GOOD PRACTICES: STOCKTAKE OF VALUE CHAIN PROJECTS

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INTRODUCTION

Introduction

Background & Conceptual Framework

Agriculture is a medium of income for approximately 70 per cent of poor households in rural areas worldwide. In the agriculture sector, small-scale farmers comprise of the highest share of production. However, they still possess the lowest market share and thus, have limited bargaining position in comparison to other value chain stakeholders. In such scenarios, Value chain projects work to address this imbalance of power and links all the stakeholders to create a platform for growth of all the value chain actors. Thus, the creation of Value chain projects is frequently seen as an effective strategy for promoting growth in rural regions and enhancing the accessibility and marketing of agricultural goods.[1]

A Value chain comprises of the full range of value-adding activities required to bring a product or service through the different phases of production, including procurement of raw materials and other inputs, assembly, physical transformation, acquisition of required services such as transport or cooling, and ultimately response to consumer demand. The conventional project approaches focused on aiding small-scale producers and various sectors of the rural poor population. Although a sizable number of projects still use this strategy, the majority of current projects being developed are either "value chain projects" or include a value chain (VC) development component.

Over the past years, there has been a significant increase in the number of VC development activities. The idea is that the creation of VCs is an effective tool for promoting economic growth, solving issues with the food supply, and improving rural livelihoods. These initiatives use a VC approach based on a thorough examination of the whole Value chain, from producers to end-user customers, but their primary goal is still firmly rooted in empowering small-scale farmers and the rural poor.[2]

Although traditionally used value chain projects created a positive impact in the development of agriculture sector and uplifting the small-scale farmers and producers, however, if not carefully designed they can lead to various issues such as elite capture by well-off value chain stakeholders, limited sustainability of the project intervention, etc. Thus, in order to limit these risks, value chain projects should focus on a holistic approach with long term impacts on all the relevant value chain stakeholders.[3]

The purpose of this report is to highlight best practices for a value chain project that may help in designing and implementing a holistic value chain project.

[1] IFAD. (December, 2020). *Operational guidelines on IFAD's engagement in pro-poor value chain development.*
[2] IFAD. (October, 2014). *Lessons learned: Commodity value chain development projects.*
[3] IFAD. (December, 2020). *Operational guidelines on IFAD's engagement in pro-poor value chain development.*

FOCUS ON PRIMARY PRODUCTION

Strengthening Primary Production

Context and Challenges

Value chain projects often focus too much on strengthening primary production. Therefore, the development of downstream value chain segments is often neglected. As a consequence, farmers may be unable to reap the benefits of increased output. Moreover, project implementing agencies, which are hosted by public sector institutions, often lack the critical expertise to facilitate the improvement of processing and marketing activities.

Thus, generally, a holistic approach to value chain development is often missing, as is also reflected by the limited attention projects pay to the development of market-oriented business plans, feasibility studies for value-added activities or comprehensive value chain development strategies.

The key challenges to strengthening value chain nodes other than primary production are as follows,

- Farmers have limited capacities to process and market additional output
- Public sector implementing agencies lack expertise in developing the processing and marketing stages
- Limited attention is paid to the development of market-oriented business plans, feasibility studies for value-added activities, or value chain development strategies

Best Practices

VC projects should shift their focus from primary production to market-driven interventions by deploying market research tools in order to strengthen farmers capacity to process and market additional output. Market-driven interventions benefit projects as they focus on overall Value Chain (VC) development. Value chain stakeholders must be included in the analytical process to the extent possible to help them in responding to and anticipating market trends.

- **Using market research tools**: Proven market research tools must be used to conduct in-depth end-market analysis. Further, quantitative and qualitative information must be utilized to understand opportunities in various market channels as well as the constraints to exploiting those challenges. Moreover, understanding the requirements, risks and expected benefits of competing in each of them can help in analysing each of the potential end markets and the project's design and interventions must be based on up-to-date market analysis
- **Formulating an industry vision based on VC analysis**: Value chain analysis must be conducted to co-develop with industry stakeholders a vision (or multiple visions) of a more competitive industry that is able to respond to dynamic markets and contexts.

Furthermore, projects could benefit from working with firms and groups of firms to develop roadmaps for achieving competitiveness.[4]

Ensure the delivery of support services to value chain actors to facilitate their participation in all the value chain nodes, especially entry into target markets. Value chain participants need financial, business and technical support services to successfully upgrade products or services to sell into target markets. Three possible ways to source essential support services are:

- Hire service providers to strengthen the capacity of implementing agencies, and to improve strategic planning through business plans, studies and strategies
- Work closely with other implementers focusing on relevant parts of the institutional infrastructure—such as banking, agricultural extension or education
- Encourage local providers of similar services to expand into those services needed by the target value chain
- Create embedded services within the value chain by finding creative solutions to address the gaps in support services.[5]

Projects should adopt an Inclusive Business Model Approach (IBM) that facilitates farmer organizations' (FOs) business development activities. The IBM approach focuses on strengthening the linkages between farmer organizations (FOs) and buyers, and supports FOs and other informal groups to mainstream business thinking among their organizations and move away from operations that are dependent on government or donor contributions. It helps farmer groups to define how they do business with their customers, based on a better understanding of buyers' requirements, and prioritize activities that contribute to more effective business relationships between smallholder supplier groups and small, medium or large agribusinesses. The approach supports FOs to improve the aspects of their business related to: (i) value addition with the improved management of business and logistical processes; (ii) better business-to-business coordination between farmer groups and immediate buyers and; (iii) improved market access for the players involved and the entire chain.

A few ways to strengthen producer-buyer linkages are:

- Commodity specific agribusiness training for farmer organizations
- Producer-buyer business meetings
- Appraisals on potential linkages to local financial products and services
- Integrated quality control and logistical systems, such as collection points, etc.
- Formalization and monitoring of contracts. [6]

[4] USAID. (2010). *Implementation Best Practices For Value Chain Development Projects*
[5] USAID (2008). *A synthesis of practical lessons from value chain projects in conflict affected environments.*
[6] AFDB. (2018). *Strengthening Agricultural Value Chains to Feed Africa.*

PARTNERSHIPS WITH THE PRIVATE SECTOR

Partnerships with the Private Sector

Context and Challenges

Partnering with the private sector opens up indispensable opportunities for linking project beneficiaries to markets, technology, services and innovation. However, many value chain projects show limited initiative to attract private sector partners. Moreover, some value chain projects invest considerable efforts to partner with the private sector, but struggle to identify suitable companies because of: i) limited scale of production and inconsistency in supply by small producers; ii) low bargaining power of small producers; iii) rigid production standards required by private companies; iv) lack of trust between producers and private companies.

At times, value chain projects involve private sector partners only in the later stages of implementation, after capacity building support has already been provided to the farmers. As a result, producers are unable to satisfy the quality considerations of the private sector.

The key challenges to sustainable partnerships with the private sector are as follows,

- Lack of initiative to attract private sector partners, difficulties in identifying the right partners, or involvement only at later stages of implementation
- Lost opportunities for linking project beneficiaries to markets, technology, services and innovation

Best Practices

Projects should engage in proactive prospecting for private sector partnerships to maximize their impact as it helps in mitigation of risks through strategic alignment and proactive due diligence. It is essential for a project to understand both the commercial and development opportunities of a potential partnership as well as the organizational makeup of the potential partner. Proactive prospecting enables projects to understand the private sector needs, as well as identify opportunities for long-lasting partnerships that align with project's in-country strategy and leverage the project's capabilities. Projects should:

- **Diagnose problems the partnership aims to tackle in line with the project's objectives:** Partnerships should be formed based on their ability to help tackle specific problems that the project seeks to address. The project should be clear on its priority areas before exploring partnerships, ensuring that an opportunity aligns with its goals and capitalizes on its core strengths
- **Understand private sector incentives and identify areas of strongest alignment:** It is important to understand how the company is structured, how its different business units engage, and how it makes decisions. Once the project has an initial sense of the opportunity and a good understanding of the company, it should revisit its strategic

objectives, identify areas of alignment, and think of all options for collaboration (and the trade-offs), before entering into a partnership

- **Build commitment and trust with Private Sector Partners (PSPs):** The project should use the prospecting conversations to set the tone for the relationship and relationship health. Developing commitment and trust requires a recognition of what the PSP needs—which becomes clear through honest, genuine interest and communication.[7]

Projects should design a structured partnership agreement that leverages and applies the respective assets and expertise of each partner. This can ensure co-creation of project design and establishing governance structure for decision making. This would, further, facilitate advancing core business interests and achieving the project's development objectives.

- **Co-Creation:** All partners should jointly engage in project design. Determining the appropriate partnership modality and making sure the arrangement is well understood by all those involved, especially when the mechanism is less familiar, is crucial at this stage
- **Establishing decision-making mechanisms:** The project should establish the governance structures at the design stages of the partnership that sets the tone for decision-making, dealing with conflict, and aligning on project strategy and direction.
- **Deciding on desired results and how to measure them:** The project should leverage technical expertise in M&E. It should make sure to select performance indicators in a collaborative fashion so that they are relevant for both partners[8]

Partnerships can be effectively implemented through frequent communication and seamless staff transitions, making the projects successful in terms of reaching both its commercial and development objectives. This can be achieved through:

- **Frequent and direct communication:** The project should prioritize regular communication with partners or implementers to ensure progress, alignment, and flexibility
- **Decision making and staff transitions:** To ensure that the vision of the partnership conceived in the co-creation process can be sustained, it is important to document why (e.g., intention) and how (e.g., degree of flexibility) decisions are made, and ensure that early project documents, such as concept notes, are available to subsequent staff
- **Dealing with unexpected issues:** To deal with unexpected issues such as the impact of market forces, policy change, and environmental shocks, building in processes to allow for strategy pivots, careful management of information, and proactive norm setting, can help mitigate the effect of changes in the project environment on partnership activities
- **Monitoring relationship health:** Healthy, collaborative relationships with PSPs create opportunities for more partnerships and joint activities with the company. Projects can

[7] USAID. (2017). Private Sector Partnerships in Agriculture Value Chains
[8] USAID. (2017). *Private Sector Partnerships in Agriculture Value Chains*

consider the use of the Global Development Lab – Center for Transformational Partnerships 'Relationship Health Pulse' tool. [9]

Projects should promote Productive Alliances (PA) in order to link small producers with private players. The Productive Alliance approach has been implemented on various projects by the World Bank since the early 2000s. Productive Alliances create horizontal alliances among smallholder producers and vertical alliances by connecting the producers, private players (buyers), and the public sector. The three groups are connected through a business plan which describes the capital and services needs of the producers and proposes improvements that would allow them to upgrade their production capacities and skills to strengthen their linkage with the buyers. These alliances help address market imperfections that constrain smallholder producers' socio-economic progress. Key steps to promote private sector participation through PAs include:

- **Organizing producers:** Producers need to be organized into a producer organization that enables them to receive and invest funds and contract with private players for delivery of a commodity.
- **Developing business plans:** Business plans developed for the alliances need to include details of productive investments; technical assistance; business development, and all of the activities which will make the productive alliance work for the parties involved.
- **Matching of private players (buyers) and producers:** A producer group must be matched with a private player (buyer), with a commitment from both to fulfil specific commitments that involve the production and delivery of goods (producers), and the purchase and payment of goods (buyers) at specific points in time.
- **Commercial relationship between producer group and private players:** The nature of the contract can vary and range in its formality: from a verbal agreement to a formal written contract. All arrangements will need to consider the product specifications, the quantity to be delivered, the price to be paid, and the quality.

***PA approach in Latin America and Caribbean**:* The World Bank has been implementing the PA approach throughout the Latin America and Caribbean Region (LAC) to strengthen smallholder producers' integration in local, national and international value chains and thereby their access to better income opportunities. The following recommendations enhance the impact and sustainability of the PA approach, based on learnings from the LAC:

- PA projects need to prominently promote building broader alliances through a stronger involvement of local actors in the enabling environment
- PA projects could develop and adopt a more systematic approach linking beneficiary producers with the commercial financial sector.
- PA projects need to more intensively promote the diversification of buyers and markets
- PA projects might consider adopting a multi-sector approach, where appropriate and desired by the client

[9] USAID. (2017). *Private Sector Partnerships in Agriculture Value Chains*

- PA projects should incorporate an impact evaluation strategy and respective budget early in their design stage.[10]

[10] World Bank. (2016). *How to Make Grants a Better Match for Private Sector Development - Review of World Bank Matching Grants Projects.*

SUITABLE FINANCING MECHANISMS

Suitable Financing Mechanism

Context and Challenges

Various Value chain projects put a strong emphasis on fulfilling beneficiaries' fixed capital needs, often through matching grants that are used to invest in production and processing infrastructure. In return, there is less focus on beneficiaries' working capital needs. Moreover, at times, projects fail to facilitate linkages between the beneficiaries and financial sector with causes hinderance in establishing suitable financing mechanism.

The key challenges to establishing suitable financing mechanisms are as follows,

- Focus on fixed capital/assets needs (often through matching grants), rather than on both fixed and working capital needs.
- Limited linkages between beneficiaries and financial institutions: At times, projects fail to facilitate linkages between the beneficiaries and financial sector.

Best Practices

Projects should explore the option of financial leasing as an alternative for financing fixed assets, instead of loans. Financial leasing offers several advantages for providers and clients, including: farmers do not need to have a strong asset base or pay large initial cash deposits, with the inherent value of the purchased asset acting as the collateral. For the financial institution involved, leasing offers a further major advantage in developing and middle-income countries where enforcing creditors' rights is difficult and/or costly. The use of financial leases can particularly be explored for purchase of machinery.

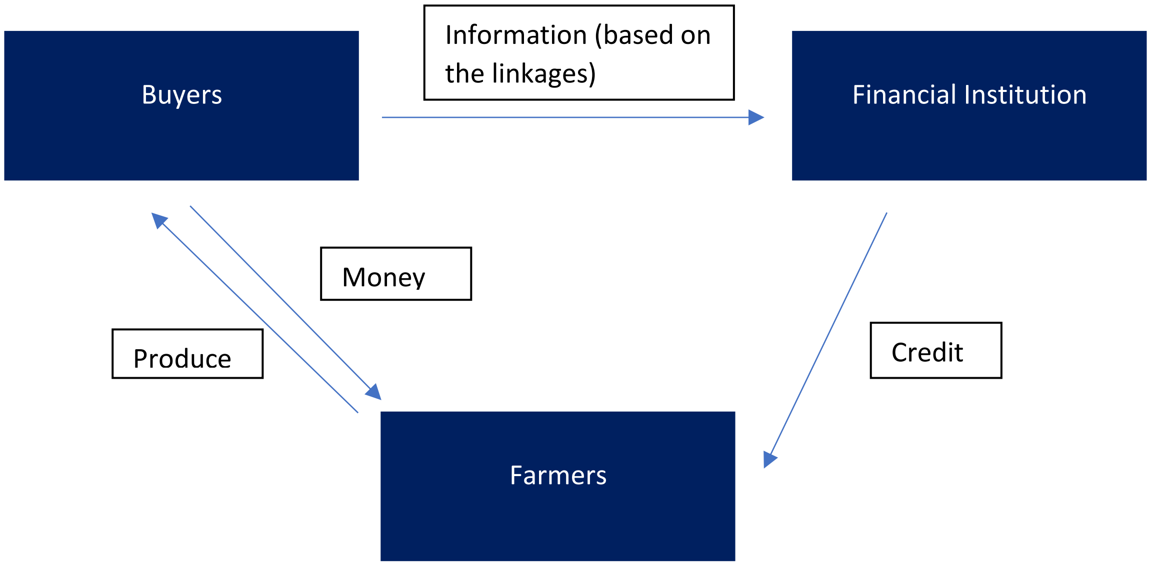
- In Georgia, the USAID AgVantage project helped agribusinesses gain access to fixed asset financing by developing a leasing sector as an alternative to inaccessible term loans with prohibitive collateral requirements. AgVantage created a specialized Leasing Unit to facilitate the provision of long-term equipment financing from Georgian leasing companies, with support from a credit guarantee program. The Leasing Unit's capacity building efforts ensured that Georgian leasing companies had the management and operational know-how to ensure sustainable provision of leasing services in the future.
- USAID's PROFIT project worked with the Zambian Conservation Farming Union and others to cultivate tillage service providers (TSPs)—farmers who would till the fields of other farmers for a fee. To overcome aspiring TSPs' liquidity constraint, PROFIT turned to Dunavant Cotton, who agreed (with a modest initial guarantee) to purchase a tractor and lease it to one of its trusted outgrowers who was interested in becoming a TSP. Dunavant

went on to purchase and lease out ten more tractors, without any guarantee from PROFIT.[11]

- Rigorous impact evaluations (based on randomized allocation of grants or other quasi-experimental methods), while costly and complex to carry out, can yield valuable information for future operations and should be considered where possible.[12]

Projects should focus on creating transparency and trust among the value chain actors in order to improve access to finance for all the actors. Value chain finance works best where there is transparency, trust and strong and repeated inter-firm transactions. Transparency and trust can be built through the following means:

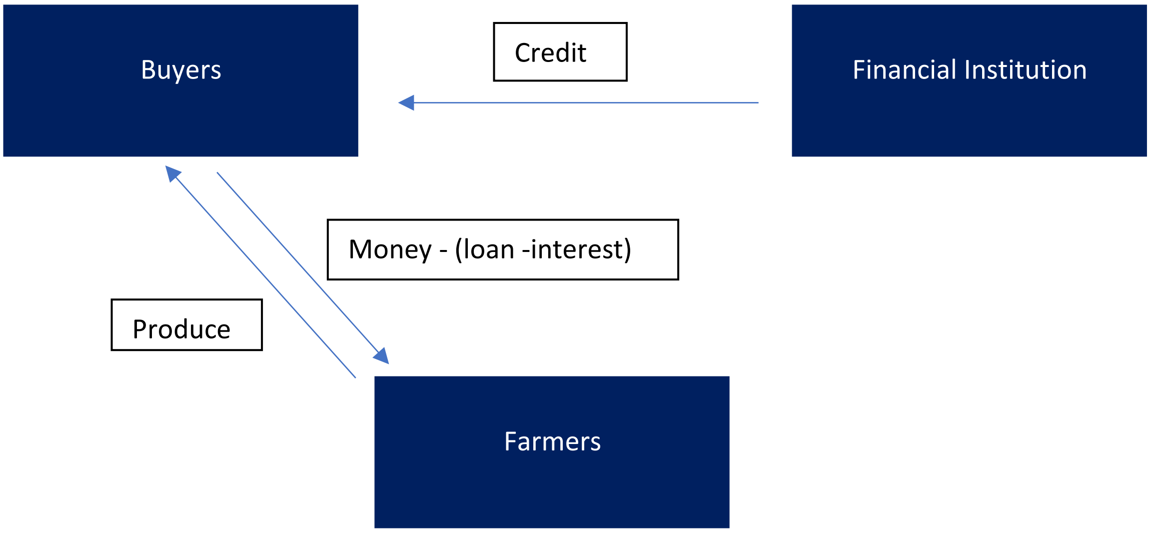
- **Screening Borrowers:** Buyers may have useful information about potential borrowers due to the linkages that they have established with the farmers. This information about the potential buyers can be provided by the buyers to the financial institutions. It will help financial institutions screen for reliability, evaluate profitability and/or assess the risk of default, consequently encourage them to lend credit to the buyers.
  As shown in the figure below, the farmers provide produce to the buyers in return for the money. These buyers help the financial institutions with information of the farmers from who they have purchased the produce. Consequently, financial institutions screen the farmers identified by the buyers and extend credit to them.



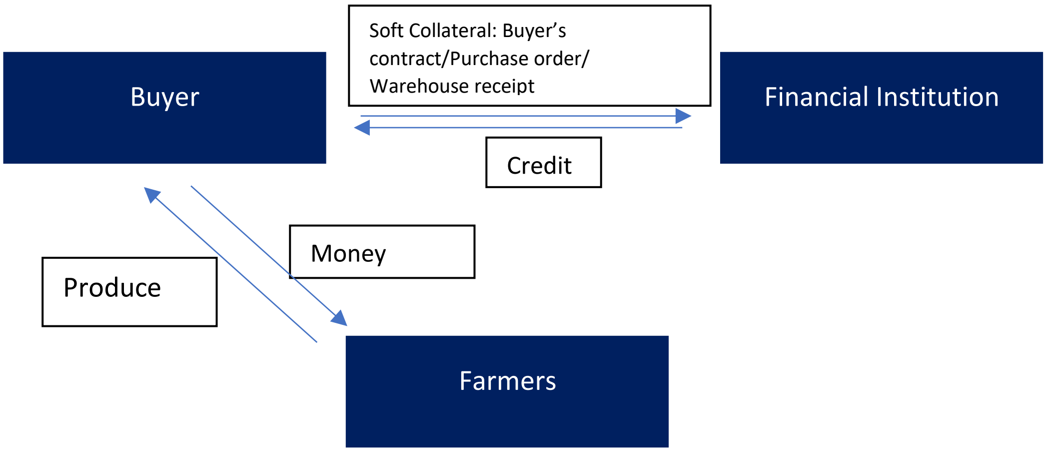
- **Disbursement/Repayment of Loans:** Buyers may play a direct role in loan transactions. They may be positioned to disburse loans on behalf of the financial institution (in-kind or cash) and loan repayments may be channeled through them as well. These roles can help to lower transaction costs and reduce likelihood of arrears and default.

[11] USAID. (2011). *Rural And Agricultural Finance Taking Stock Of Five Years Of Innovations.*
[12] World Bank. (2016). *Linking Farmers to Markets through Productive Alliances*

As described in the figure below, buyers obtain the credit from financial institution and provide the money to the farmers in exchange of their produce. The money exchanged includes deduction of the loan amount and interest payable.



- **Default Risk/Collateral:** Buyers may provide a form of "soft" collateral. Unlike "hard" collateral such as land titles, "soft" collateral can be in the form of direct (formal or informal) guarantees or co-signing, assigning value to inventory in a warehouse, etc. Value chain actors may also provide some alternative which is acceptable to a financial institution in the case that legal collateral is not available to secure the loan. Purchase orders and buyers' contracts may provide a reasonable guarantee of repayment to the extent that a financial institution would waive traditional requirements. Even when buyers' contracts are not transferable (and thus are not truly a substitute for collateral), they can be important nonetheless to the lender, since they signal creditworthiness and thus decrease the default risk.
As described in the figure below, buyers obtain the credit from financial institution on the basis of soft collateral (these generally include: Buyer's contract/Purchase order/ Warehouse receipt), the credit is simultaneously used to purchase the produce from farmers.[13]



[13] USAID. (2012). *Tools for Designing Project Interventions that Facilitate Investment in Key Value Chain Upgrades.*

STRENGTHENING CAPACITY OF FARMER ORGANIZATIONS

Strengthening Capacity of Farmer Organizations

Context and Challenges

One of the most prominent problems in sustainability of value chain project activities is poor management of farmers. Often, Farmer Organizations (FOs) are expected to assume the full responsibility of the project-supported value chain upgrading activities after the project closure. Such activities may include the collection of produce, processing or service provision to members. However, many projects do not pay enough attention to strengthening FOs' business skills and governance structures. Consequently, the group's ability to take over after project closure is doubtful.

The key challenges in strengthening capacity of Farmer Organizations include,

- Limited focus on strengthening business skills and governance structures of farmer organizations (FOs)

- Risk for project sustainability as FOs may be unable to continue business after project closure.

Best Practices

Projects must focus on clustering of FOs which can help in enhancing their efficiency and increase the farmers' incomes by strengthening their management capacities (both business skills and governance structures) and encouraging them to concentrate on one value-added and local product, with support for product development and marketing assistance. It also ensures profitability through both business planning and market linkages. FO clusters are to be bound and defined by social relationships and are supported by a network of service providers. They help enhance connectivity to overcome logistical and other bottlenecks preventing effective links between production and markets, and improve the coordination and targeted delivery of public agricultural services. For instance, the Philippine Rural Development Project (PRDP) focused on clustering farmers into enterprises and promoting a business-oriented approach to farming and fishing.

Some of the lessons learned for forming clusters are:

- Most successful clusters have featured high-value, export-oriented agricultural products, and their production spurred the emergence of relatively strong incentives to cooperate in defraying costs, managing risks, and meeting regulatory or commercial standards
- The public sector on its own is not well suited to manage cluster development

- Agriculture has distinctive features that may limit the scope for concentrating specialized production in a particular location.[14]

Projects could adopt the Sasakawa Africa Association's (SAA) SG2000 Model that provides support to farmer organizations through provision of extension services. The model works with national agricultural extension services to provide hands-on participation and training for farmers**.** The SAA provides support to farmer organizations by introducing productivity-enhancing food crop technologies and strengthening the extension system to increase yields and improve household incomes. The model works within a robust and effective Agricultural Extension and Advisory Services (AEAS) that is provided by the combined efforts of the public, private, and non-profit sectors. A strong system of AEAS plays an important role in ensuring that farmers and various stakeholders along the value chain have access to improved and proven technologies and that their concerns and needs are properly addressed by relevant service providers. Therefore, strengthening the extension system is important in the model. The following are the activities that the model undertakes with FOs:

- Value chain analysis to focus on the primary activities in the chain
- Increasing awareness about good farming practices and new crop varieties and their performance through a farmer learning platform (FLP) approach
- Provide information on appropriate post-harvest activities and market standards
- Value addition to maximize benefits for farmers
- Increasing mechanization
- Establishing a monitoring, evaluation, learning and sharing system.

The project should understand and analyse the institutional and organizational structures of farmer organizations to identify the ways in which they can influence processes of change. It is necessary to adequately survey the institutional and organizational landscape and its receptiveness to project design and implementation processes, both for the country's strategic opportunities programme (COSOP) and more in-depth for individual projects. An institutional and organizational assessment also needs to consider the institutional and policy environment including,

- constraints that curb the development of independent institutions and organizations;
- whether or not new institutions and organizations need to be created where they do not exist;
- mechanisms to overcome impediments to achieving independent and demand-driven institutions and organizations;
- experiences and best practices relating to the country's institutional and organizational context.

Additionally, the project should also analyse the informal rules and organizations, and their implications for project delivery, along with the availability and capacity of the existing service providers. Based on the analyses, sometimes new organizations need to be formed. A few lessons for forming farmer organizations are:

- Within the context of a project, groups should be formed on the bases of affinity rather than predetermined criteria established from outside; they should be given enough time (6-8

[14] World Bank. (2021). *Realizing Scale in Smallholder-Based Agriculture: Policy Options for the Philippines.*

months) to build their capacities and develop a vision and a strategy not confined by project objectives; credit provision should be based on institutional strength
- Empowering organizations are those whose structure and rules, functions and supporting systems are designed by the people themselves. Organizational and financial systems imposed by an external agent tend to disempower members
- Participatory groups (whose members all participate in decision-making and are drawn from poor populations) have a greater empowering potential than representative ones, which are more influenced by traditional power structures.[15]

Projects could focus on establishing inter-organizational linkages between farmer organizations and other organizations in the value chain. In order to pursue institutional and organizational strengthening from a broader perspective, it is important for a project to establish linkages between the entry point organization, such as farmer organizations, and other organizations with their respective set of rules. It is also important to promote stronger vertical and horizontal linkages to improve the effectiveness of governance. The best way to facilitate these linkages is to focus on the functional dimensions of institutions and organizations and promote linkages based on information flows, sharing/leveraging of financial resources, decision-making, and synergies in technical and managerial skills.Value chain development in agriculture, as in any other sector, brings with it the need to address a mix of public and private goods and services delivery as a means of promoting the local smallholder organizations. The public sector can perform the regulatory and supervisory functions while opening up to the recruitment of private-sector service providers and consultants.[16]

[15] IFAD. (2014). Lessons learned - Strengthening smallholder institutions and organizations.
[16] IFAD. (2014). *Lessons learned - Strengthening smallholder institutions and organizations.*

DIALOGUE AND COLLABORATION WITH THE PUBLIC SECTOR

Dialogue and Collaboration with the Public Sector

Context and Challenges

Some of the Value chain projects have limited engagement with the government programmes or agencies that are involved in providing support to value chain activities and are unable to provide adequate facilities such as land, equipment, and housing to project target groups. Additionally various VC projects that support ongoing policies of a government instead of drafting a new policy framework are limited in terms of policy influence since only policy options that are prioritized by the Government are considered.

The two major challenges to collaboration with the public sector are,

- Limited engagement with government programs and agencies due to inability of the project to converge programs.
- Limited policy influence lack of policy dialogues and research.

Best Practices

Projects should demonstrate success through evidence-based results and follow an "open book" approach to offer compelling arguments to engage the government in the value chain interventions. An "open book" approach builds trust with government partners, which is further strengthened by government participation in a forum where the partners meet and interact with the farmers and the entire value chain.

- Value Initiative Program (VIP) Indonesia's relatively limited formal engagement with government agencies in its early stages eventually broadened into a number of collaborative arrangements as the public actors observed the results of the program. Over time, these agencies began to appreciate how the program's activities intensively reached more and more tofu and tempeh producers and other stakeholders in tangibly beneficial ways
- In its efforts to build entrepreneurial skills among young people and open up job opportunities, the Ministry of Cooperatives and Small-and Medium-Sized Enterprises and the VIP Indonesia consortium jointly developed an internship program to tackle unemployment and to encourage entrepreneurship in November 2011. Training was offered to more than 250 interns (at least 20 were children of enterprise owners targeted by VIP Indonesia) and covered such topics as capturing business opportunities, using cleaner production techniques, introducing higher product quality, changing behaviour for better hygiene in production, and applying basic tenets of business management.

Special attention was given to financial management to bolster the endemic weak skills in this area among tofu and tempeh producers.[17]

Project should improve public-private and private-public dialogue through densification of business linkages and greater coordination of public action. Projects can benefit from enriching public-private dialogue as a key element in policy development. When the public and private sectors work together, they can enhance their ability to unlock the bottlenecks that act as an obstacle to economic and social upgrading. Through such collaborations the public and private sectors can define and implement a productive development agenda in which private sector actors participate as advisors in the design, execution, monitoring and evaluation of public policies and programmes, legislation, regulations and technical specifications related to productive development. The methodology also stimulates dialogue between the public organisations that regulate and support the chain. The outcomes obtained from such dialogue are:

- **Densification of business linkages**, something especially observable in the shrimp farming and nutritional snack chain in El Salvador, where it proved possible to strengthen intra-link associativity. For example, as part of this latter chain the Association of Dried Fruit Producers of El Salvador (ADEFRU-DELSAL) was established.
- **Greater coordination of public action**, as suggested by the reactivation of the Aquaculture Technical Roundtable in El Salvador in the shrimp farming chain, as well as the establishment of the National Vegetable Roundtable, which resulted from a proposal that arose out of the strategies for strengthening the tomato and green sweet pepper chain in that same country
- **Evolving the proposed forms of dialogue**. The dialogue tables were initially set up under a consultation type arrangement, which is to say they were convened ad hoc at specific points in the accompaniment process as a way to validate the information collected and the recommendations. However, it was observed that once the validation processes were completed, there was continuity in the dialogue tables and the working groups, something that has favoured an evolution of the dialogue and the work agenda under a cooperative type arrangement.[18]

Projects could have a mechanism for overall design of the process, management and oversight for policy dialogue. A policy dialogue process on strengthening agricultural innovation systems, whether in a specific project or linked to other initiatives in the country and/or region, needs a mechanism for overall design of the process, management and oversight. This involves, among other things:

- developing a concept note, setting objectives for the policy dialogue process and preparing a work plan
- involving the project's steering committee, technical advisory or reference group
- identifying and connecting to other ongoing policy related processes, organisations and platforms of relevance to agricultural innovation in the country

[17] The Seep Network. (2012). *Engaging Government in Inclusive Value Chain Development.*
[18] IFAD. *Strengthening Value Chain: A toolkit.*

- developing terms of reference for policy consultants and/or facilitators and hiring consultants
- documentation, knowledge sharing and communication[19]

Projects should involve a policy expert (usually a consultant) to help facilitate and implement the policy dialogue. Projects can be linked to ongoing policy processes by choosing the right person with the relevant knowledge and expertise, identifying entry points for policy actions and opening doors for policy influence. It may also be desirable to involve an external facilitator for the actual national policy dialogue event (as the policy expert will be heavily involved in presenting findings and recommendations). If so, this needs to be planned well ahead of the event. It is important for resource persons to maintain a close dialogue with the project management team and steering committee and not only to prepare and deliver a report on the policy process.[20]

[19] FAO. (2019). *Organising A Policy Dialogue A Practical Guide.*

[20] FAO. (2019). *Organising A Policy Dialogue A Practical Guide.*

SUSTAINABILITY OF VC PROJECTS

Sustainability of VC Projects

Context and Challenges

The economic and financial sustainability of a value chain indicates the likelihood that actual and anticipated economic results will be sufficient to fairly remunerate the work and investments of all stakeholders, that the financial flow generated will be sufficient to keep the value chain operational, and that both features will be resilient to risks. However, some of the projects do not draft exit strategy that would be put in place after the closure of the project hindering the sustainability of project activities due to unavailability of finance and technical support services. Moreover, the lack of long-term funding due to limited linkages of beneficiaries with financial institution may have an impact on the sustainability of the project activities.

The key challenges to sustainability of Value Chain Projects are,

- Lack of exit strategy may threaten the sustainability of project activities due to unavailability of funding and technical support services after the project closes
- Limited linkages of beneficiaries with financial institutions for long term funding may impact the sustainability of project activities

Best Practices

Projects should develop an internal impact monitoring system that adopts "quality at exit" approach and ensures that interventions are effectively carried out. Tracing the impact (or no impact) of a given intervention by the Program can better set the intervention strategy that is, if the impact monitoring system is used and managed as a knowledge management instrument. An impact-oriented mentality will navigate and govern everybody's behaviour and performance. Each time an activity is discussed or proposed, every partner agency should ask the following questions: (i) what is the output to be produced? (ii) how will it be used? and (iii) how will it contribute to the indirect benefit and the objective of the Program? The same questions should also be asked when the Program staff reviews or discusses any proposed activity with the partner and with the managers.

- Regular knowledge management meetings must be held to review the achievement of milestones and indicators of impacts, and to see whether the logic of the impact chains is correct. The Program's internal monitoring system has to be re-engineered to reflect the shift to "quality at exit." Further, project reports should be prepared with an increased focus on this logical chain of "output – use of output – indirect benefit and final impact.[21]

Project implementation should catalyse behaviour change in order to ensure project activities' sustainability. Ensuring the sustainability of project activities requires that project implementation catalyses behavioural change. In order to do so, models of competitive behaviour must be identified

[21] IFC (2013). *Working with Smallholders: A Handbook for Firms Building Sustainable Supply Chain.*

to stimulate stakeholder interest and participatory tools must be used to allow stakeholders to identify the incentives that drive the observed behaviour. Further, interventions that leverage incentives for behaviours that support value chain competitiveness must be designed. Additionally, change agents must be identified and engaged. Above all, a self-selection process for project partners must be deployed.[22]

Projects should adopt a facilitation approach to create a permanent shift in how a large number of firms behave and relate to each other. Facilitation approach is defined as the one which facilitates a change in a market system such that the system itself delivers the goods and services necessary for upgrading. In order to impact large numbers of firms in a value chain, interventions often include stimulating changes in the enabling environment, strengthening relationships and skills that enable upgrading, and increasing competitive pressure among firms (helping certain firms upgrade in ways that force other firms to also upgrade or face a loss of market share).[23]

- For instance: SITE, a Kenyan NGO, used subsidies to catalyze change that made continued subsidies unnecessary. SITE subsidized initial training in milk quality to service providers whose eligibility for the training was based on their business plans and previous performance. The trainees provided services to milk collectors, transporters and retailers. When these clients began using and paying for the services, SITE discontinued the subsidy. A key factor in enabling SITE to withdraw its support was its stimulation of demand for the services in cooperative with the Kenyan Dairy Board. Together, they publicized the importance of milk hygiene and quality and facilitated the accreditation of both the milk value chain actors and the service providers.

Projects should focus on achieving long-term sustainable results even if that implies that lesser number of actors would adopt the facilitation approach. Even though fewer value chain actors will be readily interested in a program using a facilitation approach than one that directly provides goods and services, those that are interested are likely to have a different profile than the beneficiaries of more traditional programs; they are likely to be more entrepreneurial and to have a longer-term view of the industry. Over time, other value chain actors can be expected to see the benefits of this approach and begin participating, but generally the numerical results of programs adopting a facilitation approach will be lower than direct delivery programs in the short-term. This can create tension with the donor or within a project team in response to the pressure to produce measurable short-term results in terms of sales or income gains. However, adoption of facilitation approach leads to achieving long-term sustainable results rather than focusing on short-term results.[24]

[22] USAID. (2010). *Implementation Best Practices For Value Chain Development Projects*
[23] USAID. (2010). *Implementation Best Practices For Value Chain Development Projects*
[24] USAID. (2010). *Implementation Best Practices For Value Chain Development Projects*

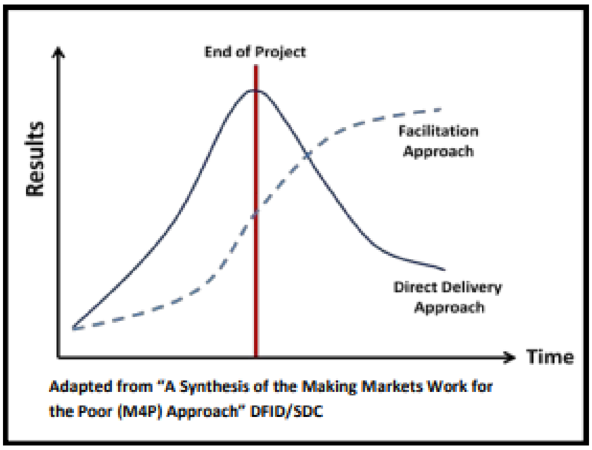


Figure 1: Impact of adopting facilitation approach in a VC project

Projects should focus on future initiatives and collaboration opportunities with private sector partners (PSP) prior to the completion of the project. In order to achieve lasting results, at some stage, every partnership needs to move from collaboration around an agreed upon set of outputs to the PSP in a specific geography and issue area. At each stage of the partnership, there should be discussion around what long-term success looks like, identification of milestones that will indicate progress, and discussion about goals for the program / platform once the formal partnership is concluded. Doing so would enable planning for the next phase. Continued and open dialogue about regions or countries of interest from the perspectives both of the PSP's business and implementing agency's programmatic goals is important to ensure sustainability of program initiatives.[25]

[25] USAID. (2017). *Private Sector Partnerships in Agriculture Value Chains*

DIGITIZATION

Digitization

Context and Challenges

Value chain projects do not always make adequate use of existing digital technologies for supporting their beneficiaries in accessing extension services. Additionally, many project beneficiaries that have relatively smaller scale of operation are unable to adopt or transition to digital technologies facilitating market linkages such as e-commerce platforms due to the technical and financial bottlenecks faced by them.

The two major challenges to promotion of digitization of a Value chain project are,

- Inadequate use of existing digital technologies for providing access to extension services
- Beneficiaries lack financial and technical capacities to adopt digital technologies

Best Practices

Using digital tools, projects should be involved in dissemination of actionable information on crop management and climate risks. The Market-led, User-owned, ICT4Ag-enabled Information Services (MUIIS) Model was adopted and began functioning in 2015 in Uganda. It aimed to reach out to the 350,000 maize, soya bean and sesame farmers in Uganda. The model provides a bundle of timely, accurate and actionable information on weather conditions, agronomic practices, and financial services. The core product, the MUIIS service bundle, is primarily meant to serve smallholder farmers. However, the model now incorporates 6 digital tools in total. This was achieved by a well-constituted public-private partnership (PPP) in the following five areas: overall project management, satellite data management, knowledge management, information management and credit. This PPP recognised and leveraged the specific interest and unique expertise of each partner towards the delivery of ICT-enabled extension services to farmers.[26]

Projects can provide digital farming advisories and information services through smartphone apps and other digital tools. Provision of digital advisories could facilitate farmers' access to real-time data on soil, climate, irrigation, pests and diseases, and market prices; obtain a loan; and connect with buyers and input suppliers to carry out commercial transactions.

- Digital farming information and advisory services, via apps, text messaging and/or websites, offer farmers timely and reliable information on topics such as production practices, pests and diseases, weather and market prices. They can be: (i) basic farmer information services that deliver non-personalized agricultural information and early warnings about weather events or pest and disease outbreaks, thus complementing extension services; and (ii) PA advisory

[26] CGIAR. Digitalisation for Agriculture the Case of MUIIS Uganda.

services and farm management software that provide farmers more sophisticated and tailored agricultural advisories.[27]

Projects could use precision agriculture (PA) which is a farm management strategy that collects and uses data to feed into a decision support system for optimizing farm returns on inputs while preserving resources. Agricultural drones (a tool for PA) have been key digital-based solutions reshaping farming. They help farmers produce more with less water, land, inputs, energy and labour, while protecting biodiversity and reducing carbon emissions.

- PA involves the integrated use of specific hardware (e.g., yield monitors, irrigation controllers, drones, satellite remote-sensing, tractor auto-guidance systems), software and services to capture and handle data about the soil, weather, crop yields and health, among others.
- Depending on the technological intensity of the operation, PA can be classified as “soft” or “hard”. Hard PA is more suitable for large farms, as it involves applying complex technologies and big data analytic skills. Soft PA relies on visual observation of crops and soils, and on low-cost tools (e.g., digital soil-testing kits and chlorophyll meters) and services typically offered via apps or text messages (e.g., weather forecasting). It is gradually becoming available for smallholders through innovative digital enabled business models.[28]

Projects should introduce chain-wide food tracking solutions built on blockchain know-how. Food tracking solutions based on blockchain technology provide actors with traceability records and/or attest to the provenance of a food item in order to combat food fraud or obtain a price premium for quality linked to origin

- For instance, FAO is developing a blockchain methodology for seafood value chains. The characteristics of Blockchain technologies such as decentralization, persistency, auditability and transparency make the use of blockchain technology an exciting prospect for traceability systems that can encompass and link seafood supply chains. It could provide an online traceability infrastructure that caters for the permanent storage and sharing of Key Data Elements (KDEs) along Critical Tracking Events (CTEs); and the fact that it is already a digital ledger makes it suitable for recording transactions of products between supply chain actors.[29]

Project should provide financial and technical support through external service providers to establish market linkages through vertical linkages such as open accessible e-commerce platforms, especially, to individual smallholder farmers, local agro-enterprises and cooperatives. Business plan (BP) financing support can be used for establishing e-commerce window which needs to be open and accessible to individual smallholder farmers, local agro-enterprises and cooperatives as far as their products meet with the market requirements. Moreover, systematic organization of technical assistant, who provide support through WhatsApp or by phone on specific guidelines and evaluate the need for digital literacy for the beneficiary organizations that already have computer equipment and Internet access. Through this the projects can avoid the risk of unequal access to technical assistance and lead to economic sustainability of the beneficiaries through digitizing their routine tasks.

[27] FAO. (2022). Scaling up inclusive digitalization in agricultural value chains.
[28] FAO. (2022). Scaling up inclusive digitalization in agricultural value chains.
[29] FAO. (2020). *Blockchain Application in Seafood Value Chains.*

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