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► **Sector Selection and Rapid Market
Assessment for Addressing
Environmental Sustainability in
Value Chain Development**

Template for criteria and guiding questions



Environmentally-sound value chain or market system development can provide a crucial contribution to a pro-climate growth and to a just transition in several ways:

- it can support economic development and job creation in a manner that is sustainable and resilient
- it can foster the growth of green sectors maximising job and income opportunities
- it can facilitate economic diversification at the local level, providing alternatives to regions that are negatively impacted by climate change and response measures.

► BACKGROUND

Why integrate environmental issues in the VCD / MSD approach?

Value chain or market systems development (VCD/MSD) has become an increasingly important methodology for **promoting growth with decent work opportunities**. VCD/MSD that addresses **environmental considerations** can play a vital role in **promoting** enterprise development and **a just transition** towards environmentally sustainable economies.

What may be environmental objectives in the context of VCD/MSD?

Environmental objectives take on various forms and can be reached in different ways, depending on the focus and overall goal of the program or project. In the context of MSD/VCD, specific **environment-related objectives** could be to

- Promote growth and jobs in a green sector
- Green/Improve the environmental sustainability of a sector
- Increase the climate change resilience (adaptive capacity) of a sector
- Promote a do-no-harm approach in supporting sector growth

In order to facilitate positive change in a project or program, **sufficient understanding of the environmental context** is necessary to both select high-potential sub-sectors and design effective interventions. Regardless of the kind of environmental objective being pursued, this requires understanding how the sector affects the environment and how the environment affects the sector.

What is the purpose of this template and how can it be used?

Rapid Market Assessments are intended to quickly and effectively collect, process, and analyse relevant information about a given sub-sector or market system, to help programmes determine the likely **relevance, opportunity and feasibility of intervening**.

This template provides a **framework of guiding questions for conducting RMAs** that, while advancing decent work objectives, aim to address one or more of the environmental objectives listed above.

The criteria have been adapted from the **ILO Lab¹ RMA methodology**, which is based on the **Springfield Centre's Making Markets Work for the Poor approach²**. This particular template mainstreams environmental considerations into the original criteria and introduces a new section on the sub-sector's relationship to the environment. The list of criteria should be narrowed down to reflect the objectives of the project and can be weighted to reflect different priorities.

Using a **weighted scoring model** to assist the decision-making process is helpful in any context, as it ensures recommendations are aligned with the priorities of the counterparts and project financing institutions/donor. In terms of environmental sustainability, weighting also allows adequate attention to be given to support the specific environmental objective that has been identified for the project.

¹ www.ilo.org/thelab

² <https://www.springfieldcentre.com/the-operational-guide-for-making-markets-work-for-the-poor-2nd-edition>

Because there are different types of environmental issues linked to market system development, **the environmental criteria used in an RMA should be adapted to the context.** For instance, if the environmental objective of the project is to create jobs through the promotion of a green sector, then the RMA would by default only consider sub-sectors and value chains that produce green goods and services.³ Accordingly, criteria would focus mostly on the job creation potential of those green sectors or value chains. In this case, particular weight may be given to, for example, *Criteria 7: Prospects for job creation and job quality improvements.*

If the environmental objective is to “green” a sector, then criteria should look particularly at the potential for reducing the sector’s overall net impact on the environment through waste management, emissions reduction, resource efficiency, etc., which could be captured under **Criteria 4: Environmental Sustainability, Criteria 6: Sector growth, and Criteria 10: Willingness of market players to change.**

Similarly, if the environmental objective is to increase climate change resilience of a sector, then emphasis may be given to **Criteria 2: Nature of the target group’s participation in the sector, Criteria 5: Resilience, and Criteria 9: Conduciveness of political economy.**

Finally, if no-harm growth is the goal, then **Criteria 4: Environmental Sustainability and Criteria 6: Sector growth** may be particularly important to capture relevant information.

It should be noted that the criteria and indicators included in this note are expressed

generally, so as to be adaptable to the overall goal and to specific environmental objective of the project. It is not an exhaustive list, but rather serves as a general structure to help researchers and practitioners to frame the analytical process.

For further guidance on refining environmental objectives and integrating them into the project cycle, see ***Value Chains, Market Systems and Environmental Sustainability: A short guide for analysis and intervention design*** and ***Market System Development and the Environment: a Strategic and Operational Guidance Note***. For further suggestions on criteria, see ***Guidelines for Value Chain Selection: Integrating economic, environmental, social and institutional criteria.***

What is the RMA Process?

An RMA may be used to

- ▶ compare multiple market systems or value chains
- ▶ select a sub-sector within a sector (i.e. different agricultural products or waste streams)
- ▶ gather initial information on a single market system.

Regardless, the assessment should include both a desk review of secondary data and field research to collect primary data, typically through key informant interviews. Research should include both quantitative and qualitative data, and, to the extent possible, information should be validated through the use of multiple sources. Depending on the availability of secondary data, an RMA of one market system can take between three and six weeks.

³ Environmental goods and services are those that directly benefit the environment or conserve natural resources. They can be specific environmental services (such as waste and wastewater management and treatment, energy and water-saving activities, conservation and protection), environmental sole-purpose goods, which have no use except for environmental protection or resource management (e.g., catalytic converters, septic tanks, installation of renewable energy production technologies), or adapted goods that have been modified to be cleaner or more resource efficient (such as buses with lower emissions) (ILO, 2018)



TEMPLATE: RMA Criteria for Inclusive Sustainable Growth

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I. SECTOR RELEVANCE TO TARGET GROUP

This section sets out the sector's relative potential to affect large numbers of the target group, and the nature of the enterprises involved in the sector. It covers the following criteria:

Criteria 1: Number of the target group active in the sector⁴

- ▶ How many women and men are estimated to be engaged in the sector? (disaggregate by poverty status, gender, potentially age)
- ▶ What is their geographic location/ concentration?

Criteria 2: Nature of the target group's participation in the sector

- ▶ In which ways does the target group participate in the sector (as producers, workers and consumers)?
- ▶ How does the target group derive income from its engagement in the sector?
- ▶ What are the major working condition problems faced by the target group?⁵
- ▶ Are people in this sector particularly disadvantaged due to their gender, ethnicity, (remote) location, or environmental conditions?

⁴ Please include figures against multiple income poverty lines, where possible.

⁵ For example: job insecurity, irregular wages, long working hours, discrimination, hazardous environment, presence of child or forced labour etc.



Criteria 3: Composition of enterprises

- ▶ What is the make-up of enterprises in the sector (covering the number, distribution, location and nature of micro, small, medium and large firms)?⁶
- ▶ What are the levels of formality in the sector?
- ▶ In which type of enterprise are the majority of people engaged (i.e. in which part of the value chain)?

II. SECTOR RELATIONSHIP TO THE ENVIRONMENT

Criteria 4: Environmental sustainability

- ▶ What is the sector's contribution to carbon emissions?
- ▶ What is the sector's contribution to biodiversity, deforestation and/or land degradation?
- ▶ Which natural ecosystems are impacted by the sector (fish stocks, rainforest, etc.)

⁶ This can include a simplified value chain or market system map

- ▶ What is the sector's natural resource intensity (energy, water, land, etc.) per productive output?⁷
- ▶ How much and what types of waste are generated as a result of production? Are inputs raw or recycled?
- ▶ Are production zones near environmentally protected areas?

This section looks specifically at the sector's current and potential impact on the environment, as well as how climate change impacts on the sector.

Criteria 5: Resilience

- ▶ What climate change risks is the sector exposed to? (*e.g. floods and droughts that affect agricultural production, or sea-level rise that threatens coastal tourism*).
- ▶ What are the possible impacts of these risks? (*e.g. decreased productivity, income volatility, loss of productive assets*).
- ▶ How sensitive is the sector to environmental risks? (*for example typhoons may be more detrimental to agriculture than to tourism, even they negatively impact both*).
- ▶ How dependent is the sector on the environment, particularly in terms jobs, income, food, shelter, etc.? (*For example, agriculture depends on soil nutrients, water sources, and the availability of pollinators to yield a good harvest, which in turn provides families with income and food; the construction industry depends on sustainable timber supply for jobs and shelter*).
- ▶ Are there social protection schemes or insurance services that are accessible to and being used by the target group to overcome climate risks?
- ▶ What resources are available to the target group to help them with climate change adaptation? (*e.g. in terms of technology, knowledge, governance*)

- ▶ Do the target group possess assets that enable them to adapt?
(*For example, this could include various forms of assets, including social (networks, associations), physical (land, livestock), financial (credit, insurance, savings), natural (fish stocks, forests, soil health), human (education, skills), or cultural (knowledge, social status) capital*).

III. OPPORTUNITY FOR INCLUSIVE SUSTAINABLE GROWTH

This section sets out the potential to promote inclusive green growth in growing markets. It covers the following criteria:

Criteria 6: Sector growth

- ▶ What is the overall size of the market with respect to volume and value of output, demand (real/latent) and supply interactions, and employment share?
- ▶ What is the job creation potential based on industry growth, size, employment elasticity, and number of and relative value added by SMEs in the sector?
- ▶ What is the previous (*past 5 years*) and forecast (*next 5 years*) growth (*or access*) trajectory of the sector?
- ▶ What are the current levels of innovation, productivity and competitiveness and/or collaboration in the sector?
- ▶ What types of negative environmental impacts may result from sector growth?
- ▶ Are there potential economic activities within the sector that would contribute to inclusive green growth? (*for example in the circular economy, and making use of waste streams*).
- ▶ What is the market demand for green products or services in the sector?

⁷ Typically this is measured by looking at resource intensity per productive output but alternative information can be used.

Criteria 7: Prospects for job creation and job quality improvements

- ▶ What are the main issues in relation to working conditions faced by enterprises, and are there opportunities to address them?
- ▶ Do enterprises face particular barriers to accessing markets – if so, what are they?
- ▶ Are enterprises currently maximising their potential to increase productivity by reducing waste and defects and improving resource and energy efficiency?

IV. FEASIBILITY TO STIMULATE CHANGE

This section sets out the feasibility to stimulate changes in the sector, based on the current levels of incentives and capacities of public and private actors to take on new ideas, innovations and ways of working. It covers the following criteria:

Criteria 8: Availability of market players

- ▶ Which organisations (private/public) have a good track record of innovating and investing in this sector? Which have focused on environmental aspects of the sector?
- ▶ What significant investments (green or otherwise) have recently been made or are planned for the near future?
- ▶ Are there any public/private providers that are already providing relevant training and/or counselling services?
- ▶ Are there any firms or relevant service providers that are currently overlooked by existing public or donor support programmes?

Criteria 9: Conduciveness of political economy

- ▶ What is the feasibility of addressing the most significant challenges faced by the sector and target group, including environmental ones, given the current economic and political environment?
- ▶ What are the relevant government policies and programmes (including environmental) which influence this sector, and how effective are they? (consider national, regional, and local levels).
- ▶ Is the sector prioritized by the country's Nationally Determined Contribution (NDC) commitments, National Development Plan, or equivalent? Are there specific references to making the sector more sustainable or greener (i.e. developing sub-sectors like organic agriculture or eco-buildings)?





Criteria 10: Willingness of market players to change

- ▶ Are there market players willing to change their business models/adapt new practices?
- ▶ Are there any significant political or economic trends affecting the sector (*e.g. changes in prices, number of new entrants, production costs, withdrawal protection policies etc.*) that can be leveraged – or that would pose a particular risk to intervening?

- ▶ Are there political incentives to invest in green sectors or to green existing sectors?

Criteria 11: Possible synergies / distortion

- ▶ Which donor programmes are present, where, and what are they doing/funding?
- ▶ Are there any existing sectoral programs or initiatives with similar social and/or environmental objectives in the sector?



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► Contact details

International Labour Organization
4, Route des Morillons
CH-1211 Geneva 22 – Switzerland

Green Jobs Programme
Email: greenjobs@ilo.org