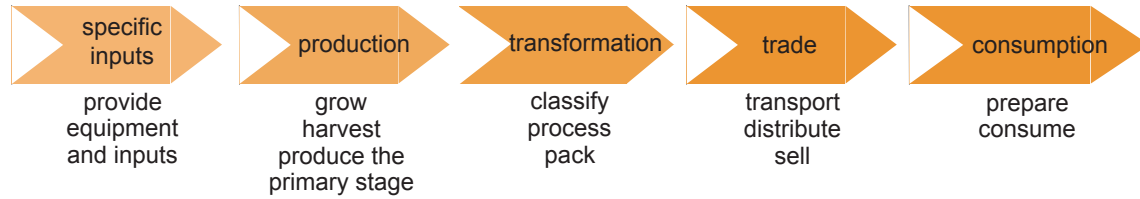


Value Chain and Cluster Promotion

In the definition of the GTZ, a “value chain” (VC) is a sequence of related business activities (**functions**) from the provision of specific inputs for a particular product to primary production, transformation, marketing, and up to the final sale to consumers. A “value chain” is also the set of enterprises (**operators**) performing these functions. According to the sequence of functions and operators, value chains consist of a series of chain links. Value chain promotion means supporting the development of a value chain by externally facilitating a value chain upgrading strategy. The upgrading strategy for any specific value chain aims to optimize the different stages of the chain as well as the links between them. A “cluster” is a value chain that is concentrated at the same location.



The selection of sub-sectors to be promoted as VC is a result of a participatory process in which the most important stakeholders of the public and private sectors agree on the priorities and rank them along market demand. The upgrading strategies for selected value chains are developed and decided in VC workshops, which also determine the governance structure of the VC. This leads in most cases to the establishment of producer groups or associations. The role of public sector institutions and of donor-financed projects becomes that of VC facilitators. The value chain approach in rural areas of Viet Nam is a largely unexplored terrain which requires improved public-private dialogue and cooperation.

The Product VC in SMNR-CV, Quang Binh

The VC approach in Quang Binh was a pioneering innovation. For the specific regional context of the SMNR-CV the general approach to VC promotion had to be adapted to the conditions of a relatively remote rural area, the economy of which was until recent largely subsistence-based with limited marketable surplus of mainly agricultural and forestry primary commodities, resulting in a low regional competitiveness. The SMNR-CV, together with the DPI, identified the priority sub-sectors to be promoted as value chains through a set of criteria which included the current and potential future demand for the product on local, national and international markets, the potential of income increases for poor households and rural SME, ecological considerations and a “quick win” constellation. The VC approach was selected as the most suitable instrument for the upgrading of production, processing and marketing of the following sub-sectors: Natural honey (apiculture), raw silk (sericulture), pepper, and mushrooms. Partnering with important stakeholders at district and commune level happened for each sub-sector. The implementation of specific action was then primarily steered by associations of private sector actors (small and micro producers), which became the owners of their respective VC promotion. Better market information is provided by public and private service providers and by improved downstream linkages to collectors and traders. Quang Binh has a private sector service provider, which was established with support from SMNR-CV, and which has meanwhile sufficient business volumes. Associations are well trained on management and communication skills and started active networking for improvements of trainings and better management tools.

Effectiveness

The introduction and application of value chain and cluster promotion followed a sequence of strategic decisions, from the more general considerations at the beginning of the project to very detailed issues of the facilitation strategy and its phasing out for specific value chains. The selection of the value chain approach was the result of an assessment of strategic options and alternatives, after the project had screened more than 20 different approaches to local economic development. The value chain approach was best suited to the specific economic framework conditions than can be found in relatively remote rural areas.

A participatory process of ranking, based on economic, social and ecological criteria, then led to the selection of priority sub-sectors. Steering of this process was needed for information such as assessments of production and market potentials, or environmental impact assessments. Finally a relatively high number of 4 specific value chains were selected. This strategy followed considerations like risk diversification, allowing for better trial and error approaches, and the provision of sufficient learning ground. The key stakeholders (producers, processing SME, traders) of each sub-sector then developed their operative strategies for upgrading the value chain, including operational and budget plans, after a profound analysis of strong and weak points in the different stages of a chain and in the linkages between them. Based on the operative or upgrading strategy of the key stakeholders, SMNR-CV developed for each value chain initiative a consultancy and facilitation strategy, which aims at the long-term development of the sub-sector through capacity development of the chain actors. The facilitation strategy is oriented towards synergies of implementation processes in 3 categories: Business processes, management processes, and back-up processes, which relate to the support of an enabling environment.

For each value chain, the facilitation strategy of the project followed changing needs of the key stakeholders. Initially the needs were support activities in technical aspects, which shifted later towards organizational aspects. The key learning results was the necessity to institutionalize the value chain through a formal establishment of associations or at least producer groups, as in the case of pepper and mushrooms. The upgrading strategies by the stakeholders and the related facilitation strategy by the project were accompanied by monitoring of achievements. Most important was here the degree of institutional consolidation of the producer groups and associations. Impact monitoring had different implications. In the very successful case of the VC

on natural honey this has led to an exit early phasing out of the direct project support. The value chain on raw silk needed a revised strategy towards higher competitiveness due to Chinese competitors. The pepper VC needed higher productivity due to falling world market prices.

Efficiency

Inputs or investments into the development and application of the value chain approach mainly refer to an initial adaptation of the methodology in the local context and to initial specific needs of the stakeholders in the selected sub-sectors. Resources for the implementation of the upgrading strategies came from the stakeholders themselves, and from a number of other cooperation partners. The inputs from the SMNR-CV project were mainly directed to input information, capacity building and building up cooperation in a wide network of partners. Since cooperation networks differ with each value chain, the example of the VC on natural honey is illustrated here.

Internal partners are those, which are directly affected by the upgrading strategy. They include district apiculture associations, beekeeper’s clubs at villages, the District People’s Committees (DPC), input suppliers for beekeeping and traders for honey products. Farmer’s Union and Agricultural & Forestry Stations in are referred to as secondary partners. External partners are as service providers indirectly involved in the upgrading strategy: the Bee Research and Development Centre, a consulting company, the CEFÉ Trainer’s Club, etc. The individual bee-keepers are mostly organized in village beekeeping clubs. The second tier, the apiculture associations on district level, is found most significant for the structure of the apiculture value chain in terms of institutional anchoring and roll out. The major functions of the associations cover a wide range of coordinating and steering tasks.

The cooperation between the SMNR-CV and the bee keepers became easier with the establishment and effective operations of the associations. Consequently, the role of the project changed from a driving stakeholder towards that of a facilitator. Cooperation reduced from a continuous support to a case-to case intervention. Technical training and consulting missions were increasingly delivered by the associations or other actors. With the institutional consolidation of the association, the direct project support could be phased out.





Value Chain

Lessons Learned from SMNR-CV in Quang Binh

Impact

The intended indirect benefits include the improvement of living conditions in the mountainous areas of the province and reduced over-exploitation of natural resources.

The observable changes in the province over the last years include

- a remarkable increase of the GDP in the poorer districts of the province, and a likewise over-proportional decrease of the poverty rates, and
- a much higher awareness of environmental concerns among all stake-holders in the public administration and the private sector

Most likely, government interventions such as infrastructure programs and more needs-based services have contributed most to these achievements. Better market access of previously remote communes of the province has encouraged more market-oriented modes of production among rural households and has led to new institutional forms in production, processing and marketing. Market opportunities and competitive advantages are identified and the improvement of technologies and communication for certain products and sub-sectors have improved. Dynamic individuals create networks of other producers and business linkages to upstream suppliers and downstream customers around them. These innovations are in fact the improvement of "value chains".

The application of these innovations is still in an early stage, but is supported by other donor-financed projects and is embraced by the private sector. The initiatives of the private sector may even be seen as most relevant when it comes to the longer term sustainability of the value chain approach, since it is driven by economic interest.

With the selection of pro-poor oriented sub-sectors the project actively worked towards the over-proportional decrease of poverty rates in the province and helped to generate a better understanding of production potentials in the market economy and market mechanisms particularly in more remote rural areas of the province. This was institutionally consolidated with the formation of producer groups and associations, which are better linked and have improved bargaining power against market forces and government.

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