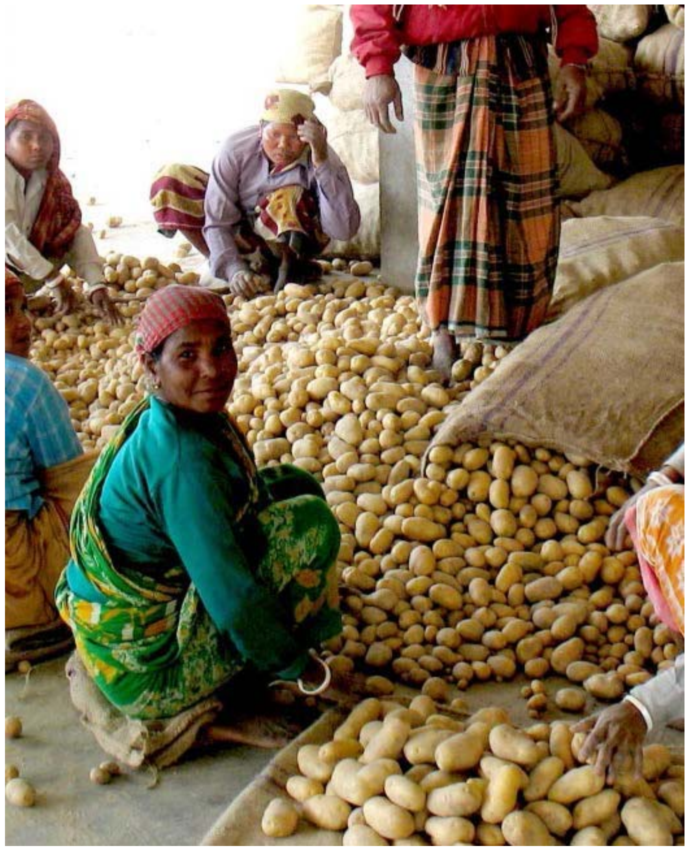
Tools & Methodologies for Collaborating with Lead Firms: *A Practitioner's Manual*





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TOOLS AND METHODOLOGIES FOR COLLABORATING WITH LEAD FIRMS: A PRACTITIONER'S MANUAL

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ACKNOWLEDGEMENTS

The information presented in this manual is based on the practical field experience of individuals who have implemented value chain development programs where they successfully collaborated with Lead Firms to generate positive impact for micro, small, and medium-scale enterprises (MSMEs). While the tools and methodologies presented are geared towards the nuts and bolts of program implementation, they also convey a strong conceptual case for collaborating with Lead Firms in an effort to generate sustainable economic impact for MSMEs.

Lead Firms have strong economic incentives to support and upgrade MSMEs that they source from or sell to, and it is in their self-interest. By harnessing these incentives, development programs can support Lead Firms to improve and expand the products, services, and market access they provide to MSMEs. This process also promotes sustainable impact as Lead Firms remain in relationships with MSMEs long after development programs have ended.

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ABBREVIATIONS

DO	Development Organization
EOI	Expression of Interest
FGD	Focus Group Discussion
IFA	Invitation for Application
LF	Lead Firm
MBS	Market-Based Solution
MOU	Memorandum of Understanding
MSME	Micro, Small, and Medium Scale Enterprise
R&D	Research and Development
TOT	Training of Trainers
VC	Value Chain

DEFINITIONS

Cross-Company Activity/Intervention—An activity that addresses the challenges or opportunities faced by multiple companies, and therefore multiple companies participate in; examples include staff trainings, exposure visits, and lateral learning events.

Development Organization (DO)—An organization, such as a consulting firm, nongovernmental organization, donor, project, etc., that receives donor funding to promote economic development.

Facilitator—An individual or organization that works to stimulate markets to evolve in a way that increasingly involves and benefits the poor but without becoming a part of the market. A facilitator seeks to catalyze ongoing pro-poor market improvement, while keeping ownership firmly among market actors and avoiding dependency. A facilitator promotes ownership of initiatives by market actors and avoids creating dependency on the DO.

Facilitation—The process of: 1) identifying market actors that have a commercial self-interest to champion the changes needed to close competitiveness gaps and to improve/expand the products, services, support, and market access they provide to MSMEs; and, 2) providing the market actors with strategic technical and financial support to enable them to do this.

Intervention/Initiative—In this manual, an intervention or initiative refers to an activity undertaken by a Lead Firm (LF) to improve its competitiveness and expand or develop the products, services, and support it provides to the MSMEs that it buys from or sells to. In many cases, LFs are unwilling or unable to undertake such initiatives in the short term (due to high risks, costs, lack of skills, etc.) without strategic technical and/or financial support from a DO facilitator.

Invitation for Applications—A tool that a DO uses to invite LFs to propose their initiatives to build competitiveness and upgrade MSMEs in their supply chain or distribution channel. The application provides the criteria and parameters of DO collaboration.

Lead Firm—Small, medium, or large firms that have forward or backward commercial linkages with a significant number of MSMEs (including farmers). Also known as an "Inclusive Businesses," they include processors, exporters, traders, input companies, service providers, etc. that play a critical role in moving their industry, and other value chain participants forward.

Leveraged Impact—The concept of achieving greater program impact by collaborating with a company (LF) that has existing commercial relationships with a larger number of target MSMEs

Market Actor (also known as value chain participant)—An individual or company participating in a market or value chain; market actors include producers, farmers, buyers, traders, input suppliers, service providers, exporters, processors, etc.

Market-Based Solution (MBS)—The MBS addresses constraints facing MSMEs in a sustainable manner through market relationships. LFs are MBS providers.

Memorandum of Understanding (MOU)—A negotiated agreement between a DO and an LF that establishes a broad understanding of the purpose and objectives of collaboration

MOU Addendum—Describes specific activities along with associated responsibilities and technical and financial support to be provided. There can be different addendums to an MOU, each for a specific initiative.

Question Guide—A tool that a development organization develops and uses to present the critical questions and decisions that a LF must address before engaging in a particular investment or intervention. Question guides are adapted to specific investments or interventions.

Value Chain—The full range of activities (functions) and associated market actors that are required to bring a product from its conception to its end use and beyond. Value chain functions include design, input supply, production/processing, wholesaling, retailing, etc. Value chain market actors conducting these functions include producers, input suppliers, processors, exporters, retailers, etc. The value chain can be defined by a particular finished product or service (wood furniture, green beans for export, and so on.)

INTRODUCTION

In value chain development, practitioners frequently come across dynamic firms that play a critical role in moving their industry and other value chain participants forward. This manual presents principles, tools, and strategies for working with such Lead Firms (LFs) in a value chain framework. It is designed to provide practitioners with guidelines, examples, and lessons learned that they can use in designing and implementing value chain development programs. The contents of this manual were generated from Action for Enterprise's experience implementing private sector development programs worldwide as well as from a working group (sponsored by the FIELD-Support LWA) that brought together practitioners from development organizations[1] with strong interest and experience working with LFs in a value chain context.

The manual is divided into the following five sections:

Section 1. Overview

Section I begins by defining LFs and discussing the rationale for working with them. It discusses different entry points for working with LFs, how working with them fits into value chain development programs, and presents a five-step process as an overall framework for selecting, identifying, and structuring collaboration with LFs.

Section 2. Selecting Lead Firms

Section 2 outlines criteria for selecting LFs, tools for identifying them, and factors to consider when determining the number of LFs with which to work.

Section 3. Identifying Lead Firm Interventions

Section 3 describes tools and processes that can be used to facilitate the identification of LF interventions that will enable LFs to improve, develop, or expand the products, services, or support they provide to micro, small, and medium enterprises (MSMEs) that they buy from or sell to. It also includes a typology of typical LF interventions as well as factors to consider in the evaluation of proposed LF interventions (including suggestions on appropriate forms of technical and financial support).

Section 4. Facilitating Lead Firm Interventions

Section 4 presents additional tools and methodologies that can be used by DOs to facilitate the implementation of LF interventions (interventions that will increase their competitiveness and upgrade the producers that they buy from or sell to). It also presents typical mistakes that DOs make when working with LFs.

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[1] The FIELD-Support LWA Working Group was supported by USAID and included the following international development organizations: Action for Enterprise (AFE), CARE, MEDA (Mennonite Economic Development Associates), Academy for Educational Development (now FHI 360), ACDI/VOCA, Save the Children, TechnoServe, and the World Council of Credit Unions (WOCCU).

SECTION 5. STRUCTURING AND MANAGING COLLABORATION

This section describes the basic components and objectives of using Memorandums of Understanding (MOUs) as well as MOU addendums to structure collaboration with LFs. It also presents tools for monitoring agreements with LFs, and general principles and good practices for DOs when working with LFs.

AUDIENCE:

While the information in the manual will be useful to all development practitioners, the manual was designed with the more advanced practitioner in mind—an individual who is already familiar with value chain and market development concepts. The tools and strategies presented complement these concepts and begin to address many of the "nuts and bolts" issues of implementation. The manual is also designed so that practitioners can adapt and tailor the contents to the different sectors and beneficiaries that they are targeting.

SECTION I: COLLABORATING WITH LEAD FIRMS

1. COLLABORATING WITH LEAD FIRMS

This section begins by defining LFs and discussing the rationale for working with them. It discusses different "entry points" for working with LFs, how working with LFs fits into value chain development programs, and presents a five-step process that serves as a framework for selecting, identifying, and structuring collaboration with LFs.

1.1 DEFINING LEAD FIRMS

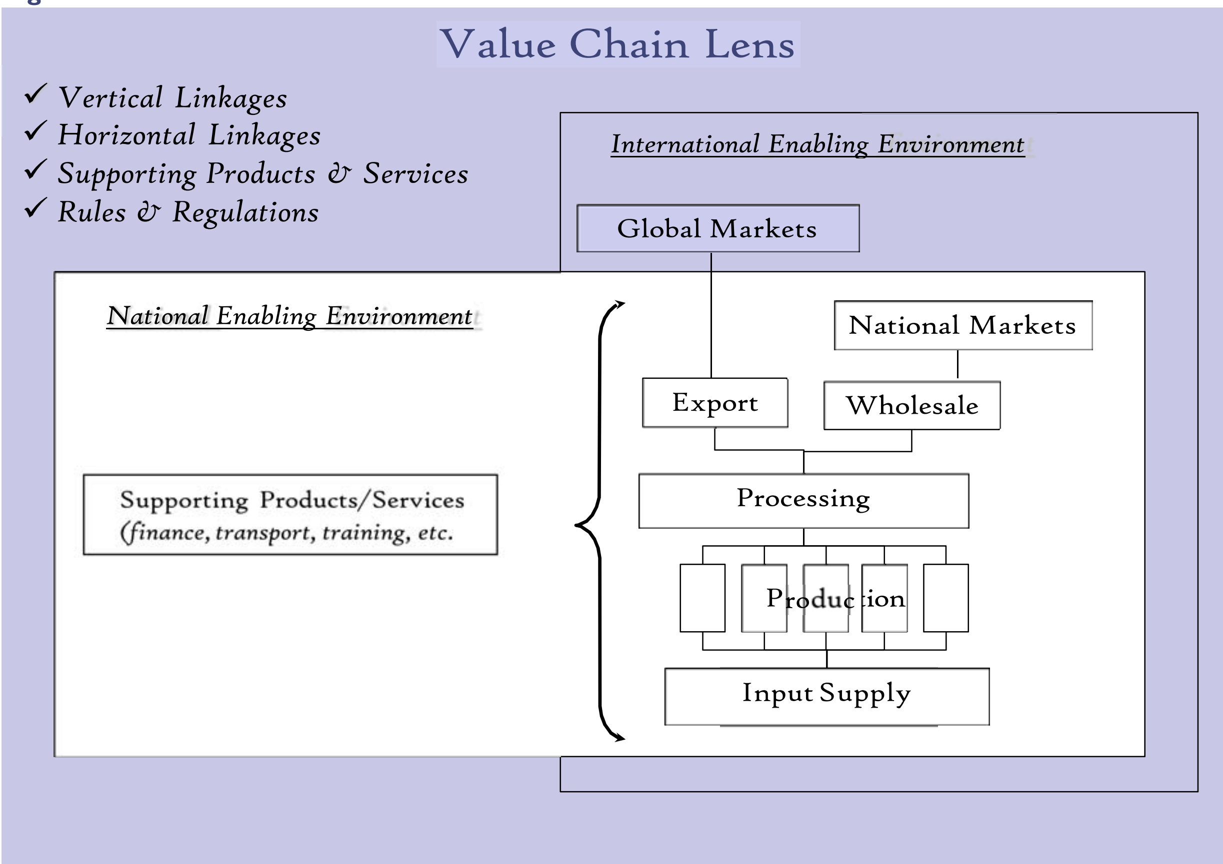
The following definition and list of LF attributes form the basis upon which subsequent sections of this manual are built. LFs are defined as:

1) Small, medium, and large firms that have **forward and backward commercial linkages** with targeted micro, small, and medium scale enterprises (including farmers). In this context, LFs have the following characteristics:
    - Are distinguished by the commercial incentives they have for supporting the MSMEs they transact with (not just corporate social responsibility) and the leverage potential they have to impact MSMEs
    - Have varying levels of formality in their relationship with targeted MSMEs, ranging from completely informal (market-based governance system) to formal, contract-based arrangements (directed governance systems)
    - Include buyers, traders, input suppliers, veterinarians, exporters, processors, etc.
    - Manage and control different phases of the value chain and are frequently engaged in aggregating production among producers
    - Vary significantly in size and may operate in the formal or informal economy

2) **Dynamic market actors** that can promote greater integration of MSMEs into value chains and provide MSMEs with needed products, services, market access and support. In this context, LFs frequently:
    - Provide MSMEs with training, technical assistance, inputs, and/or financing that is "embedded" as part of their business relationships with them
    - Add value to raw materials and products procured from MSMEs and provide linkages to final markets
    - Share a mutual interest with MSMEs they transact with and have a vision for incorporating them into the value chain (This characteristic helps ensure that the LFs can be a catalyst for MSME development)
    - Are "first movers" and innovators in new sectors
    - Have significant influence in tackling enabling environment issues
    - Serve as industry models, key innovators, and respected thought leaders in their industries

LFs are also referred to as inclusive businesses, anchor firms, market-driver firms, catalyst firms, supply chain champions, and change agents. The principles and tools presented in this manual are based on LFs operating within value chains. Value chains encompass the full range of activities and services of market actors required to bring a product or service from its conception to its end use and beyond (see Figure 1 below). See Section 1.4, below, for more information on how working with LFs fits into value chain development programs.

Figure 1. Value Chain Lens



1.2 Rationale for Collaborating with Lead Firms

Development organizations (DOs) implementing private sector and livelihood development programs choose to collaborate with LFs for many reasons, such as to achieve sustainable impact, improve the scale of impact, take advantage of embedded support among market actors, and boost industry competitiveness,[2] as described in more detail below.

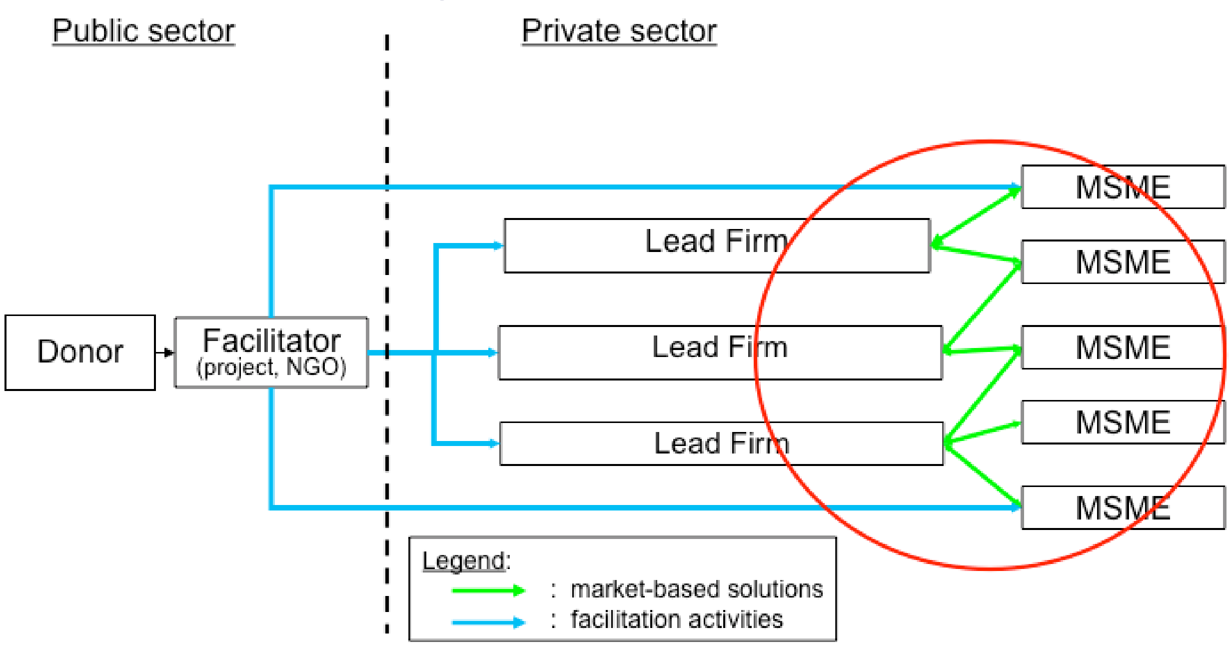
[2] For the purpose of this handbook, it is assumed that the development project has an objective of impacting a large number of MSMEs (including farmers) and that there are opportunities to do this through collaboration with LFs. The importance of companies that have few forward or backward linkages with MSMEs (and thus don't fit the definition of a LF) is not discounted, however, as they help increase employment, create foreign exchange, among other items, but there is a different rationale for working with and supporting such companies.

1. Improving Impact Sustainability

Working with LFs can help ensure the sustainability of a development program's impact since the LF, as a commercial enterprise, does not depend on a donor subsidy for its ongoing existence (as a development program or donor-subsidized organization does). If a LF has a commercial interest in buying from, or selling to, a large number of MSMEs—and can do this in a commercially viable manner—then it will continue to do so after the development program ends. It will, therefore, be able to sustain the relationship it has with MSMEs, along with the different kinds of support that entails.

One problem with DOs is that they often establish themselves or other subsidized entities (such as DO created intermediary organizations, cooperatives, etc.) as value chain participants that buy from or sell to MSME producers, distribute subsidized or free products to producers, and/or provide direct technical support to producers. This action is often done based on a rationale that existing market actors are unable to perform these functions or are acting unfairly to MSMEs. The problem of sustainability arises, however, as once the donor funding ends, then the functions that the DO (or DO-funded entity) has been performing also end, leaving MSMEs in a difficult and sometimes worse off position. Working with LFs can help address this problem—as they can support themselves and their ongoing relationships with MSMEs in a sustainable manner through their commercial activities.

Figure 2. Facilitating Lead Firm Initiatives builds the relationships between the LFs and MSMEs without the DO inserting itself into the value chain



2. Increasing Scale of Impact

A DO can multiply the scale of its impact by working with many LFs in a value chain, each with commercial relationships with a substantial number of MSMEs. For example, if a DO is working with four LFs, each with linkages to 250 MSMEs, then by working with those four LFs the DO could facilitate impact for 1,000 MSMEs. This concept is also referred to as "leveraged impact."

LFs can be considered "points of leverage" in a value chain because by working with a modest number of LFs, many MSMEs can be impacted.

Leveraged impact through LFs can be achieved in different ways. If a DO can facilitate greater market access for LFs (that are purchasing from MSMEs), then those firms can source from more producers or source greater quantities from existing producers. Leveraged impact can also take place when LFs (with capacity building from a DO) provide the MSMEs they source from with improved production methodologies, designs, and technical support. It can also occur when a DO works with an input supply company to improve the quality, price, or availability of products sold to MSMEs.

In some cases there are only a limited number of LFs performing certain functions in a value chain. If a DO can work with most or all of these firms then there can be industry-wide impact. Even working with a smaller number of LFs can create a critical mass of firms that are demonstrating improved operations, business models, products, access to markets, and support services to the MSMEs that they transact with. If DOs can facilitate improvements in a number of individual LFs, they not only create leveraged impact on the MSMEs that transact with those firms, but can also promote (through the example of these LFs) broad industry impact. Creating such systemic impact may not always be possible, however, especially when working in more remote rural areas. Much depends on the scope of the DO's program.

3. Providing "Embedded" Support

As detailed above, LFs often provide products, services, markets, and support to the MSMEs they buy from or sell to, as part of their commercial relationships. Examples include the following:

- LF buyers that offer pre-financing, technical advice, and/or inputs to their MSME producers to ensure that a quality product results that meets market standards
- LF input suppliers that provide training, information, and/or technical advice to the MSMEs they sell to in order to ensure successful use of their products

In many cases, LFs provide products and services on a non-fee basis to the MSME, with the cost being absorbed in their operating margins. In some cases, the costs are not absorbed by the company's operating margins and are deducted from the MSME at the end of the procurement process. In either instance, it can be advantageous to MSMEs that lack the scale or financial stature to pay cash to third-party providers of these products and services. By working with LFs to improve or expand their capacity to provide these kinds of embedded support, DOs can generate a positive and leveraged sustainable impact on MSMEs.

4. Increasing Industry Competitiveness

LFs are often major market actors, innovators, and first adopters in their industries. Changes in the value chain or industry competitiveness are often driven by LF innovations and dynamic strategies in value chains. When one or more of the companies develops new products, creates operational efficiencies, succeeds in entering new markets, and so on, other companies may follow their lead (see box below). When the companies have commercial linkages to MSMEs, then their initiatives and success can lead to broader impact on a large number of participants in the value chain. Dynamic LFs often set a model for other firms to follow. They can also be the drivers of growth for the MSMEs that they transact with and can play a key role in promoting change or improvements in value chains. DOs can assist LFs to overcome challenges and take advantage of opportunities that, in turn, can create benefits for the MSMEs they buy from or sell to and strengthen the overall industry competitiveness.

Following the Lead of Market Innovators in India and Bosnia

Over the past few years, LFs in **India** have begun to source directly from small-scale vegetable farmers and have set up dedicated and successful retail outlets for fresh vegetables. Now that these firms have demonstrated this business model, other firms are beginning to do the same thing.

In **Bosnia**, when exporters of natural herbs—that source from small-scale collectors—gained ISO certifications, they opened up new international markets. This market development encouraged other LFs to follow suit. In both examples, DOs were involved in supporting the LFs to develop their new and improved operations.

1.3 Entry Points to Working with Lead Firms

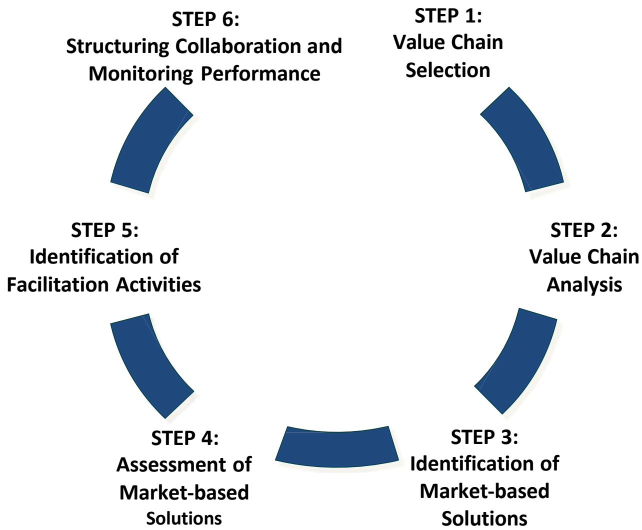
There are different entry points to working with LFs, as illustrated in the following scenarios:

1. The DO has conducted a value chain analysis and identified constraints facing MSMEs and market-based solutions that could address those constraints. During the analysis, LFs in the value chain are identified as companies with commercial incentives to provide the market-based solutions to MSMEs in a sustainable manner.
2. LFs approach a DO for support for their initiatives in conjunction with a matching grant program, an agribusiness market linkage program, or similar programs.
3. A donor has predetermined a sector, type of company, and/or type of LF initiative that they want to promote.
4. A DO has been providing direct support to farmers but later identifies buyers and/or input supply companies (LFs) with incentives to provide needed market access or technical support in a sustainable manner.
5. A DO has conducted a rapid market appraisal that has led to the identification of LFs that can provide needed products, services, market access and/or support to MSMEs they buy from or sell to.

1.4 Working with Lead Firms in Value Chain Programs

One of the most common entry points for working with LFs is through a value chain analysis and program design exercise that identifies LFs as a principle "source of leverage" in upgrading MSMEs that they buy from or sell to. Figure 3 below illustrates the steps in value chain program design. The subsequent narrative describes each step and how working with LFs fits into the program design process.

Figure 3. Value Chain Program Design Process



Step 1: Value Chain Selection—Selection criteria are used to compare and choose value chains. One criterion for selecting value chains is the presence of dynamic LFs with existing or potential linkages to large numbers of MSMEs.

Step 2: Value Chain Analysis—Research and interviews are conducted with market actors and key informants to gain a greater understanding of market trends and industry dynamics. A primary goal is to determine the key issues hindering MSME growth and competitiveness. LFs are among those interviewed to understand their buying and selling relationships, challenges, and incentives for investing in their supply chain or distribution network.

Step 3: Identification of Market-based Solutions (MBS)—Market-based solutions (activities that address value chain constraints in a sustainable manner) are identified and prioritized according to their ability to impact the greatest number of MSMEs and to increase the growth and competitiveness of the value chain. Typically, LFs are identified that are existing or potential providers of the targeted MBS in the value chains.

Step 4: Assessment of Market-based Solutions—MBS are assessed and information is collected regarding their supply, demand, existing/ potential providers and commercial feasibility. LFs are interviewed about the incentives and challenges they face in providing targeted MBS to MSMEs in the value chain.

Step 5: Identification of Program Facilitation Activities—The DO works to facilitate the sustainable and commercially-viable provision of the targeted MBS. This process entails inviting LFs to propose initiatives that they can undertake to help overcome the challenges they face in providing the targeted MBS to producers/MSMEs in a sustainable manner. The DO facilitates these initiatives through a combination of technical and financial support, either on an individual or cross-company basis.

Step 6: Structuring Collaboration and Monitoring Performance—The DO and LFs structure their collaboration through tools such as memorandum of understanding (MOUs) and associated technical/financial support agreements. Performance measurement systems are developed based on the LF interventions, benefits for MSMEs, and DO facilitation activities. Systems are established to collect information from LFs that are collaborating with the DO on both the firms' competitiveness and impact at the producer/MSME level.

Before collaborating with LFs, it is assumed that a value chain program design has taken place and it was determined that: 1) working with LFs in the value chain could result in sustainable solutions to value chain constraints, greater value chain competitiveness, and greater integration of/benefits to MSMEs; and 2) there are opportunities and a shared vision among the LFs and MSMEs they transact with for pursuing mutual benefit.

1.5 Process of Working with Lead Firms

Figure 4. A Five-Step Process of Working with LFs

1) **Select LFs:** To ensure desired impact and success, criteria are established to select LFs for collaboration. These criteria are applied when conducting interviews with LFs and in reviewing their expressions of interest and proposed initiatives to determine collaboration potential.
2) **Identify LF Interventions:** Once LFs are selected, DOs invite them to propose interventions (that the LFs will carry out) that will increase their competitiveness and build their capacity to provide needed products, services, and support to the MSMEs that they work with.
3) **Structure LF Collaboration:** After agreeing to the LF interventions that the DO can support, the DO and LFs structure their collaboration through tools such as memorandum of understanding (MOUs) and technical/financial support agreements. These tools define each party's roles, responsibilities, and financial obligations, and the implementation timelines.
4) **Facilitate LF Interventions:** The DO can then support LFs in the implementation of their initiatives/ interventions. As there are many kinds of LF interventions that DOs can facilitate and support, DOs keep in mind guiding principles and lessons learned for working with LFs (see section below).
5) **Monitor and Evaluate:** Once facilitation has begun, the DO monitors and evaluates its collaboration with the LFs. The monitoring and evaluation (M&E) results can be used to adjust both LF interventions and DO facilitation activities as needed over time to ensure continued improvement and success.

The following sections examine each of these steps in more depth.

SECTION 2: SELECTING LEAD FIRMS

2. SELECTING LEAD FIRMS

When conducting value chain program design exercises, it is important to identify MBS that can address value chain constraints and create sustainable impact for targeted MSMEs. Typically, LFs are the providers of targeted MBS. In designing and implementing their programs, DOs can identify and explore collaboration with LFs that have the requisite incentives and capacity to provide the targeted MBS in a commercially viable manner.

This section focuses on the processes and tools that are used to identify and select LFs that can provide sustainable MBS to MSMEs. It begins with an examination of criteria that can be applied in LF selection. Tools for identifying LFs using these criteria are then presented along with key points for conducting LF due diligence. A discussion follows on factors to consider when determining the number of LFs to work with, along with strategies for promoting LFs to take on missing functions in value chains.

2.1 CRITERIA TO APPLY IN SELECTING LEAD FIRMS

The box below presents illustrative criteria that can be used to identify and select LFs. Practitioners are advised to use the criteria that best meet their particular circumstances.

Illustrative LF Selection Criteria

1. The LFs have commercial linkages with a large number of MSMEs (i.e., the project's target group) as either a buyer or supplier of products and services.
2. The LFs have incentives and are willing to make investments in improved or expanded relations with MSMEs that may only show results over a longer period of time.
3. The LFs have sufficient financial strength to make investments or dedicate resources to business operations that will result in improved and/or expanded relations with MSMEs.
4. The LFs are able to compete successfully in end markets for their products or services.
5. The LFs have the potential to influence other LFs and actors in the value chain.
6. The LFs have an acceptable track record and reputation as businesses.

A more expansive presentation of each of these is presented in Table 1 below with rationale for the criteria and indicators to determine if the criteria are being met.

Table 1. Rationale and Indicators for Lead Firm Selection Criteria

RATIONALE	INDICATORS
Criterion 1: Commercial linkages with large number of MSMEs (i.e., the project's target group) as buyer and/or supplier of products and services	
• Project resources are used more cost-effectively and with greater leverage. • Greater potential for the DO to facilitate larger scale/broader impact and value chain behavior change	✓ # of MSMEs that LF buys from/sells to ✓ LF market share as buyer/supplier to MSMEs ✓ # of MSME employees. ✓ Nature of LF relationship with target MSMEs
Criterion 2: Willingness to make investments to improve or expand relations with MSMEs that may only show results over the long term	
• Many promising opportunities for value chains and their participants require longer timeframes (e.g., 2 to 5 years) for benefits to materialize (e.g., return on investments, increased market share, increased productivity, etc.). • LFs with longer term vision will be more realistic about allocating time and resources over the longer period required for benefits to materialize. • When behavioral and attitudinal changes in inter-relationships are impediments to improving competitiveness, longer timeframe may be needed.	✓ LF examples/experience in managing long-term capital investments or initiatives ✓ Degree of strategic fit between LF strategy and DO objectives ✓ Statements of LF willingness to pursue, and belief in, long-term investments ✓ Examples of LF commitment to long-term investment strategies ✓ Existing long-term relationships with MSMEs ✓ Profitability of LF and financial reserves ✓ Examples of recent investments in research and development (R&D) ✓ Track record of investing in capital projects
Criterion 3: Sufficient financial strength to make investments or dedicate resources to improve/expand relations with MSMEs	
• Investments required to build or expand relations with MSMEs and support their upgrading. • Ensuring LFs have the capacity to make such investments enhances the likelihood of sustainable change in the value chain and in resulting benefits for MSMEs.	✓ LF profitability ✓ Available working capital and strong cash flow ✓ Available capital or savings available for investments ✓ Evidence of R&D investments ✓ Track record of investing in capital projects
Criterion 4: Able to compete successfully in end markets for their products or services and strong demand for those products and services	
• If a LF is able to compete successfully in its end markets then it will need to continue (or expand) sourcing from or selling to MSMEs. • If there is strong demand for a LF's products, the LF will be less likely to cut	✓ LF sales trends and projections ✓ Existing LF market share ✓ Evidence of strong and/or unmet demand for LF products or services ✓ Strong linkages between LF and its buyers ✓ Dynamism and entrepreneurial spirit of LF

RATIONALE	INDICATORS
back or stop purchases from MSMEs and may be able to expand the purchases from MSMEs	senior management ✓ Credibility of LF business plan and strategy ✓ Demonstrated ability to adapt in response to changes in demand
Criterion 5: Potential to influence other LFs and actors in the value chain	
• For influential LFs that adopt new strategies and approaches, their success has the potential to reduce the risk for adopters that follow them, to create incentives for others to adopt similar practices, and to serve as a model for others firms to learn from and emulate. • Harnessing the influence of LFs and sharing their experiences with others is a cost-effective way to catalyze change throughout a market system.	✓ Plays leadership role in business forums, professional associations, and advocacy groups ✓ Commercial relationships with many different market actors in the value chain (input suppliers, processors, traders, etc.) ✓ Reputation as a successful innovator and first mover ✓ Practices respected by peers ✓ Plays anchor role in value chain as shown by capacity to set rules or command significant volume of value chain products
Criterion 6: Acceptable track record and business reputation	
• A LF with a shady or unreliable reputation will not gain the trust of other market actors, could discredit the development project, and poses a higher risk of failure to achieve sustainable impacts.	✓ Availability of audited financial statements demonstrates transparency ✓ Reputation for reliability in meeting contractual obligations with buyers and suppliers

2.2 Tools for Identifying and Selecting Lead Firms (Using Criteria)

Tools that can facilitate the identification and selection of LFs (and help ensure they meet established criteria) include: 1) value chain analysis; 2) public advertisements, and; 3) structured interview guides. These tools are discussed below.

1. Value Chain Analysis

During value chain analysis, DOs interview representatives from all the market actors involved in bringing the value chain product from its raw material to finished stage —and then beyond to its end markets. During this process, LFs are often identified with significant forward or backward linkages with producers and incentives to invest in their upgrading.

2. Public Advertisements

Public advertisements (in newspapers, through associations, etc.) can be used to identify LFs that fit the profile and criteria that the DO establishes. The ads help ensure that the DO is: a) providing an equal opportunity to all qualified LFs to participate in the program; and, b) maximizing the number of LF participants. Even if a value chain analysis has been conducted, there may be LFs that the DO has not yet discovered.

The goal of public advertisements is to invite LFs that fit the DO's criteria to submit an **expression of interest** (EOI) to collaborate with the DO's program. The DO can then review the EOIs submitted, compare the LFs with the identified selection criteria, and determine which of the LFs merit follow-up. When the DO reviews the EOIs, it compares the LFs' qualifications against the criteria, not against other LFs. Tool 1 below shows a sample public advertisement.

Tool 1. Sample Advertisement