ILO/MOLSS

Value Chain Development

for Employment Promotion

- Case of a VCD Pilot Project in Ningxia Autonomous Region

January 2008

I. Institutional framework for local economic development and employment promotion in China

China has achieved vigorous economic growth during the past few decades. However, the strong economic performance has not resulted in expected employment growth during a quite long period of time. In spite of a GDP growth rate averaging nearly 10 percent per year, employment growth has been hovering below 4% by some estimates. Moreover, oversupply of labour force remains to be a chronic problem in the Chinese labour market. A study shows that the gap between supply and demand in the labour market constitutes 120 millions per year. All of these can be partly attributed to the economic growth model pursued in China. The secondary industry, composed mainly of large enterprises, has been the growth engine of the Chinese economy. On the contrary to their strong capacity to boost economy, large enterprises have limited capacity to create job opportunities. Small- and medium-sized enterprises, on the other side, have less contribution to GDP growth, but greater employment creation capacity. However, small and medium-sized enterprises face many obstacles, which restrain their development and employment creation capacity. Moreover, employment generation is not always given adequate attention in economic development planning, which has also led to the imbalance between economic growth and employment growth.

To tackle these problems, China has issued a series of laws and policies integrating structural adjustments of economy, employment expansion and improvement of employment structure. It is highlighted on the Seventeenth Chinese Communist Party Conference that harmonious economic and social development is the top priority to be pursued by the Chinese government, and employment expansion should be a key component of development strategy. Laws and policies on industrial development issued in recent years are all aimed at balancing the goals of employment development and employment creation.

1. Legal documents

Main legal documents at the national level integrating economic development and employment promotion include Small and Medium-sized Enterprise Promotion Law, Employment Promotion Law and Tentative Regulations on Promoting Economic Structural Adjustments.

Small and Medium-sized Enterprise Promotion Law is enacted in 2002, which clearly declares its goal as promoting SME development and employment creation. This law defines the responsibilities of governments at all levels to create an enabling business environment for SMEs, ranging from tax cuts, exemption from administrative charges, policy information provision, access to land and capital. The law also encourages intermediary organisations to provide services in the field of credit guarantee, technical support, management training and information. *Small and Medium-sized Enterprise Promotion Law* is the basis for regulations and policies on SME promotion at local levels.

As one of the most important legal documents, guiding the structural changes in China, the *Tentative Regulations on Promoting Economic Structural Adjustments*, issued in 2005, outlines the direction of economic structural adjustments and priorities of regional development. The *Regulations* emphasize the importance of tertiary industry and SMEs.

*Employment Prom*otion Law enacted in 2007 is a landmark in the employment promotion activities in China. Its importance is reflected in four areas. Firstly, t declares employment growth as the top economic priority. Secondly, it stipulates government's responsibilities in employment promotion. While giving great importance to market regulation, it stipulates that government should carry out pro-active employment policies and establish favourable conditions for self-employment. Thirdly, employment growth is made a goal and key performance indicator. Fourthly, the law requires forming a coordination mechanism for employment promotion at all levels, involving related government agencies, trade unions, women's federation and other social groups.

2. Policy papers

Major policies papers issued at the national levels aiming at balancing local economic development and employment are Guidelines for Economic Structural Adjustments, Guidelines to Promote and Support Private, Individual Businesses and Other Non-public Economies, and Some Guidelines for Facilitating the Development of the Tertiary Industry.

As a supplementary document to the *Tentative Regulations on Promoting Economic Structural Adjustments*, *Guidelines for Economic Structural Adjustments* lays a basis for guiding investment decisions and formulating policies on finance, taxation, credit, land, import and export. The *Guidelines* consist of three catalogues of industries: encouraged, limited and prohibited industries. For instance, in the *2005 Guidelines* encouraged industries in the agricultural sector include vegetable planting, soil-less flower cultivating, milk cow husbandry, mushroom culturing; encouraged industries in the service sector include new forms of retailing such as small and medium-scaled grocery chain shops, services for SMEs, logistic services, community services and service for senior citizens.

In 2005 the State Council issued *Guidelines to Promote and Support Private, Individual Businesses and Other Non-public Economi*es. The *Guidelines* stipulate a series of measures eliminating institutional barriers faced by private businesses and creating fair environment for competition. Government agencies are urged to improve and strengthen their capacity both as regulators and service providers. Business start-up services are given particular importance in the *Guidelines*, which encourage providing management and employee training, technology innovation service and credit system building for business start-ups.

Some Guidelines for Facilitating the Development of the Tertiary Industry issued in March 2007 sets up a goal that by 2020 value to be created by tertiary sectors will account for more than 50% of the total GDP. To achieve the goal, the *Guidelines* point out the direction of service industry development. Encouraged service sectors, for example, include: property management, community services, services for senior citizens, services designed for rural areas such as sales, technology, information and financial services, tourism, sports, culture and entertainments.

3. Administrative structures relating to local economic development and employment promotion

In China, local administrative structures vary from place to place, subject to decisions of local governments. However, some agencies are common in most localities:

Local government agencies	Main functions
Committee of Development and Reforms	To formulate and implement social economic development strategy, mid-term, long-term and annual plans; To set up goals and making policy recommendations for economic development and major structural adjustments; To implement and monitor industrial policies; To put forward recommendations for improving ownership structure of economy and promoting development of all forms of ownership; To provide macro guidance and coordination for major issues concerning SME and non-state-owned enterprise development.
Finance Bureau	To formulate mid-term and long-term finance plans of the locality; To participate in decision making on major economic affairs and make recommendations on using finance, taxation, subsidy policies to regulate local economy development; To draft annual budget and final accounts, organise the execution of fiscal budget.
SME Development Bureau	To formulate development strategy for SMEs, organise implementation of the strategy; To build SME service system.
Industry and	To regulate and monitor markets of consumer goods,

Commerce Bureau	production materials and production factors to ensure fair competition. To grand business license.
Employment Bureau	To formulate and implement employment promotion policies for rural and urban labour force; To establish and improve employment service system, set up rules for operating employment services, and monitor their performance; To formulate and carry out policies on on-the-job training, re-employment training, administer related training institutions.
Industry Bureau	To draft mid-term and long-term industry development plans, policies on the secondary industry, and organise execution; To promote inward investment in the local industry; To improve investment environment for local industry, and promote industry value chain development.
Agriculture Bureau	To draft agriculture, animal husbandry and aquaculture development policies, To guide structural adjustments, promoting optimization of agriculture resources and the increase of product quality; To guide the development of commercialized services, rural collective economies and cooperatives.
Tourism Bureau	To formulate tourism development strategy oriented to domestic and international tourists; To organise important promotional activities; To foster and improve local tourism industry, guide the development of major tourism products; To inspect and monitor tourism market, and protect interests of tourists.

In order to effectively coordinate various government agencies and resources, coordination mechanism has been set up at all levels. Such mechanism is often formed for a specific purpose and operates in a loose form such as working groups. Working groups are commonly headed by a senior official of local government at the corresponding level. At regular meetings chaired by a senior government leader, member organisations exchange information, coordinate actions and seek support from other organisations. Ad-hoc meetings are also convened depending on needs. Such coordination mechanism plays a vital role in integrating financial, technical, personnel, information and policy resources, and ensures the achievement of government goals. However, how to substantiate such mechanism and involve private sector remains a question.

II.LED activities in China

In the respect to employment promotion, the Ministry of Labour and Social Security (MOLSS), and the International Labour Organisation (ILO) has come to a common understanding that it is necessary to further promote coordination among local stakeholders to promote local economic development with a particular emphasis on SME development as to create more job opportunities. Local Economic Development (LED) can be a useful approach in this sense, as it provides guidelines for local stakeholders both in the public and private spheres for local development planning. It places an emphasis on establishing public-private partnership, and mobilising and taking advantage of all kinds of local resources, including financial resources, human resources, natural resources, cultural resources, investments and social capital, and therefore makes the development process sustainable.

1. Introduction of LED in China

In 2002 the ILO introduced LED into China and since then has in collaboration with the MOLSS conduced activities on Local Economic Development (LED) in China:

From 2002 to 2004, the MOLSS organised a research in five cities to identify their capacity in economic development planning, which was based on the dialogues inclusive of social partners and private sectors;
In 2004-5, the Institute for Labour Studies, MOLSS, developed the LED manual for China based on the ILO's LED experiences and materials;
In April 2007, ILO/OECD Joint Seminar on LED was organised in Beijing. In the seminar OECD countries (USA, France and New Zealand) and China exchanged views on local economic and employment development, which encouraged MOLSS in piloting LED good practices in China;
In May 2007, China sent three participants to the ILO's Regional Seminar on LED in Chiang Mai.

During this period, LED was defined to enhance overall economic development capacity of a locality. However, it was realised that such LED model takes long time and may require changes in the ways that local economic development strategies are formulated and implemented in many localities. Considering that China tends to take incremental approach to reforms, the ILO decided to adopt a new model of LED, more suitable to the Chinese context. A pilot county of the ILO/Inter-country Project on Strategic Approaches toward Employment Promotion (ILO/PEP) experimented with value chain development and achieved good impacts on income generation for farmers. However, these initiatives are limited to extension of existing value chains within a locality, without analysing and improving the value chains. Considering that an ILO project in Sri Lanka has developed and successfully utilised value chain development tools, the ILO Beijing Office and the MOLSS decided to introduce the Sri

Lanka version of Value Chain Development Guide for LED activities in China.

2. Development of the VCD pilot project

2.1 Preparation for lunching the project

In 2007 the MOLSS and the ILO decided to conduct a VCD pilot project in China and then started a series of preparatory activities:

In June-July 2007, the MOLSS organised translation of the Operational Guide to Value Chain Development into Chinese;
In August 2007, the ILO and the MOLSS selected the city of Yinchuan, Ningxia Hui Autonomous Region as pilot site for the VCD project;
In September 2007, a training workshop was held in Ningxia for VCD facilitators from the MOLSS, Ningxia Labour and Employment Bureau, a private training school, a commercial consultancy firm, and other relevant government agencies.

Training workshop on VCD in Ningxia

2.2 Project goals and objectives

The project goal is to promote local economic and employment development by assisting SMEs to explore niche markets in value chains and improve their business operations.

The direct objective of the project is to explore market niches in a prospective value-chain and provide information for building consensus among stakeholders in improving cooperation and developing the selected value chain. Furthermore, the project will also supply information for adapting the VCD Guide into local context and offer reference for LED activities to be carried out in other localities.

2.3 Selection of pilot site

NIngxia Hui Autonomous Region is selected as project pilot site for three reasons:

Firstly, Ningxia is located in the western region of China which, as compared with the eastern costal region, is an economically backward area, but faces great unemployment pressure. The population in Ningxia has been growing faster than the average rate in the country, which has led to a high percentage of working-age population. While the supply of labour force is on a constant rise, local economy, similarly to other parts of China, has been shifted towards technology-intensive model with low employment growth, which complicates the employment situation.

Secondly, Ningxia is an area where people of Hui nationality are concentrated. Hui people account for 34.9% of the total population in Ningxia. The pilot project will not only help explore effective approaches for economic and employment growth for underdeveloped western region, but also directly contribute to employment of minority people.

Thirdly, Ningxia is one of the pilot sites of the SYIB project phase 3 and the first city in China which can provide all four modules of business start-up training. Moreover, Ningxia has accumulated a plenty of experiences in developing services for small business, which can be useful for implementing and replicating the VCD project.

2.4 Social-economic conditions of Yinchuan

Yinchuan is the capital city of Ningxia Hui Autonomous Region and therefore it is selected as the pilot city.

(1) Population

By 2006, the total population of the city is 1.45 million, including 0.92 million non-agriculture population (63.3%) and 0.53 million agriculture population (36.7%). There are 0.4 million minority people, constituting 27.5% of the total population. Among them, 0.37 million are of Hui nationality, representing 26% of the total population and 93% of the all minority people.

(2) Economic development and residents' income

The secondary industry plays a growing important role in the local economy as a result of government drive to promote the secondary industry. By 2006, agriculture, secondary industry and tertiary industry accounted for 6.3％，46.7％ and 47.0％ of the local economy. As compared with 2002, proportion of agriculture and the tertiary industry dropped by 3%, while percentage of the secondary industry increased by 6%.

The number of SOEs has been decreasing over years. Foreign-funded enterprises remain to be a minor percentage. Although the percentage of private enterprises has been on rise, it's still lower than the average level in the country. By 2004, domestic enterprises constituted 99.28% of all enterprises, while Hongkong, Makao and Taiwan-funded enterprises and foreign-funded enterprises accounted for 0.28% and 0.44%. Private enterprises occupied 53% of all enterprises, 8% lower than the national average.

In terms of residents' income, Yinchuan lags behind most of 36 large and middle-sized cities in the country, ranked middle among capitals of the five western provinces. During the first quarter of 2007, per capita disposable income of urban residents in Yinchuan was 3228.7 yuan, ranking 29 in 36 large and middle-sized cities and 34.1% lower than the average level（4898. 01 yuan）.

(3) Employment

Although registered unemployment is quite low in the city (3.6%), the local labour market is bottlenecked by severe oversupply of labour force and structural problems.

As for the distribution of employment among sectors, 70% of newly created jobs come from the tertiary sector, while the rest 30% from the secondary industry. Private businesses play an increasing role in job creation. By the end of 2005, 0.37 workers million are engaged in the private sector, occupying 70% of the total 0.53 million urban workers,

III. Implementation of the VCD pilot project

The VCD project was conducted for two and half months, from 1 November 2007 to 15 January 2008. Pilot activities are carried out in 6 phases:

Phase 1: Team building and sector selection

Timeframe:2007.11.1－2007.11.15 Results: The core and supporting teams have been established; The target sector has been selected, with a VC map drawn and main stakeholders identified; Initial researches have been conducted on the market, each stage of the selected VC.

1. Building the core team

The Ningxia Regional Labour and Employment Bureau is the executing agency for the VCD project. However, it is difficult for the Labour and Employment Bureau to complete all tasks on its own within a very limited period of time. With approval by the MOLSS and ILO, the Ningxia Labour and Employment Bureau hired consultants to implement certain tasks. The division of tasks is: the Regional Labour and Employment Bureau takes an overall responsibility for the project implementation at the local level, coordinating with the MOLSS, ILO and relevant organisations in Ningxia Autonomous Region, providing general guidance to consultants, and monitoring their performance; Huadian Consultancy Ltd. and Ningxia Western Manager Training School are responsible for conducting VC investigations and analysis, and other operational matters.

The Ningxia Western Manager Training School is a private training institution, providing work-related skills training both for business managers and workers. The school has been, in partnership with Yinchuan Labour and Employment Bureau, conducting business start-up courses, and is the first training institution in China, which can provide all four modules of business start-up training courses (GYB, SYB, IYB and EYB). Deputy director Mr. Lu Jiren is a certified SIYB trainer and enjoys high reputation among small businesses for training and follow-up guidance.

Huadian Consultancy Ltd. has a plenty of experience in offering consultancy services in business strategy development, brand diagnosis and improvements, and marketing strategy design. Chief consultant Mr. Li Wei attended EYB training. Considering their experience in management skills training and consultancy, the Ningxia Labour and Employment Bureau decided to hire these two firms as partner executing organisations for the VCD project. The three organisations negotiated an agreement, clarifying roles and responsibilities of each partnering organisation.

2 November 2007 the project core team was set up, with Mr. Ping Jianzhong, Director of the Ningxia Labour and Employment Bureau, as project director, and Mr. Li Wei from Huadian Consultancy Ltd. as project executing director. The project core team consists of representatives from three organizations. Representatives from Ningxia Labour and Employment Bureau include Mr. Xu Hongguang, Deputy Director, Ms. Deng Yali, Chief of Training Division, Mr. Yang Xuemin, Deputy Chief of Training Division. Mr. Lu Jiren and 5 consultants from Hudian Consultancy Ltd are also members of the core team.

2. Identification of a target sector

2.1 Primary selection of target sectors

After discussions, the project core team decided on five criteria for target sector selection: employment impact, scale and growth potential, local-resource-based advantages, business environment (policy support, infrastructure and stakeholder commitment)and operational feasibility, and then in accordance with the criterions selected five value chains: wolfberry sector, milk sector, vegetable sector, high acid-content apple sector and flower sector.

Ms. Deng Yali, Mr. Li Wei and other core team members visiting flower farmers

2.2 Final identification of a value chain

Since 5 November the project core team has spent 5 days making primary research into the five selected sectors. It was found out that:

In terms of the vegetable sector, the key stakeholder, Xinhua Groceries is not enthusiastic about strengthening its role in the value chain. The director said that in 3-5 years' time they had no plan to invest more in the vegetable sector, or to change the way in which vegetables are supplied, and even if they did so, it would take long time for the plan to be approved by the Board of Directors.

Wolfberry and milk sectors are growing industries with local advantages. However, bottlenecks which constrain further development of these sectors are left unsolved for a quite long period of time and it is unlikely that the project can get them resolved with a short time.

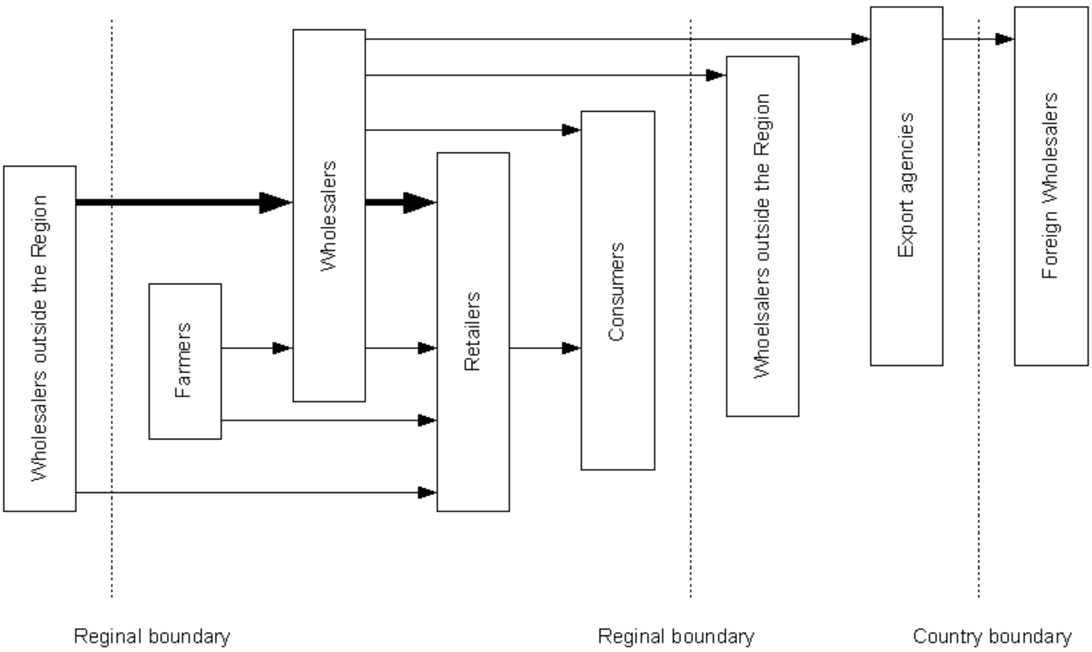
With respect to apple value chain, income generation impact for farmers will be notable, if apples are processed into juice locally. However, this requires a large amount of investment to set up apple juice factories, which makes the implementation of recommendations difficult.

By contrast, it is more feasible to intervene into the flower sector. Firstly, there is a large market gap in Ningxia: merely 12% of local demands for cut flower are locally cultured, while 88% supplied from other regions. Those cut flowers from other regions are more expensive than locally cultivated flower, because transportation not only increases expenses, but also incurs losses in weight and quality. Secondly, flower industry has a great market potential. It is estimated that flower consumption in China has been growing by 20% annually in recent years and is expected to expand at a faster pace in the future. Thirdly, the soil and climate in Yinchuan are suitable for flower culture. Fourthly, many green houses built for vegetable planting can be altered into flower green houses, which helps to reduce initial investment in flower cultivating. Fifthly, flower sector development will substantially increase farmers' income, as flower culture can yield much higher income than foodstuff and vegetable planting (on the same measurement of land, income from planting flower is as high as 2-10 times the income from planting foodstuff). Sixthly, Yinchuan is located in the centre of a large region and therefore enjoys a location advantage, which makes Yinchuan a potential centre of flower wholesale. Lastly but not least importantly, Xingqing district government of Yinchuan listed flower sector as a prioritised industry and are devoted to its development. However, it was also found out by the project core team that there are a number of problems, hindering the expansion of the flower sector. For example, farmers lack planting techniques, there is serious distrust between farmers and dealers, marketing problems, lack of mature local market, etc. Therefore, timely intervention by the VC project will help stakeholders of the flower sector avoid mistakes in developing the sector.

Ms. Deng Yali, Mr. Li Wei and other members of the project core team visiting Xinhua Groceries

Based on the findings and the pre-set selection criteria, the flower sector has been identified for the value chain development exercise. Then the project core team drew up a VC map.

Chart 1: VC map 1



2.3 Identification of major stakeholders

The project team identified major stakeholders of the flower value chain, based on the VC map.

Major stakeholder	Basic description	Attitude toward sector development and cooperation
Wholesalers	There are three large wholesalers in Yinchua: Tian Di Yuan, New World, and Garden House Girls. Besides wholesale, the three companies are also engaged in retail business. At present 90% of cut flower sold by the three companies come from other provinces. The three companies sell flower to the local consumers and wholesalers in other regions, such as Inner Mongolian Region and Gansu Province. Each company employs 4-5 sales persons, 70-80% of which are female. Average wage level is 800 yuan.	Wholesalers take positive attitude about increasing the production volume of locally cultivated flower, which is cheaper than flower supplied from other regions. There is distrust between wholesalers and local farmers.
Retailers	There are 117 flower shops in Yinchuan, with 110 shops solely engaged in retailing. Large flower shops also engage in wholesale, flower cultivating, and other related businesses. Most of the flower shops are in small scale, with 2-3 employees. Average wage is 700 yuan per month. Majority of the employees are women: 92.5% are women and 7.5% are men.	Retailers are very enthusiastic about local flower sector development. They wish they can specify in selling flower, rather than diversify into planting. Both retailers and local farmers don't always follow already reached agreements, which lead to losses of both parties. Most of the retailers operate in small scale and therefore don't have the ability to bargain with wholesalers. Price is decided by wholesalers one-sidedly. Retailers think that government pays no attention

		and support to flower retail business.
Farmers	350 households are engaged in flower culture, supplying Yinchuan local market. As they operate in a small scale, their products only occupy 12% of local market share. Most of the farmers sell their flower directly to flower shops, while a few of farmers who plant flower in a larger scale supply local wholesalers.	Local farmer lack confidence in flower cultivating for some reasons: distrust between farmers and wholesalers, and retailers, lack of knowledge about market and marketing channels. Therefore , although local government offers subsidies, farmers still prefer planting grain, which they are familiar with, to planting flower.
Flower Association	Xingqing District Flower Association was established in March 2006. The vice chairperson of the district People's Congress has been appointed head of the association, while local large flower company directors depute directors. Because of this semi -governmental nature the goal of the association is to assist district government in developing the flower sector. At present, priority of the Association is to promote flower planning, and explore local and external markets.	Because the Association is set up to promote flower sector development, and depute directors of the association are local flower companies leaders, the Association has a strong incentive in developing the flower value chain. However, the association hasn't provided any service to members up to now.
District government and relevant government agencies	It is determined at the Regional Communist Party Conference in 2007 that developing flower sector is a prioritised task for Xingqing district government as part of strategy on income-generation for farmers and agriculture upgrading. To implement the guidelines,	The goal of the district government is to make the district a capital of flower in the western region within 3-5 years. So it is very supportive to the flower VCD exercise. The district government hopes to get overall and in-depth knowledge of the flower sector, its current

	the district government set up some preferential policies, limited to offering subsidies and loans to companies and farmers. But the policies didn't work out.	situation and major problems.

2.4 Setting up support team

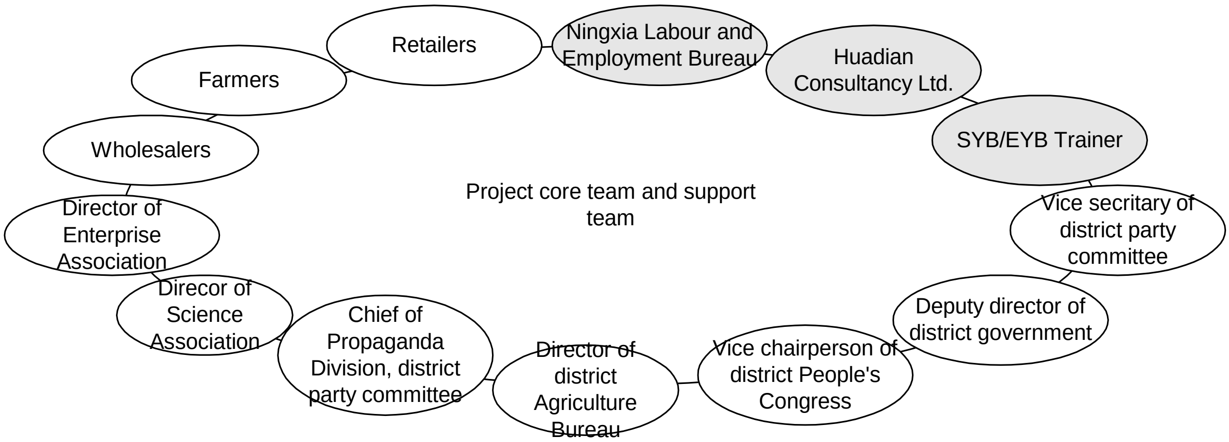
Support team members are selected in accordance with three criterions: ①each stage of the flower value chain should have a representative; ②they should have a good knowledge about the sector; ③they should have a stake in the development of the flower value chain. Based on the criterions, the project core team pre-selected 15 stakeholders.

15 November 2007 the Project Director, Mr. Ping convened a meeting for members of the project core team and support team. Team members are informed of project objectives, methodology, and expected contributions from the support team. Using the opportunity, core team members and stakeholders made adjustments to the VC map, and discussed opportunities and bottlenecks in the flower value chain.

After the meeting, according to willingness and abilities of pre-selected support team members, the project core team chose 16 persons to join the project support team. The finalised support team consists of representatives of Xingqing district government, the district People's Congress, the Agriculture Bureau, the Propaganda Division of the Communist Party Committee, the Enterprise Association, the Flower Association, as well as representatives of wholesalers, retailers and farmers.

Letters of appointment for support team members

A support team member was granted with letter of appointment.



Key person of the support team is Mr. Du Qian, vice secretary of the district communist party committee. When mapping stakeholders of the flower value chain, the project core team found out that private sector stakeholders often can seer their stake in the VC development and therefore t it is easier to mobilize them for VC exercise; on the contrary, it is not clear to identify the stake for related government agencies. Therefore, the project core team realises the importance of identifying a senior government leader who shows real support to the development of flower value chain and has the authority to coordinate government agencies. Vice secretary of the district party committee, Mr. Du Qian , who has assumed his position recently, has experience in agriculture development. Therefore he was approached and selected as key person of the support team. He actively involved in project activities and played a significant role in mobilising stakeholders, which ensures, to a large extend, the smooth project implementation.


Contact details of support team members


Files of name cards of support team members

2.5 Initial research

To collect information on local flower market and each stage of the value chain, the project core team members conducted initial questionnaire survey of 20 flower shops, 30 consumers. 4 flower markets and 3 flower farms were visited, were interviews were taken with 13 market dealers and 7 farmers. In addition, core team members discussed with 7 representatives of the Flower Association and 2 government officials. Based on findings, the project team revised the VC map and completed an initial research report. The report analysed consumer needs, status and problems of each stage of the flower value chain, and the prospective of the local flower sector.

Phase 2: Hypothesis workshop and revising VC map

Timeframe: 2007.11.16-2007.11.20 Results: Hypothesis workshop was held; A common understanding of project goals was reached; VC map was revised; SWOT analysis was made at the workshop.

1. Hypothesis workshop on the flower value chain

20 November 2007 hypothesis workshop was held involving all members of the project core team and support team. The workshop started with a presentation by the project executive director on the definition of VC, five triggers, and methodology of VC development. Then participants were explained findings of the initial research. As support team members either come from local flower sector or are very familiar with it, they provided additional information to supplement the collected information and corrected misunderstanding. After given comments on the VC map, participants conducted card exercise on SWOT analysis of each stage of the flower value chain.


Card exercise on SWOT analysis


Group discussions at the hypothesis workshop

2. Revising the VC map

Considering the limited time available for the workshop, it was decided not to evaluate comments from participants at the workshop. On the following day after the workshop, core team members collated comments on the VC map and SWOT analysis results and made a display board.

Adjusted VC map and cards of SWOT analysis on the display board

Form 23 to 25 November, the project core team invited support team members for separate group discussions to improve the SWOT analysis results. As for the consumption stage, the core team decided to make analysis of needs and problems instead of strength, weakness, opportunities and threats.

As compared with previous VC map, supply of flower seedlings is added to the new VC map, as it plays a crucial role in the development of the local flower value chain, although suppliers are based outside the region. Currently, problems at seedling supply stage are one of the main bottlenecks which hinder the development of Xingqin flower sector. In addition, the project core team also added stakeholders and service providers of each stage of the flower value chain.

Stakeholders were surprises at seeing the revised VC map. They said although they had been engaged in flower business for years, but it turned out that they have very rough knowledge of the sector. By participanting in the project activities, they have got better knowledge of what they engage in. Some support team members were grateful to the project, because the workshop ‘gave them an opportunity to communicate with other participants of the flower value chain, which enhances mutual understanding and lays foundation for improving mutual cooperation’. Some support team members also said that it was the first time when they communicate face-to-face with senior government officials and hoped to have regular communication of such kind.

Chart 2: VC Map 2

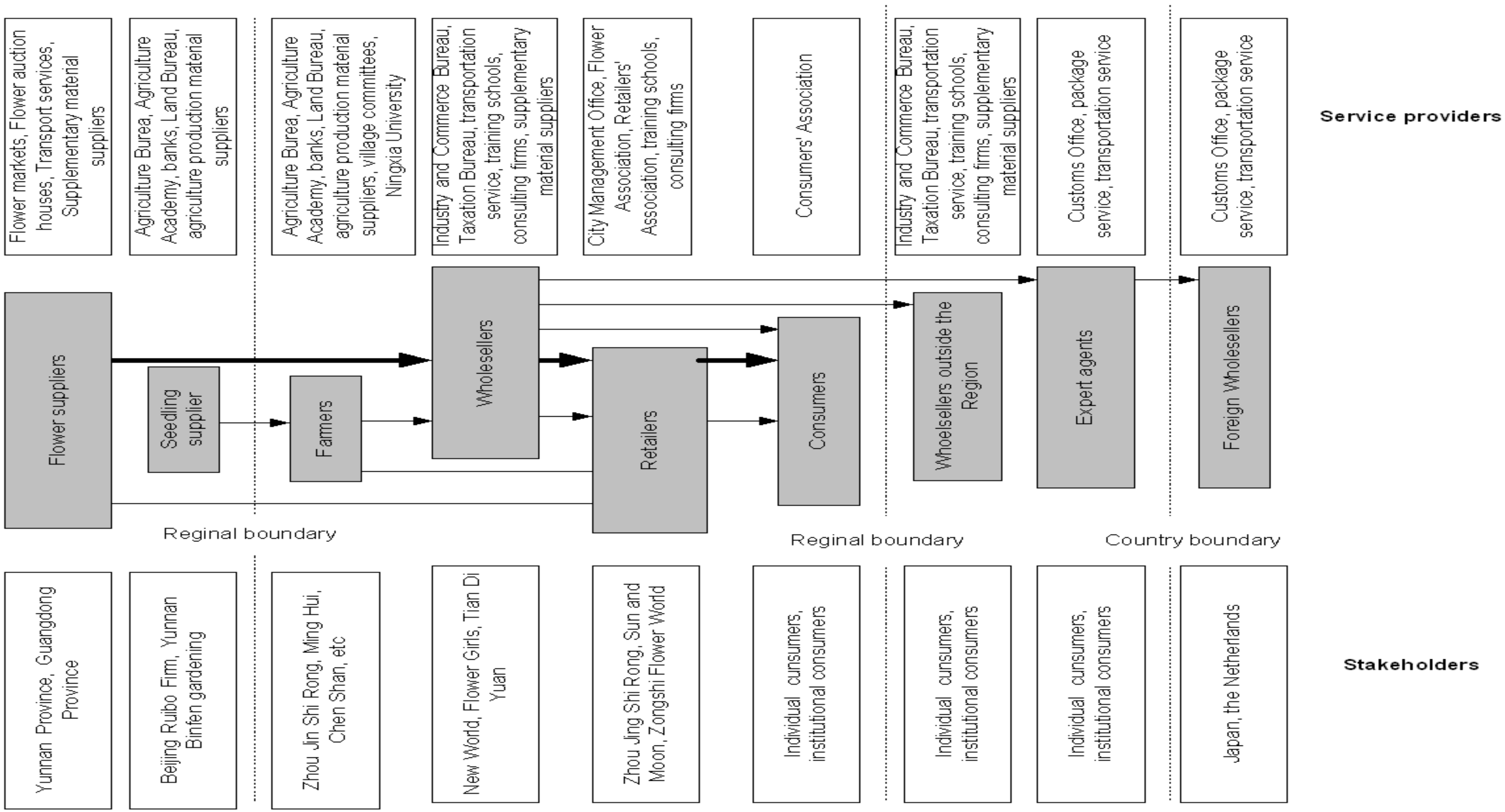


Chart 3: SWOT analysis of the flower value chain

Consumption

Needs

1. More varieties of flower;
2. Good quality of flower;
3. Good quality of service ;
4. Personalised service;
5. Reasonable price;
6. Convenient location of flower shops.

Problems

1. Lack of knowledge on conventional proprieties in using flower;
2. Lack of knowledge to maintain flower;
3. No habit to consume flower;
4. Low income of local residents.

Retail

Strength

1. High value added;
2. Workers have certain skills to pack flower;
3. Good knowledge of customers' needs;
4. Convenient location;
5. Developed transportation

Opportunities

1. Government is supportive to the flower sector development;
2. Good market potential
3. ILO pilot

Obstacles

1. Not enough support from the government and flower association for retail;
2. underdeveloped flower market;
3. Low management skills;
4. Lack of access to credit;
5. Lack of vocational skills by employees;
6. High expenses due to transportation and losses in quality and quantity;
7. Not many varieties of flower supplied;
8. Lack of awareness of brands.

Suggestions

1. Strengthen government support;
2. Promote local flower consumption;
3. Improve management skills;
4. Provide skills training to workers;
5. Offer access to credit;
6. Increase efficiency of transportation service;
7. Introduce and adapt more varieties of flower;
8. Improve quality of locally produced flower;
9. Build local flower brands.

Wholesale

Strengths

1. Fast flow of information within the local market
2. Good knowledge of the local market;
3. Local purchase of flower saves costs;
4. YInchuan is a convenient location for transporting flower to surrounding areas.

Opportunities

1. Local government is supportive;
2. Good market prospect;
3. the ILO VCD project;
4. Competition is not fierce in the local market.

Obstacles

1. Supply mostly from other regions (more time and costs);
2. Not enough support from local government;
3. Lack access to credit;
4. Distrust between wholesalers and farmers;
5. Lack of marketing channels in other regions;
6. Supply of locally cultivated flower is not stable;
7. Small scale of the local flower wholesale business;
8. Lack of management skills;
9. Lack of awareness about brand

Suggestions

1. Reduce costs of transportation;
2. Strengthen government support;
3. Offer access to credit;
4. Improve cooperation with local farmers;
5. Explore markets in other regions;
6. Unified planning of flower culture;
7. Cooperation among wholesalers;
8. Expand scales of local flower production;
9. Develop large leading enterprise in the flower sector;
10. Build famous local brand.

Planting

Strengths

1. Long time of sunshine;
2. Quick feedback of price information from local markets;
3. Low costs of transportation to local markets;
4. A lot of green houses.

Opportunities

1. Large market demand;
2. Shortage of local supply;
3. Preferential policies;
4. ILO VCD Project;
5. High profit from planting flower.

Obstacles

1. Lack of capital;
2. Workers' wages are high;
3. Require large amount of investments in building green houses;
4. Seedlings are expensive;
5. Limited scale;
6. No stable yield;
7. Lack of technique and skills;
8. Low temperature during winter time;
9. Lack of new sorts of flower;
10. Lack of confidence;

Suggestions

1. More support from local government;
2. Provide access to credit;
3. Improving green houses;
4. Collective purchase of seedlings;
5. Expand scales of planting;
6. Skills training;
7. Strengthen research and development of new sorts of flower, and seedlings;
8. Promote farmers to engage in flower culture;
9. Formailse and implement contracts

Phase 3: Start-up workshop

Timeframe: 2007.12.22 (planned in November) Results: Start-up workshop was hold to publise project information and obtain support from stakeholders; Stakeholders were consulted about their comments on the revised VC map.

The start-up workshop was scheduled in November 2007, but had to be put off to 12 December 2007 because of the difficulty to find a time suitable for a large number of participants. However, project activities were not stopped and the project teams carried on with activities Phase 4 (interviews and focus groups discussions).

According to the *Operational Guide to Value Chain Development*, the objective of the start-up workshop is to verify the VC map and initial assessment of strengths, weakness, opportunities and threats of the value chain. However, considering time limit and the possibility that participants will not freely air their ideas at the presence of government leaders and media representatives, the project core team decided to use the workshop to showcase the project achievements to date, and draw public support for the flower sector. To utilise the opportunity for collecting more information, the project team distributed questionnaires at the workshop, eliciting ideas and comments on the VC map and SWOT analysis results from participants.

Mr. Du Qian from local government addressing the openning ceremony

Start-up workshop

The agenda of the start-up workshop was designed in full accordance with its objectives: publicity, mobilizing stakeholders, and put forward guidance for next step. The workshop was opened by the project director, Mr. Ping from the Ningxia Labour and Employment Bureau, followed by a presentation by the project executive director, Mr. Li Wei from Huadian Consultancy Ltd. about the objectives of the VCD project, methodology, and progress achieved to date. Representatives from the MOLSS and ILO gave information on successful VCD cases and suggested the project placing emphasis on farmers.   Mr. Du Qian, representative of Xingqing district government, explained to participants government's plans for the flower sector development. Stakeholders expressed their willingness to strengthen mutual cooperation. Major local media reported the event, which helped to obtain public attention to the local flower sector development.

Phase 4 and Phase 5: Researches and evaluation workshop

Timeframe: 2007.11.21—2008.1.13

Results:

Strengths, opportunities, obstacles were identified for each stage of the flower value chain;

Suggestions for improvement were put forward;

Opportunities for cooperation between actors of the flower value chain were identified;

Suggestions on areas of potential government interventions were made;

Final report on the flower value chain analysis was completed.

After the start-up workshop, the project core team proceeded with questionnaire survey with consumers, and organised group discussions with consumers, wholesalers, retailers, farmers, government agencies and private BDS providers. Interviews with seedling suppliers and wholesalers from other regions were also conducted. To verify information obtained from various channels about planting stage, -the commonly recognized weak link, the project team visited rural households. A large amount of information has been collected which helps improve the previous analysis and suggestions. After three internal workshops, the project core team completed the VCD report, which was subsequently discussed with stakeholders of all stages of the flower value chain. Analysis and suggestions included in the report are those which received recognition from all stakeholders.


Group discussions with retailers


Group discussions with wholesalers


Meeting with consumers

The report made an overall analysis of each stage of the flower value chain and put forward recommendations for improvements. Organisations which should be responsible for actions are also indicated. The report presents stakeholders with a comprehensive picture of the flower sector, based on which they can decide what actions to take according to their own needs and capacities.

The report can be summarized as follows:

1. Problems and actions proposed for the retail stage of the flower value chain:

Need/ Problems	Causes	Proposals	Activities	Implementing organisations
Underdeveloped flower market	No effective market regulation; Small scale of the flower retail sector; Lack of promotional activities.	Promote local consumption of flower; Expand scale of the retail sector.	Carry out promotional activities to facilitate flower consumption culture, such as organise flower festival; Develop marketing strategy in partnership with BDS providers; Develop new models of retailing, such as flower stands in supermarkets and on-line flower shops; Offer consumers training on flower art; To attract more customers, launch self-service in flower shops, which means customers, with guidance of flower artists, select, arrange and pack flower on their-own; Improve shop display and make it more attractive.	Government Association retailers BDS providers
Distrust between players of the value chain	Retailers' deals with flower suppliers from other regions are all made by oral agreements. 16.7% with local flower suppliers by oral agreements, while 83.3% without any prior agreement. Even if there is an agreement, farmers often don't fulfill the agreement; Some retailers take advantage of farmers, which can't follow changes in market price.	Guide players of the flower value chain to set up a trustworthy cooperation	Promote parties to conclude formal agreements, which can protect their interests; Build a flower market where prices in major flower markets around the country are displayed; Promote credibility awareness.	Association government
Not enough support from the	The local government does not pay attention to flower retailing;	Strengthen support from local government	Reform the Association and make it a real service-oriented industry	Government Flower Association

2. Problems and actions proposed for the wholesale stage of the flower value chain:

Problems	Reasons behind	Proposals	Activities	Implementing organisations
High costs	Supply from other regions incurs air transportation costs: 2000 yuan-worth flower purchased from other region costs 450 yuan more in transportation costs than flower purchased from local areas; Outside supply also incurs wears: on average, 2000 yuan-worth flower purchased from other region suffers 400 yuan loss in quality and quantity; Local wholesalers don't have bargaining power, as their purchases are in small amounts, compared with other wholesalers; High operational costs.	Increase local purchase; Collective purchase from other regions; Optimise workflow management to reduce costs.	Local government and the Association encourage purchasing of locally produced flower through policies, such as subsidies or preferential credit policies; Wholesalers should conclude and fulfill agreements with farmers in order to improve their relationships; Utilise a new form of cooperation between farmers and wholesalers: wholesalers provide seedlings to farmers and then buy their products. Such agreements may help both parties to reduce market risks; Promote collective purchase by wholesalers from other regions; Organise IYB training courses for wholesalers;	Government Flower Association Wholesalers Consulting firms

			Wholesalers may work with consultancy firms to improve their business management and reduce operational costs.	
A little variety of flower supplied to local markets; Low quality of flower supplied to local markets	Considering low consumption power, wholesalers tend to purchase cheap flower, which can not meet varied needs of consumers; It takes time to transport flower from other regions, which leads to wears in losses in quality of flower; Local farmers lack of planting skills and don't have good knowledge of seedling selection, which causes low quality of locally produced flower.	Explore specialised marketing channels for special flower, which are usually not sold at a large volume; Improve seedling purchase; Increase farmers' planting skills.	Build specialised flower market or online flower shop for flower, on which there is no massive consumption. Activities to be taken at the planting stage are seen at the table below.	Wholesalers
Lack of cooperation between wholesalers and farmers	There is an absence of stable long-term cooperation between wholesalers and farmers, which makes it difficult to plan flower supply in line with market demands; Lack of transparency in market	Build a flower market Establish flower cooperatives Set up a rating system of flower quality	Wholesalers should improve their communication with farmers, clearly indicating their requirements on quality and quantity of flower in a formal contract; Build a flower market, where prices	Quality Inspection Bureau and the Flower Association

	prices, as a result wholesalers impose low price and don't pay for goods in a timely manner; There is no acceptable quality classification system for flower, and therefore there are constant arguments between wholesalers and farmers over the quality and prices.		on major flower market around the country will be publicised so that farmers will be well informed of market prices; Build flower cooperatives which on behalf of farmers negotiate prices, payment time and payment ways with wholesalers. The Quality Inspection Bureau and the Flower Association will set up a flower quality rating system so that prices can be set in accordance with quality classes.	
Marketing channels to other regions are undeveloped.	Scale and resources of local wholesalers are limited, because local cut flower sector is a new economic sector; Local supply of flower is not sufficient to support export to other regions; There are no famous local brands,	Formulate policies to encourage wholesalers to explore market sin other regions; The local government should make the district a good brand of flower.	Local government will offer wholesalers subsidies for the cut flower sold to other regions; The local government and the Flower Association will organize developing marketing strategy aimed at exploring markets in other regions;	Government Flower Association Wholesalers

	which are widely recognised by other regions.		The local government and the Flower Association will organise promotion workshops or exhibitions in surrounding regions to obtain recognition of cut flower produced in Yinchuan.	
Lack of management skills		Strengthen training	IYB training; Promote exchanges among wholesalers in the region; Organise visit to successful wholesalers in other regions;	Labour Bureau Flower Association Wholesalers
Lack of financial resources	Although lack of financial resources is not considered to be the most urgent problem to wholesalers at the present, but from a long-term perspective, with the expansion of their business, they may need to make substantial investments. The current conditions for obtaining credit will not be able to satisfy their needs.	Improve financial support	Set up a special fund for flower sector development in order to offer financial support to actors of the sector; Tax cuts for actors of the flower sector; Preferential credit policies in terms of interest rates and loan amount.	Government Banks

3. Problems and actions proposed for the planting stage of the flower value chain:

Need/ Problems	Causes	Proposals	Activities	Implementing organisations
Low quality of flower	Lack of planting skills by local farmers; Low quality of seedlings purchased by farmers.	Increase farmers' planting skills; Improve seedling purchase.	Develop new species of flower which are suitable for the natural conditions inNingxia region and have good market potential; Entrust outside seedling suppliers to culture species of flower which are suitable for Ningxia region; Encourage outside seedling suppliers to set up agencies in Xingqing district; Invite flower experts to organise skills training courses for farmers; Buyers should offer technical supports to farmers; Local government will deploy experienced experts to each flower farm, which will provide technical assistance through regular site visit, telephone inquiry, online inquiry and etc.	Government Flower Association Agriculture technology institutions

			Encourage experienced farmers to provide technical training and support to other farmers.	
Production volume is small and unstable.	Small number of farmers engaged in flower culture; Small scale of local flower production.	Government takes charge of unified planning of flower planting; Encourage farmers to engage in flower culture.	The local government should make unified flower production planning within each related township or village, and form scale merits of certain species of flower; Promotional activities (see below)	Government Flower Association
Farmers lack confidence in engaging in flower culture.	Farmers consider vegetables are necessities of daily life, but flower as luxury, not consumed widely. Farmers are frustrated by failures of government sector development planning;	Increase their confidence	Produce promotional CDs to stimulate farmers to take up flower culture; Village committees will make propaganda to change farmers mind about flower culture; Demonstration by successful farmers.	Government Flower Association Village committees Farmers who are successful in flower culture

Lack of financial resources	Farmers don't have sufficient capital for flower culture because of low income; Farmers don't have acceptable collaterals for credit.	Offer financial supports to farmers	Government should change subsidies, which paid after the yield of flower, into subsidies for purchasing seedlings; Issue certificates of ownership of green houses so that farmers can use green houses as collaterals; Large flower planting firms, which sign purchase agreements, will provide seedlings to farmers.	Government Banks Large flower planting firms
Government preferential policies are not carried out.	Lack of enforcement of government policies	Increase enforcement of preferential policies	Set up an inspection team to monitor the implementation of those policies.	government
Lack of information	Most farmers don't have access to advanced information technology such as Internet. They depend on television and newspapers for information, but specialised information such as new flower culture techniques, is hardly covered by TV and newspapers.	Develop new channels to spread information	Set up a special programme on the local TV channel; Set up billboards to publicise market information; Produce catalogues of local flower shops.	Government Flower Association Village Committees TV station

In fact, in the process of project implementation, some stakeholders have already reached consensus with project teams on activities to improve their businesses and embarked on actions: For example:

Zhou Jing Shi Rong Company decided to adopt an operational model of ‘company+ flower farm+ farmers’ , which means the company hires out green houses to farmers, and also provides seedlings and technical support, while farmers sell flower to the company;

The project team has also agreed with some farmers that they should establish village-based or flower farm-based cooperatives, which will be members of the Flower Association. Apart from collective purchase of seedlings, cooperatives will also coordinate with the Flower Association or the district Agriculture Bureau for technical expertise in seedling selection and quality control in flower cultivation;

Some retailers decided to set up chain shops in community supermarkets, which will improve accessibility of the shops and therefore expand sale volume;

The district Labour and Employment Bureau plans to organise IYB training courses for flower shop owners to enhance their management skills;

Some retailers decided to classify flower into several categories and set prices accordingly. Consumers will be explained clearly about the species, classes, packing materials and prices of flower;

Feng Man Lin Company plans to build a flower trading market and draw buyers from all round the country. The market will also be used as a channel to disseminate flower prices.

Phase 6: Result presentation workshop

Timeframe: 2008.1.14

Results:

VC analysis results were presented on the workshop;

The workshop was used as an occasion to mobilise stakeholder to work together for increasing competitiveness of the local flower sector;

Flower Value Chain Development Project Implementation Committee was set up;

Farmers who hesitate about cultivating flower were invited to the workshop to get more information of the sector.

!4 January 2008 result presentation workshop was convened. There were four themes:

1. Results of flower value chain analysis were presented to stakeholders.

At the workshop, representatives of the project core team presented the analysis of the flower value chain and proposed actions for improvements. Mr. Lan Dawei, Vice Secretary-General of the Yinchuan municipal government, attending the workshop, expressed his hope that Xingqing district will use the project results in developing the flower sector, and promised support from the municipal government. Mr. Du Qian, Vice Secretary-General of the district Communist Party Committee, received the project report on behalf of stakeholders. He expressed gratitude to the MOLSS and ILO for bringing in new methodology and way of thinking in local economic development planning, and for the input made by the VCD project in the local flower sector development.

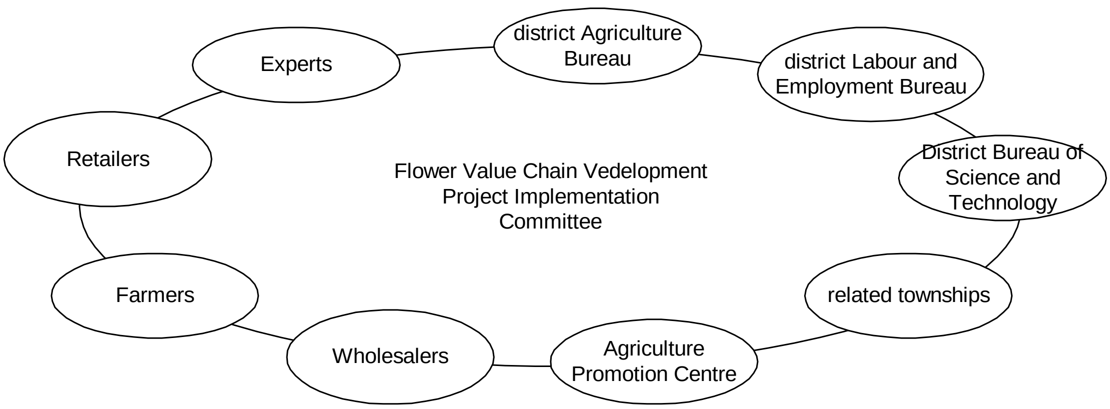
Xingqing district government granting a plaque to the ILO for the input in local economic development


Stakeholders at the result presentation workshop

2. Flower Value Chain Development Project Implementation Committee was established.

At the workshop, Mr. Du Qian announced the setting up of Flower Value Chain Development Project Implementation Committee. The aims of the committee are to strengthen communication and cooperation between stakeholders of the flower value chain, particularly those from public sector and from private sector, coordinate various resources for the implementation of proposed activities. Mr. Du Qian was appointed director of the committee, while Ms. Chen Yuju, Vice Chair of the district People's Congress and Director of the Flower Association, appointed deputy director of the committee, Mr. Hao Xifen, Depute Director of the district government in charge of agriculture development, appointed executive deputy director. Members of the committee include representatives from the district Agriculture Bureau, Bureau of Science and Technology, Labour and Employment Bureau, Agriculture Promotion Centre, townships, flower experts, wholesalers, retailers and farmers. The secretariat is set up in the district Agriculture Bureau. The project executive director, Mr. Li Wei was invited to be consultant for the committee.

For the next step, the committee will prioritise intervention actions and make a timetable, based on the recommendations proposed by the VCD project team. For activities, which some stakeholders have already decided to take up, the committee will help with coordinating resources and other needed support.



3. Stakeholders expressed willingness to strengthen mutual cooperation.

Stakeholders said that through the project activities they got more understanding of the whole flower value chain, and hope to work together with other participants of the value chain for the mutual benefits. Representative of the Lu Zhi Cuan Horticultures said they planed to set up a flower cooperative and invite farmers to join. Wholesalers express the hope to improve their relationship with farmers in order to establish trust and long-term cooperation. Some farmers expressed their willingness to demonstrate their success and teach other farmers planting skills.

Some stakeholders talked about activities they had already started according to recommendations by the project team. For instance, Feng Man Lin Company decided to build a flower market, where real-time price information on major flower markets in the country will be publicised. In the market, the company will also build halls to conduct skills training for farmers and demonstrate flower art to consumers. Xue Feng Company has registered a flower research institute, aiming at developing new sorts of flower suited for local climate, and enhancing planting techniques.

4. Mobilising farmers who hesitate about engaging in flower culture.

Apart from stakeholders of the flower value chain, the project core team also invited 50 local farmers, who haven’t started, but interested in planting flower. Using the opportunity, farmers are informed of the current situation of the flower sector, strengths and problems, and proposed recommendations for improvements. Particularly, they were showed determination of the local government and possible support. In addition, as seedling supply had been mentioned as a major problem faced by farmers, the project team invited seedling suppliers outside the region to participate in the workshop, which explained to farmers about their products and embedded services.

Part IV. Experience learnt and recommendations for project replication

1. Relevance of the VCD approach to China

With economic globalisation and increasing personalisation of market demands, competitive edge of businesses is not longer merely based on its own resources and capacities, but rather depends on the synergy, created through close cooperation with other actors of the value chain. As a result, the efficiency of actors at each stage of the value chain becomes increasingly important for the efficiency of the whole value chain. Meanwhile, leading companies started to play a growing role in t value chain restructuring and governing by way of sharing information and technology, controlling key stage, and therefore determine the competitive advantages and prospects of value chains.

In China, local governments have made a large amount of investments and efforts for local economic development. However, many of these efforts failed. When making economic development planning, some localities failed to investigate into local situation and resources in a systematic way, or had wrong assessment of market potential of the economic sectors, which they intended to promote. Some areas depended on a large enterprise to drive up the development of a value chain, but neglected coordinated development of other actors of the value chain. As a result, they run into serious bottlenecks, when expanding a hastily selected sector.

The VCD approach developed by the ILO emphasizes that an industry should be based on local competitive advantages and local resources. SWOT analysis of each stage of the value chain should be made prior to economic planning, with weak links addressed. Cooperation of all stages should be strengthened in order to enable all value chain actors to quickly respond to market changes and release synergy, thus enhance competitiveness of whole value chain. Business opportunities will be identified for SMEs by improving their cooperation with large enterprises, which will create more job opportunities in SMEs. In the implementation of pilot activities in Ningxai, Vice Secretary-General of the Xingqing district Communist Party Committee, reiterated that the VCD approach has a significant role to play in local economic development planning. He said that in-depth research with scientific methods should be made prior to sector development planning and the ILO VCD offers such methods. Mr. Li Wei from Huadian Consultancy pointed out that unlike conventional ways of sector development planning, the project closely involves stakeholders in analyzing the flower value chain, which not only facilitates collecting information in an objective and comprehensive manner, but also helps obtain support from stakeholders and mobilise them for actions. He also said that improving cooperation between participants in order to enhance system efficiency of the whole value chain is crucial, but often neglected in sector development planning.

Some stakeholders pointed out that the relevance of the VCD approach to China is also reflected in its emphasis on communication and cooperation between government agencies, business associations and enterprises, and different roles to play by each of them in developing a local value chain. Such emphasis will help government to prioritise interventions in order to maximize its resources.

2. Experiences learnt

2.1 Public-private partnership in implementing the VCD project

An important feature of the VCD pilot project is that the project was implemented by a government agency and a private firm jointly. The government agency mainly takes on a role of coordinator and monitor, while the private firm specifies in information collection and analysis. It is showed through the project implementation that using professional consultants has certain advantages: Firstly, a carefully selected professional institution possesses expertise and practical experience, which enable its consultants to master the VCD tools and methods with a short time; Secondly, VCD analysis takes a large amount of time and efforts, but government agencies are occupied with daily routine administrative tasks and it is difficult for them to spend the time and energy required by VDC analysis. Thirdly, commercial firms are, to a large extend, out of local interest relationships and therefore their opinions may be more acceptable by stakeholders. Fourthly, using professional institutions may be contributive to the development of private business development services. As commercial institutions are commonly sensitive to market opportunities, they may find service gaps while undertaking VCD exercises, and then start offering the needed business service.

2.2 Targeting at existing sector rather than starting completely new activities

Considering the piloting nature and the number of stakeholders of the VCD project, it is more advisable to work on an existing sector rather than start new economic activities from scratch. The project experience shows that, on one hand, it is easier to assess and improve existing activities, and on the other hand, it is more likely to achieve visible results from improving existing economic activities and build confidence among stakeholders, which will lay foundation for further project implementation and replication.

2.3 Market potential and support from local stakeholders are made two primary criteria for sector selection.

A key factor ensuring the smooth completion of the project within a short period of time and recognition from all stakeholders is that market prospect and stakeholder support were made the primary considerations when selecting the target sector.

Only when an economic sector is assessed to have market potential and support from relevant organisations, tools for systematic research and analysis can be useful for the flower sector planning.

3. Recommendations for project replication

3.1 VCD approach can be used as a tool for developing business start-up services

In China, setting up small businesses is a very important channel for creating jobs. As technical support to the MOLSS, the ILO implemented the Project on Strategic Approach toward Employment Promotion (PEP project) and the SIYB project. Project experiences show that business start-up services can significantly increase the viability of small businesses. However, business start-up services offered until now are mostly measures removing institutional barriers to small businesses (such as easing access of small businesses to credit, eliminating requirements on register capital, abolishing administrative charges), providing management skills training and policy information. Follow-up evaluation of the PEP project revealed that to further promote business start-up, it is necessary to help business starters to look for business opportunities and enrich business start-up services. The VCD approach can be a tool in the sense in that it can not only help small enterprises to identify market opportunities by satisfying needs of large enterprises in the value chains, but also expand the whole value chain by improving cooperation among value chain actors.

Furthermore, using the VCD approach for developing business start-up services can also help a VCD project obtain significant resources. Following the guidelines put forth by the 17th National Congress of the Chinese Communist Party reiterated that business start-up promotion is a fundamental direction for employment promotion, the Ministry of Labour and Social Security also decided to put business star-up promotion on the top of its agenda. All of these have created important political support for promoting small businesses. In addition, the SIYB project was of great success and obtained wide recognition from the government and the public in China. Financial support, SIYB teachers and the operational network set up by the SIYB project can be useful resources for the VCD project. Therefore, using business star-up services as an entry point can help a VCD project obtain significant political, financial and personnel resources.

3.2 Improving the implementation model

It has been found out in carrying pilot activities in Ningxia that there are two difficulties in a VCD project: technical difficulty and difficulty in coordination. Technical difficulty means that it requires technical expertise to correctly apply VCD tools, conduct analysis, and make action-oriented proposals. In terms of coordination difficulty, the VCD project involves a large number of stakeholders, both from public and private sectors, it is a difficult task to coordinate and mobilize them for project activities.

To solve technical difficulty, the operational model tried in Ningxia, e.g. government agency works as a coordinator and monitor, while consultants provide expertise in collecting and analysing information may be a replicable model. To better take advantage of technical expertise of professional institutions, it is recommended that cooperating institution should be selected in accordance of three requirements: firstly, consultants from the institution should have knowledge and practical experience in economic development planning or business management; secondly, they should have good skills in communication and coordination; thirdly, they should attend VCD training.

To solve coordination difficulty, it is recommended to set up a project leading committee at the inception of the project. The committee does not necessarily include representatives of all stakeholders, but those who can help coordinate stakeholders. In China, such persons may be high level government officials at the corresponding level. In addition, the administrative department of the target sector and the local labour department should be members of the committee. Apart from facilitating coordination, involving them in project activities will also enable them to obtain knowledge of the project methodology, and elicit their commitment and support to project-advocated activities.

3.3 Developing and conducting training targeted at relevant government departments.

In China local governments are more inclined to develop large enterprises, hoping that trickle-down effect from large enterprises will drive up economic development, which will automatically benefic social advantaged groups. In fact such development model has indeed generated fast GDP growth in many countries, but failed to bring about the expected trickle down effect. In stead, such model caused imbalanced sector development, even serious bottlenecks and widening income gaps in some areas. To avoid the possibility that local government officials keep prioritizing large enterprises after VC analysis, it is recommended to develop training for local government officials, particularly from economic planning departments, to facilitate a shift to new ways of thinking on economic development.

In implementing pilot activities in Ningxia, the project core team invested a lot of time and efforts in introducing VCD-related concepts to concerning organizations, which has been proved to be crucial for the project success. However, the Operational Guide to VCD is about technical issues, targeting at consultants rather than stakeholders or government officials. It is suggested to develop training materials for local government officials, with an aim to facilitate their mindset about local economic development and employment promotion, and obtain their support to the VCD approach. The content of the training materials may include LED concept and principles, relations between economic development and employment, concept and methods of value chain development, steps of a value chain development project, etc.