

## The Value Initiative

*Advancing urban value chain development to help millions of people work their way out of poverty.*

## Engaging Government in Inclusive Value Chain Development

AUTHORS

Rajiv Pradhan, Richard Rose, and Conor Riggs



Technical Note

MAY 2012

Copyright © 2012 The SEEP Network

Sections of this publication may be copied or adapted to meet local needs without the permission from The SEEP Network, provided that the parts copied are distributed for free or at cost-not for profit. Please credit the “The Value Initiative” and The SEEP Network for those sections excerpted. This study is made possible in partnership with The Bill and Melinda Gates Foundation. The contents are the responsibility of The SEEP Network and do not necessarily reflect the views of The Bill and Melinda Gates Foundation.

For any commercial reproduction, please obtain permission from:

**The SEEP Network**

1611 North Kent Street, Suite 610

Arlington, VA, 22209

(tel) 202.534.1400 (fax) 202.534.1433

Email: [seep@seepnetwork.org](mailto:seep@seepnetwork.org)

**The Value Initiative**

*Advancing urban value chain  
development to help millions of  
people work their way out of poverty.*

# Engaging Government in Inclusive Value Chain Development

## *Value Initiative Working Paper*

AUTHORS

Rajiv Pradhan, Richard Rose, and Conor Riggs



# Table of Contents

<b>About SEEP</b>	<b>6</b>
<b>About the Value Initiative</b>	<b>6</b>
<b>Urban Value Chain Development</b>	<b>6</b>
<b>Business Planning for Sustainability and Scale-Up</b>	<b>7</b>
<b>About iDE</b>	<b>7</b>
<b>Introduction</b>	<b>8</b>
<b>Rationale for an Improved Approach for Engaging Government in Inclusive Value Chain Development</b>	<b>8</b>
<b>Scope of Government Engagement by Value Initiative Programs</b>	<b>12</b>
<b>Tips for Effective Government Engagement</b>	<b>13</b>
– Strategy and Approach	13
– Entry Points	15
– Inclusive Implementation	16
<b>Value Initiative Successes in Government Engagement</b>	<b>19</b>
– Value Initiative Programs Utilized Skills in Brokering Partnerships	19
– Evidence-Based Results Demonstrated Success to Government Actors	20
– VIP Demonstration Programs Leveraged Government Connections and Support	21
<b>General Challenges in Government Engagement</b>	<b>22</b>
<b>Conclusion</b>	<b>23</b>

## **Acknowledgements**

The authors would like to express their thanks to The SEEP Network for commissioning this important work, and to Sonali Chowdhary, Director of Enterprise Development Community of Practice and Yibin Chu, Program Manager of Enterprise Development Community of Practice at The SEEP Network for their advice and generous support throughout the production of the report.

Special thanks are also extended to the participants of the Value Initiative Programs across the world for providing the invaluable insights which informed our findings. In particular Rajesh Jain, Navin Vivek Horo, Rewasa, and Mansi Mahajan at Access Development Services in India; Sean Granville-Ross and Irfan Syah at Mercy Corps, and Prashant Rana from Swisscontact in Indonesia; Stanley Kulei, Benjamin Andama, Naiomi Lundman, and Brian Kizito from the AMPATH team in Kenya; and, Beverley Morgan and Nicardo Neil from the Competitiveness Company in Jamaica.

## **About SEEP**

The SEEP Network is a nonprofit network of over 130 international organizations that believe in the power of enterprise to reduce global poverty. SEEP members connect in a global learning community to increase their impact in over 170 countries, where they collectively serve over 89 million micro entrepreneurs and their families. Through SEEP's learning initiatives, microenterprise development practitioners co-create and exchange strategies, standards, and tools for building healthy economies with a sustainable income in every household.

**[www.seepnetwork.org](http://www.seepnetwork.org)**

## **About The Value Initiative**

From 2008 to 2011, with support from the Bill and Melinda Gates Foundation, The SEEP Network's Value Initiative advanced the knowledge and practice of urban value chain development to stimulate sustainable, large-scale, and poverty reducing economic growth, with a special focus on vulnerable populations. The \$6.5 million Value Initiative has two core Practitioner Learning Programs: 1) Urban Value Chain Development and 2) Business Planning for Sustainability and Scale-Up.

### ***Urban Value Chain Development***

Although value chain development represents an innovative and systematic approach to address poverty, best practices for urban settings have yet to be well defined and broadly disseminated. In response to this need, the Value Initiative provided technical assistance with three-year grants to four demonstration programs in Kenya, India, Indonesia, and Jamaica. The SEEP Network facilitated capacity building, peer learning, and supported knowledge management process and research to advance and build the industry capacity in urban value chain development. The four Value Initiative Programs (VIPs) were implemented with the following partners.

Program Name	Lead Organization	Partner Organizations	Sub Sector	Location
VIP India	ACCESS Development Services	<ul style="list-style-type: none"> <li>• Jan Kalyan Sahitya Manch Sansthan (JKSMS)</li> <li>• Rajasthan Abhyudaya Sansthan (RAS)</li> <li>• Jaipur Jewelers Association</li> </ul>	Jewelry	Jaipur, India
VIP Kenya	Academic Model Providing Access to Healthcare (AMPATH)	<ul style="list-style-type: none"> <li>• Export Promotion Council (EPC)</li> <li>• Fintrac</li> </ul>	Passion Fruit	Eldoret, Kenya
VIP Jamaica	Jamaica Exporters' Association	<ul style="list-style-type: none"> <li>• The Competitiveness Company</li> <li>• Area Youth Foundation</li> </ul>	Ornamental Fish	Kingston, Jamaica
VIP Indonesia	Mercy Corps Indonesia	<ul style="list-style-type: none"> <li>• Swisscontact</li> <li>• PUPUK</li> </ul>	Tofu & Tempeh	Jakarta, Indonesia

### ***Business Planning for Sustainability and Scale-Up***

The Value Initiative partnered with five organizations to foster learning on innovative business models for sustainable, larger-scale enterprise development reaching a wider target group of marginalized communities:

- Entrepreneurship and Community Development Institute (Pakistan)
- Fair Trade Forum (India)
- LabourNet (India)
- SDC Asia (Philippines)
- KeBal/Mercy Corps (Indonesia)

For more information about the Value Initiative, including tools, additional learning products, photos and videos, please visit [www.seepnetwork.org](http://www.seepnetwork.org) or contact Yibin Chu, Program Manager of Enterprise Development Community of Practice at [chu@seepnetwork.org](mailto:chu@seepnetwork.org).

### **About iDE**

International Development Enterprises (iDE) is a non-profit, non-governmental organization (NGO) incorporated in 1982 in the United States, with affiliated non-profit organizations in Canada and the United Kingdom. Its mission is to create income and livelihood opportunities for poor rural households. iDE works to reduce poverty and improve rural livelihoods through pro-poor market development, and introducing (or enhancing) market systems that serve poor women and men, enabling them to increase production, create wealth, and improve their quality of life. iDE-Bangladesh is a volunteer partner of the Value Initiative, bringing its direct experience of engaging government in market-driven development initiatives through its ongoing Rural Enterprise Development project in southern coastal Bangladesh.

# Introduction

A business-enabling environment is a critical determinant of positive impacts in value chain development projects. No matter the country or sector context, support from government actors often dictates the extent to which businesses can thrive and grow or stagnate and collapse.

Supportive government relationships and services are especially important to small and micro enterprises. Yet these enterprises are often neglected in favor of “top-down” government policies that support medium and large businesses instead. As a result, smaller enterprises tend to remain informal and produce below their growth potential. Consequently, inclusive private-sector development requires government reforms that are more aware of and responsive to the needs of smaller, micro, and informal businesses throughout the market because the reforms take their perspectives into account. For organizations engaged in value chain development, understanding the role of government and ways to increase its participation and the quality of its support in such work is crucial to sustainable, positive impacts.

This paper analyzes the good practices of the four programs of the Value Initiative and identifies effective tips for engaging government in value chain development with a “bottom-up” approach. Through their work, these programs learned how to engage the government and attract the support of key government officials to aid their work and increase sustainability. As a result, from design to implementation, the pilot tests and activities of the Value Initiative programs broadly demonstrated to government actors a “proof of concept” with their successful interventions and strategies. In response, government officials recognized the value of these approaches, interventions, and activities and more actively engaged in and supported these methods.

The Value Initiative programs highlighted several challenges when engaging governments that value chain development organizations should pay greater attention to:

- Be prepared that effectively engaging government actors takes time.
- Recognize and fill gaps in knowledge and understanding between government and communities.
- Provide training or help if government actors are unfamiliar with value chain development approaches.
- Find shared priorities and incentives among market actors in the value chain.
- Introduce the mindset among government actors that the market can and should deliver public services.

## **Rationale for an Improved Approach for Engaging Government in Inclusive Value Chain Development**

A well-established method promoted by both donors and NGOs is needed to engage government in policy reform to facilitate a business-enabling environment that supports private sector development. Incorporating efforts to reform the business-enabling environment in value chain development is becoming well documented in a growing literature on best practices around the world in a wide range of sectors. Guides for analyzing value chains by major donors and implementers—such as the US Agency for International Development (USAID), United Nations Industrial Development Organization (UNIDO), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), World Bank Group, International Labor Organization (ILO), and others—cover approaches to assessing and reforming the business-enabling environment.



USAID has adapted lessons learned from both its earlier work on policy reform efforts and the 15 principles promoted by the Donor Committee for Enterprise Development.<sup>1</sup> Organizations, such as International Finance Corporation (IFC), are producing significant work in strengthening the business-enabling environment through either direct reforms or support of government reforms. Such reforms include interventions in business registration, business licensing, business inspections, municipal simplification, corporate tax administration, export and import procedures, capacity building for business membership organizations, and alternative dispute resolution.<sup>2</sup>

Reforms such as these can be successful in achieving macro indicators of growth and economic performance by primarily supporting medium-to-large businesses. Governments in developing countries have supported specific industries and sectors as part of overall development strategies through a combination of policy measures, ranging from concessionary financing, tax breaks, and provision of trade credit to subsidies, public-private partnerships, and promotion of foreign investment.

The “East Asian miracle” is an interesting example of the successes and failures of top-down, government-directed, private-sector development: governments across East Asia used industrial policy to direct export sector development and promote record economic growth.<sup>3</sup> These East Asian governments have been credited for promoting, rather than thwarting, the development of private entrepreneurship in a number of different ways:

- Implementing policies that actively sought to ensure macro-economic stability
- Attempting to make markets work more effectively through better financial regulation
- Creating markets where they did not exist previously
- Helping direct investment to ensure that resources were deployed in ways that would enhance economic growth and stability
- Creating an atmosphere conducive to private investment and ensuring political stability<sup>4</sup>

The East Asian miracle was less successful in achieving inclusive growth, however, resulting in what the Asian Development Bank described as the “two faces of Asia—one ‘shining’ and one ‘suffering.’”<sup>5</sup> Small enterprises achieved minimal net gains over this period, relative to medium and large businesses, especially following the 1997 Asian Financial Crisis.<sup>6</sup> Since 1990, inequality has risen in 14 of 20 Asian countries where data is available.<sup>7</sup>

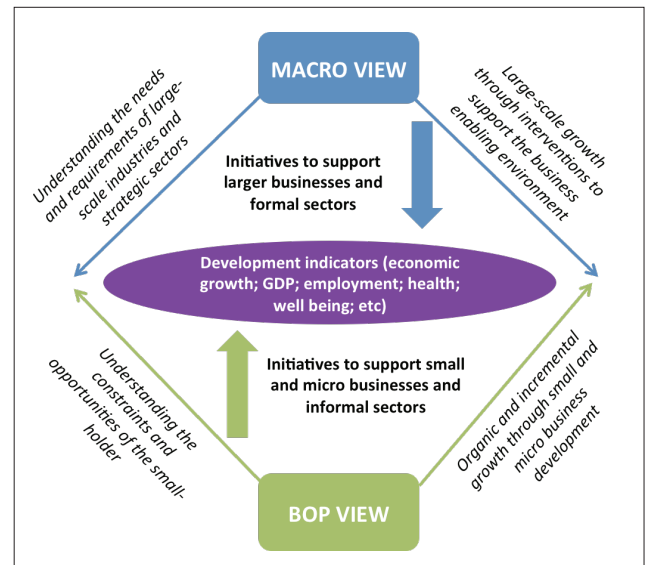


Figure 1: Approaches to Private Sector Development

1 See S. Kleinberg and R. Campbell, 2008, “Business Enabling Environment and the Value Chain,” microlinks Briefing Paper (Washington, DC: USAID), [http://www.microlinks.org/ev\\_en.php?ID=24871\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=24871_201&ID2=DO_TOPIC); and Donor Committee for Enterprise Development, 2008, “Supporting Business Environment Reforms: Practical Guidance for Development Agencies,” [http://www.businessenvironment.org/dyn/be/docs/DonorGuidance\\_English.pdf](http://www.businessenvironment.org/dyn/be/docs/DonorGuidance_English.pdf).

2 See <http://www.ifc.org/bee>.

3 See J.E. Stiglitz and Y. Shahid, eds., 2001, *Rethinking the East Asian Miracle* (Washington, DC: World Bank and Oxford University Press).

4 See J.E. Stiglitz, 1996, “Some Lessons from the East Asian Miracle,” *World Bank Research Observer* 11 (2): 151–77.

5 Z. Juzhong and A. Ifzal, 2010, “Poverty, Inequality, and Inclusive Growth in Asia,” in *Poverty, Inequality, and Inclusive Growth in Asia: Measurement, Policy Issues, and Country Studies* (Mandaluyong City, Metro Manila, the Philippines: Asian Development Bank), 1.

6 *Ibid.*, 4.

7 See W. Easterly and R. Levine, 2001, “What Have We Learned from a Decade of Empirical Research on Growth? It’s Not Factor Accumulation: Stylized Facts and Growth models,” *World Bank Economic Review* 15 (2): 177–219, doi: 10.1093/wber/15.2.177.

Due to the often top-down and fragmented nature of reforms aimed at medium and large businesses, such an approach can fail to support smaller businesses, micro entrepreneurs, and those engaged in the wider informal sector. This presents a missed opportunity, as the informal sector and small and micro businesses often constitute a significant proportion of the economy, presenting an opportunity to achieve more impact on poverty alleviation at the grass-roots level. In many sectors small, micro, and informal businesses play an important role in value chains. In failing to view the market system holistically, government policy reforms can exclude such smaller, informal businesses. See Figure 1: Approaches to Private Sector Development above for an overview of the bottom-up, top-down dichotomy in approaches to private sector engagement.

This issue is understood by proponents of the creating shared value (CSV) concept, such as Michael Porter and Mark Kramer. CSV focuses on the connections between societal and economic progress, with the argument that the competitiveness of a company and the health of the communities around it are mutually dependent. Rather than viewing society and business as in opposition to each other, CSV seeks to move beyond the trade-offs between short-term profitability and social or environmental goals, and focus upon on the opportunities for competitive advantage from building a social value proposition into corporate strategy. Indeed, Porter and Kramer contend that one of the key ways that companies can create shared value is through inclusive value chain development—bringing small and micro market actors into a value chain. Inclusive value chains can improve the quality, quantity, cost, and reliability of inputs and distribution, enabling companies to simultaneously act as a steward for essential natural resources and drive economic and social development.<sup>8</sup>

Therefore, in order to have a more inclusive development impact, it is crucial that government reforms become more open to, and supportive of, small, micro, and informal businesses throughout a value chain. This approach is consistent with the emerging focus upon *inclusive business*, where businesses maintain their for-profit nature, while contributing to poverty reduction by including low-income communities in their value chains. More and more, donors are promoting inclusive business models, such as DFID’s (UK Department for International Development) Business Innovation Facility, which seeks to sustain the development and uptake of inclusive business models by companies in developing countries.<sup>9</sup> The donor consortium-funded Katalyst project in Bangladesh<sup>10</sup> uses the “Making Markets Work for the Poor” approach to increase the competitiveness of medium, small, and micro enterprises in selected urban and rural sectors in Bangladesh. There are also some examples of where government reforms have supported inclusive business. In Indonesia and Bangladesh, for example, businesses have been encouraged to engage in CSV activities through government tax breaks.

Inclusiveness is better achieved by understanding the reform issues through the eyes of the small businesses. To do this, it is important to understand the conversion points between small, micro, and informal businesses and government. This can be a bottom-up, instead of a top-down, process. Indeed, there are many examples now of social and business innovations focusing on development through the eyes of the small and microbusinesses. Paul Polak, social entrepreneur and founder of iDE, sees the poor as entrepreneurs and consumers, not just beneficiaries of aid or development. In *Out of Poverty*, Polak advocates a “voice of the customer” approach to NGOs and proponents of development, to ensure that initiatives are informed by the needs and aspirations of the poor (demand-driven), rather than meeting the agendas of the development industry (supply-driven).<sup>11</sup>

---

8 See M. Porter and M.R. Kramer, 2011, “Creating Shared Value: How to Reinvent Capitalism—and Unleash a Wave of Innovation and Growth,” *Harvard Business Review* (January–February), [http://www.waterhealth.com/sites/default/files/Harvard\\_Business\\_Review\\_Shared\\_Value.pdf](http://www.waterhealth.com/sites/default/files/Harvard_Business_Review_Shared_Value.pdf).

9 <http://businessinnovationfacility.org>.

10 Donors comprise DFID, Swiss Agency for Development and Cooperation, Canadian International Development Agency, and Royal Netherlands Embassy. See also <http://www.katalyst.com.bd/>

11 P. Polak, 2008, *Out of Poverty* (San Francisco, CA, USA: Berrit-Koehler Publishers).

These sentiments have been echoed most powerfully by William Easterly in *The White Man's Burden*, where he distinguishes between development “planners,” who contrive to impose large-scale top-down plans on developing countries, and “searchers,” who look for bottom-up solutions to the needs of communities.<sup>12</sup> For Easterly, the searchers are more realistic than the utopian planners: because they are responsive to the customers’ requirements, they have a much better chance of succeeding. Moreover, more and more literature show both businesses and development organizations can support demand-led, customer-oriented interventions through base of the pyramid (BOP) business models and approaches.

Ted London and Stuart Hart, in *Next Generation Business Strategies for the Base of the Pyramid*, see the BOP—or the poorest and most marginalized people in the world economy—as an incubation opportunity, where low-cost technologies can first be tried and assessed, and then transferred to developed economies.<sup>13</sup> Accordingly, understanding the perspectives and needs of small, micro, and informal businesses is critical to genuinely inclusive enabling-environment reforms and policies articulated and implemented by government actors.

Because the services that a government provides—or fails to provide—affect all economic activity, any effort to promote growth and reduce poverty must consider the current roles of government and develop strategies for engagement. Many value chain interventions have primarily focused on engaging government from the top down in efforts to reform the business-enabling environment for the targeted value chain and large-scale private enterprise. However, there is increasing evidence that development partners have collaborated with government at the local level—from the bottom up—in value chain projects.

iDE advocates such bottom-up approaches, which focus on core service delivery, evidence-based results, and strengthening of the ancillary service market. iDE promotes a process of pilot activities that includes the poor, service providers, and enabling-environment actors. The aim is to 1) generate demand for the service from the poor, 2) demonstrate to service providers and enabling-environment actors the value of service provision to the poor, and 3) strengthen ancillary services in the market system. Achieving these outcomes results in a proof of concept, where the project’s strategy, interventions, and activities are recognized as effectively contributing to value chain and sector growth, and poverty reduction. Demonstrating proof of concept is the critical precursor to scaling-up the project (or “concept”) and its related strategy, interventions, and activities to a maximum number of the poor.

This paper analyzes the four Value Initiative programs (VIP India, VIP Indonesia, VIP Kenya, and VIP Jamaica) in terms of its bottom-up engagement with its respective government. Primarily, each Value Initiative program demonstrated to the government actors a proof of concept through successful pilot tests of their interventions and activities. Broadly, the government actors recognized the effectiveness of these programs and changed their behavior. The programs’ results have subsequently been leveraged to increase engagement and support for future scale up, whether through new projects or independent government activities.

Seeking to get a practical sense of how the Value Initiative programs worked with government actors to make value chains more inclusive, the paper analyzes the successes and failures, and draws tips for future actions which seek to involve government in inclusive value chain development.

---

12 W. Easterly, 2006, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin).

13 See S.L. Hart, 2010, “Taking the Green Leap to the Base of the Pyramid,” in *Next Generation Business Strategies for the Base of the Pyramid*, ed. T. London and S.L. Hart (Upper Saddle River, NJ, USA: FT Press).

## Scope of Government Engagement by Value Initiative Programs

Although operating in diverse sectors, the four programs sought government collaboration and participation (Table 1) in their respective locations on a range of different issues:

- All four programs began by apprising appropriate government actors of their interventions and aims.
- VIP Kenya focused on developing entrepreneurship skills of small and micro farmers, specifically in HIV and AIDS-afflicted communities.
- VIP Kenya and VIP India worked to formalize microenterprises.
- VIP Jamaica dealt with product certification issues for import and export.
- VIP Indonesia and VIP Kenya introduced environmental protection and cleaner production quality as part of their interventions.
- VIP India, VIP Jamaica, and VIP Kenya expanded the outreach of existing government programs, such as the provision of training curriculums.

**Table 1 Overview of Value Initiative Programs and Government Engagement**

VIP INDIA		VIP INDONESIA	
Partners	ACCESS Development Services, Jaipur Jewelers Association, and 3 community-based NGOs	Partners	Mercy Corps Indonesia, Swisscontact Indonesia, MICRO (MFI capacity-building NGO), PUPUK (NGO business development organization)
Sector	Jewelry in Jaipur, India, a traditional, large, informal sector industry	Sector	Tofu and tempeh production in Jakarta, a traditional, large, informal sector industry
Targets	20,000 microenterprise owners, family-based manufacturers and workers	Targets	40,000 microenterprise owners, family-based producers, vendors, and workers
Strategy	Link to markets that value design and clean/fair supply chains and designs	Strategy	Market linkages to support markets, product upgrading to target middle class consumers, general quality and efficiency improvements
Social challenges	Poor returns, poor working conditions, access to education for artisan families, improved migrant worker practices	Social challenges	Poor returns, insecure tenure, access to water and electricity, pollution
Social solutions	Identity cards, access to health insurance, education	Social solutions	Advocacy around tenure, identity cards, improved environment, empowerment
Business challenges	Production focused on raw material, market focused on design	Business challenges	Poor health practices, traditional packaging, high competition
Business solutions	Information and technology market exchange platform, finance, group organizing, technology and design services	Business solutions	Poor health practices, traditional packaging, high competition
Government engagement activities	<ul style="list-style-type: none"> <li>• Lobbied for regulation of gem and jewelry artisans</li> <li>• Lobbied government to undertake a number of artisan-supportive measures</li> <li>• Lobbied for expansion of an artisan ID and credit card distribution program</li> <li>• Development of (jewelry) design training modules for government program</li> <li>• Piloted public vocational education program for high school students</li> <li>• Demonstrated value of “smart subsidies” in government artisan training schemes</li> <li>• Lobbied for reduction in the value-added tax (VAT) for jewelry-related inputs</li> <li>• Developed Project Advisory Committee, a forum for design institutes and government officials to interact concerning the overall sector in Jaipur and conditions for artisans within the market</li> </ul>	Government engagement activities	<ul style="list-style-type: none"> <li>• Explored financing scheme with the Ministry of Environment</li> <li>• Developed and conducted joint trainings for tofu and tempeh producers; trained cadre of government trainers</li> </ul>

VIP JAMAICA		VIP KENYA	
Partners	The Competitiveness Company, Jamaica Exporters' Association, Area Youth Foundation	Partners	AMPATH, Export Promotion Council, Fintrac
Sector	Ornamental fish in Kingston, an emerging export sector, common hobby	Sector	Passion fruit and African leafy vegetables
Targets	6,500 microenterprise owners and workers, violence-affected communities, young men	Targets	11,000 people, including producers and service providers
Strategy	Target domestic and US market, undercut Asian competition	Strategy	Graduation model from leafy vegetables to passion fruit production, leveraging lead farmers and supporting service providers
Social challenges	Violence, gangs, drugs, poor education, family breakdown, economic exclusion	Social challenges	Producers' health, stigmas regarding HIV/AIDS across market actors, single-parent households
Social solutions	Life skills, peace and reconciliation, empowerment	Social solutions	Empowerment, income-generation
Business challenges	Low volume, few varieties, weak market linkages	Business challenges	Geographic dispersion, aggregation, transportation, weak market linkages
Business services	Market linkages, consolidator function, finance, technology and training	Business solutions	Consolidator and marketing functions, market linkages, training
Government engagement activities	<ul style="list-style-type: none"> <li>Engaged Ministry of Agriculture and Fisheries in production training support and provision</li> <li>Demonstrated potential value of ornamental fish sector to government</li> </ul>	Government engagement activities	<ul style="list-style-type: none"> <li>Facilitated improved linkages between supporting service providers and Ministry of Agriculture</li> </ul>

# Tips for Effective Government Engagement

Understanding how to tackle engagement with government is crucial to the success of value chain projects seeking the support of government officials at all levels. Based on the experiences of the Value Initiative demonstration programs, it is possible to outline general best practice principles to guide others seeking to engage government in inclusive value chain development. Although varied in their scope, scale, and remit, the Value Initiative demonstration programs highlighted a number of common elements in the strategy and approach employed, the tactics used in engagement, and the implementation of the projects themselves (table 2). Many of these common elements can be considered key success factors. The tips for effective engagement introduced in table 2 are further detailed as good practices.

## Strategy and Approach

The successful Value Initiative demonstration programs made strong efforts to understand the political economy of the context in which they were seeking to intervene. Approaching the government with a clear picture of what the program could offer and what support they required, and anticipating the incentives of the respective government actors enabled them to find the points of collaboration necessary to establish “buy-in” from the government partner. This work set the tone for more effective working relations throughout each program. There are a number of key tips which the experiences of the Value Initiative programs have highlighted in this regard.

**Tip 1: *Think big, analyze the full scale-up potential of the project, and situate it within the overall country context.***

Prior to working with government actors, a project should have a strong sense of the market potential in its targeted value chain. Greater potential for outreach is often more likely to generate sustained interest from the public sector. Achieving scalable results at the pilot stage can demonstrate to government actors the potential impacts from the delivery of interventions and activities according to the project's approach and design.

**Tip 2: *Understand the incentives of government actors.***

A vital element of the value chain approach is understanding the incentives of the market actors involved in the system. In particular, with respect to engaging government, it is important to identify the incentives of the government actors at every level of the government because they may differ within and among agencies. This was a key element in the Value Initiative programs, which all successfully understood the motivations of their respective government partners and the value they could bring to the programs. The programs clearly invested substantial time and resources in identifying these incentives, as each group attempted to understand the motivations of the government partner and build the trust required to form an effective working relationship.

The Value Initiative demonstration programs identified the key issues in the business-enabling environment in a range of activities:

1. Engagement with value chain actors in stakeholder meetings and formal and informal meetings with other sector stakeholders, including government, at both the higher and lower level
2. Employment of value chain analysis tools, such as market surveys, gap analyses, and value chain mapping
3. Modification and supplementation of initial findings throughout implementation through baseline and follow-up surveys, and ongoing informal engagement with target enterprises and other market actors

The programs were able to prioritize the issues by assessing the potential impact of achieving the overall objectives of the program. If the risk was high enough to present a potential threat to the overall achievement of the objectives, the issues were given a high priority for mitigation through program activities.

**Tip 3: *Align the project toward achieving the objectives of the government partner.***

Aligning the project with the incentives of the government partners ensures buy-in from the partners and fosters closer partnership. The VIP Indonesia team successfully identified key areas in the program that aligned it with the objectives of the government partner and was able to influence how the program was delivered to support its objectives. The program identified the Ministry of Environment's Debt for Nature Swap program, which provides training and technical advice to tofu producers for cleaner production and facilitates access to finance through a soft loan product available from a leading bank in Indonesia. The team identified this as a key area for collaboration as the government body had a mandate to expand the outreach of the Debt for Nature Swap program. The expansion was to be achieved by creating new consultants and experts. The Ministry of Energy agreed to support the implementation of a training program for providers of technical assistance to tofu producers.

This was also evident in VIP India, where the team aligned the program's objectives with the government's own time-limited targets for the jewelry sector. The large number of beneficiaries involved in VIP India (some 20,000 local artisans) presented a significant enough number for the government to engage in the work sphere. Because the government recognized the jewelry sector as a revenue earning sector, the program could successfully present the case for a

significant impact that could benefit both parties. Demonstrating this case provided the incentive for government to support the program.

**Tip 4: *Identify areas where partners can work jointly.***

Joint implementation can also help focus government and development partners on the common enterprise of developing local value chains. This not only supports the project but also mitigates the adverse effects of other government activities, such as subsidies, which can affect the project.

## **Entry Points**

All the Value Initiative programs highlight the importance of taking a proactive approach to engaging with government agencies at a number of levels in the government bureaucracy. In particular, it is clear that specifically targeting key players played a major role in successfully attracting the government to the projects. The teams not only identified the appropriate contact person in the government agency but lobbied to ensure that these contacts clearly understood the program and the benefits of cooperating together. The Value Initiative demonstration programs identified a number of ways to find and take advantage of entry points to increase government engagement.

**Tip 5: *Identify target officials.***

Often government bureaucracies feature quite rigid and linear structures of accountability and management. Officials generally rely upon this system for personal and professional advancement and can be highly cautious about jeopardizing their position in the hierarchy. The absence of bad news or problems reported to superiors often outweighs the positive effects of making change on the ground, and many government officials, particularly in lower-ranking positions and in regional posts, can be very risk-averse. Therefore, it is vital that the identified contact points for engagement are influential enough to enable lower-ranking officials to work with a value chain development organization without fear of sanction by their superiors, particularly in the early stages of a project when few results in enterprise performance and sector-level changes can be demonstrated.

**Tip 6: *Prepare key documentary materials.***

From as early as its design phase, a project should prepare its staff to comprehensively record its interactions with government actors throughout implementation. This enables project staff to understand what promises government actors may have made and follow trends in government officials' interest over the course of the project. Further, having a clear history of engagement (or lack thereof) between the project and government actors can provide the background needed to encourage initial or greater involvement from them if and when needed by the project.

**Tip 7: *Identify specific areas for possible government support.***

Once relevant government officials have been identified and documentation systems are in place, the project must determine the ways in which government support can best complement the project, whether during implementation or future scale up, for example. Just as important is identifying the ways in which increased government involvement might hinder the project. Understanding the best areas to collaborate, while avoiding what may be unsupportive, enables the project to develop a clear plan for how it wishes to engage government officials in the project and its targeted sector(s).

**Tip 8: *Present the project to demonstrate potential value to government.***

In order to maintain good relations with the relevant government actors, the project should formally present itself, its strategy, its partners, and its potential impacts as soon as possible. Ideally, this presentation should occur before or during the inception phase of the project, so that the government is fully aware of the project's existence and has an opportunity to collaborate as early as possible if interested. Inviting government agencies and officials to a formal inception workshop is typically an effective means to alert the government to the project's existence.

Further, the project should explicitly state its goals and anticipated results to the invited government actors. This is the project's best chance to encourage a supportive and active government role; at the very least, it increases the likelihood that the project's activities will be monitored favorably by the government throughout implementation.

**Tip 9: *Invite government engagement and support.***

Although never guaranteed, the project should make every effort to invite the government as a formal or even informal partner in the project. Doing so will promote and help maintain good relations with government officials. It may also lead to mutually beneficial collaborations that strengthen the project during implementation or increase the likelihood of sustainability following its conclusion.

**Inclusive Implementation**

The programs demonstrated throughout the Value Initiative that successful engagement with government comes through a process of ongoing relationship management. Early clarity of agreements plus regular updates of progress were key themes in the programs' experiences. Where the programs engaged in joint implementation, there were often challenges related to program harmonization and accountability. The lesson of VIP Indonesia demonstrates the benefits of being a good partner to government, where ongoing collaboration can yield opportunities, even when the joint implementation strategy appears not to have succeeded.

**Tip 10: *Establish agreements early.***

Once a project finds alignment with government priorities, it is crucial that agreements are established early in the process to ensure effective collaboration with government throughout implementation, regardless of the eventual results. For both VIP India and VIP Indonesia, in particular, early agreements clarified mutual understanding about both desired objectives and outcomes, and operational modalities in the programs. Although it was ultimately determined to be a second-best means of addressing financing constraints in the tofu and tempeh sector (see discussion below), VIP Indonesia established an agreement with the Ministry of Environment that stipulated key areas of responsibility for project partners and further enabled them to enlist the support of other government departments. The contract included the ministry's responsibilities for producing training and marketing materials to promote the Debt for Nature Swap program and where the program could support the ministry, such as identifying participants and consultants to perform key roles, including industrial production (IP) experts, equipment suppliers, and lead producers; conducting pilot training for IP experts; and helping trainees provide services to the tofu producers.

**Tip 11: *Promote ongoing support and interaction.***

Fundamentally, it is the project's responsibility to ensure sustained engagement with relevant government actors. Ensuring continual interaction with government actors amplifies their exposure to the project's rationale, activities, and



results, increasing the likelihood that government officials will recognize the value in supporting the project or the relevant sector(s) in a manner that supports inclusive growth and development for small and microenterprises.

VIP India focused its interventions on improving artisans' access to private design institutes, matched with constant lobbying of government bodies to improve its outreach to gem and jewelry artisans in particular. Foremost, VIP India was able to shift the regulation of gem and jewelry artisans from the Ministry of Commerce to the Ministry of Handicrafts, which increased the artisans' access to subsidies and programs for skills development. Following this shift, the program lobbied the government to undertake a number of measures to support artisans. These included expanding an "artisan card" distribution program, which provided subsidies for private design institute training; developing design training modules plus a pilot public vocational education program for high school students; instituting the use of "smart subsidies" in its artisan training schemes; and reducing the value-added tax for jewelry-related inputs. Finally, VIP India integrated its private- and public-sector efforts by developing the Project Advisory Committee, a forum where design institutes and government officials can interact on issues that affect the overall jewelry sector in Jaipur and conditions for artisans within the market.

**Tip 12: *Engage in joint implementation when and where appropriate.***

A successful project will continually reassess when and where joint implementation of project activities may be appropriate and effective. It is particularly critical that the project understand whether the government actors are in a position to directly work with the project, in terms of interest, availability of necessary resources, and ability to deliver these resources to project activities. The project must constantly be aware of the potential for collaboration with government actors throughout implementation; otherwise, it may miss chances for further engagement that will lead to positive outcomes.

VIP Indonesia learned that thorough identification of collaborative arrangements and their timing is critical to effective engagement to government. Promising collaborative arrangements at the design or initial implementation stages may take time to identify and become mutually beneficial and sustainable. During the early stages of its program, the VIP Indonesia team discovered that the Ministry of Environment had a financing scheme that tied microcredit to the use of cleaner tofu and tempeh production processes and greater energy efficiency in production. Under this scheme, tofu and tempeh producers could also receive technical assistance from consultants hired by the ministry. VIP Indonesia anticipated this scheme would be a highly effective means to securing financing for its target enterprises and producers across the sector in Jakarta.

Over time, however, the program staff learned that the ministry scheme was available only to individual enterprises, not to producer groups, such as the tofu and tempeh cooperatives that were the cornerstone of the VIP Indonesia strategy. The team realized that delivering financing through the government scheme to large numbers of producers across Jakarta would be a highly bureaucratic, time-consuming process on a case-by-case basis. They continued searching for other financing opportunities that better fit their intervention delivery models, eventually arriving at a leasing model that proved highly effective, as well as experimenting with several other private-sector delivery channels.

This experience demonstrated to VIP Indonesia that collaborating with the Ministry of Environment's financing scheme was not in either party's best interests in the initial years of the program. Further, it allowed the team to find common ground that was mutually beneficial during the three years of the project. Rather than collaborate with the ministry in financing, VIP Indonesia instead examined the feasibility of producing biogas as an environmentally sound way of disposing of the noxious liquid waste (resulting from tofu production), which could be supported with technical assistance from the Ministry of Environment. The project also explored bio-digester technologies that could be linked to financing under the support of the ministry.

VIP Indonesia was ultimately supported by a grant from the European Commission's SWITCH-Asia program<sup>14</sup> to scale up the energy efficiency and productivity of tofu and tempeh production. The grant gave the team an additional opportunity to revisit collaborative, sustainable financing arrangements with the Ministry of Environment.

**Tip 13: *Keep officials apprised of progress.***

Ensuring government officials are aware of a project's activities and results, regardless of the government's involvement in the project, is critical for buy-in either during the project's implementation or following its conclusion.

VIP Jamaica's strategic approach to government engagement resulted in a reciprocal relationship which strengthened the overall program. The VIP Jamaica team identified people in the aquaculture branch of the Ministry of Agriculture and Fisheries, prepared brief summaries of the program, identified where they thought government participation was important, made appointments to see them, presented the program, and invited the ministry's engagement and support. The Jamaican government officials were subsequently kept apprised of the program through regular invitations to attend program meetings and ongoing briefings by the program team. This approach built trust and confidence in the partnership with the Jamaican government, which in turn invited the VIP Jamaica team to present at ministry workshops. This resulted in expressions of interest by the ministry to support VIP Jamaica's plans to scale up the ornamental fish sector in the future.

---

<sup>14</sup> <http://www.switch-asia.eu/switch-projects/project-progress/projects-on-improving-production/soybean-processing-in-indonesia.html>.

# Value Initiative Successes in Government Engagement

The Value Initiative programs were able to elicit direct support from the government and generate recognition and behavior change from government that contributed to project objectives in the long term. Specifically, they demonstrated success in three basic ways:

- Programs utilized skills in brokering partnerships.
- Evidence-based results demonstrated success to government actors.
- VIP demonstration programs were able to leverage government connections and support.

## Value Initiative Programs Utilized Skills in Brokering Partnerships

The Value Initiative programs were able to draw upon staff with previous experience in working with governments, often benefiting from team members' skills in partnership development. This was most evident in VIP Jamaica, where the program director brought an extensive history of personal engagement with the public sector from prior work in the private sector on several national initiatives and a track record of positive engagement and experiences of chairing the Agribusiness Cluster under the National Industrial Policy, a public-private partnership. The program director had previously participated in a detailed program sponsored by the World Bank, Organization for Economic Cooperation and Development (OECD), IFC, and DFID that developed a handbook for public-private dialogue.<sup>15</sup> From this experience, the program director gained a wealth of knowledge and experience and delivered training sessions on the handbook to further develop the capacity of program staff.

VIP India achieved significant buy-in from government agencies as a result of successfully demonstrating its strategy of giving incentives to design institutes to serve artisans. It encouraged relevant government institutions to support private-sector opportunities where possible by offering supplemental schemes and services to broaden outreach to artisans. The government scheme opened the door to better accessibility and affordability for artisans. The design institutes began to lobby government to an unprecedented degree in order to access subsidies and additional assistance that further increased the affordability of providing skills development to artisans. As a result, the market changed significantly, with the artisans' increased access to the design institutes leading better designed products enabling them to expand their market.

The business-enabling environment for the gem and jewelry sector in Jaipur improved significantly as a result of VIP India's interventions. With a new system for issuing artisan identity cards in place, over 9,000 artisans received their cards by the conclusion of the program. With these cards, more than 3,000 artisans secured financing for skills training and production, totaling USD 3 million. The value-added tax for jewelry production equipment was reduced from 14.5 percent to 5 percent, making technology upgrades for artisans appreciably more affordable. The government demonstrated its support of the VIP India strategy in October 2011, when it announced its intention to fund the program with USD 700,000 to scale up its activities in 2012. And at a sector-level, the Project Advisory Committee established itself as a forum for sustainable, inclusive government lobbying in the mutual interests of both artisans and private design institutes.

---

<sup>15</sup> B. Herzberg and A. Wright, 2006, *The Public-Private Dialogue Handbook: A Toolkit for Business Environment Reformers* (Washington, DC: World Bank, Small and Medium Enterprise Development Department), <http://www.publicprivatedialogue.org/tools/PPDhandbook.pdf>.

## Evidence-Based Results Demonstrated Success to Government Actors

The Value Initiative demonstration programs made compelling arguments that engaged the government in the value chain interventions due to their thorough analysis and the way they reported and demonstrated success to the government partners. VIP Jamaica predicated its proposed interventions on a meticulous analysis of local conditions, which it shared with government, consisting of market data, business plans, business models, and the results of their engagement with microfinance institutions. This “open book” approach built trust with government partners, which was further strengthened by government participation in a forum where the partners met and interacted with the farmers and the entire value chain.

Initially, the Indonesia government did not show any interest in the 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.

As a result, several agencies approached the VIP Indonesia team and formally requested collaborative relationships. The Office of Industry and Energy in North Jakarta held a training and consultation for 39 local tempeh producers in August 2011, with the support of VIP Indonesia. The producers attending specifically learned to improve the quality of their products by using cleaner production equipment. Through this training and guidance, tempeh producers in North Jakarta became aware of and gained a better understanding of improved production methods and criteria that meet the standards of hygienic production. In addition, these producers received tips on proper use of liquefied petroleum gas stoves (and how to avoid dangerous explosions), a critical factor in encouraging behavior change by tempeh producers in Jakarta and purchase of more efficient gas stoves.

The Provincial Industry and Energy Office of Jakarta also formally collaborated with VIP Indonesia near the conclusion of the program. In October 2011, the office, VIP Indonesia, and a local producers’ cooperative engaged by the program jointly conducted a course in good hygiene practices for producers in South Jakarta. At least 50 producers participated in the training, learning about standards and technical procedures of food processing, as well as related government regulations.

Finally, 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 behavior 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. The training was complemented by field visits to production sites, where participants could compare practices in the field with those in their parents’ factories.

Although it was not as closely involved with the government throughout its project implementation, VIP Jamaica demonstrated the value of improved access to training to the government by the end of the program. Prior to the program’s interventions, the Jamaican government was the only provider of training in ornamental fish farming. This training was infrequent (only two times per year), limited to 20 persons per iteration, and only provided introductory knowledge and skills. By contracting the services of respected international consultants to develop a comprehensive ornamental fish-production training course with several modules, plus preparing 12 local trainers to teach the course across Jamaica, VIP Jamaica provided proof of concept to the government that effective training could be developed and scaled up for the overall benefit of the sector.

The for-profit trainers reached more than 300 ornamental fish producers over the course of the initiative, as well as updating experienced farmers on new farming techniques and technology. Having discovered a large untapped demand for training outside the project, these trainers are expected to remain viable, providing further evidence to the government that there is widespread opportunity for training (and developing trainers) and other support services related to ornamental fish farming in Kingston.

In addition, a number of private entrepreneurs and NGOs approached the VIP Jamaica consortium for advice and assistance in the ornamental fish sector. Clearly, VIP Jamaica raised the awareness and interest of other market actors in the commercial opportunities in ornamental fish, and perhaps induced an acknowledgement of the potential of inner-city young men as producers of high quality, exportable fish. This broader recognition of the sector was founded on VIP Jamaica's policy of extensive information sharing to all interested parties of market data, business models, and the results of its work with microfinance institutions.

VIP Jamaica also provided a forum where interested organizations and actors were able to meet and interact with farmers and other key service providers within the ornamental fish value chain. As a result, VIP Jamaica witnessed a widespread dissemination of specific knowledge about the international market for tropical ornamental fish among existing and prospective members of the ornamental fish value chain. Accordingly, the government expressed increasing interest in the growth of the sector, which is likely to prompt the government to become more involved and provide assistance and guidance to ornamental fish producers and supporting service providers.

## **VIP Demonstration Programs Leveraged Government Connections and Support**

By identifying and leveraging pre-existing connections among the implementing organization(s), project staff, and government actors in a legal, forthright manner, VIP India attracted the support of senior officials in Jaipur, including the secretary general of Rajasthan Chambers of Commerce and Industries, the president of the Jewelers Association of Jaipur, the chairman of the Project Advisory Committee, an eminent jeweler and politician, and other influential sector stakeholders. These officials promoted the project at the highest levels of the appropriate government agencies. In addition, VIP India was able to develop relationships with government agencies, in part, because two team members had worked in the government for over 10 years prior to the project, and because VIP India consortium-member ACCESS had 5 years of experience working directly with government actors throughout Jaipur in other projects.

VIP Kenya sought to engage the Ministry of Agriculture to support AMPATH (consortium partner) field officers in providing training and consultancy services to local passion fruit farmers, as well as the Export Promotion Council, a parastatal under the Ministry of Trade, to help provide capacity building services and market linkages to small and micro enterprises. The team had only informal relationships with these government departments, but was able to leverage an existing working relationship that AMPATH had with the Ministry of Health—a completely different government sector and separate health clinic project—to realize government support.

AMPATH's existing collaboration with the Ministry of Health to establish health clinics was long-standing and reciprocal—the government also benefited in a number of ways from its relationship with AMPATH<sup>16</sup>—which provided a successful precedent for other activities. Building on AMPATH's years of partnership with the Ministry of Health, VIP Kenya was able to reach out to two other government sectors and approach them with an offer of collaboration on VIP Kenya's value chain work. AMPATH's association with the government gave the VIP Kenya team an entrée to targeting specific officials in the Ministry of Agriculture and formalizing the partnership with the Export Promotion Council (Ministry of Trade).

---

<sup>16</sup> AMPATH provided the government with scaled-up treatment and care for patients, capacity building for government employees on management of diseases and other primary health-care services, and support for research and development.

# General Challenges in Government Engagement

Although the Value Initiative programs clearly had many successes, they also faced a number of challenges in engaging government in value chain development:

- **Dual role of the government.** Be sure that the government is aware of, and responsive to, the difference between its dual role as a “facilitator” of development and its function as an “actor” supporting the market system for particular sectors. As a facilitator, the government coordinates the growth of a particular sector through regular engagement with market actors, following the sector plan. As an actor, it focuses on providing services, such as regulatory environment, tax collection, legal frameworks, and so on. Currently, in many cases, government activities are disproportionately focused upon multiple actor roles, rather than as an overall facilitator of development. For value chain development to be successful, the government must provide more leadership as a facilitator and support development. In many cases, development organizations currently occupy this space, supporting the market for certain sectors when this actually is the role of government. It is a key challenge to help the government understand strategically when to be a facilitator of development and when to be an actor engaged in and supporting the market system.
- **Government as market actor.** Ensuring that each actor in a market system understands its most effective role for supporting a certain product or service is crucial. Governments of developing countries, as representatives of the public sector and providers of market oversight and regulation, less readily see themselves as market actors, to the extent of engaging with the private sector in common enterprises of market development—and vice versa. Where this lack of shared understanding exists—public and private sectors appearing as opposing sides of a market—it contributes to the challenge of finding common priorities and incentives for the market actors in the value chain.
- **Government distrust of the private sector.** Even when the roles of the market actors are clear, helping government and local communities overcome distrust of the private sector is a key challenge. Although the government exists to serve the community as a service provider, it often lacks the resources to serve the public effectively. The quality of the services the government provides is often poor as a result. Yet, despite this and despite often strong perceptions of corruption and inefficiency, there is nevertheless a sense of “working for the common good” in government services. Communities still look to government for support and services deemed more trustworthy than those provided by the private sector. Local communities often feel that private sector services are more focused on the sales of their products rather than on services to the community. Overcoming the recurring mindset of government and communities, that only the public sector should deliver public services, can be a key challenge.

In addition to these general issues, there are specific challenges to the bottom-up approach embodied in the Value Initiative programs:

- **Risk-averse officials.** Particularly in regional cities in developing countries, project teams seeking government buy-in often must engage with officials lower down the government hierarchy. Such officials are necessarily risk averse, making persuading them to accept the value of a project more difficult. Another snag is that often their personal endorsement of a project or activity does not translate into official endorsement.

- More time to engage the government. Local successes in effectively engaging the government take a long time. Programs that come from the top down with large resources are easier to obtain buy-in from lower-level government officials. The nature of bottom-up approaches means demonstrating incremental success in order to prove proof of concept to government officials. Even successful value chain projects typically need to invest a significant amount of time to convince the government actors to increase their involvement.

# Conclusion

Overall, the Value Initiative programs offer a number of lessons for effectively fostering supportive government relationships and services in value chain development, utilizing a bottom-up approach, rather than the typical top-down policies. Through their work, the programs developed mutually beneficial relationships with their respective governments by demonstrating the value of their approach interventions, and activities throughout the project. This proof of concept motivated government officials to take greater interest in the Value Initiative impacts and support its programs through both indirect and direct channels. As a result, the government actors supporting these programs became more involved in value chain development and increased their outreach to small, micro, and informal enterprises.

The good practices highlighted in the Value Initiative programs offer guidance to organizations involved in inclusive value-chain development. Understanding what benefits and support governments bring, or need to have augmented, early in a project's design process can enrich the objectives or circumvent potential issues before they arise. Taking advantage of government engagement and collaboration in value chain development projects can mean more sustainable, positive impacts in the business-enabling environment for small, micro, and informal enterprises, regardless of country or sector. With hope these lessons will contribute to improved practices in value chain development and lead to better targeted and more effective cooperation between the government, bottom-up development initiatives, and the private sector organizations that make up the market system.