that could cover costs. After the program, the enterprises preferred the lower costs of the donor program and the consultants found it hard to compete. After two years the program ended and the training stopped.
Market Access Program

- A development program is established to assist small scale cocoa farmers in a country where there are several thousand farmers. In order to help them get a better price for their cocoa beans, the project begins buying cocoa directly from farmers. It finds international buyers for the beans, exports them, and bears the costs of market linkages. As a result, roughly 500 farmers enjoy higher prices and increase earnings. After two years, the project ends and it stops playing its market and buyer linkage role. At first the farmers have no market outlet. Later, when private traders return and offer lower prices (that take into account the costs of market linkage) the farmers feel they are being cheated because they got such better prices with the development project.

New Business Development Program

- A development program decides to establish a cheese processing facility as a means of increasing income of rural producers. It assists the producers to form a management committee. The program then hires a manager and marketing agent, purchases the equipment, and trains workers in how to produce the cheese. The project handles the marketing of the cheese to urban areas. After two years the project begins to close out. With less than six months remaining, the management committee is informed that it must now take over the management of the facility. This means it must pay the salary of the manager and marketing agent, pay the workers, pre-finance raw materials, and cover transportation and overhead costs. When all these costs are added up, the management committee realizes that revenues from the cheese sales will cover only a small percentage of operating costs. The program ends and shortly thereafter the cheese facility stops operation.

Has led to new approaches to enterprise development that focus on:

**Market-Based Solutions**

to MSME and Value Chain Constraints

Also known as:
- market systems development
- market development
- making markets work for the poor (M4P)
- inclusive business development

What do we mean by a “Market-Based” Solution?

- Definition:
  - A solution that addresses business constraints in a sustainable manner.

- “market-based” = commercially oriented and provided by the private sector

Market-based Solutions include:

<table>
<thead>
<tr>
<th>Technical Assistance</th>
<th>Training</th>
<th>Finance</th>
<th>Market Access</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>Information</td>
<td>Inputs &amp; Infrastructure</td>
<td>Product Development</td>
</tr>
</tbody>
</table>

Many types of market actors provide market-based solutions to MSMEs

- Buyers who introduce new designs
- Exporters providing access to international markets
- Consultants and training firms
- Accounting firms
- Equipment supply companies
- Repair companies
- Raw material / input suppliers
- Financial institutions
The Shift to a New ‘Way of Thinking’

From this...

To this...

Focus on Value Chains/Market Systems

Focus on commercial viability of solutions and sustainability of program impact

Key Steps in Value Chain/Market System Program Design

STEP 1: Value Chain Selection

STEP 2: Value Chain Analysis

STEP 3: Identification of Market-based Solutions

STEP 4: Assessment of Market-based Solutions

STEP 5: Identification of Facilitation Activities

STEP 6: Structuring Collaboration and Monitoring Performance

Traditional Approach

Short-Listing Matrix

Unmet Market Demand

High

Medium

Low

High Priority

Low Priority

Potential No. of MSMEs (incl. employees)

Illustrative Case: Value Chain Short-Listing

Unmet Market Demand and Growth Potential

High

Medium

Low

High

Medium

Low

Potential No. of MSMEs (incl. employees)
### Illustrative Case: Value Chain Ranking

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
<th>Dairy (milk)</th>
<th>Green Beans</th>
<th>Crafts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unmet Market Demand</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Presence of Inclusive Businesses</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Targeting</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Potential No. of MSMEs</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Potential Increase in Incomes</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Favorable Business Environment</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL WEIGHTED SCORE</td>
<td>41</td>
<td>39</td>
<td>34</td>
<td></td>
</tr>
</tbody>
</table>

Rating: 1=Poor, 2=Fair, 3=Good, 4=Very Good, 5=Excellent

### Starting Program with Input Supply Markets that Support Many VCs

Advantages of facilitating the development of input supply markets at the onset of a project’s value chain activities include:

- **Generation of “quick wins”** (and sustainable impact) within months (due to general presence of Lead Firms with active interest/incentives to invest in rural distribution networks)
- **Contributions to both:**
  - Food security/greater productivity (even within subsistence farming areas) and/or:
  - Greater sales
- Allows the project to become very familiar with many agricultural and livestock value chains (and market actors operating in those markets) which sets the foundation for complementary activities at a later stage that focus on the “output side” of specific value chains (buyers interested in procuring more from targeted areas)

### Key Steps in Program Design

1. **Value Chain Selection**
2. **Value Chain Analysis**

### Elements of Value Chain Analysis

- **End Markets & Competitiveness**
- **Constraints**
- **Relations Among Participants**
- **Governance Structures**
- **Value Chain Mapping**

### Assessing End Markets

- **Unmet Market Demand**
  - Is there evidence of strong effective demand for products being produced?
  - Is there unmet demand?
- **Trends**
  - What are consumer preferences?
  - What are domestic and global trends and innovations in the value chain?
- **Growth Potential**
  - What is the potential for market expansion?
  - What are the risks of market decline?
  - What is the growth potential in the short, medium, and long-term?
  - Are local production factors (land, labor, infrastructure, etc.) conducive to growth?

### Assessing Competitiveness

- **Competitiveness**
  - Are market actors able to sustainably produce quality products, increase sales and income, and meet market demand?
  - Are market actors able to develop and maintain an edge over market rivals?
- **Threats to Competitiveness**
  - Are there threats of new entrants taking market share?
  - Are there threats of substitute products (e.g., imports of cheaper products, replacement products produced by new technologies, etc.)?
- **Global Benchmarking**
  - How do global buyers perceive the country’s value chain compared to other global suppliers?
What is the usefulness of interviewing all value chain participants?

- grasp “big picture” of the market
- identify where major constraints and opportunities are in VC
- validate and triangulate information from all market actors
- provides information about overall market trends, international markets, etc.
- identify value chain actors who provide support to MSMEs
Examples of Value Chain/Market System Constraints

<table>
<thead>
<tr>
<th>Type</th>
<th>Value Chain/Market System Constraints</th>
</tr>
</thead>
</table>
| **Technology / Product Development** | - small-scale farmers lack access to appropriate tools and machinery (technologies) which decreases their yield  
                                  - craft producers lack access to new designs which limits their sales to buyers in up-scale markets  
                                  - lack of technical skills of MSME’s to produce to buyer specifications reduces their income and market  |
| **Market Access**         | - lack of linkages to large buyers decreases sales potential of MSME’s  
                                  - lack of information on standards reduces MSME’s ability to produce to buyer specifications  
                                  - lack of intermediaries or brokers limits market outlets for MSMEs  
                                  - high transportation costs increases the price of MSME production  |
| **Organization and Management** | - MSME’s lack ability and time to conduct accounting which increases costs  
                                  - MSME’s lack skills to develop business plans which decrease sales  
                                  - high rejection rates due to poor quality result in loss of income for MSME producers and buyers  |

Wording of Constraints

- Poorly worded constraint:  
  - “no market”

- Better worded constraint:  
  - “exporters lack information on demand and market trends which limits their sales”

Wording of Constraints should....

- be precise enough to enable identification of a concrete solution
- mention who is affected  
  (for whom is it a constraint)
- be clear why it is a problem  
  (what is happening/not happening as a result?)
- “A well defined problem is ¾ of the solution”

Best practices for conducting interviews:

Open-ended questioning:
- Where possible, avoid “yes or no” questions (“Do you get inputs delivered to you by the wholesaler?) that allow only two or less possible answers

Use probing techniques:
- Encourage interviewee to expand on information given  
  (“Why?” “Please explain”, etc.)

Validate your interviewee’s statements:
- Do not “pull information from interviewee’s mouth”  
  Rephrase/summarize in your own words to confirm

Illustrative Interview Questions for Input Supply Companies

1. Description of products or services they sell
2. Geographic coverage where they sell products or services to retailers and/or farmers
3. What recent investments have you made to develop or expand your company?
4. Map of distribution network (showing how products or services are sold, including who they sell to)
5. What types of investments have you made (or are you planning to make) to “upgrade” or strengthen the farmers/ producers and/or intermediaries that you sell to?
Illustrative Interview Questions for Input Supply Companies

1. Description of major challenges affecting your overall business.
2. How many retailers (including mobile vendors) do you sell to?
3. Are you interested in improving or expanding the sale of your products/services to retailers and/or farmers in our project areas? Why or why not?
4. What are the growth trends for selling inputs to retailers and/or farmers in our target areas in the future?
5. Describe any initiatives you would like to carry out to improve or expand your capacity to sell inputs or services to retailers (including mobile vendors) and/or farmers in our target areas.

Questions Related to the Role and Impact on Women

- What specific constraints do women face in agricultural production and trade that can be addressed by the products or services that you offer?
- What roles do women play in the production and sale of agricultural inputs? How could this be improved?

Questions related to disaster risk reduction

- What areas of the input supply sales/distribution channel are most vulnerable to disruption in time of disaster (drought, flood, etc.)?
- How could relief agencies partner with input supply companies (and their sales networks) to help mitigate these vulnerabilities—and respond to an eventual disaster situation?

Why identify market-based solutions?

Why not just intervene in response to value chain constraints?

- ensure sustainable solutions to constraints/opportunities
- avoid market distortion
- expand outreach through a number of providers
- forces you to identify where solution might exist in private sector

Key Steps in Program Design

STEP 1: Value Chain Selection
STEP 2: Value Chain Analysis
STEP 3: Identification of Market-Based Solutions

Example of Market-based Solution

- **Value Chain/Market System Constraint:**
  - Inappropriate machinery for cutting wood prohibits MSMEs from producing to market standards

- **Market-based Solution**
  - Access to improved wood cutting machinery for MSMEs

*should not mention who provider will be nor how solution will be provided at this point*
Examples of Market-based Solutions

<table>
<thead>
<tr>
<th>Type</th>
<th>Market-based Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology/ Product Development</td>
<td>• access to appropriate tools and machinery (technologies) for small-scale farmers</td>
</tr>
<tr>
<td></td>
<td>• access to new designs appropriate for upscale markets for craft producers</td>
</tr>
<tr>
<td></td>
<td>• training of MSMEs in technical skills to produce to European buyer specifications</td>
</tr>
<tr>
<td>Market Access</td>
<td>• access to large-scale buyers for MSMEs</td>
</tr>
<tr>
<td></td>
<td>• provision of information to MSMEs on buyer specifications and standards</td>
</tr>
<tr>
<td></td>
<td>• access to new marketing channels for MSMEs</td>
</tr>
<tr>
<td></td>
<td>• access to affordable product transportation services for MSMEs</td>
</tr>
<tr>
<td>Organization &amp; Management</td>
<td>• access to accounting services for MSMEs (differs from “training in accounting techniques”)</td>
</tr>
<tr>
<td></td>
<td>• training in business plan development for MSMEs</td>
</tr>
<tr>
<td></td>
<td>• training in quality management for MSMEs</td>
</tr>
</tbody>
</table>

Examples of Market-based Solutions

<table>
<thead>
<tr>
<th>Type</th>
<th>Market-based Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory (Policy)</td>
<td>• provision of advocacy services to:</td>
</tr>
<tr>
<td></td>
<td>o reduce import taxes on inputs</td>
</tr>
<tr>
<td></td>
<td>o promote MSME startups / small business development</td>
</tr>
<tr>
<td></td>
<td>o reduce export tariffs for exporters</td>
</tr>
<tr>
<td></td>
<td>o promote government use / procurement of MSME products</td>
</tr>
<tr>
<td>Finance</td>
<td>• access to input credit for small-scale farmers</td>
</tr>
<tr>
<td></td>
<td>• provision of working capital loans for exporters</td>
</tr>
<tr>
<td></td>
<td>• access to working capital loans for MSMEs using non-traditional forms of collateral</td>
</tr>
<tr>
<td>Input Supply</td>
<td>• provision of affordable inputs for small-scale producers</td>
</tr>
<tr>
<td></td>
<td>• access to good quality raw materials for MSMEs</td>
</tr>
<tr>
<td></td>
<td>• access to inputs for MSMEs in remote rural areas</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>• provision of advocacy services to improve the availability and quality of rural roads</td>
</tr>
<tr>
<td></td>
<td>• access to cooling facilities for MSMEs</td>
</tr>
</tbody>
</table>

From Analysis to Implementation

Illustrative Case:

<table>
<thead>
<tr>
<th>Type</th>
<th>Constraint [summary]</th>
<th>Possible Market-based Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology/ Product Development</td>
<td>Lack of good hygiene techniques to produce and transport raw milk</td>
<td>Training and technical assistance in milk handling and hygiene to traders of raw milk.</td>
</tr>
<tr>
<td></td>
<td>Limited knowledge and high cost of breeding</td>
<td>Provision of quality stock and breeding information to smallholder dairy farmers.</td>
</tr>
<tr>
<td></td>
<td>Limited knowledge of good animal health practices</td>
<td>Training and extension services in animal disease awareness and treatment.</td>
</tr>
</tbody>
</table>

Illustrative Case:

<table>
<thead>
<tr>
<th>Type</th>
<th>Constraint [summary]</th>
<th>Possible Market-based Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Access</td>
<td>Inefficient collaboration among producers for volume sales</td>
<td>Provision of collection points for farmers.</td>
</tr>
<tr>
<td>Organization &amp; Management</td>
<td>Irregular raw milk collections</td>
<td>Provision of regular raw milk collection to smallholder dairy farmers.</td>
</tr>
<tr>
<td></td>
<td>Lack of farm management skills</td>
<td>Training in farm management to smallholder dairy farmers.</td>
</tr>
</tbody>
</table>

Illustrative Case:

Short-list of Market-based Solutions

1. training and technical assistance in milk handling and hygiene to traders of raw milk
2. provision of Artificial Insemination (AI) services to small-holder dairy farmers
3. provision of regular raw milk collection services to smallholder dairy farmers
Targeting within Value Chain Programs

- It is sometimes difficult for VC programs to target (with certainty) a specific geographic area or community of poor people.
  - Market factors ultimately determine the communities where production and investments will take place.

- Value chain programs can successfully target the poor in a geographic area but may not be able to determine with certainty that producers or households in a particular community will benefit.

Key Steps in Value Chain Program Design

- **STEP 1:** Value Chain Selection
- **STEP 2:** Value Chain Analysis
- **STEP 3:** Identification of Market-Based Solutions
- **STEP 4:** Assessment of Market-Based Solutions

What type of information should be included in a market-based solution assessment?

- Existing providers (of the targeted solution)
- Number of potential and actual users
- Nature of commercial relationship between providers and users
- Incentives of market actors to provide or use solution
- Challenges to provision and use of the solution
- Awareness of the solution among potential users
- Proposed provider(s) to target for facilitation activities
- Commercial viability of the market-based solution

Who are examples of market-based solution providers (of agricultural training, for example)?

- Input Suppliers
- Buyers of MSME products
- Brokers/Traders
- Exporters
- Consultants
- Associations
- Training Organizations
- NGOs *
- Government *
- Donor programs *

* Typically not market-based or sustainable providers

How can providers cover the cost of providing market-based solutions to MSMEs?

- Fee-based (also referred to as stand alone)
- Embedded as part of transaction between provider and users of market-based solution

Who might be providers of embedded solutions or services?

- Firms that buy from MSMEs (could provide training, finance, inputs, etc.)
- Firms that supply inputs to MSMEs (could provide training, finance, etc.)
Why would companies provide embedded services (e.g. training) to MSMEs they source from or sell to?

- To get the quality/quantity of product they need
- To increase sales of their products

Embedded Solution Providers: Syngenta (Bangladesh)

- major distributor of seeds, pesticides and fertilizer to rural retailers
- holds farmer awareness meetings to train farmers in proper uses of inputs
- trains its retailers in bookkeeping, storage, and proper use of inputs
- retailers pass on information on inputs to farmers

Embedded Solution Providers: Shalom Enterprises (Kenya)

- major exporter of crafts made from soap stone
- advances raw material to carvers
- provides pre-financing
- invests in training of producers (via master carvers)
- assists producers to organize in small groups

Embedded Solution Providers: Poultry Companies (India)

- major wholesalers of poultry (broilers) in India
- contract with between 10 – 4,000 small-scale producers
- producers range in size from 2,000 – 5,000 birds, managed by 2 to 5 people

** For more info: see CD-R document #24

Provision of Embedded Solutions by Poultry Companies (Integrators) in India

- Linkages with banks to expand production
- facilitate provision of water, electricity
- provision of equipment to farmers at wholesale prices
- provision of feed, vaccines, and medicines (plus related advice)
- veterinary services
- technical assistance in setting up and managing farms

** For more info: see CD-R document #35

Lead Firms as Providers of Market-based Solutions

Lead Firms (also referred to as Inclusive Businesses) can be defined as:

- Small, medium, and large firms that have forward/ backward commercial linkages with targeted MSMEs
- Dynamic market actors that can promote greater integration of MSMEs into value chains
- Provide important goods and services to MSMEs operating within value chains

** Not necessarily the ‘leading firms’ in the value chain
Why would a Development Organization target Lead Firms as providers of market-based solutions?

- **Sustainability of Impact**
  - LF’s with commercial interests in MSME suppliers have incentives to sustain relationship with them beyond development organization’s program

- **Scale of Impact**
  - working with several LFs in VC, development organization can multiply scale of impact

- **Promoting Common and Individual LF initiatives**
  - promoting common initiatives among LFs useful to support VC wide initiatives not undertaken by individual firms alone

- **Promoting “Embedded” Support to MSMEs**
  - LFs often provide products, services, and solutions to MSMEs as part of their commercial relationships with them

- **Greater Value Chain and Industry Competitiveness**
  - Dynamic LFs set model for others, promoting “crowding in” and driving MSME growth

  - “Crowding in” occurs when other market actors change their behavior, reflecting behavior of firms that development organization program is working with directly

What are examples of development organization criteria to select LFs to collaborate with?

- commercial linkages with many MSMEs as buyer and/or supplier of products and services
- willingness and motivation to invest and improve/expand MSME relationships
- sufficient financial capacity to invest or allocate resources to improve/expand relationships with MSMEs
- able to successfully compete in end markets for final products or services
- potential to influence other LFs and actors in value chain
- acceptable track record and reputation as businesses

Key Steps in Value Chain Program Design

1. **STEP 1: Value Chain Selection**
2. **STEP 2: Value Chain Analysis**
3. **STEP 3: Identification of Market-Based Solutions**
4. **STEP 4: Assessment of Market-Based Solutions**
5. **STEP 5: Identification of Facilitation Activities**

Tools for Working with Lead Firms

- **Invitation for Application**
- **Structured Interview**
- **Write-up of Structured Interview with LFs**
- **Initial Due Diligence**
- **Applications from LFs**
- **Site visits**
- **MOU and Addendums**
- **Capacity building activities**
- **Monitoring**

What is facilitation? (by a Development Program or Organization)

- promoting impact/benefits that will continue once development organization program ends
- building capacity, fostering linkages, and encouraging VC actors to address problems in sustainable manner
- promoting interests of VC without competing with market actors in any way
- creating incentives and ‘buying down the risk’ for LFs to invest in MSMEs in their value chain
- helping to expedite improvements in targeted VCs (through promotion of LF initiatives that benefit targeted MSMEs)
Facilitation of Market-based Solutions Among VC Actors

Legend: market-based solutions facilitation activities

Public sector

Private sector

Donor

Facilitator (project, NGO)

Producer

Lead Firm

Lead Firm

Lead Firm

Producer

Lead Firm

Producer

Producer

Lead Firm

Producer

Legend:

- market-based solutions
- facilitation activities

Lead Firm Initiatives (or Interventions)

- Lead Firm (LF) activities to:
  - expand or develop products, services, or support (market-based solutions) to MSMEs they buy from or sell to
  - improve their competitiveness
- Activities the LF might not otherwise undertake in the near term due to risk, cost, lack of technical support, etc.
- LFs take responsibility for organization and implementation of these initiatives
- Development organization can provide technical and cost-share support based on impact they will generate for targeted MSMEs

Examples of Lead Firm Initiatives

Activities undertaken by LFs to expand or develop:
- access to markets
- sale of products or services needed by MSMEs
- procurement from MSMEs
- access to finance
- technology / operations / product development
- management and organization
- resolution of policy and regulatory issues

Access to Markets

What are examples of LF initiatives to enter new markets or expand sales in existing markets (which result in increased sales and benefits for both LF and MSMEs* that supply them)?

*Micro, small, and medium-scale enterprises (includes farmers)

- participate in trade shows or exhibitions
- visit potential buyers
- receive visits from potential buyers
- gain certifications (organic, ISO, HACCP, Globalgap, etc.)
- develop websites / build online marketing presence
- conduct market assessments and develop marketing strategies

Sale of Products or Services to MSMEs

What are examples of LF initiatives (e.g. by input supply companies, veterinarians, etc.) to improve commercial products and services they provide to MSMEs (which helps LF and MSMEs compete successfully in VCs)?

- develop demand for their products or services through technical training/promotion activities (field days, demonstrations, etc.) for MSMEs
- conduct market research for MSME markets they sell to
- adapt products or services to specific needs of targeted MSMEs
- conduct develop/improve distribution networks
- develop alternative financing or payment mechanisms that promote MSME access to their products/services
**Lead Firm Procurement from MSMEs**

**What are examples of LF initiatives to develop or expand procurement from MSMEs (which helps improve quality and quantity of products sourced from MSMEs, and increases MSME learning, benefits, and income)?**

- identify MSME suppliers
- development of collection points
- develop outgrowing operations
- build capacity of MSME suppliers through training, technical assistance, demonstrations, field days, etc.
- develop aggregation models / procurement models (for purchasing in economies of scale)
- develop credit programs for MSME suppliers
- develop seed multiplication programs and introduction of higher yielding varieties (seeds can be provided/sold to LF’s MSME suppliers)

**Technology/Product Development**

**What are examples of LF initiatives to improve their products and technology (which can increase their competitiveness, market access, and benefits they provide to MSME suppliers)?**

- access technical specialists (e.g. product design, processing, storage, etc.)
- conduct learning/exposure visits to companies with exemplary operations
- conduct visits to suppliers of needed equipment and inputs
- develop improved IT skills
- optimize product development processes
- conduct strategic review of product portfolios
- develop R&D capacity
- identify sources of finance for new equipment and materials

**Documents to Structure LF Collaboration**

- **Memo of Understanding (MOU)**
  - broad understanding of the purpose and objectives of collaboration

- **Addendums to MOU**
  - describes specific activities along with associated responsibilities, technical support, cost share, etc.
  - there may be several addendums to an MOU with a LF; each one for a specific activity
Result Chains / Impact Logics

Result chains
- are the “backbone” of program facilitation activities
- constitute a key monitoring tool
- present how a LF initiative and corresponding program facilitation activities are expected to contribute to market system improvements and impact on the target group
- constitute a guide for project teams, depicting the relationship between what they do, the system-level changes they are trying to achieve, and the pathway to poverty reduction.

GUIDING PRINCIPLES OF VALUE CHAIN FACILITATION

Guiding Principles for Value Chain Programs

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

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

Guiding Principles for Value Chain/Market Development Programs

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

Understand Private Sector and Business Principles
- demonstrate understanding of private sector competitive and operating environment
- recognize LFs as innovators, economic drivers, etc.
- understand and appreciate LF risks
Key Steps in Value Chain/ Market Systems Program Design

STEP 1: Value Chain Selection

STEP 2: Value Chain Analysis

STEP 3: Identification of Market-based Solutions

STEP 4: Assessment of Market-based Solutions

STEP 5: Identification of Facilitation Activities

STEP 6: Structuring Collaboration and Monitoring Performance

Resources

Tools and Methodologies for Collaborating with Lead Firms: A Practitioner’s Manual

Videos on AFE value chain/market systems development work / working with Lead Firms
http://www.actionforenterprise.org/highlights.php

Thank-you!

For more information on Action for Enterprise
www.actionforenterprise.org