

ILO Value Chain Development Briefing paper 1:

Combining Value Chain Development and Local Economic Development



International
Labour
Organization

VALUE CHAIN DEVELOPMENT



ILOs work on Value Chain Development (VCD) focuses on promoting pro-poor growth and job creation.

The VCD briefing papers series explores technical areas in which the ILO has specific knowledge and capacity to offer, contributing new pathways towards Decent Work.

Value Chain Development (VCD) can support pro-poor development and job creation through strengthening enterprises, business relationships, improving market structures and the business environment. It can assist in developing local micro and small enterprises and help in overcoming constraints such as poor market access and little bargaining power. Often these constraints arise out of specific local conditions. For example, one of the major problems faced by the fish-breeding sector in Sri Lanka was a lack of dialogue with farmers and the local administration leading to a conflict on water usage. In order to solve this conflict a local solution involving improved dialogue and a new local regulation of water usage were needed. A local economic dialogue forum set up in the province solved the problem, enabling value chain development. Combining a VCD approach with a Local Economic Development (LED) mechanism made a solution possible.



VCD and LED approaches can reinforce each other. Both are approaches that address the “how to” of private sector development and that can be designed to include the poor in the resulting benefits. VCD seeks to enhance the functioning of the market system by analyzing it and devising interventions to overcome bottlenecks and constraints in the chain. LED strategies identify the economic potential of a specific territory and empower local economic actors to take joint action for economic growth and job creation. By combining the approaches possible shortcomings of each single way of doing things can be avoided.

One of the strengths of a value chain approach is its understanding of boundary-crossing nature of economic processes. Value chains are rarely limited to one particular area, but they often cross local and national borders. On the other hand VCD practitioners may fail to give enough importance to local conditions such as cultural norms and behaviour, local red tape and local constraints to infrastructure development². Understanding the local context is often crucial in order to address underlying constraints of local market systems:

Local Economic Development is “a participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory, enabling the joint design and implementation of a common development strategy, by making use of the local resources and competitive advantage in a global context, with the final objective of creating decent jobs and stimulating economic activity”¹. The ILO has been working on LED since the mid 1990s building on a long tradition of facilitating inclusive public-private dialogue.

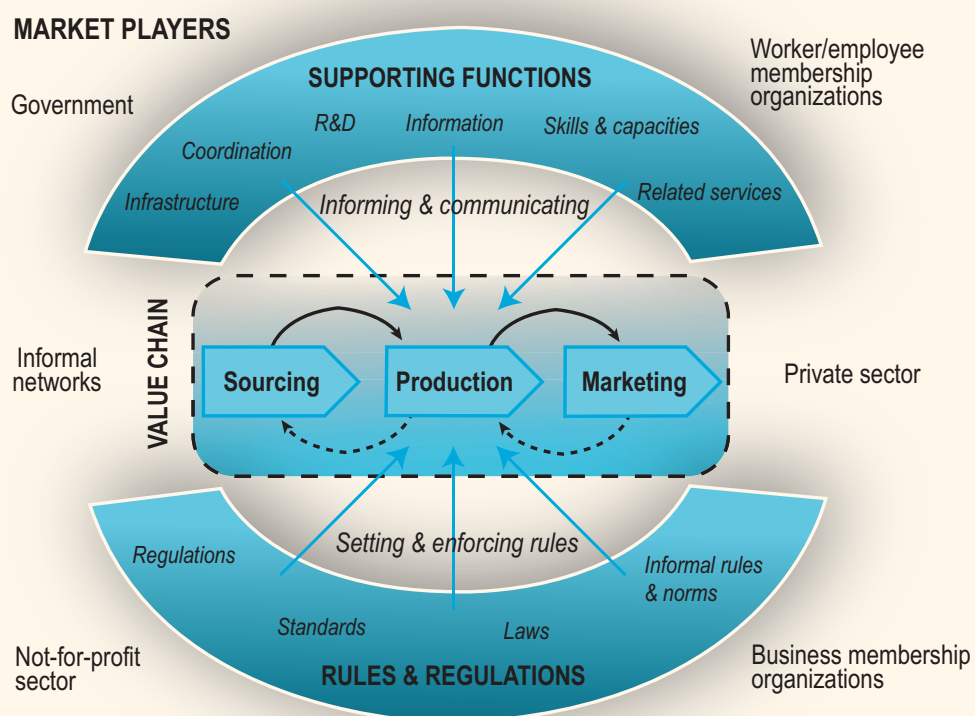
The knowledge and practice of the ILO in LED has been documented on www.ledknowledge.org

¹ ILO LED definition: Canzanelli, G.(2001), *Overview and learned lessons on Local Economic Development, Human Development, and Decent Work, Universitas working paper, ILO, <http://www.ilo.org/public/english/universitas/download/publi/led1.pdf>*

Value chain interventions will be impinged given a non-enabling local environment or misperceived local conditions. LED's focus on one particular geographic area enables localized solutions and, thus, combining VCD with LED can help to find solutions adapted to the local context and owned by local populations. Furthermore, LED's link to local governance and development planning can enhance the cross-sectoral dimension of VCD.

A better understanding of local contexts as provided by an LED approach can help avoiding pitfalls in VCD.

A key issue in value chain development is to understand the importance of final demand. Buyers want to buy high quality products at competitive prices with short delivery times and flexible responses to their orders. Understanding the exact nature of



A **Value Chain** “describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (...), delivery to final consumers, and final disposal after use.”³ This includes activities such as design, production, marketing, distribution, and support services up to the final consumer (and often beyond, when recycling processes are taken into account).

Value chains are part of **Market Systems**⁴ (see image). At the centre of the Market System are the value chains that bring products and services to the market. The immediate environment is formed by supporting functions (such as business development services and finance) and rules and regulations relevant to the chain (including labour rights). The broader environment around this affects the immediate environment as well as setting its own conditions.

² Schoen, Christian. 2011. Green production and trade to increase income and employment opportunities for the rural poor. Strategy for Implementing LED Process in 2011 and 2012, Vietnam. International Labour Organisation.

³ Kaplinsky, R. 2004. Spreading the gains from globalisation: what can be learnt from value-chain analysis, Problems of economic transition, vol. 47, no. 2, pp. 74- 115

⁴ Source: Value Chain Development for Decent Work (2009), page 3

these demands is crucial for value chain development. Effective cooperation and communication among the stakeholders of a chain are key to enhance its responsiveness to end market demands. The needed dialogue between stakeholders can be enhanced by LED approaches that typically focus on participation and social dialogue. Therefore, by improving stakeholder communication, LED can improve the knowledge flow along value chains and make value chains more effective and inclusive. LED might also provide an avenue to support local innovations that can enhance VCD efficiency.

While LED's focus on participation and dialogue can add value to VCD, participation is not always enough for effective intervention. Finding an agree-

ment can be slow and consultations with stakeholders can produce more questions than answers. At times, LED as an approach has received criticism on putting too much emphasis on strategy and planning instead of action⁵. LED practitioners might also fail to take into account the importance of value chain players outside the local territory. Local producers need to be connected to national and global buyers. If value chains are not fully understood, local actors might not be aware of the importance and specific nature of final demand. This can lead to an underestimation of the importance of the factors that are "pulling" the rest of the chain, end market demand. It could also lead to underestimate the important role of large buyers' in many value chains. Here a value chain perspective can deepen the understanding of markets and strengthen the market analysis tools in LED.

Ornamental fish value chain upgrading in Sri Lanka

The Enterprise for Pro-Poor Growth (Enter-Growth) was a four-year project of the International Labour Organisation (ILO), the Swedish International Development Agency (Sida) and the Ministry of Enterprise Development and Investment Promotion. It was implemented in 4 Sri Lankan districts between 2005 and 2009. One of the sectors the project intervened in was the ornamental fish sector that has potential to contribute a lot to the district's economy, but the value chain was underdeveloped. The biggest problem was a long lasting conflict on water usage between fish growers and paddy farmers. The water in the district was reserved for paddy farmers and the farmers associations had blocked water to the fish-breeding ponds. As a result of the conflict, development of the ornamental fish sector had stopped as well as its potential to create decent work and better incomes.

Moreover, there were not enough suppliers of inputs to meet the growing demand hence the prices were high. Breeders lacked technical skills on fish breeding. They had low know-how about how to combat diseases. Market access was an issue because of transportation problems, cumbersome security checks and sometimes road blocks. Furthermore, because they were not organized it was difficult for growers to lobby or make a strong voice to negotiate for higher prices.

The ILO's Enter-Growth project interventions

A key structure set up by the project was a set of District Enterprise Forums based on an LED approach. These forums constitute bodies for dialogue on enterprise development and their members are district authorities, public sector business development organisations, chambers, small business associations and NGOs. In Polonnoruwa the district forum was part of the solution for the conflict on

⁵ de Ruijter de Wildt, Marieke et. al. 2006. "Making Markets work for the Poor. Comparative approaches to private sector development." Swiss Agency for Development and Cooperation SDC.

water. The problem was presented at the District Enterprise Forum and the Forum succeeded to set up a meeting with the Department of Agriculture and all institutions involved in the distribution of water irrigation. The result was the removal of all impediments to the sharing of irrigation water with fish breeders. The agreement was formally approved at the district level. Thus, the LED mechanism facilitated value chain interventions and helped implementing the constraints identified in the value chain analysis.

To allow the local sector to better meet the requirements of the buyers, four main interventions were implemented: training, association building, financial assistance and information centers. Interviews with breeders, growers, collectors and buyers were held to assess the impact of these interventions on the sector. The most prominent impact appears to be the increase of quality within the entire value

chain. Farmers observed that the quality of their supplies has increased, while buyers noted that the quality of fish they bought had gone up as well. This increase in quality, and hence the increased demand on the whole can be attributed to any or all of the four interventions made in the value chain. The training has brought better knowledge and skills in growing fish. The grants, given in the form of equipment have contributed to the quality, while the association has led to better communication among growers, allowing them to learn from each other, and between growers and buyers, making them better aware of their wishes, demands and possibilities.

Source: www.entergrowth.org, see also Enter Growth short video on <http://www.youtube.com/watch?v=pfNrSDnvvQ4>

How can Value Chain Development and Local Economic Development be combined?

VCD and LED approaches can complement each other. Figure 1 and 2 graphically present the relation between LED and VCD.

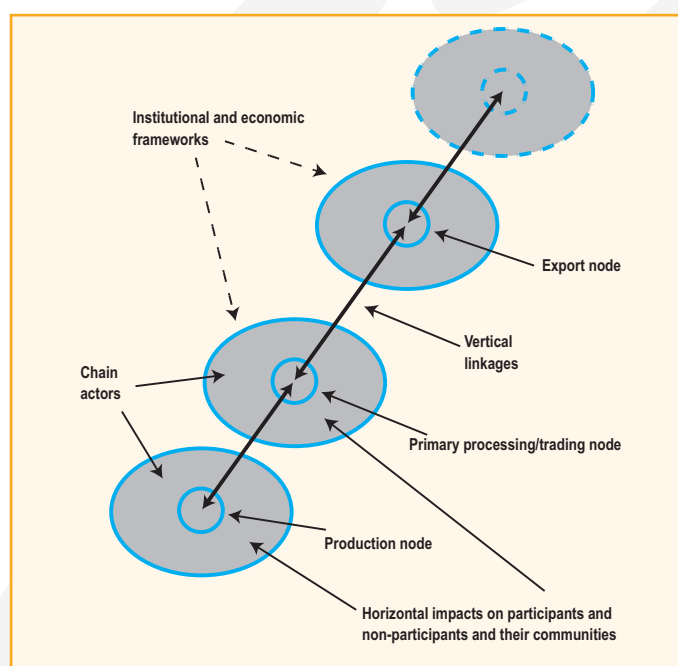


Figure 1 VCD perspective, Source: Bolwig, S. et al. (2010: 187)

In figure 1 the arrows between nodes represent vertical linkages of a value chain, in which businesses trade products and services⁶. Value chains are sometimes misunderstood to be focused only on these vertical business to business links in the chain. However, businesses do not operate in isolation so it is equally important to understand and take local institutional and economic frameworks into consideration. These frameworks, which are part of local market systems in which businesses operate, are presented in figure 1 as circles around the smaller nodes. Moreover, there are elements such as poverty, gender, labour and the environment influencing the chain and chain actors in different ways. For example, if VC facilitators are to address issues like working conditions or child labour, it is essential to understand the local context, including its social norms and power relationships.

⁶ Bolwig, S. et al. 2010. "Integrating Poverty and Environmental Concerns into Value-Chain Analysis: A Conceptual Framework", *Development Policy Review*, 28 (2): 173-194

In figure 2 a circle in the middle represents a local territory and the bigger figure a national border. Arrows represent different value chains inside the territorial area, but also different value chains arriving and departing the territory. Some of the value chains cross not only a local border, but also a

national border. In figure 2 the boundary-crossing nature of the value chain is clearly presented. It is key to understand market demand that often might be located far away from the local territory. Tools used in LED might not always be able to provide this information effectively.

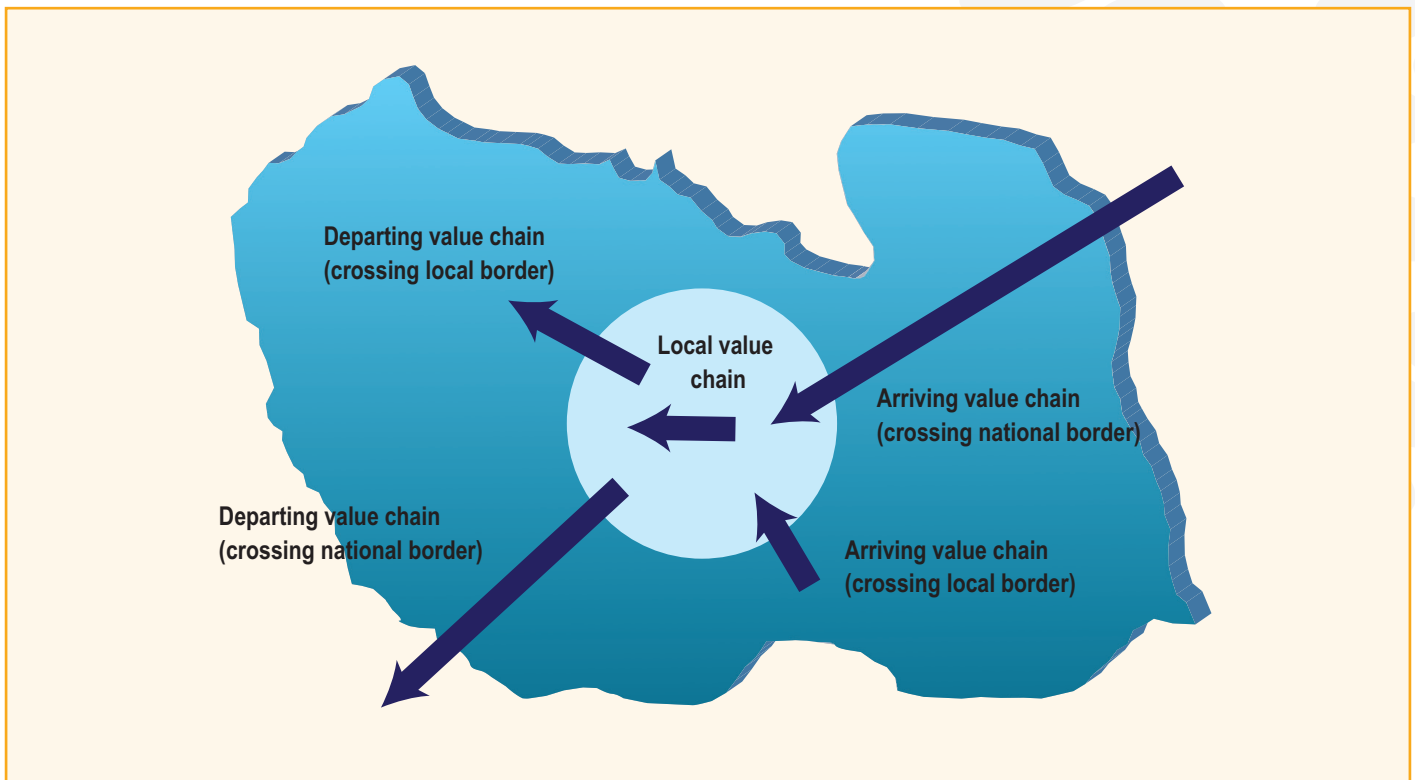


Figure 2 LED perspective, Source: Carlien van Empel, LED programme ILO

Upgrading living conditions of indigenous people in agricultural rural areas in Nepal

One example where VCD and LED approaches have complemented each other is the Employment creation and peace building in Local Economic Development (EmpLED) project in Nepal. This project funded by the Netherlands, was working on upgrading living conditions for indigenous people in two agricultural areas in the Dhanusha and Ramechhap district in Nepal. The project started by making a systemic overview of constraints of the food and the tourism value chains. It then worked with local and national

organizations seeking for solutions among tripartite constituents (governments, employers and workers) in a Local Economic Development framework. LED allowed an in depth analysis of local requirements and opportunities while value chain analysis contributed with its emphasis on relationships between chain actors and market demand in a more systemic way.

The promotion of LED forums encouraged the development of new concepts and skills, helped lend participants a voice and given them some bargaining power in the allocation of funds and the decision-making regarding government policies. Also, LED

forums were used to expand participants' social networks and gain social status and public recognition. Different activities were implemented as a result of the value chain analysis such as creating better access to business services and better infrastructure. The project contributed to the building of a road, to make touristic areas accessible. Other activities included the promotion of a culture of entrepreneurship through business radio programming and skills training for stakeholders in the tourism value chain. By using local partners as facilitators, rather than

providing services and support directly, the project avoided replacing local service providers and thereby changing the market system in a short term, unsustainable manner. Instead, it has strengthened local stakeholders and enhanced their capacity. The project improved the living conditions of more than 8000 households. The project has contributed to expand the access to management and skills training as well as to better market linkages to the national tourism and cheese markets.

Written by Emilia Saarelainen and Merten Sievers,
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Links

ILO: Value Chain Development: www.ilo.org/valuechains

ILO: Local Economic Development: www.ilo.org/led

ITC ILOs training Course on Value Chain Development and Pro Poor Growth: www.itcilo.org/marketdev

Other ITC ILO training programmes on Enterprise, micro-finance and local development: www.itcilo.org/emld

The Donor Committee for Enterprise Development websites: www.enterprise-development.org and www.value-chains.org

ILO and ITCILO: Knowledge-sharing with LED practitioners from across the world: www.ledknowledge.org

Tools

ILO: Value Chain Development for Decent work: A guide for development practitioners, governments and private sector initiatives. (2009)

http://www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/-ifp_seed/documents/instructionalmaterial/wcms_115490.pdf

ILO: An operational guide to Local Value Chain Development, Enter-growth. (2007) Colombo:

http://www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/-ifp_seed/documents/instructionalmaterial/wcms_101319.pdf

ITC ILOs Market Development Distance Learning Course. Enterprise Development through Value Chains and Business Service Markets: A Market Development Approach to Pro Poor Growth. (2008): www.itcilo.org/marketdev

ILO: Making the Strongest Links: A practical guide to mainstreaming gender analysis in value chain development. (2009):

http://www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/documents/instructionalmaterial/wcms_106538.pdf

ILO: Gender Mainstreaming in Local Economic Development strategies. (2010) A guide, Geneva.

http://www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/-led/documents/publication/wcms_141223.pdf

ILO/ITCILO: The Global Resource Site for Local Economic Development: www.ledknowledge.org

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