

Improving the Operating Environment by Promoting Public-Private Dialogue

ENABLING ENVIRONMENT

The enabling environment for business is critical to the development and growth of a vibrant private sector and its firms. Constraints in the enabling environment can limit business growth, such as through:

- Increasing costs
- Decreasing competitiveness
- Decreasing product and service quality
- Increasing business and investment risk
- Decreasing foreign and domestic investment
- Constraining businesses' willingness to pursue long-term strategies

The value chain's ability and willingness to upgrade and make strategic choices often depends on the development of a long-term strategy. However, a burdensome regulatory, legal, and policy environment can severely hinder the growth of industries, and diminish competitiveness and success in global markets. A poor business environment not only limits local firms' capital investments, it also obstructs foreign investment. Reforming policies so that they are favorable to businesses can encourage dynamism and efficiency.

Value chains' integrated nature makes them susceptible to constraints in the enabling environment at any level. Constraints affect their costs and ability to act, from the most basic supplier of raw materials to the broker who arranges for a large international shipment of finished goods.

Government is often the principal actor in changing regulatory issues and is responsible for improvements and reforms. Often the private sector's interactions with government (and those of development partners as well) tend to be on the national level. However, to a value chain, the capacities and wisdom of local government can be even more

important due to their impact on strategic portions of the supply or value chain. Lacking incentives and experience, local governments tend to be less sophisticated in their understanding of the constraints faced by value chain members in the enabling environment. Businesses within the value chain often have more personal relationships with local officials, which can be both a benefit and a barrier to enacting pro-growth change. Often, and especially in lower-income countries, the private sector feels powerless to effect change or believes that promoting change is not their responsibility. However, the private sector must often serve as the impetus for reform and sometimes even lead the search for solutions by providing government officials with irrefutable data and a plan for change through an open dialogue process.

PUBLIC-PRIVATE DIALOGUE

Through both official and ad hoc forums and vehicles for dialogue between the public and private sectors, the value chain can communicate its opportunities and challenges within the enabling environment. Through the value chain's sharing of industry strategies developed through analytical tools such as positioning and benchmarking, the public sector can understand the impacts of its own actions, decisions, and capacities and more effectively prioritize issues and actions to align with private sector needs.

Public-private dialogue (PPD) implementation can take several forms but generally follows the format described below (see also table 4.18). This applies to national, subnational, or sector-specific dialogues.¹

- **Establish a mandate.** This can include memorandums of understanding, formal government mandates, or temporary initiatives.
- **Align with an institution.** Possible choices would be investment promotion agencies, government ministries,

Table 4.18 Sample Checklist of Issues to Address at Various Stages of the PPD Process

	Range of issues to identify and tackle while designing or maintaining partnerships
1- Ignition	Government willingness Cross-spectrum support Business priorities Linkages with existing organizations Sense of urgency Establishing credibility
2- Participation	Selection mechanisms Terms of membership Choosing key individuals Striking a balance in representation Including SMEs Civil society participation
3- Structure	Permanent secretariat Individual leadership Working groups Government structure Transparency and rules of engagement Institutional flexibility
4- Goals and outputs	Mission statements Managing expectations Quantifiable outcomes Reform type and importance Monitoring and accountability Clarity and credibility
5- Role of donors	Type and level of support Public image Quality control Avoiding favoritism Sponsorship versus direction Ownership transfer
6- Outreach	Branding and marketing Using the media Engaging the grassroots Enlisting the public Targeting decision makers Sharing experience

Source: www.publicprivatedialogue.org.

donor agencies, or a newly created and independent institution. Institutional alignment also includes the location of meetings and where the initiative's secretariat will be housed.

- **Clearly defined structure and rules for participation.** The PPD process should have a secretariat and working groups for specific issues. The secretariat will serve as the coordinating body, and working group members will come from the private sector, governments, associations, academia, and possibly donors. Participants should be

decision makers and influential members of the private sector who want to facilitate change. As broad and representative a group as possible should be chosen and should include small businesses, minorities, and women to the extent possible.

- **Identify and support a champion and a facilitator.** A strong but not overly powerful champion should be chosen from the constituency to represent and drive the process. Also, dialogue facilitators should serve as brokers and help participants negotiate and set timetables and priorities.
- **Set clear goals and reach them.** Determine the types of outputs the PPD process will generate. These can take the form of roadmaps, a policy white paper, or reform proposals in addition to softer outputs such as cooperation, which emerges through dialogue. Quantifiable results early on can help build momentum and credibility for the process.
- **Public outreach and communication.** This step is vital for disseminating broader-scale changes in the enabling environment and generating larger-scale buy-in for reforms. It can include branding of the PPD initiative, media education and awareness campaigns, and social marketing.
- **Monitor and evaluate outcomes.** Documentation of clear successes and obstacles is important to building trust and generating traction for change.

It is important to have channels of communication open with national and local municipal governments, because they each have a different influence on limiting or facilitating investment and growth. For example, businesses cannot take advantage of an excellent customs system with low tariffs if the roads leading to the port are impassable. The value chain must know which levels of government determine the policies that most affect their operating environments and work to engage them. The value chain may also be able to join with local public sector leaders to advocate at the national level. In order to effectively communicate as a unit, value chain participants (or industries they represent) must first develop a clear consensus strategy that outlines and prioritizes the policy changes needed.

PPD can be a tool for encouraging policy changes that enhance the competitive position of the firms within the value chain and link the value chain's strategy to the dialogue process. PPD's success rests on several factors that affect the quality of the dialogue and its strength as a forum for advocacy. First, the private sector must clearly

Tanzania has the climate and altitude to produce high-quality coffee, but several constraints prohibited it from competing seriously in the global specialty coffee market—the only growing segment of the market and the one offering attractive prices. These included an aging population of coffee trees, a scarcity of well-operated wet-milling stations, and a restrictive enabling environment that forced all coffee to be sold through a blind national auction system. These constraints limited the industry and resulted in low prices to growers, providing them little incentive to produce high-quality coffee or reinvest in their plantations. The coffee sector actors wanted change but were unaware of their options. Likewise, the government of Tanzania (GoT) knew that something needed to be done to improve the enabling environment but didn't know where to begin.

In 2001, TechnoServe helped coffee growers form the Association of Kilimanjaro Specialty Coffee Growers (now called KILICAFE). The organization is a farmer-owned association that provides services to its members. These services include coffee marketing, provision of inputs, quality coffee production, lobbying for regulatory change, and cupping services for quality identification.

Recognizing that changes in the enabling environment would be important to the sector, TechnoServe brought the coffee sector's various stakeholders together for roundtable discussions. These discussions included the Tanzanian Coffee Board, KILICAFE members, and private buyers. Participants noted that they were the first discussions that actually involved all actors in the coffee sector. As a result, in partnership with stakeholders, TechnoServe undertook the Coffee Taxation and Benchmarking Initiative (CTBI) to investigate Tanzania's taxation policies and regulations governing the sector.

The study involved benchmarking comparisons with five "peer" coffee-producing nations: Costa Rica, Ethiopia, Guatemala, Kenya, and Uganda. In addition, TechnoServe facilitated a tour for Tanzania's Minister of Agriculture to Costa Rica to meet his counterpart, as well as other coffee stakeholders in the country. Findings from the study showed that, compared to the

other countries, Tanzania had the highest taxes on coffee producers (up to 21 percent) and the lowest rate of reinvestment. In some instances, countries levied significantly lower taxes, and these lower taxes helped alleviate the effect of major price drops and improve competition.

TechnoServe and the other stakeholders discussed the CTBI study and reached out to the GoT, making the following recommendations:

- Harmonize taxes
- Reduce steps and fees for licensing
- Allow smallholder growers of specialty coffee to bypass the national auction system (Moshi Coffee Auction) and negotiate/sell directly to specialty buyers (direct export)

In June 2003, Tanzanian Minister of Finance, Basil Mramba, announced sweeping reforms that included the CTBI study's recommendations. The tax and marketing law reforms took effect in October 2003. In March 2004, KILICAFE, able to bypass the Moshi Coffee Auction and negotiate directly with specialty buyers, sold over 23,000 pounds of fully washed Arabica coffee directly to Peet's Coffee and Tea, a U.S.-based specialty coffee roaster. This sale involved five small-grower groups, which represented 645 small growers. The small growers received a 150 percent price premium on the coffee sold to Peet's compared to other growers. This was the first direct grower-to-roaster transaction in Tanzania's history. Later that year, Peet's and KILICAFE created the "Tanzania Kilimanjaro Limited Edition" coffee brand, which was sold exclusively by Peet's coffee stores and distributors.

Today, taxes in the Tanzanian coffee sector have decreased from 21 percent to a range of 14–16 percent. The steps and fees associated with licensing are also fewer, and lower, respectively. However, the reform that has helped spark revitalization in the industry was the ability to directly export specialty coffee. Since the Peet's sale in 2005, KILICAFE has continued to negotiate and sell high-grade coffee to Peet's, Starbucks, Illycafe, and a range of other global specialty buyers.

Source: Carlton Jones, J. E. Austin Associates, Inc.

understand the public sector's role in the value chain. The public sector may often be blamed for, or looked to for solutions to, problems that are or should be more in private producers' control. It is also helpful to understand that the policy and regulatory environment have both legal and enforcement components and that these may differ substantially. The infrastructure environment and political power dynamics between various stakeholders will make up the climate of dialogue.

A benchmarking activity of specific business environment elements can be a starting point for generating a forum for constructive dialogue among stakeholders along the value chain, as it will generate credible information for decision making. Sound prioritization and decision making are difficult if parties are seen as advocating biased or unfounded positions or asking for special favors.

Once parties have agreed to discuss their common interests, a PPD must establish certain parameters for effective discussion. Some general, overarching principles must be in place for the forum to be effective in reducing barriers to value chain efficiency. A PPD must include the "right" people from both the public and private sectors. This means that key decision makers and knowledgeable, credible opinion leaders must be present, rather than just the highest-ranking member of an organization. Participants must also be encouraged to commit to the process and leave egos and political infighting at the door.

They should all be operating from the same base of information and have access to the same data. This may be the benchmarking data gathered through a previous exercise. The use of benchmarking data can be especially helpful if it is obtained through public-private collaboration.

The dialogue should have clear goals, collaboratively agreed upon. It is important that all of the stakeholders involved agree on the discussion's topics and goals to avoid sessions that get off track or that degenerate into blame and fault-finding. Every PPD mechanism should have a method for providing feedback and input into policy formation.

The private sector must make a credible case for change through the strength of its strategy and by clearly communicating its goals. By using sound data, credible and objective outside experts to provide analysis, and well-facilitated discussion, the private sector can create a nonthreatening and constructive dialogue environment.

It is helpful for the private sector to explain the tax and revenue impacts for the public sector if changes are put in place. The private sector should be able to link changes to meeting government goals, job creation, and revenue increases.

PPD can encourage action that benefits the value chain by educating and informing the public sector. The private sector should be able to communicate those points at which the greatest value is added (or subtracted) from the value chain and ways to make it easy for the public sector to decide on actions that will contribute to the value chain's strength.

Associations and institutions for collaboration, as Michael Porter has called them, are either formal or informal organizations that facilitate the exchange of information among members and can help foster cooperation. They can take the form of regional, social, or professional networks or they can be industry or professional associations that cut across various industry sectors and value chains. These institutions play a significant role in strengthening and promoting the value chain or industry agenda. There are types of institutions called business membership organizations (BMOs) that serve a variety of specialized functions (see table 4.19).

BMOs can improve the business environment by building and supporting trust among its members; establishing a forum for dialogue, collective strategy, and planning; increasing the ability to communicate with one voice through advocacy activities; and assisting with other actions (see tables 4.19 and 4.20).

The International Finance Corporation and the World Bank have an excellent resource detailing best-practice implementations of PPD initiatives. These cases, along with guides and comprehensive information on PPD, can be found on the online forum, www.publicprivatedialogue.org.

A STEP-BY-STEP SUMMARY OF TOOL 11: IMPROVING THE OPERATING ENVIRONMENT BY PROMOTING PUBLIC-PRIVATE DIALOGUE

- Identify burdensome regulations, laws, and policies negatively impacting the growth and competitiveness of the value chain.
- Qualify and quantify the impact of the current business environment on growth and competitiveness using empirical metrics, such as benchmarking activity. This will provide basic data as a platform for public-private dialogue.
- Establish a clear mandate for the public-private forum. This can include memoranda of understanding, government reforms, or temporary initiatives.
- Identify institutions whose support will showcase official commitment to the public-private dialogue and resulting decisions and actions.

Table 4.19 Types of Business Membership Organizations and Their Functions

BMO type	Defining factor	Typical functions and services
Trade/industry associations	Occupation/industry	Arbitration, quota allocation, industry standards setting, lobbying, quality upgrading
SME associations	Size of firm	Entrepreneurship training and consulting, finance schemes, group services
Women's associations	Gender	Entrepreneurship training, microfinance, gender-specific advocacy
Employers' associations	Labor relations	Interest representation vis-à-vis unions, professional information, and training
Confederations	Apex bodies	High-level advocacy, general business information, research, coordination of member associations
Binational associations	Transnationality	Trade promotion, trade fairs, matchmaking
Chambers	Geographic region	Delegated government functions, arbitration courts, basic information services, matchmaking, local economic development

Source: World Bank (2005), "Building the Capacity of Business Membership Organizations: Guiding Principles for Project Managers," Second Edition.

Table 4.20 Pursuing Effective Dialogue

Ineffective	Effective
■ Individual company	■ Value chain stakeholders
■ Ad hoc complaints	■ Comprehensive vision
■ Operational level	■ Strategy
■ Laundry lists	■ Priorities
■ Anecdotal evidence	■ Data and analysis
■ Concessions	■ Co-responsibility
■ Opposite sides	■ Same side of table

Source: J. E. Austin Associates, Inc.

- Clearly define the structure and rules of the public-private dialogue.
- Encourage individual firms and organizations, which are capable of facilitating and following through with PPD, to be leaders in the forum.
- Identify measurable outcomes for the dialogue.
- Monitor and publicize the progress of the dialogue and its outcomes.

NOTE

1. Source: PPD Handbook, World Bank.

Improving the Operating Environment through Public-Private Dialogue—Botswana Cattle Producers Association

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INTRODUCTION

Understanding the role the private sector plays in facilitating change at the local, regional, and national government levels is important when considering changes to the enabling environment for value chains. If the private sector does not speak with an informed, unified voice, does not have a common agenda, and does not understand how to engage the government, change is unlikely.

In this case, Botswana's parastatal meat monopoly addressed a startling sector contraction through public-private dialogue, organizing the Botswana Cattle Producers Association and soliciting its help in designing a sector revitalization strategy. The dialogue is ongoing and is still catalyzing change within the sector. It demonstrates how change is occurring after private sector participants in Botswana's red meat value chain organized to effectively engage the government for mutually beneficial changes in the red meat sector.

POINTS TO CONSIDER

Look for some of the steps outlined in the tool:

- Was a mandate established?
- What institutions did the private sector align with as it organized?
- Who was identified as a champion or facilitator for the group?

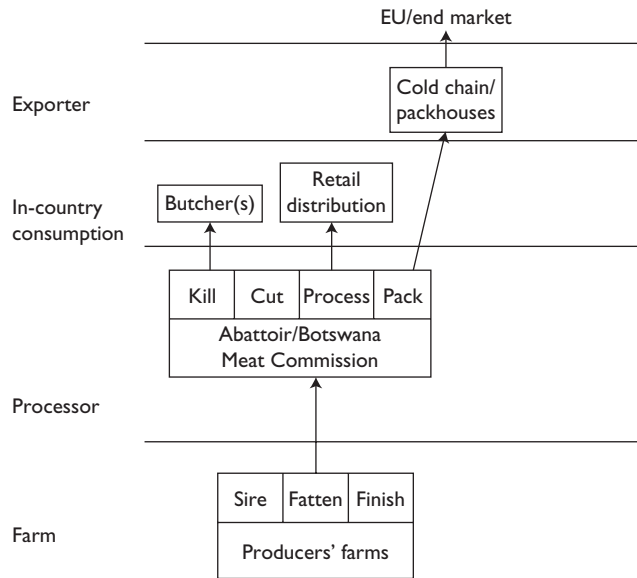
- What were some of the goals, were they clear, and how were they achieved?
- What vehicles were used to engage the government?
- Are there any measurable outcomes?

BACKGROUND

In Botswana, the red meat industry (figure 4.56) is one of three main economic pillars (behind only diamond mining and tourism) that support the economy. But with declining exports and losses experienced by cattle farmers and the state-run Botswana Meat Commission (BMC), something had to be done to turn the situation around. From contributing around 30 percent of GDP at independence in 1966, the sector shrank to 3 percent or less of GDP in 2004. Likewise, over the same period, the contribution of beef to national export revenues fell from 70 percent to 1.7 percent (Jefferis 2005). In 1998, beef export value was US\$92.57 million. By 2004, it was US\$46.38 million (FAOSTAT). Over the same period, export quantity fell from 25,000 tons to 8,600 tons (figure 4.57).

Established in 1966, the BMC is the country's sole exporter and domestic wholesaler of beef. This status, in addition to other privileges, is conferred by the BMC Act. Botswana's main beef export market is the European Union. Protected as a monopoly, the BMC acts as the country's single industrial processor and export channel and sets the prices it pays to cattle producers. The BMC operates abattoirs in Lobatse,

Figure 4.56 Botswana's Red Meat Value Chain



Source: J. E. Austin Associates, Inc.

Figure 4.58 Locations of Botswana's Abattoirs



Source: World Bank.

Figure 4.57 Exports of Botswana's Beef, 1990–2004



Source: FAOSTAT data.

Francistown, and Maun (figure 4.58) that were designed to handle an output of 8,000 cattle and 500 small stock per day (Lobatse), 400 cattle and 140 small stock per day (Francistown), and 100 cattle per day (Maun)—but each operated at levels well below their capacity. The Maun abattoir was permanently closed in 1996 after an outbreak of cattle lung disease necessitated the culling of all cattle in Ngamiland (Botswana Meat Association 2006). Despite the closing of one of the three abattoirs, the remaining two abattoirs were

still underutilized. This underutilization drove up unit costs, and the BMC began losing money. Around the same time, EU beef prices leveled, followed by the revenues from cattle sales in Botswana. Cattle producers were severely impacted as well, and were being paid well below export parity (the price neighboring cattle producers received in Namibia and South Africa).

Botswana's cattle farmers often complained among themselves and recognized that it was becoming increasingly difficult to operate, but never organized to generate change in their institutional and enabling environment. However, when losses continued and export revenue continued to decline, cattle producers could use neither their land nor their cattle as collateral against loans. Led by Philip Fischer (a producer himself), cattle producers approached a USAID-funded project, the Southern Africa Global Competitiveness Hub (SAGCH), for assistance in forming a national association. Its goal was to have existing regional cattle-producing associations speak with one voice to create a common agenda and to lobby that agenda for policy change.

BIRTH OF THE BOTSWANA CATTLE PRODUCERS ASSOCIATION

SAGCH was able to provide the technical assistance that led to the formation of the Botswana Cattle Producers Association

(BCPA), an organization that represents the country's 60,000 cattle producers. The BCPA organized, drafted by-laws, registered as an official industry association, elected its first chairperson (Philip Fischer), and established a common agenda from which to lobby the government for action. Initial components of the common agenda included the desire to receive export price parity for their livestock, an improved production system, and the liberalization of Botswana's entire red meat sector.

UNCOVERING THE PROBLEMS

Energized by their ability to organize and hopeful for the future, the BCPA again approached the SAGCH for assistance in conducting a study to uncover all the constraints in the red meat market to provide much-needed statistical data to support their planned advocacy efforts. The study was conducted by the former deputy governor for the Bank of Botswana, Keith Jefferis. Mr. Jefferis is currently an independent consultant and is highly respected within the country. His study produced several key findings.

Declining national herd

Though the data was poor, Mr. Jefferis's study suggested that the national herd population in Botswana was decreasing from its peak of approximately 3 million animals in the early 1980s to about 2.5 million. Rising costs, drought, and cattle producer cash flow problems were all cited as contributing to the herd population decline.

Additionally, he noted that the existing production system, which produced mature cows and oxen, would not provide enough "offtake" to keep up with rising demand. The combination of a declining herd size, stagnating offtake, and rising domestic demand for beef were all contributing to reduced cattle sales to the BMC, and hence reduced throughput and capacity utilization.¹

High costs throughout the value chain

With high fixed-unit input costs, and abattoirs operating at around 50 percent capacity, the BMC operated at levels severely below built capacity. This inefficiency caused the cost per unit of output to rise. Compared with neighboring countries, Botswana was operating at less than half the volume levels that were expected for a competitive, commercially run operation to survive (Jefferis 2005). Jefferis concluded that this excess capacity was, in part, the result of the 1990 opening of the Francistown abattoir.

Declining revenues

As the BCPA suspected, the study also revealed that the declining prices paid by EU markets resulted in revenue declines and subsequent lower prices paid to cattle producers (in real terms, after adjusting for inflation). Coupled with the government of Botswana's (GoB's) desire to make the consumption of beef affordable for all the people of Botswana, prices remained artificially low. Export cattle producers, without competitive alternative markets for their beef, were limited to selling to only one buyer, the BMC monopoly. This limited their ability to increase profits.

The sector conducted a benchmarking exercise that compared Botswana's cattle market to those in Namibia and South Africa. Comparing these markets, the study also determined that Namibian abattoirs paid 40 percent more than the BMC paid its cattle producers, while South Africa paid twice as much to its producers.

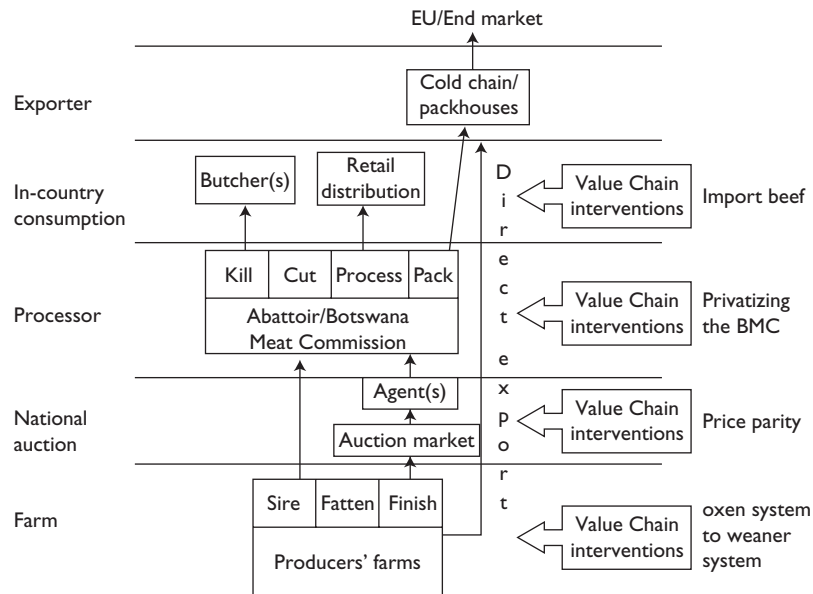
Operating under monopolistic conditions

The study also highlighted a glaring problem: The BMC was operating as a money-losing monopoly whose inefficient operation was leading to the unsustainability of the entire red meat market in Botswana. BCPA producers of export-quality beef were forced to sell at below-market prices to the BMC for exporting. Live cattle exports were banned, as were beef imports. This artificial market structure meant that, without interventions, the national herd would continue to decline, and cattle producers would continue to lose money and possibly be forced to close their operations or move to other countries to survive.

BCPA PUBLISHES FINDINGS AND ENGAGES GOVERNMENT OF BOTSWANA

Shortly after the research was concluded, the above findings were published in a policy paper, "How Trade Liberalization Can Contribute to Solving the Crisis in the Cattle and Beef Sector." This paper, also prepared by Mr. Jefferis, highlighted some of the industry's challenges and made policy recommendations meant for consideration by the government of Botswana and BMC. In May 2005, the BCPA assembled industry stakeholders with the assistance of the SAGCH, and formally presented its findings and Mr. Jefferis's recommendations, several of which are outlined in the following sections (see also figure 4.59).

Figure 4.59 Recommendations for Botswana's Red Meat Value Chain



Source: J. E. Austin Associates, Inc.

Changing the cattle production system

Shifting to modern production techniques in Botswana would increase offtake rates and keep up with anticipated demand. As mentioned earlier as a finding from the research, Botswana's production system (the oxen system) was based on selling mature male and female cattle to abattoirs. The modern "weaner" system is the recognized, preferred method of cattle production in the world. In this method, male calves are sold to feedlots as soon as they are weaned. While in feedlots, these weaned male calves are intensively fed and fattened for three to four months, then sold directly to abattoirs. At the farm, remaining herds are then comprised predominately of cows and calves.

In production, the benefits of the weaner system are that farms have higher proportions of (productive) cows, rather than (unproductive) oxen. Farms adopting weaner-system production methods are able to provide younger, better-quality meat because weaners (aged less than a year) are sent to abattoirs instead of mature cattle (whose average age is three years). Additionally, environmental impacts are reduced since animals graze for shorter periods and are younger, reducing the amount of land needed for them to graze.

Weaner-produced cattle are also less impacted by drought, as they make fewer demands on the land for grazing.

This change from an oxen system to a weaner system is a more efficient means of production and could potentially increase offtake from the existing 270,000 to 700,000 per year. More importantly, this production increase does not rely on increasing the national herd size.

Unfortunately, shifting to a weaner system is not possible until prices for cattle are more aligned with costs. That means that BCPA members need to be paid export-parity prices, which did not occur under the existing legislation.

Revising the BMC Act

In Botswana, the BMC Act of 1966 reserves the exportation of live animals or their edible products for the abattoir unless the Minister of Agriculture permits otherwise in writing. In addition, such a permit should be issued with the BMC's consent according to section 21, which addresses controls on the export of cattle and the licensing of export slaughterhouses.

Jefferis's policy recommendation was to revise the BMC Act to remove the prohibition on non-BMC export slaughterhouses and beef exports, and to lift the ban on live-cattle beef imports. Jefferis also included the introduction of a national auction system as the primary method of cattle sales and price determination, accompanied by widely available

beef-pricing publications. This would allow the entire beef and cattle industry to be regulated by competition and free-market principles, instead of the existing structure where prices are set solely by the BMC. With BCPA members able to get export-parity prices, they would then be able to afford the switch to weaner production systems.

Based on estimates, if the BMC Act were revised to allow for competition, prices would approximate those found in South Africa, allowing the entire cattle market in Botswana to recover.

Privatizing the BMC

Operating as a monopoly, the BMC hindered growth in the sector. Selling off noncore assets, closing unproductive abattoirs, and restructuring BMC functions toward governance and health enforcement and compliance would allow the industry to move away from its existing protectionist position to being competitive.

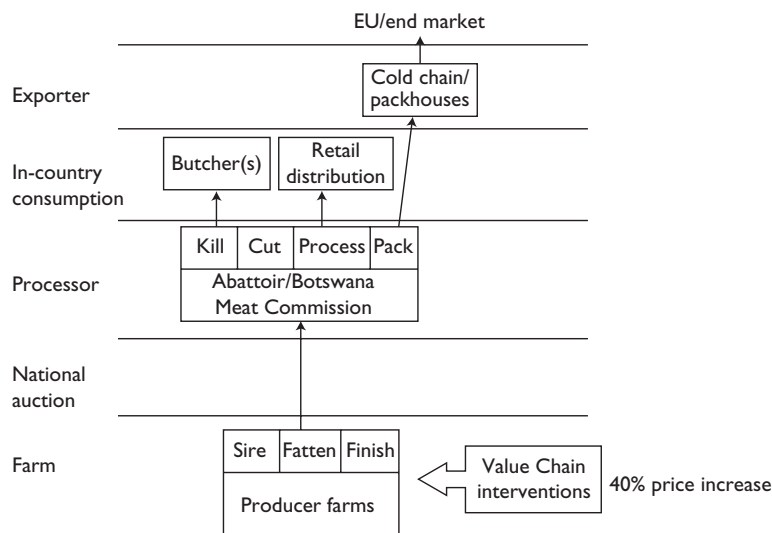
To disseminate its research and findings, the BCPA invited key stakeholders and the national press to hear about the challenges faced by Botswana’s cattle producers. The event sparked a national debate about how to address the challenges of BCPA members. Just as important, the BCPA was able to produce credible data from which to make its case and, for the first time, BCPA members felt empowered to continue to press for change in their sector.

OUTCOMES

As with several of the cases illustrated in this Guide, this case is still evolving. There have been reforms (see figure 4.60), but more liberalization is necessary to enable BCPA members to export to preferred markets. One immediate success for the BCPA was its ability to garner support, which influenced the GoB to strongly consider its recommendations. Their organization is now a recognized partner of the GoB and is actively engaged in policy discussions that affect the red meat industry. The policy paper which sparked the public-private dialogue that revitalized the industry was later translated into Setswana for the House of Chiefs and other stakeholders in Botswana. The report is seen as one of the single most important outputs that allowed the BCPA to influence the GoB.

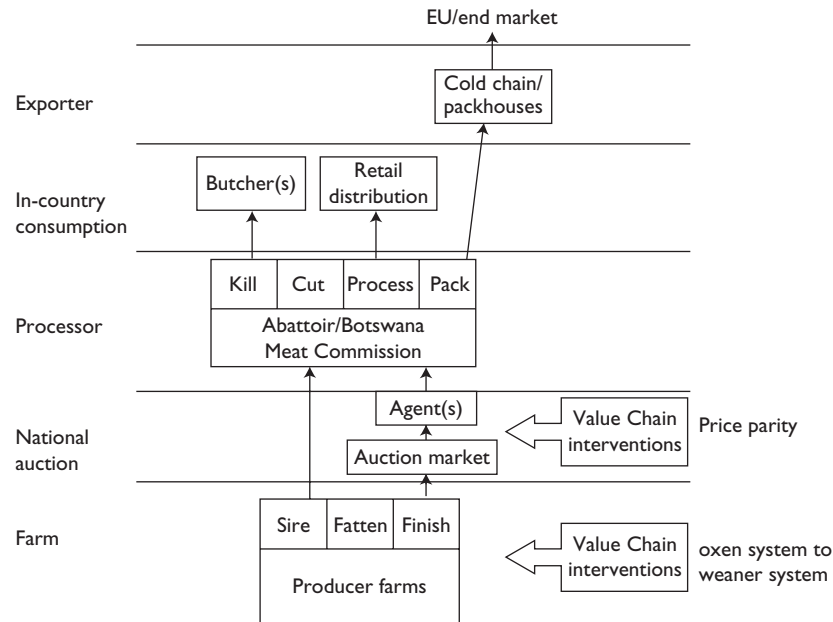
In December 2005, the BMC increased the prices that it pays to producers by an average of 40 percent, so they are now in line with neighboring Namibia. It is expected that this price increase will offset some of the losses experienced by BCPA members and will allow them to increase the off-take sent to abattoirs. In March 2006, a further 40 percent price increase for top-grade (prime) beef also went into effect. By July 2006, the GoB and the BMC publicly adopted the BCPA’s two primary objectives—to pay export-parity prices and to support conversion to a weaner and feedlot production system (see figure 4.61). Both price increases still affect BMC profitability, but as profits for cattle producers

Figure 4.60 Initial Implementation of Recommendations—Red Meat



Source: J. E. Austin Associates, Inc.

Figure 4.61 Next Steps for Botswana's Red Meat Value Chain



Source: J. E. Austin Associates, Inc.

increase, they will be able to invest in increasing their off-take, which will also positively affect abattoir operations.

CONCLUSIONS: PPD EFFECTS ON THE RED MEAT VALUE CHAIN

Producers are still not being paid full export-price parity. Yet, the latest price increases and the GoB's commitment to adopt weaner production and export-price parity signify to the BCPA that their long-awaited reforms are closer to becoming reality. The BCPA is now working to assist the GoB in implementing the reforms. As the weaner system is adopted, new service providers (feedlot operators) will be necessary to support the industry. Some cattle producers are now looking to expand their businesses into feedlot operations in anticipation of the changes.

Going forward, there are several levels of the value chain that could be affected based on the BCPA's policy recommendations. The most notable are the adoption of a national auction system and the possibility of exporting directly to other markets (bypassing the BMC altogether). The BCPA continues to press for change in its industry and recognizes that continued research and reliable economic data are its best ammunition. As one observer said, "Having a unified voice was important, but more important than that was the sound economic data we presented to the government. Without that data, a unified voice would have been discounted."

NOTE

1. Jefferis Interview 2007.

Achieving Synergies through Clustering

BACKGROUND ON CLUSTERS

Cluster strengthening and cluster-development initiatives began to gain popularity as economic development tools in the 1980s. Since the late 1990s, cluster development and promotion programs have been applied with success in developing and emerging economies, and are starting to take hold in Africa. The cluster approach emphasizes collaboration among cluster members to achieve objectives that are beyond the capabilities of individual firms or even value chains.

“Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region.”¹ Associated institutions can include trade organizations, funding organizations, universities, research organizations, and labor unions, among others. Thus, for our purposes, the cluster is not linear as with a supply or value chain; it is an associated, highly communicating collection of participants, coordinated to focus on achieving objectives that are important to the value chain, or more often, to multiple value chains.

Clusters, which have a geographic focus, arise naturally or can be encouraged to grow around existing assets, firms, or value chains. However, the process of clustering, approaches that encourage cluster-style communication and interaction, and associated cluster initiatives, can play a large role in strengthening firms, value chains, and the economic regions in which they operate.

As a collection of related firms, the cluster benefits from proximity and can increase those firms’ competitiveness in the marketplace by exploiting synergies and linkages such as:

- Improved market access
- Firm specialization
- Access to information and market intelligence
- Bargaining power

- Policy change
- Collaboration
- Implementation of standards
- Producer-marketer collaboration
- Supply chain management
- Branding and image
- Shared investment in workforce development, certification and skills, technology, and services

Cluster-based approaches help firms and value chains reduce transaction and information barriers, and, therefore, costs and inefficiencies, as they identify common interests and develop common strategies. This, in turn, can lead to a more formal public-private dialogue process, build collaboration, and exploit synergies among the cluster’s organizations. Cooperation that arises from clustering cannot only increase productivity but can also align firms to solve common problems. The strengthening of existing clusters and the fostering of cluster development can begin with a mapping exercise that helps identify potential synergies that could lead to the benefits described above.

THE RELATIONSHIP BETWEEN VALUE CHAINS AND CLUSTERS

At their core, clusters are centered on elements of one or many value chains. Because clusters emphasize locational factors or other commonalities, they can incorporate many value chains or portions of them that operate across clusters. Clusters can form across many links in the value chain or deepen a specific link. From a development perspective, assistance to the value chain is part of the cluster approach. Clustering is a tool to strengthen firm relationships through development of a private sector-led strategy, building of foundations for dialogue, and creation of opportunities for upgrading of skills and technology.

CLUSTER INITIATIVES

An initiative to develop clustering approaches or to strengthen clusters will reinforce the value chain's interests. In developing countries, the most successful cluster initiatives are typically a facilitated but private sector-led process.

When a cluster is promoted by an industry or value chain, its proponents, of course, tend to select a value chain focus. When implemented with government or development partner assistance, clusters need to be selected for participation in the cluster initiative. Thus, it is important to first identify several potential core industries or value chains and then help them to self-select based on their resources, industry willingness to participate, and growth potential. Since the cluster initiative is a facilitated but private sector-led process, the second step is for the facilitator(s) who will be engaging with the industry to gather as much information as possible on broader economic and industry data, principal firms within the industry, and interests for the firms and associated stakeholders.

A clustering initiative (CI) typically takes place in five phases:

1. Initial research and engagement leading to the formation of a cluster initiative (usually through a memorandum of understanding)
 - Develop and present the rationale for cluster cooperation based on data gathered with identified leadership.
 - Generate strong interest in cooperation leading to mutual commitments within the cluster. Can be facilitated through a specific association or organization.
2. Industry diagnostics leading to strategy development
 - Cluster coordinators, industry consultants, and facilitators work with cluster members to evaluate and analyze the current state of the industry and identify potential solutions.
 - A private sector-led industry strategy (including objectives, strategy, and an action plan) is designed and agreed upon.
3. Initial implementation of strategic initiatives
 - Issues outlined in the strategy are prioritized and action plans designed with coordination of those involved.
 - "Quick win" projects, lobbying for policy changes, or initial coordination with academic or associative bodies may be implemented with little funding.
4. Identification of projects and sources of financing
 - Larger-scale projects may need funding from within the industry, government, banks or other sources of investment.

5. Building sustainability

- Continuity of cluster efforts after the CI depends on creating a strong sense of ownership and on finding leaders who champion continuing improvements.

A cluster map is a valuable planning tool for analyzing the current state of the cluster and can identify where various value chains link into it. Using the map for benchmarking and gap analysis can also identify weaknesses in cross-cutting areas such as skills availability, transport, support, and infrastructure. Figure 4.62 offers an example of a cluster map for cut flowers in Kenya.

Strategic objectives of the cluster should be clearly outlined, and cluster members should be strongly committed to those goals. Implementation often includes dialogue with government and advocacy for changes in regulations and procedures. This process is easier if the cluster has a champion in government who can create traction for the implementation plan and who acts as a facilitator with the government. Intractable government policies, such as promotion of strong state-owned enterprises, could limit the growth achieved through clusters.

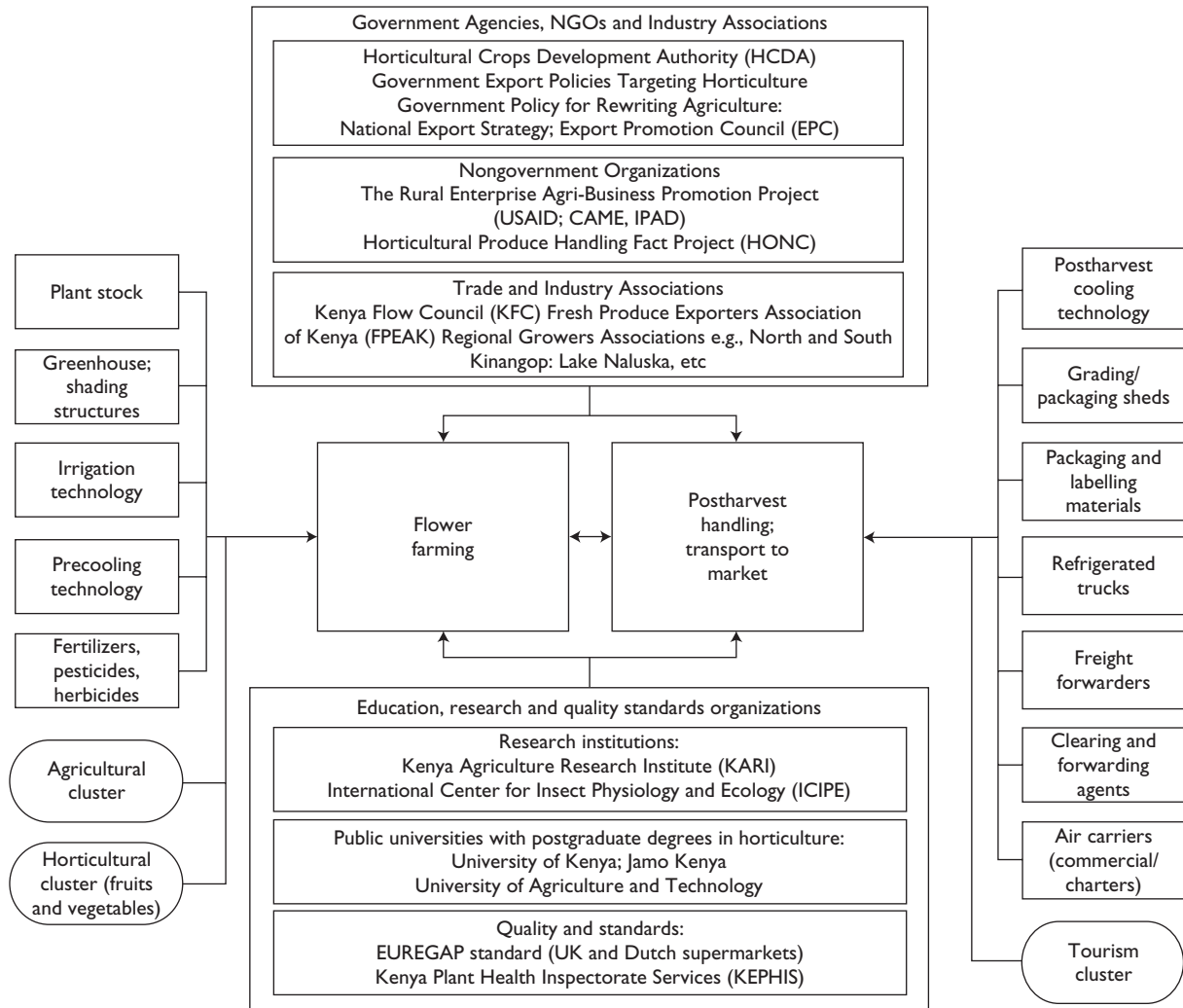
A successful cluster-strengthening process can help attract foreign direct investment and the participation of multinational corporations. If a cluster can develop and implement a successful strategy, it can generate internal firm investment, government investment, and external and co-investment opportunities. In addition, clustering projects can be used in conjunction with national initiatives such as special economic zones or export processing zones.

Business associations, trade associations, industry groups, and similar institutions can play an important role in cluster development and sustainability. They have convening power, can provide services in line with the industry strategy, and can advocate on behalf of the industry cluster. The cluster itself can be institutionalized for these same reasons; however, it is important that this does not happen until processes are firmly in place.

CLUSTER EVALUATION

Clusters and cluster initiatives can be evaluated in several ways. The most important indicator of success is whether firms and cluster members are reaping the benefits of the strategies they have implemented. Such successes could include new sales and exports, reduced costs, and increased access to necessary machinery and markets, as well as to appropriate labor and technology. One framework for evaluating successes is the PAID approach

Figure 4.62 Kenya's Cut Flower Cluster



Source: Hornberger, Ndiritu, and Ponce-Brito et al. (2007); Microeconomics of Competitiveness, Harvard Business School (2007).

developed by J. E. Austin Associates. This approach, described in more detail in the discussion of tool 13, looks at improvements in four areas:

1. Process indicators
2. Action indicators
3. Investment indicators
4. Delivered results

A STEP-BY-STEP SUMMARY OF TOOL 12: ACHIEVING SYNERGIES THROUGH CLUSTERING

- Cluster coordinators, industry consultants, and facilitators work with cluster members to evaluate and

analyze the current state of the industry and identify potential opportunities for cluster-based initiatives. Potential cluster relationships should be centered on geographically proximate elements of several related value chains.

- Generate strong interest in cooperation leading to mutual commitments within the cluster.
- Assist the private sector in developing a cluster strategy (including objectives, strategy, and an action plan). Present these for discussion within the cluster.
- Prioritize interventions toward achieving the cluster strategy. Focus initially on initiatives that will demonstrate short-term success and that require modest funding.

- Identify financing for larger-scale initiatives from within the value chains, government, banks, or other sources of investment.
- Encourage leadership among cluster participants so that members create norms of cooperation and champion continuing improvements even after the initiative has ended.
- Monitor and publicize clustering results.

NOTE

1. Institute for Strategy and Competitiveness, Harvard Business School.

Achieving Synergies through Clustering— Kenyan Avocados

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J. E. Austin Associates, Inc.*

INTRODUCTION

The term “cluster” is often used loosely and commonly incorporates a variety of value chain elements. In most instances, it is meant to involve a geographic concentration of similar businesses within the same or related value chains. Generally speaking, this Guide has accepted the definition of “cluster” as a geographic concentration of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region.¹ These clusters can incorporate or work across value chains, and, thus, are not linear. This case examines how a Kenyan market-linkage strategy, along with a cluster initiative, strengthened firms and the overall value chain in the fresh avocado sector. The case first introduces the Kenyan avocado value chain, then describes initiatives to create and then to strengthen the value chain’s market linkages. The case describes the broader avocado cluster map and the role of cluster actors.

POINTS TO CONSIDER

When reviewing this case, consider the following:

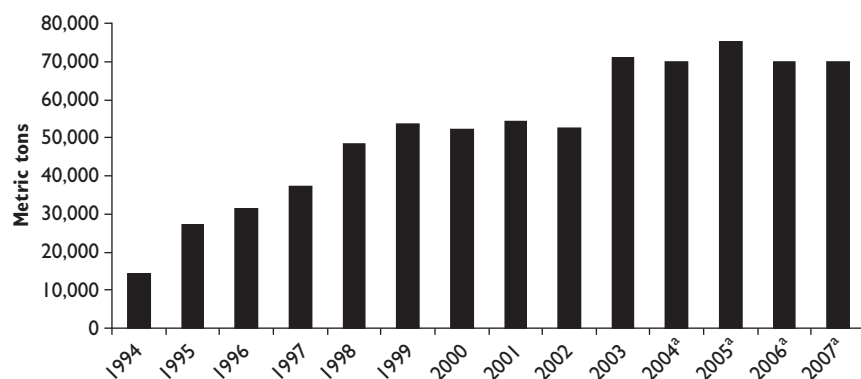
- Clustering is a tool to strengthen firm relationships through the development of a private sector–led strategy, build a foundation for dialogue, and create the opportunity for upgrading skills and technology.
- What were the steps taken to facilitate clustering?
- What were some of the benefits realized from establishing the avocado cluster?

BACKGROUND

Mexico and the United States have dominated the global avocado export market for the last three decades. During that time, Kenya has consistently ranked as a top 20 producer. Its best ranking was eleventh, in 1961 (FAOSTAT). Kenya’s main export market is Europe, to which it supplies mainly the Fuerte variety avocado. In 2003, 92 percent of avocados produced by Kenya were of the Fuerte variety, while the other 8 percent were of the Hass variety (Deloitte Touche 2003). From the mid-1970s to the late 1990s, Kenya consistently ranked nineteenth among world producers, jumping to thirteenth in 1998. Kenya was able to maintain and even to improve its position based on natural market linkages to Europe and its ability to provide avocados during off-peak seasons. However, by 2000, a switch in European consumer tastes to the Hass variety, and other factors discussed below, pushed Kenya’s market rank back to sixteenth (see figure 4.63). Unfortunately for Kenyan small growers, prices paid for the Fuerte avocado did not keep pace with other cash crops. The farmers, therefore, did not reinvest in avocado trees, and avocado quality declined.

By 2002, small Kenyan avocado farmers had no direct links with exporters for export-grade avocados. In late 2002, the government of Kenya (GoK) and USAID funded a project to improve market linkages between small avocado growers and exporters, while supporting a cluster initiative that strengthened the entire sector. A value chain analysis² (see figure 4.64) identified many important points,

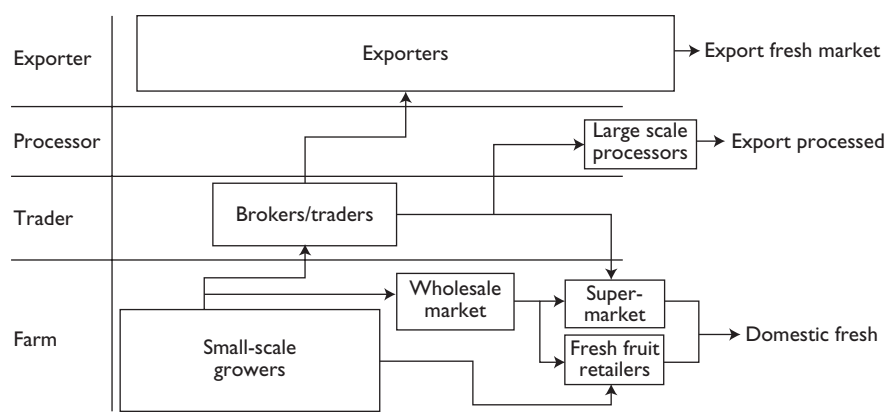
Figure 4.63 Kenyan Avocado Production, 1994–2007



Source: FAOSTAT data.

^a FAO estimate.

Figure 4.64 Kenyan Avocado Value Chain



Sources: J. E. Austin Associates, Inc.; Kenya BDS.

such as the fact that the average avocado small grower had seven or fewer trees, and only 5 percent had more than 20 trees. The analysis also confirmed the predominance of indigenous Fuerte variety avocados, which were more susceptible to disease and were in declining demand in European markets. This analysis also showed that avocado small growers were very discouraged because of factors including rampant crop disease, little access to technical assistance, almost no access to finance, and dependence on poor-quality Fuerte avocados. With low grade-1 fruit yields, poor prices for the little grade-1 fruit harvested, and no market for grade-2 fruit, some farmers cut down their avocado trees to sell for firewood.

The goal of the Kenya Business Development Services³ (Kenya BDS) Project was to improve access to markets and access to competitive skills by supporting lead firms in

backward integration strategies, which provided extension services and supply contracts to small growers. In addition to supporting lead firms, the project helped to establish small outgrower producer groups. By supporting the avocado sector through these means, it was expected that a corresponding cluster initiative would take shape that would bolster the entire value chain, bring in other actors, and improve the relationship between exporters and small growers.

THE KENYAN AVOCADO VALUE CHAIN

The avocado value chain was a broker-dominated spot market whose value chain resulted in low prices and unreliable markets for growers (see figure 4.64). There were no stand-alone business services supporting the sector, nor was there

a market for grade-2 “reject” avocados. Instead, almost all small-grower avocados were sold for domestic consumption. Constraints identified in this value chain included:

- Lack of information and knowledge of the markets
- Absence of farmer marketing groups
- Limited access to inputs
- Limited access to resources and weak incentives for upgrading
- Weak vertical and horizontal linkages within the value chain
- Lack of trust among producers, brokers, and exporters

After fruit was sold to brokers, those brokers then sourced it to various markets, local supermarkets, processors, and exporters. The little export-quality fruit that were produced were packed at one of seven packhouses situated within two hours of the production areas and, after pre-cooling, were loaded and transported to containers at Port Mombasa. Average transport time to Europe was 13–21 days.

As implementation of the Kenya BDS project began, lead firms were identified that were interested in participating in providing extension services to small-scale growers. The first such lead firm, East African Growers Association (EAGA), was very interested in participating in the project after realizing the benefits of integrating backward into the supply chain to improve EurepGAP eligibility. With the support of Kenya BDS, EAGA began providing farm extension services to producer groups (composed of 400 farmers) such as pruning,

manure application, spraying, grafting, grading, collection, and transport. Later, other exporters, like Indu-Farm Ltd., joined the market linkage activity. Indu-Farm signed memoranda of understanding to provide supply contracts to producer groups and committed an agronomist to work with farmers on good agricultural practices to prepare them for meeting EurepGAP certification. Supply contracts guaranteed the market and allowed growers to focus on improving quality. The result was a twofold and even threefold increase in prices over those previously received by growers who sold to brokers (figure 4.66).

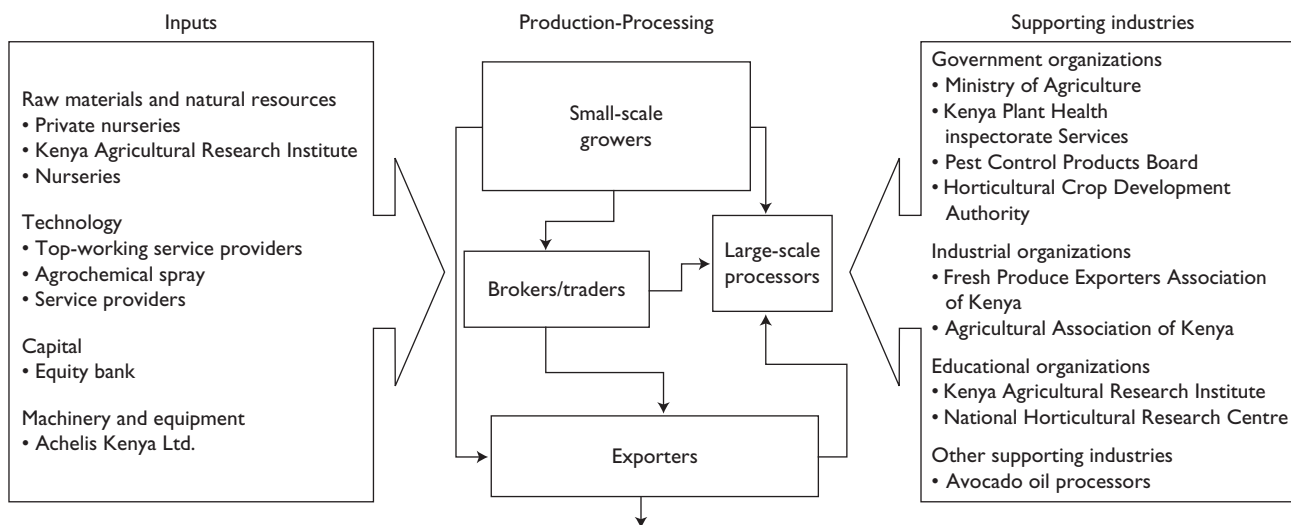
THE KENYAN AVOCADO CLUSTER

As market linkages continued to form between exporters and small growers, other supporting industries were established, supported, and ultimately relied upon to provide services to the avocado sector. As the cluster map (figure 4.65) demonstrates, these services were provided by a variety of industries and input providers.

ROLE OF CLUSTER ACTORS

A variety of actors support the avocado cluster in Kenya. Some are existing businesses that seek to take advantage of market opportunities that exist in the newly revived avocado sector. Others are firms and entrepreneurs established through technical assistance. The cluster also includes institutions and associations that support the sector through

Figure 4.65 Kenyan Avocado Value Chain and Cluster



Sources: J. E. Austin Associates, Inc.; Kenya BDS.

research, certification, and advocacy. Each actor plays a useful role in the cluster and is presented in figure 4.65 in the categories of “supporting industries” and “inputs.”

Supporting industries

To facilitate a market for the otherwise rejected grade-2 Fuerte avocados that most small growers produced, oil processors (Ruiru Natural Oils, All Green Ltd., and others) were funded by private investors, supported by the project, and linked to small growers. Other processors that already processed other fruits and nuts (Sunmango, Ltd., and Av-Oil Industries, Ltd.) purchased new equipment to retool their plants and enter the avocado sector. Through supply contracts, these processors provided a market for not only grade-2, but also grade-3 Fuerte avocados. Because processors required a steady supply of mature fruit for optimum operational efficiency in their plants (an average of 20 mt per processor, per day), Kenya BDS stepped in to facilitate additional producer-group supply contracts to ensure that supply was met. The oil processed by these facilities was shipped in crude form to South Africa to be refined for cosmetics. The introduction of these processors created an assured market for all grades of avocados produced on small-grower farms at a 25–50 percent higher price than previously received from brokers.

Educational organizations

The Kenya Agricultural Research Institute is Kenya’s national organization for coordinating agricultural research. Its National Horticulture Research Centre (NHRC) focuses on horticultural research. KARI/NHRC continues to play a vital role in the avocado cluster by training producer groups and service providers on proper horticulture techniques. Many avocado technical assistance trainings also take place on KARI campuses.

Industrial organizations

The Fresh Produce Exporters Association of Kenya is a member-supported private association in the horticulture industry. It is Kenya’s principal association representing growers and exporters. FPEAK’s mission is to develop Kenyan horticulture in the global marketplace. In addition to marketing and technical support, it lobbies for its constituents’ agendas, administers Kenya-GAP (a code of practice for Kenya’s horticulture industry), and promotes member compliance in other international standards.

The Agricultural Association of Kenya (AAK) is the umbrella organization for manufacturers, formulators, repackers, importers, distributors, farmers, and users of pest-control products.⁴ AAK assisted in the training of agrochemical service providers on the proper and safe application of pesticide on small-grower farms. Once properly trained, agrochemical service providers are then eligible for AAK certification.

Government organizations

The Kenya Plant Health Inspectorate Services organization emerged as a partner to help train newly formed private nursery service providers. KEPHIS is a regulatory agency for quality control of agricultural input and produce in Kenya. It coordinates all matters relating to crop pests and disease control and advises the Director of Agriculture on appropriate seeds and planting materials for export and import.⁵

A department in Kenya’s Ministry of Agriculture, the Pest Control Products Board (PCPB), regulates the importation, manufacture, exportation, distribution, and use of pest-control products in Kenya. It ensures that only PCPB-assessed products are used in the country.

The Horticultural Crop Development Authority (HCDA) is a Kenyan parastatal organization tasked with promoting and regulating the horticulture sector. It helped train agrochemical service providers in regulatory compliance and in understanding the agronomic and physiological aspects of avocados.

Input suppliers/providers

Raw materials and natural resources. KARI nurseries and KEPHIS provided private nurseries with much-needed technical services to help convert and/or replenish avocado farms with Hass varieties. Services provided included top-working, pruning, planting, and providing root stock and scion materials for producer groups. Each participating nursery was inspected and registered with HCDA.

Technology. One identified service that avocado-producer groups needed was the introduction of agrochemicals to mitigate the risk of pest infestation and disease. Commercializing this service aspect was vital to ensuring the vitality of the avocado value chain. As such, service providers were identified, trained, and equipped through KARI/NHRC, KEPHIS, AAK, and PCPB so that the providers understood the complexities of safe and appropriate pesticide

applications. The integrated pest-management program had two main components: developing and mentoring independent service providers and bringing in commercial financial arrangements that enabled farmers to access these services. The service providers came from varying backgrounds; some were drawn from within the farming community, while others were brokers who saw an opportunity to remain vitally linked to the changing avocado sector.

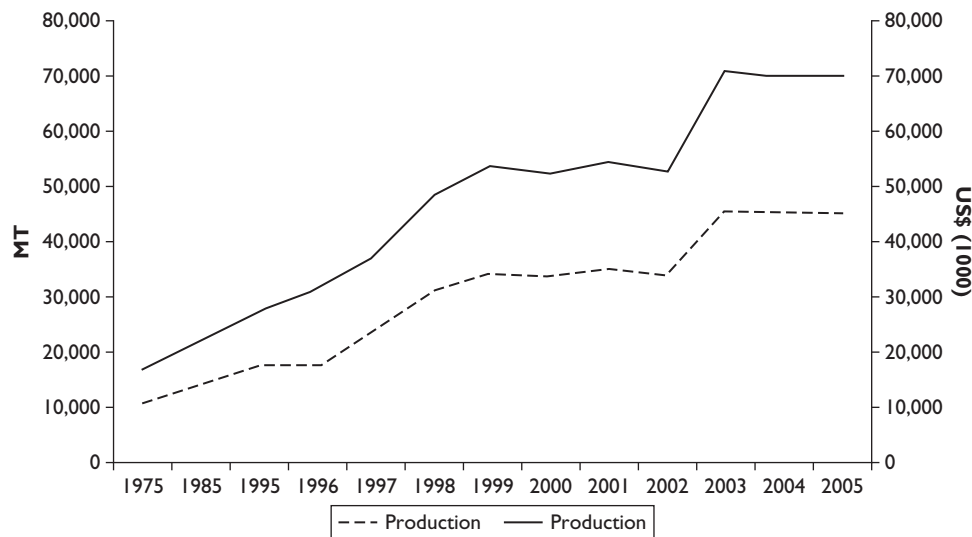
With a high percentage of Fuerte avocados on each small-grower farm, extension workers promoted on-farm diversification using Hass varieties. Serving as ecological insurance against variety specific pests and diseases, Hass avocados also showed a slight price preference on international markets. More importantly, the campaign served to mobilize economically marginal native trees, already common on farms, for export production. This mobilization relied on grafting, the technique of attaching fruit-producing branches of one tree to another. To facilitate this conversion, top-working commercial grafting services had to be introduced to the farmers. Awareness training provided for producer groups created demand for the service providers, and roughly 7,000 (Deloitte 2003) farmers preregistered for variety conversion. In some districts, the demand for variety conversion exceeded 100,000 trees, nearly twice the program's capacity. With the average price of top-working estimated at K Sh 250 per tree, conversion also presented a significant business opportunity for entrepreneurs willing to be trained in this intervention. As top-workers were

trained, they were linked with producer groups to begin servicing trees. In as little as 12 months, the trees began to produce the new, higher-valued Hass avocados.

Capital. Addressing a major constraint in the avocado value chain, Equity Bank provided credit facilities that enabled avocado-producer groups to purchase agrochemical services on credit. Only producer groups with existing supply contracts and a history of buying and selling to a lead exporter were eligible to participate in this program. After applying for credit, eligible producers received their answer within 48 hours. The credit covered the labor for spraying, as well as the purchase and delivery of pesticides. All the costs were covered under a fixed-price-per-tree-sprayed plan, which is paid at the start of avocado season and then deducted by the bank on a draw-down basis every time spraying takes place or upon payment for the avocados delivered. Credit facilities were also established for service providers to buy and maintain mechanical spray-pump equipment, run agrochemical stores, and purchase fuel.

Machinery and equipment. Achelis Kenya Ltd., a subsidiary of a Taiwanese import/export company, played an integral role in the avocado cluster by selling and training service providers in its motorized agrochemical sprayer product line. Other machinery providers included Israeli firms that supplied pressing equipment used for grade-2 and grade-3 avocado processing.

Figure 4.66 Kenyan Avocado Exports, 1975–2005



Source: FAOSTAT data.

RESULTS

Like many of this Guide's cases, the Kenyan avocado case is ongoing. By late 2006, the program had worked with 14,240 smallholder farmers organized into 475 producer groups.

Each small grower is accessing embedded services in extension, produce collection, transportation, and a guaranteed market whose prices average 3–4 times those of the brokers. Grade-1 fruit yields have increased from less than 15 percent to over 65 percent per tree. Participating farmers are collectively averaging between 30 and 40 mt of avocado production per day. In addition, the introduction of avocado processors has provided a stable market for all small-grower production grades and varieties, with crude oil exports reaching South Africa and Italy.

Other benefits from the backward linkages interventions and cluster initiatives include:

- Improved quality control
- A clear path of transition from Fuerte to Hass avocado production
- Faster and cheaper access to inputs
- Improved market linkages and information sharing

One of the program's most significant results is the commercial viability of the entire sector as demonstrated by the "replicated effect" that took place among exporters. Besides EAGA, four other lead firms have adopted the program and are working downstream with contract growers.

NOTES

1. Institute for Strategy and Competitiveness, Harvard Business School.
2. Conducted by Deloitte's Emerging Markets Group.
3. Kenya BDS is a five year, US\$5 million project implemented by EMG with a period of performance from September 2002 to September 2007.
4. AAK, <http://www.agrochem.co.ke/>.
5. KEPHIS, <http://www.kephis.org/>.

Monitoring Achievements in Value Chain Performance

PURPOSE OF MONITORING

Monitoring and evaluation (M&E) methods can be used as a management tool that enables value chain participants and promoters to track implementation progress, evaluate value chain performance, and identify the impact of initiatives. In its most basic form, M&E uses indicators to identify progress toward achieving intermediate targets or ultimate goals. Monitoring systems comprise procedural arrangements for data collection, analysis, reporting, and feedback. In business, monitoring is used to measure the return on inputs as a means to verify an investment's success before returns are realized, as well as to receive guidance on prioritization and decision making for business programs.

M&E is, of course, already a well-developed field of practice with many established and effective implementation methods and processes. In private sector development, M&E methods have three principal modes: project monitoring, performance evaluation, and impact assessment. Effective impact assessment often depends on good program evaluation and, in turn, systematic project monitoring.

QUESTIONS TO ASK

When reviewing this case consider the following questions:

- What does the value chain really want to monitor?
- At what level does the value chain measure the impacts?

Project monitoring (PM) refers to the systematic collection and analysis of data and information about inputs, activities, and outputs. It is used for management purposes—to monitor progress against a plan, identify emerging issues and problems, and take corrective measures.

Performance evaluation (PE) is a periodic study at key points in a project cycle that examines a program or

organization's performance more broadly (for example, looking at staff behavior, organizational structures and methodologies, and the efficient achievement of outputs). PEs should assess the effectiveness of different factors being used to create change and as opportunities for implementing organizations to learn about themselves.

Impact assessment (IA) measures outcomes and examines changes at higher levels of a program (that is, the goal and purpose level). IA effectiveness depends on having a baseline or control group with which to compare results so that changes can be properly attributed. IA should be able to identify which factors contributed to changes and in what fashion. Impact assessment exercises are also key opportunities for both program staff and beneficiaries to use in monitoring progress and affecting the evolution of program design.¹

The focus of many M&E implementations has been on the “project” cycle of international development interventions. As such, the many insights gained from these studies have had many positive effects on increasing the efficacy and efficient implementation of projects and their goals. Unfortunately, the design and implementation of performance-monitoring methods useful for measuring the actual performance of a value chain and of its participants (rather than a project) have yet to be properly adapted for use in private sector development contexts.

Thus, for the purposes of implementing value chain improvements, the challenge is to provide methodologies that can be used by value chain participants to monitor the implementation of their own programs. Value chain participants will require monitoring to maintain focus, reach objectives, and track changes in value chain performance and development, including increases in productivity and other business measurements of success.

Monitoring activities should provide information about the current status of a project and general trends pertinent

to the value chain. Some key points on monitoring (and related evaluation) include:

- Measurements are periodically carried out
- Monitoring is conducted for the specific purpose of checking the status of the agreed-upon process or initiative or evaluating progress toward a strategic or management objective
- The results of monitoring should be evaluated and should provide guidance for action

While there is often a great deal of anecdotal evidence of the impact of value chain initiatives and actions, formal measurements against a baseline or against a program of strategy implementation are frequently lacking. Some of the difficulties with the application of traditional monitoring approaches include:

- Systems that are not attuned to the industry's measuring vocabulary
- Difficulty in attributing changes to program interventions
- Monitoring that does not necessarily provide insights into better business practices to drive the industry forward
- Monitoring responsibility that is not clearly delegated or resources that are not allocated

IMPLEMENTING MONITORING IN VALUE CHAINS

Monitoring interventions require stakeholders to determine which indicators are most appropriate and useful for tracking program implementation and value chain performance. Traditionally, measurements of productivity or “value addition” are used to convey improvements in performance.

Three Different Perspectives on M&E

- Business perspective: monitor value chain performance and provide feedback to inform decision making
- Process perspective: provide guidance on value chain participants' focus as they reach their objectives
- Programmatic perspective: ensure that the money spent on implementation is achieving the intended results

Source: J. E. Austin Associates, Inc.

While measuring productivity is sufficient for measuring business performance, it does not necessarily provide measurement for implementation strategies, especially when the impact of implementation on value chain performance is seen only in the medium- or longer term. Therefore, process indicators are also needed.

The level at which an impact measurement should be taken will depend on the nature of the initiative. In various circumstances, measuring at the firm level, value chain aggregate level, country or national level, or individual level may all be appropriate.

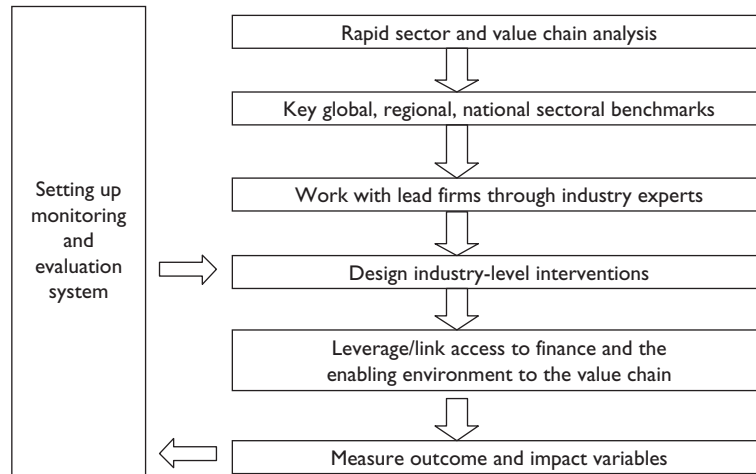
Figure 4.67² illustrates an example of how value chain initiatives can begin to formulate effective monitoring and related evaluation programs. These require concerted actions by the various value chain participants. When assisting the value chain to develop its own monitoring and evaluation process, one must consider the following proposed steps.

- The value chain must be understood by expert analysis
- Key benchmarks must be determined
- Industry leaders must be consulted
- Program design must include M&E
- Different programs and initiatives must be linked to the value chain to take advantage of synergies
- Performance measurements inform effectiveness

In practice, the evaluation focus for value chains (and clusters) has been monitored in value-added increases as a measure of productivity improvement. However, single, quantitative measures can ignore the process side of a value chain initiative. One comprehensive evaluation approach is the PAID framework,³ a measurement system for evaluating value chain initiatives that has been adapted from the approach to cluster evaluation.

The PAID M&E framework (see box 4.18) not only measures delivered results but also coinvestment by both the private and public sectors. This tool can be used in value chain projects on the basis of proper benchmarks being determined by participant organizations and institutions. For example, the *process indicators* measure the ability of value chain practitioners to engage the proper value chain-leading authorities and market players. The *action indicators* could track the value chain initiative's progress by looking at the changes that have occurred since the intervention. The *investment indicators* gauge the buy-in by value chain participants and those actors indirectly determining the health of the value chain's competitiveness. *Delivered results* measure the essential goal of any value chain initiative, which is to increase productivity, capture value, create jobs, and grow business.

Figure 4.67 M&E Value Chain Model



Source: Adapted from multiple FIAS-IFC presentations on value chains by Subramanian and Sur.

Box 4.17 Standards for Ghanaian Pineapples

Ghana's pineapple market has been built on strong entrepreneurship from the private sector and a demand for Ghanaian sea-freighted pineapples in Europe, especially outside the core French market. During the late 1980s and early 1990s, Ghana carved a niche in the EU market as a primary supplier of top-quality, airfreighted pineapples, controlling about 60 percent of the estimated annual 20,000 mt of pineapples airfreighted to Europe. Ghana also exported a small amount by sea-freight (2,710 mt), but the bulk were airfreighted (13,054 mt worth over US\$400,000). To increase exports to EU markets, sea-freighting was explored. The Sea Freight Pineapple Exporters of Ghana is a consortium of 14 exporter firms supported

Source: Carlton Jones, J. E. Austin Associates, Inc.

by USAID and the government of Ghana (GoG). SPEG was established to facilitate sea-freighting Ghanaian pineapple varieties by gaining the necessary scale to operate at competitive prices.

To ensure quality in its pineapple exports, SPEG worked with the Ghana Standards Board to develop a poster (see figure 4.68) that would be used by producers and packers alike as a simple guide to the minimal quality standards required for exporting. The easy-to-read poster was posted in strategic locations for exporters, traders, and farmers so that all actors within the Ghana pineapple chain consistently maintained the standards for color, shape, crown condition, and other pineapple characteristics.

CONCLUSION

Methodologies such as the PAID framework can be effectively applied to value chain initiatives as long as they are designed to measure impacts experienced by the various value chain participants and the various segments of the value chain. Monitoring for value chains should focus on

two types of performance: 1) implementation of strategy and 2) increases of productivity. This Guide has presented 12 other tools and approaches that one can associate with implementing value chain programs. Most of these tools can be targets for monitoring, given measurement indicators before, during, and after an intervention.

Delivered results indicators focus on increases in productivity and value added but may also include export revenues, employment growth, new enterprise growth, average wages, and average profitability in the industry. It must also be demonstrated that the project contributed directly (wholly or partially) to delivering these results.

Source: Kevin X. Murphy, J. E. Austin Associates, Inc.

The results become measurable after some time, often years. However, there are delivered results that are more qualitative. The emergence of trust and cooperation within an industry, business-government and academic collaboration, changes of mindset, and spread effects can be observed but are not easily quantified.

A STEP-BY-STEP SUMMARY OF TOOL 13: MONITORING ACHIEVEMENTS IN VALUE CHAIN PERFORMANCE

- Analyze the present value chain to identify data points that may indicate future progress toward the value chain's goals.
- Identify process and results metrics that will demonstrate the progress of an intervention or initiative relative to the strategic goals. These will include a balance of process, action, investment, and delivered results indicators.
- The value chain stakeholders should agree on the M&E criteria. This will ensure that the actors monitor tracking indicators with clear relevance to the value chain stakeholders.
- Establish the monitoring sequence, sources of information, and responsibilities.

- Report the findings to the value chain stakeholders. This encourages continued buy-in and a continued sense of responsibility among implementers, and enables mid-course improvements and adjustments.

NOTES

1. Adapted from an online contribution from Mike Albu of Practical Action found at: "Impact Assessment: An Online Speaker's Corner Discussion Led by Gary Woller and Hosted by microLinks.org," September 26–28, 2006. More tools are available online at: <http://www.enterprise-impact.org.uk/>.
2. Taken from a presentation at the IFC on value chains.
3. Developed by J. E. Austin Associates, Inc., and applied in several countries.

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Adapted from the model developed by Kevin X. Murphy, J. E. Austin Associates, Inc.

INDEX

Boxes, figures, notes, and tables are indicated by *b*, *f*, *n*, and *t*, respectively.

A

- abattoirs, 144–145, 145*f*, 146, 147, 148
- Accelerated Microenterprise Advancement Project (AMAP), 22
- Achelis Kenya Ltd. (import/export company), 159
- action indicators, 162, 164*b*
- ADAR (Assistance a la Dynamisation de Agribusiness au Rwanda), 78*b*
- Africa. *See* sub-Saharan Africa
- African Action Plan, 7
- AGOA (African Growth and Opportunity Act of 2000, U.S.), 31*b*
- Agribusiness Development Activity (Rwanda), 112
- Agricultural Association of Kenya (AAK), 158
- Agricultural Competitiveness and Diversification Project (Mali, PCDA), 37, 39
- Agricultural Productivity Enhancement Program (APEP), 130*b*
- Agro Industria Asociadas (AIA), 102–103, 103*f*
- Amaka Holdings (cotton company), 135
- aquaculture, 49–50. *See also* Ugandan Nile perch
- Arab Republic of Egypt, 50, 93, 131*b*
- Armenia, glass jar production in, 71*b*
- Arm-Glass Company (glass manufacturer), 71*b*
- assessments. *See also* benchmarking and gap assessments
 - of value chains
 - of business environment, 46–47
 - of human resources, 46, 47
 - methods for market, 49, 50*b*
 - of productivity, 44–45, 47
 - of supply chain quality, 45–46, 47
- Austin, James, 87
- avocados. *See also* Kenyan avocados
 - Fuerte avocado variety, 155, 156, 158, 159, 160
 - Hass avocado variety, 159, 160
- B**
- banana, 36, 98
- bargaining power. *See* markets and market analysis
- Beach Management Units (BMUs), 124
- Belgium, 61, 124
- benchmarking and gap assessments of value chains, 25, 55–60.
 - See also* Ugandan floriculture, benchmarking and gap analysis of
 - background on, 55
 - benchmarking targets, 57, 60
 - benchmarking tool, 55–60
 - cluster initiatives and, 152
 - competitiveness and, 108
 - data collection and utilization, 57–59, 57*f*, 60
 - determining what to benchmark, 56–57, 56*b*, 60
 - effective benchmarking, 56, 60
 - mapping and, 132, 152
 - public-private dialogue and, 139, 142
 - purpose of benchmarking, 55–56
 - summary of tool, 60
 - supply chains and, 46
 - support services for value chains and, 132
 - value chain performance monitoring and, 162
- Blommer Chocolate Company, 106*b*
- Blue Skies Holdings Ltd. *See* Ghanaian pineapple industry and Blue Skies Holdings Ltd.
- BMC (Botswana Meat Commission), 144–145, 146–148
- BMC Act of 1966 (Botswana), 144, 147–148
- BMOs (business membership organizations), 142, 143*t*
- Botswana, Bank of, 146
- Botswana Cattle Producers Association (BCPA), 144–149
 - abattoirs and, 144–145, 145*f*, 146, 147, 148
 - background on, 144–145, 145*f*
 - birth of, 144–146
 - BMC Act revision, 147–148
 - cattle production system and, 147
 - monopolistic conditions of, 146
 - national herd decline and, 146
 - outcomes for, 148–149, 148*f*, 149*f*
 - points to consider, 144
 - PPD effects on red meat value chain, 149

privatizing BMC, 148
 problems for, 146
 publication of findings and government engagement by, 146–148, 147f
 revenue decline for, 146
 value chain costs for, 146
 Botswana Meat Commission (BMC), 144–145, 146–148
 branding and brand names, 20–21, 102–103, 107b, 112, 118b, 141b, 151
 Brazil, 83n3, 91, 110
bukas (Nigerian canteens), 51, 53, 53n1
 Bulgaria, wine industry in, 89–90b
 Burkina Faso, cotton in, 58b
 Burundi, 4, 109
 “Business Competitive Index,” 48n6
 Business Development Services (BDS), 22
 Business Growth Initiative (BGI), 8n4
 businesses and business environments, 8, 12, 25, 26, 46–47, 48n7
 business plans and business models
 designing, 8, 25
 innovations and, 13
 for Mozambican cashews, 81–82
 replication of, 25, 77–83, 78–79b, 160
 summary of tool, 77
 for Zambian cotton, 135–137

C

CAADP (Comprehensive Africa Agricultural Development Programme), 1–2
 cacao, 106b, 119–120b
 criollo, 119b
 forastero, 119b
 Hershey (chocolate company), 106b
 Cameroon, 58b, 98
 Cargill (agricultural company), 137
 Carrefour (retail outlet), 107b
 cashews, 35–36
 India, cashew production in, 81, 83n3, 101
 Mozambican. *See* entries at Mozambican cashews
 cashmere industry, 42, 42f, 105–107, 108f, 108n1
 catfish. *See* Nigerian domestic catfish
 cattle. *See* Botswana Cattle Producers Association
 certifications. *See* quality standards and certifications
 Ceylon. *See* entries at Sri Lanka
 Chemico (agrochemical supplier), 99
 Chemipher (U) Ltd. (pesticide testing company), 124
 Chiluba, Frederick, 134
 China, 3, 105–106
 Chiquita (banana company), 98
 cigars, 59, 59f
 cinnamon production, 131b
 citrus fruits, 57–59, 57f
 Clark Cotton (cotton company), 134, 137
 clusters and clustering, 26, 151–154
 background on, 151
 cluster initiatives (CIs), 152, 153–154, 153f, 155–156, 160
 definition of, 9–10
 evaluation of, 152–153

Kenyan avocados and, 155–160, 157f
 summary of tool, 153–154
 for tea production, 72
 Thai Good Agricultural Practices and, 107b, 118b
 Ugandan floriculture and, 64–65, 67t
 value chains and, 151
 coffee, 56b, 78b, 116, 141b. *See also* Rwandan coffee
 Coffee Taxation and Benchmarking Initiative (CTBI), 141b
 collaboration, horizontal. *See* horizontal collaboration and linkages
 Colombia, 56b, 119b
 Common Market of Eastern and Southern Africa, 3
 Community Coffee (coffee company), 112
 Compagnie Fruitière (banana company), 98
 comparative advantages, 29–30, 33, 34–35, 36
 competitiveness, 26, 105–108. *See also* Mali, competitiveness-diversification in
 goals for, 85
 interventions for, 13
 in Malian agricultural value chains, 37–39
 positioning value chain for, 105–108
 productivity and, 41
 summary of tool, 108
 SWOT analysis and, 42
 value chain analysis and, 10, 12, 23
 Competitiveness Diamond, 12, 13f, 42–44, 45f, 47
 Congo, Democratic Republic of, agricultural production
 decline in, 4
 cooperation and trust, 8, 15, 16–20, 116–117, 157
 cooperatives, 117
 cost analysis, 12, 44
 Costa Rica, 56b, 91, 98, 141b
 cost efficiency, 11–12
 Côte d’Ivoire. *See* Ghana and Côte d’Ivoire pineapple exports
 cotton industry, 35–36, 58b, 129–130b. *See also* Zambian cotton
 credit and credit extension, 19, 136–137, 159
 Cuba, cigars in, 59f
 cut flowers. *See* floriculture

D

da Gama, Vasco, 131b
 dairy industry, 43f, 77, 78–79b
 Dairy Pakistan, 77, 79b
 data collection and utilization, 57–59
 deepening of value chains. *See* value chains, upgrading and deepening
 delivered results indicators, 162, 165b
 Del Monte Foods, 91
 Democratic Republic of Congo, agricultural production decline in, 4
 Department for International Development (DFID, United Kingdom), 7
 Department of Fisheries (DFR, Uganda), 123–124
 differentiation of products, 105, 108
 diversification, 3, 37–39, 65, 88b. *See also* Mali, competitiveness-diversification in
 Dixie, G., 49, 50, 51, 52
 Dizengoff (agrochemical supplier), 99
 Doing Business Report (World Bank), 48n7, 56

Domestic Resource Costs (DRCs), 30, 33, 34–36
Dominican Republic, cigars in, 59, 59*f*
Dunavant (cotton company), 135–137, 136*f*, 137*t*

E

East African Growers Association (EAGA), 157, 160
economies of scale, 25, 52, 95–103. *See also* Mozambican cashews, economies of scale for
Ecuador, 91, 106*b*, 119–120*b*
education system and institutions, 46, 158
Egypt, Arab Republic of, 50, 93, 131*b*
“embedded services,” 22, 130
Engelmann, Ralph, 50*f*
Enterprise-Linked Extension Model for cotton industry, 129*b*
Equity Bank, 159
Ethiopia, coffee production in, 109, 111, 141*b*
EU. *See* European Union
EurepGAP certification
 AIA and, 102
 Blue Skies Holdings Ltd. and, 93
 horticulture and, 88*b*
 Kenyan avocados and, 157
 SPEG and, 99
 Thai Good Agricultural Practices and, 107*b*, 118*b*
 Ugandan floriculture and, 65
 Ugandan Nile perch and, 123–124
European Union (EU)
 avocado imports to, 155, 156
 banana import policies to, 98
 Botswana meat export to, 144, 145, 146
 European Commission, 122
 fish import lists for, 124
 pineapple exports to, 92–93, 93*f*, 97–98, 99, 99*f*, 163*b*
 rose exports to, 88*b*
 Rwandan coffee and, 109
 Thai exports to, 118*b*
 Ugandan Nile perch imports in, 122–123, 125, 127
 vegetable exports to, 74
Exotic Fruit Exporters Association of Ghana (EFEG), 92
export-price parity, 148–149
extension services, 129–130*b*, 135

F

Fair Trade certification, 78*b*
Farmapines (Ghanaian pineapple exporter), 92, 94*n*2
Farmer Field Schools, 106*b*
FDI (foreign direct investment), 10, 69, 72, 152
feasibility studies, 78*b*, 132, 164*b*
field schools, 106*b*, 119–120*b*
filiales, 10
firms, lead, 20, 22, 81, 117, 121
First Catering (Ghanaian pineapple processing company), 92
Fischer, Philip, 145, 146
fishing
 Lake Management Organizations, 124
 Lake Victoria, fishing from, 122, 125
floriculture, 61–62, 64, 67*t*, 88*b*, 152, 153*f*. *See also* Ugandan floriculture, benchmarking and gap analysis of

flower auctions, 61, 63*t*, 65.

Germany, flower exports to, 61

Floriculture Training Development Center, 65

foreign direct investment (FDI), 10, 69, 72, 152

Fresh Producer Exporters Association of Kenya (FPEAK), 74, 158

Fresh Produce Terminal, Nairobi airport (Kenya), 74

G

Gabinete de Promoção do Sector Comercial Agrário (GPSCA), 34
gap analysis, 59, 59*t*, 60*t*, 61–68, 69. *See also* benchmarking and gap assessments of value chains
GDP (gross domestic product), 3, 4*t*, 37, 55, 144
Geomar International Group, 37
Gergely, Nicolas, 36*n*1
Gesellschaft für Technische Zusammenarbeit (GTZ), 7
Ghana, Horticultural Association of (HAG), 92
Ghana, Sea Freight Pineapple Exporters of (SPEG), 92, 94, 98–99, 99*n*1, 163*b*, 164*f*
Ghana and Côte d’Ivoire pineapple exports, 97–99. *See also* pineapple
 business partnership benefits, 99
 Office Centrale des Producteurs-Exportateurs d’Ananas et de Bananes, 97–98
 pineapple production in Côte d’Ivoire, 91
 sea freight pineapple export value chain, 98–99, 98*f*
Ghanaian pineapple industry and Blue Skies Holdings Ltd., 91–94. *See also* pineapple
 background on European market for, 92–93, 92*f*
 Blue Skies Holdings Ltd. value chain, 93–94
 European exports, 93, 93*f*
 industry overview, 91–92
 major pineapple exporters, 91, 92*f*
 standards for, 163*b*
ginneries for cotton, 129–130*b*, 134–135, 137. *See also* cotton
glass jar production, 71*b*
 Glass World Company (GWC), 71*b*
Global Competitiveness Report (World Economic Forum), 48*n*7, 56
GlobalGAP, 99
globalization, 2–4, 10
Good Agricultural Practices (GAP)
 EurepGAP. *See* EurepGAP certification
 Kenya-GAP (code of practice for horticulture industry), 158
 Thailand, 107*b*, 118*b*
Good Manufacturing Practices (GMPs), 125, 126, 126*f*
governance, 8, 15, 20, 21, 117
government agencies and organizations, 116, 117, 158
grapefruit, 36
grape, 89–90*b*
green beans. *See* Kenyan green beans
gross domestic product (GDP), 3, 4*t*, 37, 55, 144
Guarantee Fund (INCAJU), 82
Guatemala, 111, 141*b*

H

Harmonized System (HS), 131*b*

Hazard Analysis and Critical Control Point (HACCP), 102, 123, 125, 126*f*

Holland. *See* Netherlands
Homegrown (Kenyan horticultural exporter), 75–76
Honduras, 91
horizontal collaboration and linkages. *See also* vertical integration and linkages
 in avocado industry, 157
 cashew processors and, 102–103
 in clusters, 9
 economies of scale and, 95–96, 100
 integration and, 69
 market supply and, 25
 in value chains, 9, 16, 19
Horticultural Association of Ghana (HAG), 92
Horticulture Crops Development Agency (HCDA, Kenya), 73, 158
human resources assessments, 46, 47

I

Illy-cafe (coffee company), 141*b*
impact assessment (IA), 161
India, 3, 81, 83*n*3, 91, 101
Indonesia, 91
Indu-Farm Ltd. (avocado exporter), 157
information and information sharing
 in avocado industry, 157, 160
 in cashew industry, 102–103
 in literature review, 22
 in Nigerian domestic catfish market, 52
 public-private dialogue and, 142
 quality standards and certification and, 116–117
 value chain analysis and, 11
infrastructure, 47, 142
innovations, 8, 13, 15, 22
institutional alignment, 139–140
Integral Ghana Ltd. (pineapple company), 98
integration, 25, 85–90. *See also* horizontal collaboration and linkages; vertical integration and linkages
 backward, 22, 88*b*
 considerations for, 87
 forward integration, 85, 90*n*1
 Ghanaian pineapple industry and, 91–94
 national value chain perspective on, 85–87, 86*f*
 summary of tool, 87, 90
Inter-American Development Bank, 106*b*
International Development Association (IDA), 33
International Finance Corporation (IFC), 7, 142
International Food Policy Research Institute (IFPRI), 2
investment
 FDI, 10, 69, 72, 152
 indicators, 162, 164*b*
 TIP, 99*n*1
ISO 9001 certification, 124–125, 125*f*, 126
Israel, 159
Italy, 105, 122, 160

J

J.E. Austin Associates, Inc.
 PAID approach to cluster evaluation, 153
 “10 Bridges Approach,” 48*n*5

Jefferis, Keith, 146, 147
Jei River Farms (Ghanaian pineapple exporter), 92, 98
John Lawrence Farms (Ghanaian pineapple export company), 98
joint ventures, 69, 72, 95

K

Kaetsart University, 118*b*
Kenya
 airfreight tonnage in, 88*b*
 benchmarking of floriculture in, 61, 62–64, 67*t*
 coffee production in, 109, 111, 141*b*
 cut flowers in, 152, 153*f*
 diversification of exports in, 3
 FPEAK, 74, 158
 Fresh Produce Terminal, Nairobi airport, 74
 map of, 74*f*
 Nile perch production in, 122
Kenya Agricultural Research Institute (KARI), 158
Kenya-GAP (code of practice for horticulture industry), 158
Kenyan avocados, 155–160. *See also* avocados
 background on, 155–156
 cluster actors’ roles for, 157–159
 cluster for, 157, 157*f*, 160
 educational organizations and, 158
 government organizations and, 158
 increase in export of, 157, 159*f*
 industrial organizations and, 158
 industry results for, 160
 input suppliers/providers for, 158–159
 points to consider, 155
 supporting industries for, 158
 value chain for, 156–157, 156*f*, 157*f*
Kenyan Business Development Services (Kenya BDS) Project, 156–157, 158
Kenyan green beans, 73–76
 added operations and, 73, 76
 background on, 73–74
 timeline of horticultural development in Kenya, 74
 value chain for, 74–76, 75*f*
Kenya Plant Health Inspectorate Services (KEPHIS), 158
KILICAFE (Association of Kilimanjaro Specialty Coffee Growers), 141*b*
Koranco Farms (Ghanaian pineapple exporter), 92

L

lead firms, 20, 22, 81, 117, 121
Liberia, agricultural production decline in, 4
linkages. *See* horizontal collaboration and linkages; vertical integration and linkages
Lint Company of Zambia (LINTCO), 134
literature review of value chains. *See* value chains, literature review of
Lonrho Cotton (cotton company), 134, 135

M

Madagascar, aquaculture in, 50
maize, 130*b*
Mali

- cotton in, 58*b*
 - sustained economic growth in, 4
 - Mali, competitiveness-diversification in, 37–39
 - competitiveness of potential offerings, 38
 - competitiveness planning for, 38
 - future steps, 38–39
 - market demand and market entry conditions for, 38
 - points to consider, 37
 - portfolio of agricultural value chains, 37
 - priority sectors and, 38
 - value chain analysis and selection approach, 37–38
 - M&E. *See* monitoring and evaluation
 - market chains, 18*t*, 79*b*
 - marketing, 52, 53, 65
 - markets and market analysis. *See also* supply and supply chains
 - assessment methods for, 49, 50*b*
 - contestable, 20
 - dynamics of, 12
 - for Ghanaian pineapple, 92–93
 - globalization of, 2–4, 10
 - in Mali, 38
 - “market information gate,” 85
 - market opportunities, 36
 - market power, 8, 15, 20–22
 - market segmentation, 44, 73, 74
 - for Nigerian domestic catfish, 49
 - positioning for, 26
 - prioritizing value chains and, 30
 - supplying, 8, 25
 - Marks & Spencer (retailer), 92
 - Mars (chocolate company), 106*b*
 - MD2 pineapple varietal, 91, 99
 - meat, 69, 70–71*b*, 87, 144–149
 - M&E (monitoring and evaluation) methods, 161–162, 163*f*, 164–165*b*. *See also* monitoring; value chain performance monitoring
 - Mexico, 91, 155
 - milk, 43*f*, 77, 78–79*b*
 - Millennium Development Goals (MDGs), 4
 - Miranda, Antonio, 81–82, 102
 - Miranda Caju Ltd. (Mozambican cashew company), 81–82, 101–102
 - Mongolia
 - cashmere from, 42, 42*f*, 105–107, 108*f*, 108*n1*
 - meat industry in, 69, 70–71*b*, 87
 - Mongolian Competitiveness Initiative (MCI), 70*b*
 - monitoring and evaluation (M&E) methods, 161–162, 163*f*, 164–165*b*. *See* value chain performance monitoring
 - PAID, 162, 164–165*b*
 - monopolies, 20, 21, 144, 146, 148
 - Morocco, citrus fruits and tomatoes in, 57–58, 57*f*
 - Moshi Coffee Auction, 141*b*
 - Mozambican cashews, 80–83
 - background on, 80–81
 - economies of scale. *See* Mozambican cashews, economies of scale for
 - lead firm model for, 81
 - model replication for, 81–82
 - points to consider, 80
 - processing operations for, 82–83, 82*f*, 83*t*
 - production decline in, 80, 81*f*
 - sector rebirth for, 82–83
 - value chain for, 82, 82*f*
 - Mozambican cashews, economies of scale for, 100–103
 - Agro Industria Associadas and, 102–103, 103*f*
 - background on, 100–102
 - decline in exports for, 100, 101*f*
 - horizontal link of processors, 102
 - lessons learned, 103
 - map of regions of Mozambique, 101*f*
 - packing of cashews, 102, 103*t*
 - points to consider, 100
 - shipping costs of cashews, 102, 103*t*
 - value chain for, 102–103
 - Mozambique, value chain selection in, 33–36
 - analysis of, 34–35
 - background on, 33
 - findings for, 35–36
 - initial list of sectors for, 33–34, 34*t*
 - outcomes and future steps, 36
 - points to consider, 33
 - Mramba, Basil, 141*b*
 - MSP-ABC certification (Good Agriculture Practices certification under EurepGAP), 65
 - Murphy, Kevin, 165
 - PAID, 164–165
- N**
- Namibia, 146, 148
 - National Horticulture Research Centre (NHRC), 158
 - NEPAD (New Partnership for Africa’s Development), 1, 49
 - Nestlé (chocolate company), 106*b*
 - Netherlands
 - benchmarking of floriculture and, 64, 67*t*
 - cashew exports to, 81
 - floriculture exports to, 61, 62, 88*b*
 - flower auctions in, 61, 63*t*, 65
 - NGOs (nongovernmental organizations), 116
 - Nigerian domestic catfish, 49–53
 - background on, 49–50
 - consumption factors for, 51, 52, 52*f*
 - demand for, 51, 51*f*
 - map of Nigeria, 50*f*
 - market assessments and, 49
 - opportunities for, 51–52, 53
 - production of, 51
 - supply of, 51, 51*f*
 - value chain for, 50–53, 51*f*, 53*f*
 - value chain interventions and, 52–53, 53*f*
 - Nile perch. *See* Ugandan Nile perch
 - Nykatonzi ginnery (Uganda), 129*b*
- O**
- Office Centrale des Producteurs-Exportateurs d’Ananas et de Bananes (OCAB, Côte d’Ivoire), 97–98
 - Office of Commercial Agricultural Sector Promotion (Mozambique), 34

Ohen, S.B., 49, 50, 51, 52
operating environments, 139–149
operational productivity, 44–45, 47
outgrower schemes, 130, 133*n*1, 135, 137
outsourcing, 10, 19

P

PAID

approach to cluster evaluation, 152–153
M&E framework, 162, 164–165*b*
Pakistan, 43*f*, 77, 78–79*b*
paprika industry, 35
Partnership to Enhance Agriculture in Rwanda through Linkages (PEARL), 78*b*, 112
Peet's Coffee and Tea (coffee roaster), 141*b*
performance monitoring. *See* monitoring
Pest Control Products Board (PCPB, Kenya), 158
pesticides and pesticide laboratories, 124, 158–159
Philippines, pineapple production in, 91
pineapple, 163*b*, 164*f*. *See also* Ghana and Côte d'Ivoire pineapple exports; Ghanaian pineapple industry and Blue Skies Holdings Ltd.
point-of-purchase (PoP) displays, 107*b*
Policy Analysis Department (Mozambican Ministry of Agriculture), 36
Polycraft (Ghanaian carton manufacturer), 99
PoP (point-of-purchase) displays, 107*b*
Porter, Michael, 12, 47*n*3, 48*n*6, 142
“Porter Diamond,” 47*n*3. *See also* Competitiveness Diamond
Port Tema (Ghana), 99
potato industry, 35
poverty and poverty reduction, 1, 2, 4, 31*b*
Prices and Production of Cacao Farmer Field Schools (Ecuador), 119–120*b*
priority sectors, 29–32, 31*b*, 38
private-public dialogue. *See* public-private dialogue
private-public partnerships, 72
privatization, 148
process indicators, 162, 164*b*
producer-driven value chains, 21
product differentiation, 105, 108
productivity, 4–5, 5*f*, 41–47, 47*n*2, 162
product positioning, 44, 107*b*, 108, 109–114, 111–114*t*, 113*f*, 139
product specialization, 19, 69, 129, 151
project monitoring (PM), 161
Projet Croissance Economique (Senegal), 31*b*
public-private dialogue (PPD), 26, 139–143
generally, 139–142, 140*t*, 143*t*
Botswana Cattle Producers Association and, 144–149
clustering and, 151
enabling environment for, 139
Kenya and, 73
summary of tool, 142–143
Tanzanian coffee and, 141*b*
public-private partnerships, 72

Q

quality standards and certifications, 26, 115–121
AIA and, 102, 103
associations and cooperatives for, 117
certification bodies, 116, 117, 118*b*, 121
government agencies and, 117
information channels for, 116–117
lead firms for, 117, 121
oversight and governance for, 117
for Rwandan coffee, 111–112
standards for product value, 116, 116*f*, 117, 118*b*, 121
summary of tool, 121
supply chain assessment and, 45–46, 47
Ugandan Nile perch and, 122–127
value chain and, 12, 115, 115*f*
vocabulary for, 115
for workforce, 46, 48*n*5

R

Rainforest Alliance standards for coffee, 116
R&D (research and development), 21, 65
“reaching scale,” 97
replication of business models, 25, 77–83, 78–79*b*, 160
repositioning of products. *See* product positioning
research and development (R&D), 21, 65
restaurants, 51, 52–53
revealed comparative advantages (RCAs), 29–30, 32*n*1, 34
rice industry, 35
Romania, 89*b*
roses, 61, 62–63, 63*t*, 64*t*, 65, 65*f*, 88*b*
Rwanda Coffee Development Authority (OCIR-CAFÉ), 109, 113
Rwandan coffee, 109–114
background on, 109–110, 110*f*, 110*t*
current and future prospects for, 112–113
factors to consider, 109
global competition, prices, and production, 110
implementation and outcomes for, 112
in-country constraints for, 110–111, 110*t*
as replicable business model, 78*b*
repositioning offer for, 111–112, 111–114*f*, 113–114*t*

S

Sainsbury's (retailer), 92
Saranist (investment company), 71*b*
Scotland, cashmere processing in, 105
sea freight, 98–99
Sea Freight Pineapple Exporters of Ghana (SPEG), 92, 94, 98–99, 99*n*1, 163*b*, 164*f*
segmentation of markets, 44, 73, 74
Senegal, 30, 31*b*
sharing of information. *See* information and information sharing
small and medium enterprises (SMEs)
cashew processing and, 80, 81
demand for services and, 129
growth of, 1
SME exporters (SMEX), 75

trust and, 116–117
 value chain analysis and, 10

South Africa
 avocado oil imports to, 160
 Blue Skies Holdings Ltd. and, 93
 cattle production in, 146, 148
 horticulture in, 88*b*
 sustained economic growth in, 4

Southern Africa Global Competitiveness Hub (SAGCH), 145–146

Spain, 57–59, 57*f*, 122

specialization of products, 19, 69, 129, 151

spices, 131*b*

Sri Lanka, 72, 131*b*

Sri Lankan Spice Council (TSC), 131*b*

standards of quality. *See* quality standards and certifications

Starbucks Coffee Corporation, 112, 141*b*

strategic working group (SWOG) meetings, 79*b*

strategies for value chains. *See* value chain strategies

sub-Saharan Africa. *See also* specific countries
 comparison of agricultural productivity in, 4–5, 5*f*
 development agenda in, 1–2
 globalization and, 2–4
 share of world trade by, 2, 3*f*, 4
 sustained economic growth in, 4, 6*t*
 trade growth in, 3, 4*t*

sugar and sugarcane industry, 35, 36

supermarkets, 92, 107*b*, 115

supply and supply chains. *See also* markets and market analysis
 assessment of, 45–46, 47
 clustering and, 151
 definition of, 9
 of Kenyan green beans, 75
 of Nigerian domestic catfish, 51
 oversight and management and, 117

support services. *See* value chain support services

sweetheart roses. *See* roses

Swisscontact (technical cooperation firm), 50*f*

SWOT (strengths, weakness, opportunities, and threats) analysis, 42, 43*f*, 44, 47

synergies, 151–160

T

Tanzania, 58*b*, 141*b*
 “Tanzania Kilimanjaro Limited Edition” coffee brand, 141*b*
 Tanzanian Coffee Board, 141*b*
 tea, 72
 technical assistance, 13, 19, 82
 TechnoServe (technical assistance provider), 81–82, 101–102, 141*b*
 “10 Bridges Approach,” 48*n*5
 Tesco (retail outlet), 107*b*
 Thailand, 91, 97, 107*b*, 118*b*
 tomatoes, 57–59, 57*f*
 Tonggu Fruits (Ghanaian pineapple processing company), 92
 tools for value chain implementation, 25–27, 27*f*.
See also individual tools
 business and policy improvements, 26
 designing strategies and business plans, 25

developing new businesses, 25
 market positioning and, 26
 market supply and, 25
 sequencing of, 26, 27*f*
 value chain results monitoring, 26

Trade and Investment Program (TIP), 99*n*1

trust and cooperation, 8, 15, 16–20, 116–117, 157

TSC (Sri Lankan Spice Council), 131*b*

Turkey, 57–58, 57*f*

U

Uganda
 benchmarking in coffee industry in, 56*b*
 coffee production in, 141*b*
 cotton service model from, 129–130*b*
 map of, 62*f*

Uganda Fish Processors and Exporters Association (UFPEA), 123, 125

Uganda Flower Exporters Association (UFEA), 65

Uganda National Bureau of Standards (UNBS), 122

Ugandan floriculture, benchmarking and gap
 analysis of, 61–68
 background and industry description, 61–62
 cluster structure and, 64–65, 67*t*
 cuttings production in, 63, 66*f*, 66*t*
 flower exports, 65, 68*f*
 outcomes for, 66–68
 value chain analysis for, 62–64, 62*f*, 64*f*

Ugandan Floriculture Competitiveness Plan: 2005–2010, 65

Ugandan Nile perch, 122–127. *See also* Ugandan floriculture,
 benchmarking and gap analysis of
 certification timeline for, 123
 EurepGAP certification and, 123–124
 export performance for, 125, 127*f*
 industry-level certifications, 125
 industry results for, 125
 intervention and, 123
 ISO 9001 certification, 124–125, 125*f*, 126
 lessons learned, 125–127
 pesticide laboratories and, 124
 points to consider, 122
 value chain for, 122–123, 124*f*

Union Bananière Africaine, 99

United Kingdom
 flower exports to, 61, 88*b*
 pineapple exports to, 93
 supermarkets in, 92
 vegetable exports to, 73, 75

United Nations Food and Agriculture Organization (FAO), 91

United States
 avocado production in, 155
 cacao processing in, 106*b*
 cashew export to, 102
 cinnamon market in, 131*b*
 coffee standards in, 116
 flower exports to, 65
 Rwandan coffee and, 109, 112

Thai exports to, 118*b*
 Ugandan Nile perch market in, 125
 University of Moratuwa, 72
 upgrading. *See* value chains, upgrading and deepening
 U.S. African Growth and Opportunity Act of 2000 (AGOA), 31*b*
 U.S. Agency for International Development (USAID)
 avocado industry and, 155
 cashew sector and, 80, 81, 100
 cattle producers and, 145
 Ecuadorian cacao and, 119*b*
 Mongolian meat industry and, 70*b*
 Projet Croissance Economique support by, 31*b*
 Rwandan coffee and, 112
 SPEG and, 99*n1*, 163*b*, 164*f*
 Ugandan cotton and, 129*b*, 130*b*
 Ugandan Nile perch and, 125
 value chain analysis and, 7
 U.S. Department of Agriculture (USDA), 70*b*

V

value chains, 9–13
 Africa's development agenda and, 1–2
 analysis of, 10–12
 benchmarking. *See* benchmarking and gap assessments
 of value chains
 for Blue Skies Holdings Ltd., 93
 for Botswana cattle, 146, 149
 buyer-driven, 21, 92
 case studies. *See individual case studies, e.g. Ugandan Nile perch*
 clustering and, 151–152, 155
 competitiveness and, 10, 12, 23, 26, 105–108.
 See also competitiveness
 definition of concepts, 9–10
 gap assessments. *See* benchmarking and gap assessments
 of value chains
 for Ghanaian pineapples, 98–99, 98*f*
 horizontal collaboration and, 95
 for Kenyan avocados, 156–157, 156*f*, 157*f*
 for Kenyan green beans, 74–76, 75*f*
 monitoring results in development, 26
 for Mozambican cashews, 82, 82*f*, 102–103
 Nigerian domestic catfish and, 49–53, 51*f*, 53*f*
 operating environment implications for, 12–13
 for pineapple exports, 98–99
 producer-driven, 21
 public-private dialogue and, 139, 140, 142
 quality and, 12, 115, 115*f*, 117, 121
 support services for, 129–137
 tools for implementation. *See* tools for
 value chain implementation
 Ugandan floriculture analysis of, 62–64, 62*f*, 64*f*
 for Ugandan Nile perch, 122–123, 124*f*, 126–127
 vertical and horizontal linkages in, 9, 16, 19, 85–87
 for Zambian cotton, 135, 135*f*, 136*f*, 137
 value chain interventions, priority sectors for, 25, 29–32.
 See also interventions
 domestic capacity and economic impact and, 30–31

 initial list of products for, 29–30, 31*b*
 market analysis and, 30
 summary of tool, 32
 testing commitment and, 31–32
 value chain performance monitoring, 8, 26,
 161–165
 Ghanaian pineapple standards and, 163*b*
 implementation of, 162–163, 163*f*
 purpose of monitoring, 161
 questions to ask about, 161–162
 summary of tool, 165
 value chains, literature review of, 15–23, 17–18*t*
 creating trust and, 15, 16–20
 governance and, 15, 20
 innovation, information, and knowledge and, 15, 22
 intervention points and, 15, 22
 market power and, 15, 20–22
 power relations in value chains, 20, 21*f*
 works of particular interest from, 15–16
 value chains, upgrading and deepening, 25, 69–72
 adding operations for, 69, 72
 categories of, 22
 commercial joint ventures and, 72
 domestic and foreign direct investment and, 69, 72
 domestic capacity and, 30
 Kenyan green beans and, 73, 76
 methods for deepening value chain, 69–72
 new entrants/entrepreneurs and, 69
 specialization and, 69, 129
 summary of tool, 72
 testing commitment and, 32
 vertical integration and, 71, 72
 value chain strategies, 25, 41–48.
 See also Rwandan coffee
 business environment assessment and, 46–47, 48*n7*
 Competitiveness Diamond and, 42–44, 47
 human resources assessment and, 46, 47
 mapping and, 132
 operational productivity assessment and, 44–45, 47
 productivity and, 41–47, 41*f*
 status assessment of value chains, 41–42, 42*f*
 strategic productivity assessment and, 44, 47
 summary of tool, 47
 supply chain quality assessment and, 45–46, 47
 SWOT analysis of, 42, 47
 value chain support services, 26, 129–137
 extension services model for, 129, 129*b*
 mapping of business and financial services, 132, 132*f*
 Sri Lankan cinnamon and, 131*b*
 summary of tool, 132–133
 Ugandan cotton and, 129–130*b*
 Zambian cotton and, 134–137
 Value Chain Wiki, 7
 vertical integration and linkages. *See also* horizontal collaboration
 and linkages
 in avocado industry, 157
 in floriculture industry, 61–62
 Ghanaian pineapple industry and, 91, 97

governance and, 20
from national value chain perspective,
85–87, 88*b*, 89*t*
value chain deepening and, 69, 71, 72
in value chains, 6, 16, 19
Vietnam, 56*b*, 110
Vinzavod-Asenovgrad (VA), 89*b*

W

washing stations for coffee, 78*b*
“weaner” system of cattle production,
147, 148, 149
West African Economic Monetary Union, 3
Wienco (agrochemical supplier), 99
wine industry, 89–90*b*
workforce quality, 46, 48*n*5
World Bank
agricultural trade facilitation by, 5, 7
Doing Business Report, 48*n*7, 56
IDA loan funds from, 33
Mali and, 37
Mozambique and, 34, 36, 81, 101
public-private dialogue and, 142

Sustainable Development Department of the Africa Region
(AFR-SDN), 7
Ugandan floriculture sector and, 61, 62
World Development Report, 1
World Customs Organization (WCO), 131*b*
World Development Indicators, 56
World Development Report (World Bank), 1
World Economic Forum, 48*n*6, 56

Z

Zambia, 3, 4, 88*b*
Zambia Airways, 88*b*
Zambian cotton, 134–137
background on, 134–135, 135*f*
Dunavant’s distributor model, 135–137,
136*f*, 137*t*
increase in exports of, 137, 137*f*
points to consider, 134
sector growth for, 137
Zambian Export Growers Association (ZEGA), 88*b*
Zambia Privatization Agency (ZPA), 134
“Zambique” (cashew brand name), 102, 103
Zimbabwe, 4, 8*n*3, 88*b*

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Value chain–based approaches offer tremendous scope

for market-based improvements in production, productivity, rural economy diversification, and household incomes, but are often covered by literature that is too conceptual or heavily focused on analysis. This has created a gap in the information available to planners, practitioners, and value chain participants. Furthermore, few references are available on how these approaches can be applied specifically to developing agriculture in Africa.

Building Competitiveness in Africa’s Agriculture: A Guide to Value Chain Concepts and Applications describes practical implementation approaches and illustrates them with scores of real African agribusiness case studies. Using these examples, the *Guide* presents a range of concepts, analytical tools, and methodologies centered on the value chain that can be used to design, implement, and evaluate agricultural and agribusiness development initiatives. It stresses principles of market focus, collaboration, information sharing, and innovation.

The *Guide* begins by examining core concepts and issues related to value chains. A brief literature review then focuses on five topics of particular relevance to African agricultural value chains. These topics address challenges faced by value chain participants and practitioners that resonate through the many cases described in the book.

The core of the book presents methodological tools and approaches that blend important value chain concepts with the topics and with sound business principles. The tools and case studies have been selected for their usefulness in supporting market-driven, private-sector initiatives to improve value chains. The *Guide* offers 13 implementation approaches, presented within the implementation cycle of a value chain program, followed by descriptions of actual cases. Roughly 60 percent of the examples are from Africa, while the rest come from Europe, Latin America, and Asia.

The *Guide* offers useful guidance to businesspeople, policy makers, representatives of farmer or trade organizations, and others who are engaged in agro-enterprise and agribusiness development. These readers will learn how to use value chain approaches in ways that can contribute to sound operational decisions, improved market linkage, and better results for enterprise and industry development.



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