

Management Response and Follow-up Note

Evaluation of Danida Support to Value Chain Development

This note to the Programme Committee summarises the main findings, conclusions and recommendations from the final report of the Evaluation of the Danida Support to Value Chain Development. It also includes the MFAs management response and intended follow-up to the evaluation. The evaluation was commissioned and managed by the MFAs Evaluation Department and conducted by an independent team of international and local consultants from a consortium of Orbicon and Wageningen UR.

1. Executive Summary

Introduction and approach

The purpose of this evaluation is to contribute to improving the design and implementation of Danida's bilateral programme cooperation under inclusive green growth and employment for future support to **value chain development (VCD)**. VCD interventions aim at establishing mutually beneficial links and incentives between smallholders and other value chain actors (such as processors, exporters and retailers) that interact for production and marketing of a given product. The design of VCD interventions is often based on a careful analysis of the business context, actors in the chain, and the relationships between chain actors.

Danida has supported VCD in different forms since 2002. A total of approximately DKK 1.3 billion was allocated for VCD specific interventions in the period from 2002 to 2012. The VCD portfolio includes a large diversity of interventions, some with a small VCD element and others with a more significant VCD element. These interventions often constitute components or sub-components of wider sector programmes. The evaluation has focused on Danida VCD interventions within 11 different countries, which include some elements of a VCD approach.

Data collection and analysis has been based on a mixed-methods approach, combining quantitative data analysis with qualitative methods. Three primary case countries (Burkina Faso, Serbia and Uganda) were selected for in-depth assessment, which included comprehensive quantitative and qualitative in-country data collection. Two secondary case countries (Kenya and Ukraine) were furthermore visited for additional data collection. The assessment of the remaining six interventions (in Albania, Ghana,

Mozambique, Zimbabwe, Tanzania, Central America) was based on documents, existing impact studies and interviews with Ministry of Foreign Affairs (MFA) staff. The evaluation findings build to a large extent on the findings from the five case country studies.

The “5Capitals framework” was used to structure the assessment of the five case country VCD interventions. It involved assessing the effect of the intervention in relation to five types of assets (natural, human, social, physical and financial capital assets) considered of critical importance for small- and medium-sized enterprises and farming households. The evaluation was undertaken in the period from January 2015 to February 2016.

Main findings from the evaluation

The Value Chain Approach: Based on established assessment criteria¹, the evaluation finds that the interventions in the Neighbourhood countries (Serbia, Albania and Ukraine) in general present the most developed VCD approach. The VCD interventions in African countries like Uganda and Kenya, are also relatively well-developed from a VCD perspective, within some of the supported chains. At the other side of the spectrum, the supported interventions within most of the chains in a country like Burkina Faso have less strong VCD characteristics. It is important to note, that the various interventions covered by this evaluation are implemented in sectors/sub-sectors that represent different levels of “maturity” (preparedness) for VCD interventions. In case of low maturity (e.g. in relation to most of the chains in Burkina Faso) it would not have been appropriate to implement a pure VCD approach given that the conditions in the sector/sub-sectors would not be fully supportive to the VCD approach. In these cases, elements from the VCD approach combined with elements from other development approaches could be a more effective intervention model.

Achievements: The impact assessments/surveys in Uganda, Serbia and Albania all showed significant increases in employment, income and production after two-three years of Danida supported VCD interventions. Monitoring data from Kenya also indicated significant employment effects from the VCD interventions. In Ukraine, income and production increased for a limited number of beneficiaries, while increase in employment was negligible (because of mechanization). Data from Ghana and Burkina Faso did not indicate any notable short-term effects in terms of employment and income. In those cases where employment effects were significant, the effects were much larger at the farming level than at the processing level. This is partly reflecting that Danida VCD support has been focused at the production level. It is also notable that the employment effects have mainly been in terms of unskilled labour in primary production (mainly women). An increased investment in equipment (e.g. for sorting) could in the medium-term result in a cut back of the newly employed labour. In this case women, who have benefitted most from the employment generation, would be particularly vulnerable to a cut-back in employment.

¹ The evaluation has used five specific criteria to analyse and score the value chain approach of the Danida supported VCD interventions: i) the extent to which the interventions are *based on a proper value chain analysis*; ii) the extent to which *sector/sub-sector wide challenges* are clearly identified and reflected in the interventions; iii) the extent to which *identification of bottlenecks and opportunities* have taken place; iv) the extent to which the VCD interventions present a *market focus*; and v) the extent to which considerations on *beneficiary/value chain actor segmentation* is considered.

The analysis based on the 5Capitals framework shows that the Danida supported VCD interventions have contributed to improvements in the asset bases of the primary beneficiaries (mainly farming households). However, in most countries there are still critical issues to deal with before the asset bases become sufficiently robust to ensure future benefits for the beneficiaries from participation in VCD interventions:

Natural Capital: The Danida supported VCD interventions have contributed in some cases to adoption of more environment friendly production techniques (e.g. in relation to farmers' use of fertilizers and chemicals), which are favourable to the natural capital asset base. At the same time, the VCD interventions have not to any larger extent addressed the risk of soil degradation, soil erosion, and water scarcity from the activities supported.

Human Capital: The Danida supported VCD interventions have contributed to improvements in the human capacity asset base, mainly in terms of improved technical agricultural production skills and food security within poor farming households.

Social Capital: Support has been provided through the VCD interventions for establishing of solid foundations for horizontal and vertical linkages in the value chains. This support has aimed at ensuring mutual benefits and improved relationships among the value chain players. The evaluation findings show however, that the Danida supported VCD interventions have only to a limited extent contributed to improvements in the relationships between value chain key players, both in terms of vertical and horizontal linkages.

Physical Capital: The Danida supported VCD interventions have contributed to improvements in the physical capacities and facilities for production and processing in the supported chains (new equipment, machinery, storage capacity, cooling facilities etc.). In the south of Serbia, it was estimated that the production and processing capacities for fruit and berries had increased 20-30% due to the Danida supported VCD interventions. Despite these efforts, lack of sufficient and proper equipment for storage and processing continue to be a key obstacle for development of the value chains within supported chains in most of the countries.

Financial Capital: The Danida supported VCD interventions have contributed to an improved financial capital asset base for targeted farming households and SMEs in the short term, mainly through provision of grants and loans and through increased income from production sale. However, the medium- to long-term foundation for further developing this asset base has not been established yet.

Cost-efficiency: The cost calculations do not provide evidence that some type of VCD interventions should be more expensive to run (administratively and technically) than others. Some VCD interventions that have worked through close partnerships with national government systems (e.g. Burkina Faso and Serbia) have suffered from serious delays in implementation.

Public sector involvement: The evaluation findings show that when national governments have played a key role in relation to the implementation of the VCD interventions, this has often created

issues with effectiveness and sustainability. Frequent reorganisations and changes in directions within government institutions, combined with low capacities and disincentives, have not been optimal conditions to support building of trust and business development in the supported value chains.

Results-orientation: There is in general a strong result-orientation in the Danida VCD supported interventions. However, focus is more on short-term results than on indicators important for the medium- to long-term impact of the supported interventions. VCD interventions should have a medium- to long-term development perspective².

Green Growth and Human Rights: Only the most recent VCD interventions (which were not part of the sample for this evaluation) were formulated within Danida's new strategic framework on Green Growth and Human Rights Based Approaches. It is therefore not surprising, that the evaluation findings show limited achievements within these areas. In terms of the human rights area, mainly gender and women concerns had been addressed in the Danida supported VCD interventions. In Burkina Faso and Ghana, women benefitted from particular focus on female dominated chains; in Uganda and Kenya, the VCD interventions have included particular gender components; and in Ukraine and Serbia women had an important role in relation to bookkeeping and financial management related to the VCD activities.

Conclusions

The evaluation findings have been used to formulate the following **overall conclusions**:

Conclusion 1: Danida has been using a large variety of VCD approaches and elements in its support to VCD interventions across countries and regions. **A flexible approach to VCD development has been relevant and useful**, given the rather different contexts and stages of market development within the supported countries. However, the supported interventions are only to a limited extent based on proper VCD analysis. In particular, in the past **the Danida supported VCD interventions have tended to be too production-oriented even in countries, where a more explicit focus on market mechanisms and sector-wide development issues would have been preferable from a VCD perspective**. More recently formulated Danida VCD interventions are to a larger extent taking these perspectives into consideration.

Conclusion 2: Based on the established target indicators for the main beneficiary groups (farming households/SMEs), the **effectiveness of the Danida supported VCD interventions has in general been high**. Tailor-made packages of technical assistance combined with access to finance proved to be effective means of support to targeted farming households and SME's in order to raise production levels, income and employment significantly within two-three year periods. This has happened, despite the fact that the supported VCD interventions have only to a limited extent focused on strategic

² Reference should here be made to the Guidelines to the DCED Standard for Results Measurement which specifies eight elements of a successful results measurement system, including "Defining Indicators of Change" and "Capturing Wider Change in the System or Market" which are of particular relevance to VCD result orientation. This further links to the need and usefulness of having well-developed Theories of Change in place for the VCD interventions.

development of marketing and markets for the production increases, which indicates that there have been “low hanging fruits” in terms of an immediate demand and buyers available for the produce.

Conclusion 3: In general, **the evaluation does not find that the supported VCD interventions have provided the foundation for a sustainable and more widespread medium- to long-term growth and sector development in relation to the supported chains.** In most of the targeted value chains, a number of important obstacles and challenges still need to be addressed, in particular at the sector/sub-sector levels. In some cases, the time horizon for the VCD interventions has been too short to expect any fundamental systemic changes, in other cases the design of the VCD interventions has been too focused on short-term production issues (push) without a clear strategic approach to address structural and systemic issues at the sector/sub-sector level.

Recommendations

The recommendations are grouped into two categories: a) **Strategic Recommendations** for Danida management and b) **Operational Recommendations** for Danish MFA operational units (embassies and offices in the Danish MFA).

Strategic Recommendation 1: Based on the specific context, it is recommended that **Danida will continue to consider VCD as a possible approach for support to private sector-led and inclusive green growth in partner countries.** However, the level of “maturity” of the supported sectors/sub-sectors should be used to determine the appropriateness of using a “pure” VCD approach or a combination with other development approaches.

Strategic Recommendation 2: When use of a VCD approach is found appropriate, it is recommended that Danida will **use a more strategic and coherent approach to planning of VCD interventions, based on proper value chain analysis to identify relevant and critical market development issues** in the particular sector/sub-sector. This should include reference to a set of minimum criteria related to application of a VCD approach (criteria for conducting of value chain analysis and chain selection)³ to be applied across different countries and regions. However, flexibility is needed, as value chains for export and non-export chains will need different approaches (for export, certification becomes an issue, e.g. Global GAP and organic certification). Likewise, difference in contextual factors will require use of different VCD approaches across countries.

Strategic Recommendation 3: In countries where Danida in the future will still have capacity and resources to design and manage implementation of VCD interventions, it is recommended that selection of national implementing partners will be based on **a more comprehensive and strategic assessment of the capacities and incentives of the potential partners to perform the role as VCD implementing partners.** This assessment should include consideration on public-private sector relationships, as well as of relationships between the national, regional and local levels (including potentials for upscaling and linking to sector policy development).

³ The GIZ Guidelines for Value Chain selection could serve as inspiration.

Strategic Recommendation 4: In countries where Danida will enter into a **transitional relationship** (moving from aid to commercial relations) in the near future, it is recommended that Danida will put specific efforts and resources into developing of **Partnerships** (public-private, private-private, public-public) in relation to VCD interventions. Such partnerships, building on **Danidas long-term working relationships with national counterparts**, may be useful to promote public or private sector investments in areas, which are currently considered major bottlenecks to VCD. The planning of these partnerships should include an assessment of relevant Danish key competencies, business opportunities and interest in relation to selected sectors/sub-sectors. It should also include a consideration of the possible need for additional support instruments to make synergies and linkages from VCD interventions to Danish commerce effective.

Operational Recommendation 1 (Design of VCD Interventions): In connection with preparation of new programmes with VCD elements included, it is recommended that the operational units of the Danish MFA will: i) more explicitly identify weak links in the value chains and prioritise more clearly which links to focus on during the VCD interventions; ii) increase contribution to solving sector-wide challenges through a more strategic focus on building of “critical masses” to become influential ; iii) more explicitly focus on the “market pull” dimension as a key characteristics of VCD interventions (linkages from market to primary production); iv) more sharply segment the agricultural households/enterprises in terms of VCD support (e.g. smallholders vs. corporate farms).

Operational Recommendation 2 (Results Measurement): It is recommended that the operational units of the Danish MFA will: i) facilitate development of robust Theories of Change (ToCs) with key stakeholders during the preparation stage, to establish a common framework and understanding on how the supported interventions are expected to lead to progress and results in the short, medium and longer term; ii) give more importance to inclusion and monitoring of relevant marketing and business development (pull) targets/indicators in the VCD interventions, iii) more critically consider the relevance of indicators established for poverty reduction in the programmes; iv) encourage and ensure capacity for self-monitoring of progress indicators by national implementing partners (based on relative simple and basic indicator framework).

Operational Recommendation 3 (Public sector engagement and models for extension services): It is recommended that the operational units of the Danish MFA will: i) carefully consider the modality for the working relationship with governmental institutions in VCD, based on the specific context. (e.g. more “punctual” working relation to solve a particular identified bottleneck in a value chain or strengthen very specific capacities in a ministry or public institution) rather than as an implementer of the VCD interventions); ii) look for innovative models for sustainable extension systems (e.g. models building on mutual incentives among farmers and input suppliers/buyers in the chains) to be tested as part of the VCD interventions as a supplement/replacement to the government extension system that rarely supports VCD in any of the countries.

Operational Recommendation 4 (Green Growth and Human Rights Based Approaches): It is recommended that operational units of the Danish MFA, **mainly through partnership modalities**,

will assess the possibility to: i) link VCD support to initiatives that support (provide incentives for) investments in energy efficiency and renewable energy in the industry (processing and storage); ii) link VCD support to initiatives that support more efficient and greener transport solutions to producers and buyers; iii) continue and upscale, also across countries, some of the good gender/women empowerment initiatives (such as the “Farming as a Family Business” from Uganda) to continuously contribute to a more equal distribution of responsibilities between men and women in commercial farm management within the supported chains; iv) handle the issue of youth more strategically and with special treatment in the VCD interventions, as it has been (successfully) done with gender/women empowerment issues.

2. General comments to the evaluation

MFA/Danida welcomes the evaluation, which has provided findings and recommendations of relevance for future preparation and implementation of MFA/Danida supported VCD programmes. VCD is a complex concept to evaluate on a programme portfolio basis. The context of the various countries and programmes is very diverse, and it is therefore difficult to derive findings and recommendations of a general nature.

MFA/Danida agrees with the findings that the value chain analyses, which form the basis for the design of the VCD interventions, to some extent has been of mixed quality. MFA/Danida welcomes the conclusion that the flexible approach to VCD applied in the various interventions has been relevant and useful. The contexts in which the programmes under evaluation operate are very diverse in terms of content, support modalities etc., and at a very different development stage ranging from East European countries, with the aspiration to become EU members, to some of the poorest countries in the world. Thus, and as recognised by the evaluation, the value chains that have been supported within the framework of the different programmes represent very different levels of maturity and “preparedness” for VCD interventions. MFA/Danida agrees to the evaluation’s conclusion that the VCD interventions have tended to be too production oriented, at least in the early programmes, and appreciate the recognition that there has been an increased focus on market related issues over time. MFA/Danida will continue to further strengthen these aspects within the framework of possible future support for VCD.

MFA/Danida also welcomes the evaluation’s conclusion that the effectiveness of the supported VCD interventions in general has been high and that technical capacity building combined with access to financial services apparently has been effective in raising the production, income and employment. The evaluation indicates that the mobilisation of financial services, in particular medium- and long-term finance for physical capital investments, appears inadequate. In this respect it is important to emphasise that Danida/MFA as far as possible wants to involve formal financial sector institutions to facilitate access to finance based on their own procedures. This is believed to be a more sustainable approach, although it may be more challenging to implement.

3. Follow-up to recommendations

Strategic Recommendation 1: Based on the specific context, it is recommended that **Danida will continue to consider VCD as a possible approach for support to private sector-led and inclusive green growth in partner countries.** However, the level of “maturity” of the supported sectors/sub-sectors should be used to determine the appropriateness of using a “pure” VCD approach or a combination with other development approaches.

MFA/Danida agrees to this recommendation. However, the VCD approach is not the only relevant approach in support of private sector-led growth. As for all other development cooperation interventions, the design of programmes in support of private sector-led growth, including VCD interventions, will depend on the specific country context in which the programme will operate.

Strategic Recommendation 2: When use of a VCD approach is found appropriate, it is recommended that Danida will **use a more strategic and coherent approach to planning of VCD interventions, based on proper value chain analysis to identify relevant and critical market development issues** in the particular sector/sub-sector. This should include reference to a set of minimum criteria related to application of a VCD approach (criteria for conducting of value chain analysis and chain selection)⁴ to be applied across different countries and regions. However, flexibility is needed, as value chains for export and non-export chains will need different approaches (for export, certification becomes an issue, e.g. Global GAP and organic certification). Likewise, difference in contextual factors will require use of different VCD approaches across countries.

MFA/Danida concurs with the recommendation that the design and planning of VCD interventions should be based on a value chain analysis (see also ‘Operational Recommendation 1’ below). However, MFA/Danida sees no purpose in defining “a set of minimum criteria” for conducting value chain analysis and selection. As pointed out by the evaluation, flexibility is needed and the comprehensiveness and type of analyses to be conducted will depend on the context. As for any development cooperation intervention, the design of VCD interventions should be based on analyses that underpin the Theory of Change and explain how the planned interventions will lead to the envisaged results.

Strategic Recommendation 3: In countries where Danida in the future will still have capacity and resources to design and manage implementation of VCD interventions, it is recommended that selection of national implementing partners will be based on **a more comprehensive and strategic assessment of the capacities and incentives of the potential partners to perform the role as VCD implementing partners**. This assessment should include consideration on public-private sector relationships, as well as of relationships between the national, regional and local levels (including potentials for upscaling and linking to sector policy development).

MFA/Danida agrees with the need to base the selection of implementing partners on an assessment of their capacities to take on their envisaged role in the further development of a specific value chain.

Strategic Recommendation 4: In countries where Danida will enter into a **transitional relationship** (moving from aid to commercial relations) in the near future, it is recommended that Danida will put specific efforts and resources into developing of **Partnerships** (public-private, private-private, public-public) in relation to VCD interventions. Such partnerships, building on **Danida’s long-term working relationships with national counterparts**, may be useful to promote public or private sector investments in areas, which are currently considered major bottlenecks to VCD. The planning of these partnerships should include an assessment of relevant Danish key competencies, business opportunities and interest in relation to selected sectors/sub-sectors. It should also include a consideration of the

⁴ The GIZ Guidelines for Value Chain selection could serve as inspiration.

possible need for additional support instruments to make synergies and linkages from VCD interventions to Danish commerce effective.

MFA/Danida agrees that, where relevant and possible, efforts should be made to facilitate transitional relationships based on various VCD partnerships. Danida is continuously trying to promote such transitional relationships e.g. through linkage to the MFA/Danida platform of business instruments, including IFU instruments, in order to promote synergies between development, investment and trade. The IFU managed Agribusiness Investment Fund, which is financed by Danida, IFU and Danish pension funds, is a good example of such an instrument that can promote transitional relationships and long-term sustainable business activities within the value chains. These activities are also envisaged to gradually form the basis for a stronger IFU presence at Danish Embassies in developing countries with promising investment potentials. However, it also has to be emphasised that the above instruments are based on a demand driven approach, and MFA/Danida therefore has limited possibilities to promote specific transitional relationships.

Operational Recommendation 1 (Design of VCD Interventions): In connection with preparation of new programmes with VCD elements included, it is recommended that the operational units of the Danish MFA will: i) more explicitly identify weak links in the value chains and prioritise more clearly which links to focus on during the VCD interventions; ii) increase contribution to solving sector-wide challenges through a more strategic focus on building of “critical masses” to become influential ; iii) more explicitly focus on the “market pull” dimension as a key characteristics of VCD interventions (linkages from market to primary production); iv) more sharply segment the agricultural households/enterprises in terms of VCD support (e.g. smallholders vs. corporate farms).

MFA/Danida agrees that these issues are important to consider in relation to the preparation and implementation of VCD programmes. To what extent the issues can be fully addressed depends to a large extent on the local context and the support modalities. However, as an example it should be mentioned that the EUN Department in a new programme that includes VCD in Albania to a higher extent than previously has analysed the weak links in the chosen value chains, and the specific value chain interventions will be based on this analysis. It also includes a strengthened focus on “market pull”.

Operational Recommendation 2 (Results Measurement): It is recommended that the operational units of the Danish MFA will: i) facilitate development of robust Theories of Change (ToCs) with key stakeholders during the preparation stage, to establish a common framework and understanding on how the supported interventions are expected to lead to progress and results in the short, medium and longer term; ii) give more importance to inclusion and monitoring of relevant marketing and business development (pull) targets/indicators in the VCD interventions, iii) more critically consider the relevance of indicators established for poverty reduction in the programmes; iv) encourage and ensure capacity for self-monitoring of progress indicators by national implementing partners (based on relative simple and basic indicator framework).

MFA/Danida recognises the need to continue to focus on further improving the ToC and related results framework during preparation as well as the subsequent monitoring during implementation. With regards to capturing wider changes as a result of VCD interventions, a balance has to be struck between the time and resources invested in M&E and the likely contribution of improved M&E for better results. Furthermore, implementation of most of the interventions in the neighbourhood region has been delegated to bilateral or multilateral partners and relies on these partners M&E frameworks for measuring results.

Operational Recommendation 3 (Public sector engagement and models for extension services): It is recommended that the operational units of the Danish MFA will: i) carefully consider the modality for the working relationship with governmental institutions in VCD, based on the specific context. (e.g. more “punctual” working relation to solve a particular identified bottleneck in a value chain or strengthen very specific capacities in a ministry or public institution rather than as an implementer of the VCD interventions); ii) look for innovative models for sustainable extension systems (e.g. models building on mutual incentives among farmers and input suppliers/buyers in the chains) to be tested as part of the VCD interventions as a supplement/replacement to the government extension system that rarely supports VCD in any of the countries.

MFA/Danida agrees with the recommendation and will continue to consider how to involve and engage the public sector in programmes applying a value chain approach. The scope and relevance of public sector involvement will depend on the specific context – as also pointed out by the evaluation. While more “punctual” relationships may be relevant, engaging with the public sector to address a specific bottleneck requires that the relevant public institution is able to ensure the delivery of concrete results; e.g. as long as a government is not capable of enforcing standards there may not be an immediate need for supporting the development of such standards under public management.

MFA/Danida finds it important to consider all relevant extension- and business development service models during the course of preparing new VCD interventions. However, MFA/Danida has some reservations with respect to taking on the task of developing “innovative extension models” within the framework of any VCD/PSD programmes. With the view to ensure ownership, an initiative to develop “models for sustainable extension systems” should come from private sector companies and/or producer organisations themselves. A demand driven approach for supporting processors/consolidators/input suppliers/producer organisations own training and extension programmes through “matching grants” or “challenge funds” modalities should continuously be considered.

Operational Recommendation 4 (Green Growth and Human Rights Based Approaches): It is recommended that operational units of the Danish MFA, **mainly through partnership modalities**, will assess the possibility to: i) link VCD support to initiatives that support (provide incentives for) investments in energy efficiency and renewable energy in the industry (processing and storage); ii) link VCD support to initiatives that support more efficient and greener transport solutions to producers and buyers; iv) continue and upscale, also across countries, some of the good gender/women empowerment initiatives (such as the “Farming as a Family Business” from Uganda) to continuously contribute to a more equal distribution of responsibilities between men and women in commercial farm management within the supported chains; iv) handle the issue of youth more strategically and with special treatment in the VCD interventions, as it has been (successfully) done with gender/women empowerment issues.

MFA/Danida has in recent years to an increasing extent tried to link VCD support to initiatives that support investments in energy efficiency and renewable energy within the value chain. The results have generally been successful, and MFA/Danida will continue to follow this approach in the future. MFA/Danida will also continue to focus on the gender perspective in the VCD interventions and increase focus on youth more strategically.

Specific VCD approaches may be replicated to other countries if there are good reasons to do so. However, again it has to be emphasised that the context and the support modalities vary considerable from country to country, and it may therefore not be possible or suitable to replicate specific approaches across countries.