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**The One-Village-One-Product
(OVOP) movement:
What it is, how it has been
replicated, and recommendations
for a UNIDO OVOP-type project**



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The One-Village-One-Product (OVOP) movement: What it is, how it has been replicated, and recommendations for a UNIDO OVOP-type project

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
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Introduction

Following the decision of UNIDO's commitment to rural development and poverty reduction in Africa in the form of a One-Village-One-Product (OVOP)-type project, a need arose to investigate the apparently spontaneous and idiosyncratic movement of the OVOP activities in Oita and conceptualize it by taking into consideration the OVOP experiences in developing countries. It is hoped that the conceptualization will help practitioners to understand the key ingredients of OVOP activities and formulate an OVOP "project" based on the seemingly uncoordinated OVOP "movement". It is also hoped that the underlying rationale of OVOP activities will become apparent and a basic framework applicable to developing countries can be established. Finally, based on the analysis, the report provides recommendations for the UNIDO project team, with respect to the development of UNIDO's own approach for an OVOP-type project.

Theoretical basis for OVOP activities

Essentially, the OVOP movement is to encourage villages to come up with a product, which is unique in the world. In economic theory, the effectiveness of such a project can be understood from the concept of product differentiation.

If firms produce commodities (undifferentiated products), as in the case of many agricultural products, they are in a perfectly competitive market. The prices are determined by the supply and demand of the markets. This not only means that a firm has absolutely no influence over the price, but is also forced to accept the price of the market as given. Assuming there is no difference in production technology between urban and rural areas, their total costs are determined by the fixed cost F plus the total

variable costs which is production volume C multiplied by the marginal costs of the wage W , land rent R and transportation costs T . Then the marginal costs of an urban firm u and of a rural firm r can be expressed as $(Wu + Ru) + Tu$ and $(Wr + Rr) + Tr$, respectively, where the parenthesis indicates the production part of the marginal cost. Usually urban rates of wages and rents are higher than the rural rates, $(Wu + Ru) > (Wr + Rr)$, while the transportation cost to major markets is higher for a rural farm than for a urban firm ($Tr > Tu$).

Firms maximize their profits when the marginal cost is equal to the marginal revenue. Hence, if urban and rural firms produce a same commodity and can sell it at \$100 per unit of the market price, they are at an equilibrium when $100 = (Wu + Ru) + Tu = (Wr + Rr) + Tr$. And their average costs at the equilibrium are $\{Cu(Wu + Ru) + CTu + Fu\}/Cu$ and $\{Cr(Wr + Rr) + CTr + Fr\}/Cr$. As profit per unit is the difference between price and total average cost, it will be $100 - \{(Wu + Ru) + Tu\} - Fu/Cu$ for an urban firm and $100 - \{(Wr + Rr) + Tr\} - Fr/Cr$ for a rural firm. If one assumes there is no difference between their average fixed costs, a rural firm has to compensate its higher transportation cost $Tr > Tu$ by its lower production cost of $Wr + Rr$ in order to have a same level of profitability as an urban firm. The farther the distance to major markets, or the worse the condition of rural infrastructure is, the lower the rates of wages and rents a rural firm has to bear to maintain profitability. This simple illustration indicates that rural firms constantly face pressure to keep their wage and land prices low. Even though rural firms might have cost advantages in their wages and rents, this model of perfect market competition shows that there would not be much scope for improving their incomes since the only

way one is able to improve profits is to reduce production costs—wages and rents—only because how much one receives for a product is set by the market.

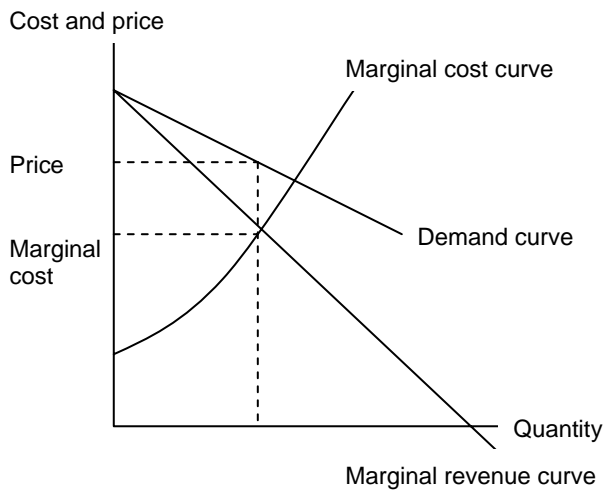
Even if there are not many producers as in agricultural market, but only a few producers of homogeneous products, a similar situation tends to prevail at the end. Assume firms A and B sell the same fish sauce, and the marginal cost of producing one additional bottle of fish sauce is \$2. If each firm sells 50 bottles of fish sauce at \$10, both firms A and B earn \$500 in revenue and \$400 in profits. But, if firm A lowers its price to \$9, since the fish sauce of firm A and B is identical, consumers will naturally buy the fish sauce from firm A. In this case, firm A sells all its 100 bottles of fish sauce and earns \$1,000 in revenue, while firm B's earnings are zero. This will certainly lead firm B to further reduce the price, and the price reduction between the two firms could continue until the price reaches the marginal cost of \$2. Again, as in the case of the agricultural market, if the price and the marginal cost are same, firms will be under pressure to reduce costs to maintain profits.

Unlike the cases of firms producing homogeneous products, a firm with differentiated products, as in the case of successful OVOP firms, is able to charge a price above its marginal costs and earn higher profits, at least in the short term. However, in contrast to monopoly situations, in OVOP-type activities there are many firms producing similar products with slight differences in product or marketing characteristics. This kind of market structure is called monopolistic competition in which firms can exert influences over pricing, distribution and promotion decisions within a limited range because the entry barrier to the market is relatively low. Theoretically, the greater the degree of

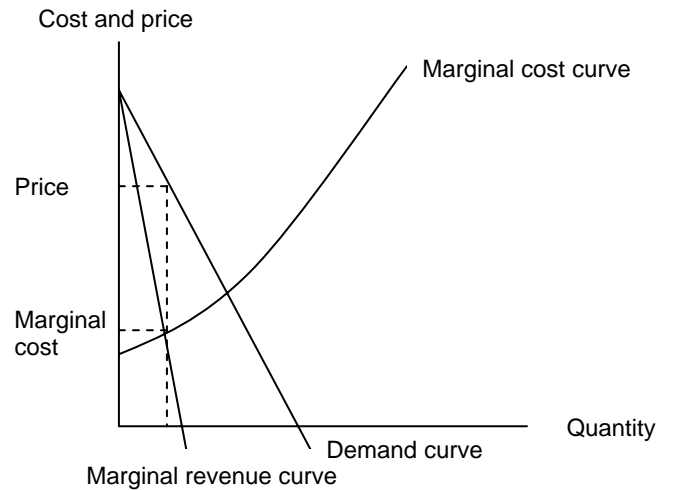
differentiation in product or marketing and subsequent lower price elasticity, the higher the price firms can charge for their products above the marginal costs, as illustrated below:

Figure 1. The effect of price elasticity of demand on the gap between profit maximizing price and marginal cost

a) Less differentiated



b) More differentiated



Thus, the advantage of OVOP activities lies in product differentiation, which can reduce the price elasticity of demand for products. If rural firms are able to produce sufficiently differentiated products, there are chances that they will be not only able to compensate their higher transportation and other costs with the products' higher profitability, but will also be able to compete with urban firms in major domestic markets, or even in foreign markets. Differentiation is not limited to only physical features of products. Advertising and publicity can help similar products to be differentiated in people's mind. Consumers also select one product over others because it is sold in a convenient place

or displayed in a place, which attracts special attention. Differentiation is, therefore, considered a function of all the elements of marketing mix. Successful OVOP producers seem to understand this point and work not only on improving their products but also on their distribution and promotion to achieve a greater degree of differentiation for a higher profit margin.

Oita OVOP: description and illustration of key institutions

Mr. Hiramatsu, former Governor and originator of the OVOP movement, mentioned that the case of community development of the town of Oyama served as a model for his subsequent prefectural-wide OVOP campaign, which he started in 1979 when he returned to Oita after having worked as a bureaucrat for the central government in Tokyo. The OVOP movement in the town of Oyama is introduced here as a representative case of more than 50 OVOP villages to illustrate how the Oita OVOP project has been organized and reasons for its success.

The Japanese Government has struggled for a long time to come up with solutions to save and revive those rural towns and villages, which lagged behind prosperous cities and which faced problems, such as aging and depopulation. Leisure facilities were built to attract tourists and encourage companies to build factories in rural areas. Despite these attempts, the impact on rural development was insignificant, since such external support was imposed on rural communities by the centre without taking into consideration of the peculiarities of each community and more importantly, without involving the people.

Against this background, in 1961 a village in Oita, called Oyama, which was facing acute poverty, was determined to improve their situation themselves. The people of the village decided not to follow the rural development policy of the Japanese Government, which was to increase rice cultivation in order to secure the supply of their staple food. However, the Government policy included subsidies. Hence their decision to reject the Government policy not only meant the discontinuation of Government subsidies but also risked worsening their plight. Nevertheless, people in Oyama village who were more aware than the bureaucrats in Tokyo that the hilly topography of the village was not suitable for mass cultivation of rice, but more appropriate for a smaller volume production of higher value-added products using local natural resources instead.

Under the leadership of Mr. Yahata, the Head of the Oyama agricultural cooperative, three main 'whole-community' development initiatives were introduced. The first New Plum and Chestnut (NPC) movement, which started in 1961, focused on increasing incomes and reducing the workload of farmers. After examining various alternative products to rice, the members of the cooperative decided to grow plum and chestnuts. They were convinced that they could derive higher incomes and lighten their workload by cultivating plums and chestnuts instead of rice. In addition, these products would also allow them to devote their efforts to other tasks outside the harvesting seasons, ultimately enabling them to reach a higher combined income. Under the slogan of "Let's go to Hawaii by planting plums and chestnuts" the town concentrated its human and financial resources to the success of plum and chestnut farming. Thirteen out of the 30 town officials were assigned as advisors and almost the entire town's budget was spent on plum and chestnut farming for the first five years. Although 20 per cent of the town's

population, involved in manufacturing and service sectors, was initially opposed to this policy, they were later convinced that they would be able to increase their sales, if the 80 per cent of the town population were able to become more prosperous.

After the first NPC movement got on the track, the second NPC (Neo Personality Combination) movement, which started in 1965, focused on community learning. The town established a learning centre, financed study tours and exchange activities in and outside Japan, and provided scholarships to students. Later, building on income generation and learning enhancement of the first and second movements, in 1969 the third NPC (New Paradise Community) movement was launched. This time the focus was on improving the quality of life and keeping the youth from leaving the town of Oyama. The town was divided into eight districts, and a cultural centre and a market were established in each district providing all households easy access to the centre and the market. These movements, which still continue today, have not only gradually improved the production and marketing techniques of the farmers in Oyama town but also increased their learning capabilities leading to greater sustainability and a higher quality of life.

The OVOP movement in Oita has been understood as a bottom-up approach, aimed at quantitative as well as qualitative development of the whole community. Having successful products is not the end to, but the entry point of, the development process. People in Oyama, who faced acute poverty and rapid depopulation prior to the NPC movements, have achieved both material and non-material well being and advanced

their capabilities, thus allowing them to carry on the movements themselves, keeping abreast with the changing economic environment.

People in Oyama now boast the highest number of the passport holders (70 per cent) among all the towns and villages in Japan. They not only enjoy a reduced workload but have also achieved the following results on the material side.

Table 1. Farmers' income per 10 acres (1,000m²) of cultivated land relative to the national average (100)

Year	Oita	Oyama
1975	91.3	68.5
1980	97.6	72.6
1985	90.1	90.1
1990	93.4	119.8
1995	123.7	181.6
2000	127.0	198.6
2003	111.5	167.9

Source: Matsui and Yamagami ed., 2006.

Incomes of farmers per 10 acres in Oyama have increased rapidly between 1975 and 2003. They are on average more than 1.5 times the national average. This indicates higher productivity, or higher value, of their products per given area of land, proving that despite reduced workload, higher incomes can be achieved. Through innovative solutions, they were actually able to turn the disadvantage of inhabiting in a hilly region to an advantage by producing high value-added products better suited to their topographic and climatic conditions.

Mr. Uchida of Oita OVOP international exchange promotion committee mentioned that the success of the Oyama case could be attributed to the efforts made by a strong and respected leader within the community, the determination of farmers and the conviction of the town administration that change was necessary for the future of the town.

When Mr. Hiramatsu became the governor of Oita prefecture in 1979, on learning of the experiences of the Oyama's community development and a few other similar cases, he replicated the experiences under the name of 'One Village One Product' in other parts of the prefecture. The number of OVOP products in Oita increased from 143 in 1980 to 336 in 2001, and total sales grew from \$330 million in 1980 to \$1,300 million in 2001. During this period, the prefecture's per capita income doubled, as shown in table 2 below, to which the success of the OVOP seems to have contributed.

Table 2. Oita prefecture's per capita income and ranking						
	1980	1985	1990	1995	2000	2003
Japanese yen (thousands)	1,405	1,736	2,387	2,665	2,798	2,647
Ranking among the 7 prefectures in Kyushu island	3	3	2	2	1	1

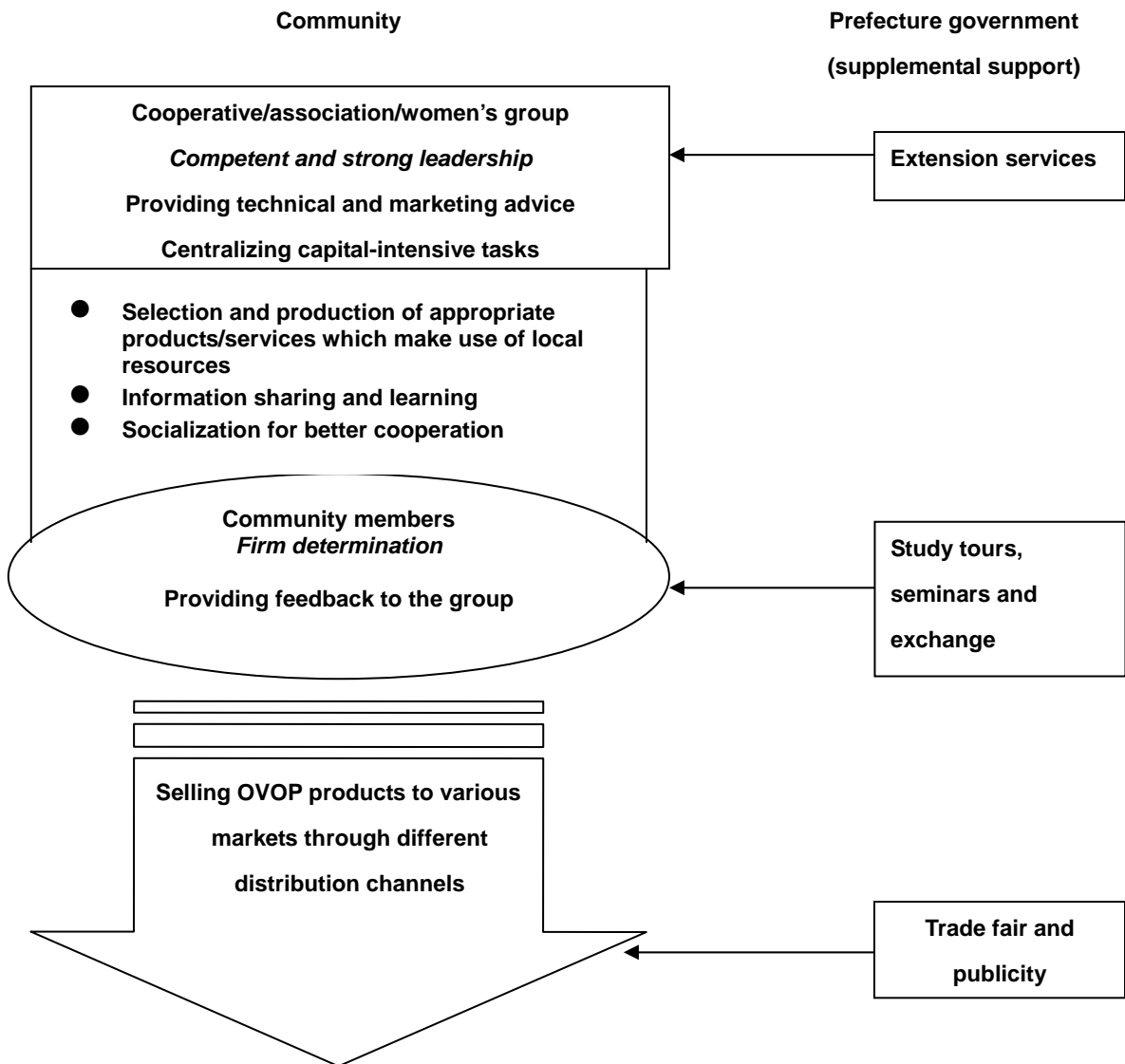
Source: Matsui and Yamagami ed., 2006.

The core elements of OVOP activity

Figure 2 below illustrates how OVOP activities are organized in general. Since it is a community-led approach, no elaborate formal institutional mechanism exists. Usually, there is a coordinating organization, through which members take collective action. The organization provides technical and marketing advice to members and in some cases performs capital-intensive part of processing for members who jointly own the equipment. In turn, the members provide the organization with market information,

which is shared with other members. A prefecture government provides only supplementary support in the form of extension services, learning activities and product promotion. This relatively simple arrangement is nothing unique and can be found in other community or enterprise development projects. This is why the success of OVOP project does not depend too much on the institutional arrangement but more on qualitative aspects, such as leadership, commitment of community members and their cooperation. In the case of Oita, these qualitative elements have gradually developed through trial and error processes and a series of community initiatives.

Figure 2. Key actors and their roles in the OVOP movement

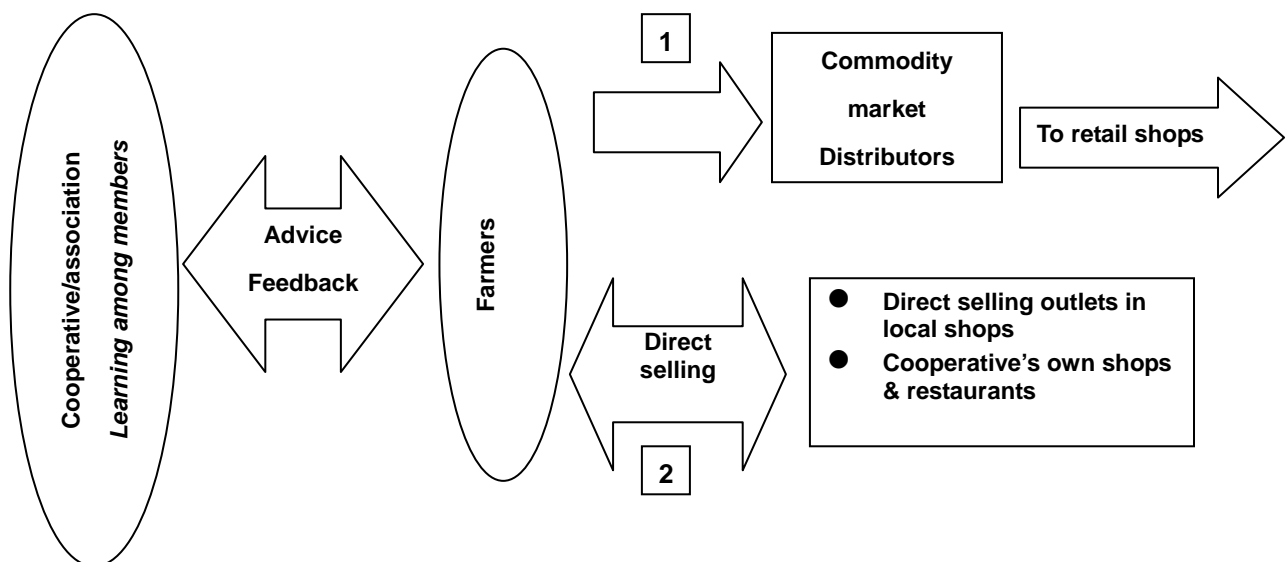


Source: Author.

Besides the qualitative aspects, if there is any special feature in OVOP movement, for example, as the name 'One Village One Product' indicates, its emphasis is on product differentiation. OVOP is sometimes considered a supply-driven approach in which villages come up with products making use of their local resources and sell them to niche markets. However, successful OVOP farmers tend to constantly adjust and

improve the marketing mix (product, price, promotion and distribution) of their products based on information and feedback they receive from the market. More importantly, it is this embedding of the process of interactive learning in their activities that makes the OVOP an effective and sustainable rural development method. Figure 3 illustrates this point.

Figure 3. OVOP distribution networks and interactive learning



Source: Author.

For OVOP farmers, delivering their products to markets is not the end process of their production activities. It goes beyond, to the extent that it involves having direct interaction with retailers and consumers, obtaining feedback on product quality, prices and production volumes for continuous improvement (2 in figure 3). This direct interaction provides farmers with more important information than merely selling to a commodity market. The latter is where perfect market conditions prevail (1 in figure 3).

Farmers do not have control over prices (price taker). They plan their production based on the actual market price, and products are not differentiated or sold as commodities. Since the price is given and products are not differentiated, farmers selling to commodity markets need to compete based on price. Often in an environment where already meagre profit margins and laborious agricultural work prevails, farmers are forced to opt for cost reduction instead of increasing value added. Besides, as discussed in the theoretical section, there is a tendency that farmers in peripheral areas do not possess advantages in producing undifferentiated products compared with farmers in or near major markets, mainly because of higher transportation costs of the former. Thus, unless there are distinct cost advantages based on the prevailing cheaper wage rates, low transportation costs to major markets or substantial scale economies, production for commodity markets does not offer bright prospects for farmers to get out of poverty. Even when a rural area has cost advantages in commodity production, the sustainability of the advantages is questioned as the scope of learning and hence of increasing value added out of this production is fairly limited.

This dim prospect of improving the general well being by depending entirely on commodity markets led OVOP communities to diversify their products and distribution channels so as to allow them to receive information conducive to their learning and improving the marketing mix. For example, by directly supplying their products to retailers, who have shopping space specifically allocated for local brand products, they differentiate their products from others in distribution, targeting consumers who are interested in and trust the quality of local brands. Having an alternative distribution channel is a source of differentiation, as well as a source of information for their

specific products. They are able to monitor the sales of their brands sold by retailers, and receive feedback from the shops. Such information could influence their production and pricing decisions.

In case of Kawasaki Kabosu Company, also visited by the author, it sells both kabosu limes, as an unprocessed commodity through commodity markets, and kabosu juice, as a processed product using kabosu limes of unattractive appearances. Mr. Kawasaki, president of the company, said that the future of his company lies in increasing the production of processed products and selling them directly to consumers, so that the company can have better control over pricing and marketing, as opposed to selling unprocessed products to the commodity market.

A visit to the Ajimu Winery also confirmed the effectiveness of direct selling. The winery has increased its sales since it started selling its products directly to customers. It produces a limited volume of various premium wines catering specifically to Japanese tastes and dishes, in order to avoid direct competition from foreign wines. It is, therefore, important for the winery to find loyal customers for its business stability. To attract such customers, the winery built a small theme park where visitors can enjoy tasting, observe the production process and walk around the vineyards. Creating such an environment helps visitors to experience Ajimu wines through their five senses and form a unique brand perception in their mind.

To enhance their learning capabilities, some OVOP farmers have strengthened their ties with consumers by having their own cooperative shops and restaurants, which serve

dishes using their products. These venues allow producers to interact with consumers and also provide opportunities to directly receive comments on their products, which help to increase the value added and to promote their products by introducing innovative dishes using their products. The feedback from customers is pooled together and shared within a producer group for their joint learning and continuous improvement of products and marketing.

In essence, taking part in multiple stages along a value chain from production of raw materials, processing, selling and servicing, OVOP producers maximize their learning opportunities by collecting information, which goes beyond the usual price and volume, such as more qualitative aspects of product quality, distribution channels and promotion strategies. Moreover, such comprehensive information together with their direct experience in different stages of a value chain helps them to generate new ideas. By enhancing learning opportunities in their activities and sharing of ideas among members of an OVOP group, they work constantly toward reaching a better marketing mix. Given the success of the Oita's OVOP movement, other prefectures have come to master and adapt it for their own rural development. The OVOP movement again is not about building a certain institutional set up but is a way to make communities realize their own assets and constraints and develop their unique solutions. This has provided flexibility to other rural communities in their ways to adapt the movement while subscribing the key principles of OVOP – making use of local resources and continuous improvement for adding higher value through learning and commitment. As seen in the case below, Kamikatsu town, Tokushima prefecture, adopted the OVOP concept and developed a project as appropriate to its situation by utilizing information technology.

Box 1. Development of Irodori project in Kamikatsu town, Tokushima

Kamikatsu town is located in the mountains of Tokushima prefecture. It used to represent a typical depopulated rural town in Japan, where the population of 6,200 in 1955 has dropped to nearly 2,100 today, 46 per cent of which is over 65 years old. The Irodori project has succeeded in turning the once hopeless town to an invigorated place. The town of Kamikatsu marks 1979 as its key turning point upon the arrival of Mr. Tomoji Yokoishi, then a fresh graduate of the Tokushima Prefecture Agricultural College, who came to work as an agricultural cooperative extension worker. Upon reaching the gloomy town, where farmers earned meagre incomes from small rice fields in the deep valleys, he asked himself what can be done to prevent the imminent demise of the town. The answer came to him while dining at a sushi restaurant in Osaka when his attention was caught by young girls sitting at a nearby table. He realized that they were not excited by the sushi but by the small colourful leaves that were used to artfully garnish the dish. Kamikatsu not only has trees with beautiful leaves in abundance, but it could provide a wide variety of leaves and small flowers, which seem to be in demand by high-end Japanese restaurants as *tsumamono* for dish presentation throughout the year. In addition, unlike heavy oranges, leaves can be easily handled by Kamikatsu's elderly population.

Despite the initial negative reactions from town folks to his idea, unfazed and determined, Mr. Yokoishi continued to campaign for support especially among the elderly female farmers. In 1986, Mr. Yokoishi together with some supporters initiated the Irodori Project as a town cooperative. The sales value in the initial year, however, was only 1.2 million yen (around US\$10,000). With untiring efforts in gathering information and spending most of his salary in expensive Japanese restaurants in Tokushima, Osaka and Kyoto, Mr. Yokoishi gradually learned product development and marketing techniques, and quickly worked together with his supporters to improve the Irodori project. As the group accumulated the necessary know-how on product development, quality control, distribution and marketing, the number of participants gradually increased and the brand image of the Irodori Project began to take shape. The sales value of the project increased to 50 million yen in five years and to 170 million yen in ten years. Over the period of 20 years since the project started, farmers participating in the project increased their annual income ten-fold. This has been accompanied with a constant increase in the number of products from a few dozens of basic products initially to about 300 products in each season now. All new products have been developed by individual farmers, who utilize local resources that are most ubiquitous in the town. Partly because all members of Irodori are closely connected with the markets in major cities of Japan through computer information system, and partly because they frequently visit high-end Japanese restaurants in various cities in order to find how their products are actually used and what kind of products is appreciated there, they can rethink about their resources always with a fresh outlook, leading to the sustained development of new products.

The operation of Irodori Project today is supported by a highly modern and complex system of soft and hard infrastructure that has been developed gradually over the 20 years. Each farmer needs newest information (e.g. yesterday's prices) as well as longer-term information (i.e., past trend and future projection). Such information is collected and processed by the Irodori Cooperative, and is provided to individual farmers through the computer system. Each morning, while monitoring information on the computer and faxing this information, each farmer decides how much of each product will be supplied, and accordingly notifies the Cooperative of his decision. Then, each farmer collects leaves, sprigs and flowers from its land, and packs them for shipping. All packages are collected at the Agricultural Cooperative of Kamikatsu before 4 pm. Special trucks are used to transport them either to nearby cities or to the Tokushima airport where they are airfreighted to Tokyo and other remote cities.

In short, out of sheer desperation, a young outsider (Mr. Yokoishi) together with local people succeeded in developing a unique OVOP movement in a remote town through sustained efforts over 20 years, in which unique products have been constantly developed by utilizing creatively the seemingly ordinary resources (leaves, senior citizens, and land in deep mountain). Given that differentiated products with brand reputation (Irodori brand) can absorb high transport costs to major markets without losing much demand, the remoteness of location has not hindered the development of a successful OVOP movement, albeit with the support of appropriate infrastructure. The key for the sustained development of such an OVOP movement has been the innovative environment in which all individual participants are well connected to the rest of the world.

Source: Quoted from Economic Development Capitalizing on Brand Agriculture: Turning Development Strategy on Its Head, by Masahisa Fujita. IDE Discussion Paper No. 76 (2006). Quoted with permission of the author.

OVOP in other countries: experiences, similarities and differences

One-Tambon¹-One-Product (OTOP) project in Thailand

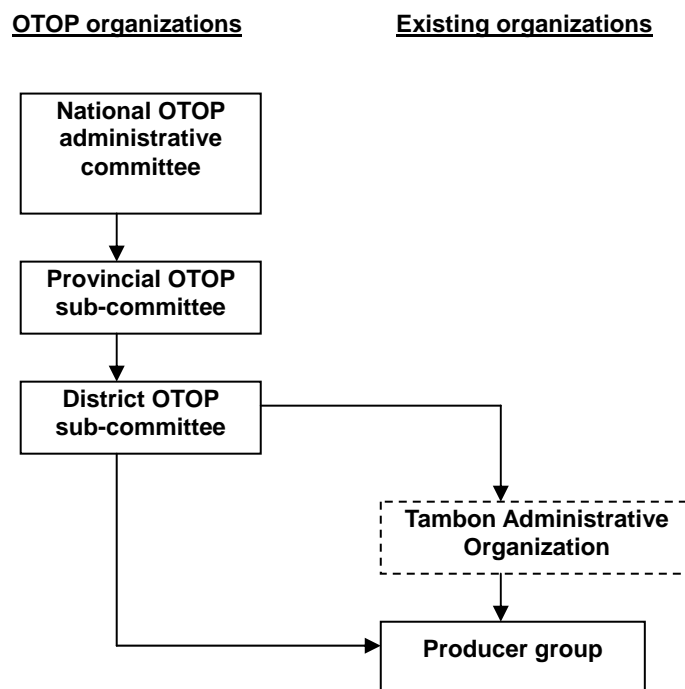
Thailand has adopted Oita's OVOP movement and implemented the OTOP project since 2001 under the grass-root support policy of Thai Rak Thai party, which was led by the former Prime Minister, Takshin Shinawatra. OTOP carries the same three slogans as OVOP: local link and global reach, self-reliance and creativity, and human resource development. The OTOP guidelines announced at the beginning the project also include the same principles of grass-root initiative and supplementary support from the Government.

Despite the similarities in the slogans and principles, the way OTOP has been managed and implemented in Thailand is different from that of OVOP in Japan in many respects. First, while with supplementary support from the Government, the OVOP movement was led by communities, which in some instances even resisted the policy of the central government, OTOP projects are administered and led by the central government. The National OTOP Administrative Committee, which was set up within the Prime Minister's Office, has formulated overall policies under the leadership of the Prime Minister, and the provincial and district OVOP committees have implemented the policies. In contrast with the OVOP structure shown in figure 2, figure 4 below underscores highly centralized, top-down structure of the OTOP management. To obtain an OTOP registration, products selected by village hearing committees are first reported to Tambon Administrative Organizations. Then, the lists of the products are reviewed at

¹ A Tambon is an administrative unit, which includes more than two villages, placed under the district level.

the district and provincial levels before they reach the national OTOP office. Despite this formal registration procedure, often district and provincial officers directly contact producer groups for OTOP registration, or process the registration without the consent of producers to increase the number of OTOP registered products.

Figure 4. OTOP management structure



Source: Based on information contained in Matsui and Yamagami ed., 2006.

Secondly, there is a difference between OVOP and OTOP also with regard to their target beneficiaries. The former aims at village revitalization by community-wide learning, whereas the latter focuses on enterprise promotion by product upgrading. OVOP movements in Japan gradually introduced a change in the way communities organize their production activities, first by going through a thorough evaluation of their

geographical, resource and working environments under a competent and respected leader, and then by committing their financial and human resources to the growth of selected subsectors for community-wide development. In the case of OTOP, the prime focus is on existing products and enterprises producing them. It is more an approach to building on existing products and speeding up the growth rather than introducing a fundamental change in their activities. For example, the Thai OTOP uses quality assurance criteria and separates those that meet the criteria, which are called OTOP Product Champion (OPC), from the other OTOP registered products. Furthermore, OPC products are ranked--given three to five stars based on exportability, consistency in production volume and quality, and uniqueness. The Government gives priority to OPC products over others in the provision of technical training, invitation to trade fairs and facilitation in building partnerships between producers.

In a probable attempt to reveal quick results from the Government-led project, OTOP officials generally approached enterprises with greater potential for growth and registered them as OPC producers and favoured them with Government support. As a result, OTOP project made the advantaged producers more advantageous while making little efforts to uplift disadvantaged producers, limiting the project's impact on poverty alleviation. It is not sure whether this fast-track approach is part of the OTOP policy and will continue in the future, but it is safe to say that for the past three to four years since the inception, the Government has put emphasis on helping producers who are in a relatively advantageous position. Targeting those producers with promising products and aiming at showing results in a relatively short time, in OTOP projects, external support to producers focused mainly on production techniques and marketing, leaving

underlying organizational capabilities intact. The table below shows OTOP budgets and sales. Government-intensive efforts in the early years seem to have resulted in stable growth in OTOP sales.

Table 3. OTOP project budget and sales (million bath)

Year	OTOP project budget	OTOP sales
2003	800	33,276
2004	1,500	46,276
2005	1,000	38,474 (9 months)

Source: Matsui and Yamagami ed., 2006.

In contrast, OVOP usually started with a self-searching process by a community to increase the awareness of their own circumstances, to enhance understanding of a community's comparative advantages and disadvantages under the continuously changing socio-economic environment and to gradually build a consensus on joint actions, which led to a positive change in the community organization and production activities. OVOP, therefore, adopted a more participatory process, which strengthened the development capability of the community as a whole and, as a result, took a long time before the economic results became apparent.

Finally, Thai OTOP differs from Japanese OVOP in marketing strategies. OTOP projects place emphasis on export success, and although support is provided accordingly, more support was given to OPC producers who revealed a greater potential to achieve success in foreign markets. In contrast, the Japanese OVOP did not specifically aim at export success from the beginning. Rather producers were encouraged to have direct interaction with consumers in order to enhance their learning capabilities. Success in

local markets led producers to expand their opportunities first to national and later to foreign markets. Probably the smaller domestic market in Thailand as against Japan was the reason why Thai OTOP needed to aspire after foreign markets. This targeting of foreign markets also influenced OTOP product characteristics. The share of locally-produced raw materials in OTOP products tends to be smaller as producers are often unable to find high-quality, local raw materials suitable for export. Besides, the design and packaging are also selected especially in consideration of the preferences of urban and foreign customers. In short, apart from the direct involvement of workers in the production phase, OTOP projects had tenuous linkages with their communities or Tambons. Again, Japan's OVOP has been adapted and so far implemented in Thailand more as a product and enterprise development project rather than a community revitalization movement. The following table compares and contrasts the Japanese OVOP and Thai OTOP:

Table 4. Comparison of OVOP and OTOP

	OVOP	OTOP
Role of government	<ul style="list-style-type: none"> Based on prefecture policy Community-led, supplemental supports by government 	<ul style="list-style-type: none"> Based on national policy Led by the central government
Approach and objectives	<ul style="list-style-type: none"> "Movements" Bottom-up Gradual, long-term Endogenous development Community revitalization through community cooperation and learning 	<ul style="list-style-type: none"> "Project" Top-down Rapid, short-term Exogenous development Entrepreneurial promotion through product upgrading
Community participation	<ul style="list-style-type: none"> Primary, broad 	<ul style="list-style-type: none"> Secondary
Marketing strategy	<ul style="list-style-type: none"> "Only one": local treasure Differentiation 	<ul style="list-style-type: none"> "Number one": OPC Competitiveness
Market	<ul style="list-style-type: none"> Local, domestic 	<ul style="list-style-type: none"> Urban, overseas

Source: Author based on the presentation by Rika Fujiwara at the OVOP seminar in Cambodia, June 2007.

Finally, based on the analysis so far, table 5 below presents the positive and negative aspects of OVOP and OTOP.

Table 5. Positive and negative aspects: OVOP versus OTOP

	OVOP	OTOP
Positive	<ul style="list-style-type: none"> Greater sustainability Broader, community-wide effect Backward and forward linkages within local economy 	<ul style="list-style-type: none"> Faster results Not so dependent on community capacity and leadership Possibility of success in international markets and making contribution to trade balance and to earning foreign exchanges.
Negative	<ul style="list-style-type: none"> Takes long time to see results Conditioned by community cooperation and leadership Less responsive to different needs of various producers within a community 	<ul style="list-style-type: none"> Less sustainable Limited effects beyond enterprises Market saturation with similar products

Source: Author.

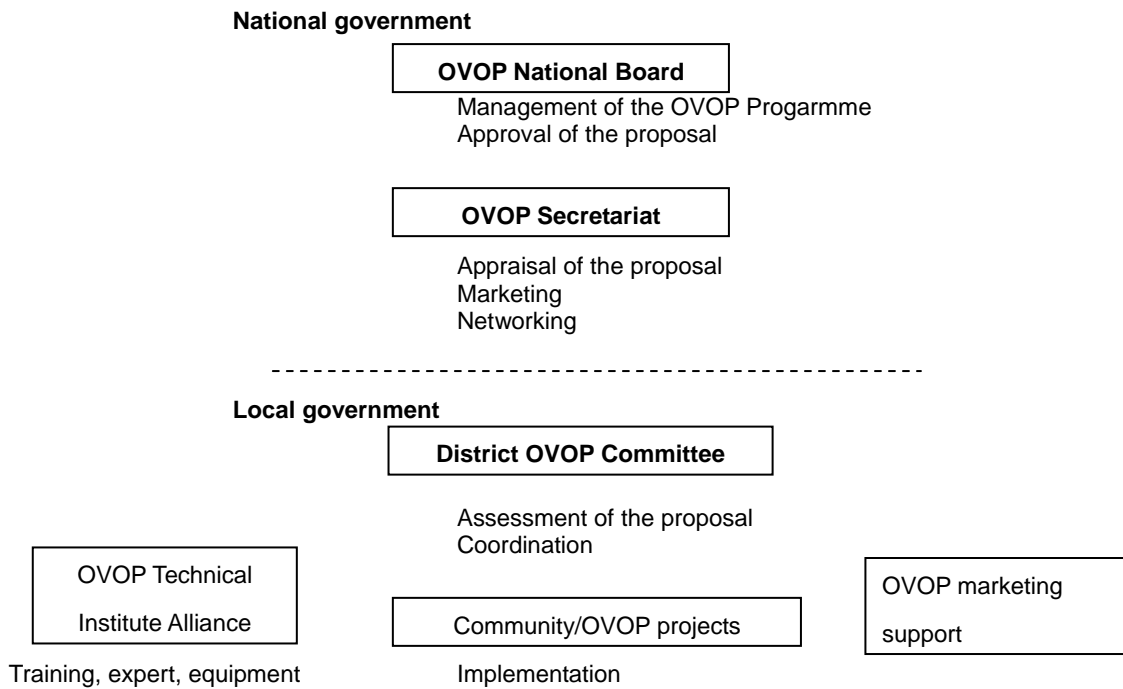
OVOP movement in Malawi

Following the country's independence in 1964, the authoritarian single-party regime of the Banda Government ruled the country for 30 years. The institutions and economic system of the colonial era inherited by the regime were not only retained, but the estate sector (plantation) continued to be an integral part of the economic policy, much to the detriment of smallholders in rural areas. As this worsened the living conditions of the masses, the 1994 election replaced the regime with a multi-party system. Finally, the Government started paying serious attention to those who were left behind under the Banda regime – smallholders, small and micro enterprises, and the poor in general. Since 1994, the central Government has increasingly realized the limited effectiveness of the centrally-led poverty alleviation scheme, as the majority of the poor reside in rural areas. Despite this realization, the number of people living below the poverty line increased from 54 per cent at the beginning of the 1990s to 65 per cent in 2004.

In this context, supported by the World Bank and IMF, the Government implemented decentralization; allowed local governments greater political power and autonomy. Alongside this political development, the OVOP project was introduced as a development project, taking local specificities into consideration. Since Malawi showed its interest in the OVOP for first time during the TICAD I in 1993, it took around some ten years before the country officially adopted the OVOP. Every occasion was seized to enhance this cooperation; Malawi officials visited Oita, and Oita sent a research mission in 1998. JICA also contributed to the introduction of the OVOP concept in Malawi by inviting trainees to an OVOP training programme and sending experts to Malawi to conduct a feasibility study. Finally, in December 2003, the Government established the

OVOP secretariat in the Ministry of Agriculture and started the programme, the administrative structure of which is shown in figure 5 below:

Figure 5. OVOP administrative structure in Malawi



Source: An OVOP concept note of JICA's support in Africa, received at the JICA headquarters on 12 October 2007.

However, the structure of the OVOP in Malawi appears to be similar to that of the Thai OTOP, as seen in figure 4, and bears no similarity to the original OVOP of Japan. The OVOP structure allows the national government to centrally administer the programme. Similar to the OTOP, the district OVOP committee receives applications for OVOP registration from producers, which are submitted to the OVOP secretariat for review. OVOP certificates are then sent from the secretariat via the district committee to successful applicants.

So far, OVOP has been introduced as a possible source of finance and technical training

to producer groups that already have products but would like to increase their value added. Therefore, the scope of OVOP activities in Malawi is much narrower than that of the original OVOP project. Capital and training are provided to existing producer groups, usually keeping their production organizations, relations and material resources intact. Hence, the OVOP in Malawi, as with most cases in Thailand, does not go beyond production upgrading. It bypasses the time-consuming but fundamental process of thoroughly studying their advantages, disadvantages, constraints and opportunities. It therefore lacks a community development plan and strategy needed to build a consensus and commitment. As a result, people in Malawi tend to consider the OVOP among one of the many existing microfinance schemes. In a follow-up evaluation study, producers did not relate OVOP to a community development project, but described the impact of the OVOP by saying, “I bought this machine through OVOP.”²

In a country, such as Malawi, where the poverty level is extremely high, most producers are persistently deprived of capital, and thus they seem to have clear ideas of what they would do if they have access to capital. Under this circumstance, producers may not feel the need to take time to go through an elaborate community revitalization scheme, even if this would enable them to come up with better, sustainable productive activities that would have a greater impact on the community as a whole. This, of course, does not mean that it is impossible to have a participatory community development project in poverty-stricken regions. However, it suggests that for such a project to achieve the

² Eiichi Yoshida, “Marau ni Okeru Isson Ippin Undo to Chiiki Shinko wo Meguru Seiji,” (OVOP movement in Malawi and the politics surrounding a community development), in Matsui and Yamagami ed., 2006.

intended effects, it is not enough to simply establish project management offices and transfer OVOP concepts to key personnel. It is more important that OVOP concepts, objectives and means to achieve them are clearly and continuously explained to them and to community participants at large.

Recommendations for a UNIDO OVOP-type project

The experiences of the Thai OTOP and Malawian OVOP showed that, despite their similarities between them and the original Japanese OVOP in their objectives (rural development) and slogans (ex. self-reliance), the manner in which the former two countries interpret the concepts, integrate them in concrete projects, and implement OVOP are vastly different from the Japanese experiences. Part of the reasons could be attributed to their differences in the development stage and country-specific factors, but also their different experiences resulting from the fact that the Japanese OVOP has been always a “movement” and never a model to be used as a concrete and systematic approach for rural development. Even within Japan, the concepts and slogans have been interpreted differently in the OVOP activities of different villages, albeit with emphasis on similar qualitative aspects, such as competent and strong leadership and community’s cooperation and firm determination. Nevertheless, this abstract nature of the OVOP movement has an advantage; it is flexible to the extent that it allows countries to adapt OVOP to their own development needs. The disadvantage is that it does not provide clear guidance to countries as to who should do what and when, nor does it suggest the kind of institutional arrangement necessary. As a result, despite the

commitment of the Thai and Malawian Governments to OVOP and their efforts to promote OVOP among the people, in reality, differences between OVOP and other rural development projects in these countries are far from clear.

Due consideration must be given to the divergence between the OVOP ideal advocated in its movement in Oita, Japan, and the reality of OVOP implementation in Thailand and Malawi. Hence, before formulating an OVOP-type project, UNIDO needs first to deal with the shortcoming of the original OVOP, namely, the lack of guidance for translating the concept to a project.

As discussed at the outset, besides the qualitative conditions emphasized, the core element of OVOP is product differentiation--making use of local resources and interactive learning process in production and marketing activities for continuous improvement in marketing mix. This element, which has evolved in the Japanese OVOP movement, needs to be systematized and translated into project activities so that the crux of OVOP will be effectively transferred within the different context of developing countries. While retaining this core element of the Japanese OVOP, lessons on product promotion strategies and the administrative structure suitable for developing countries from the Thai and Malawian OVOP experiences can be learned. Finally, in addition to applying lessons learned from the OVOP experiences in Japan, Thailand and Malawi to a UNIDO project, the gap in unspecified areas of the original OVOP, such as ways of developing community capabilities and strengthening cooperation among producers needs to be filled. For this, UNIDO can draw on the expertise of the Private Sector Development (PSD) Branch incorporating also the successful participatory rural

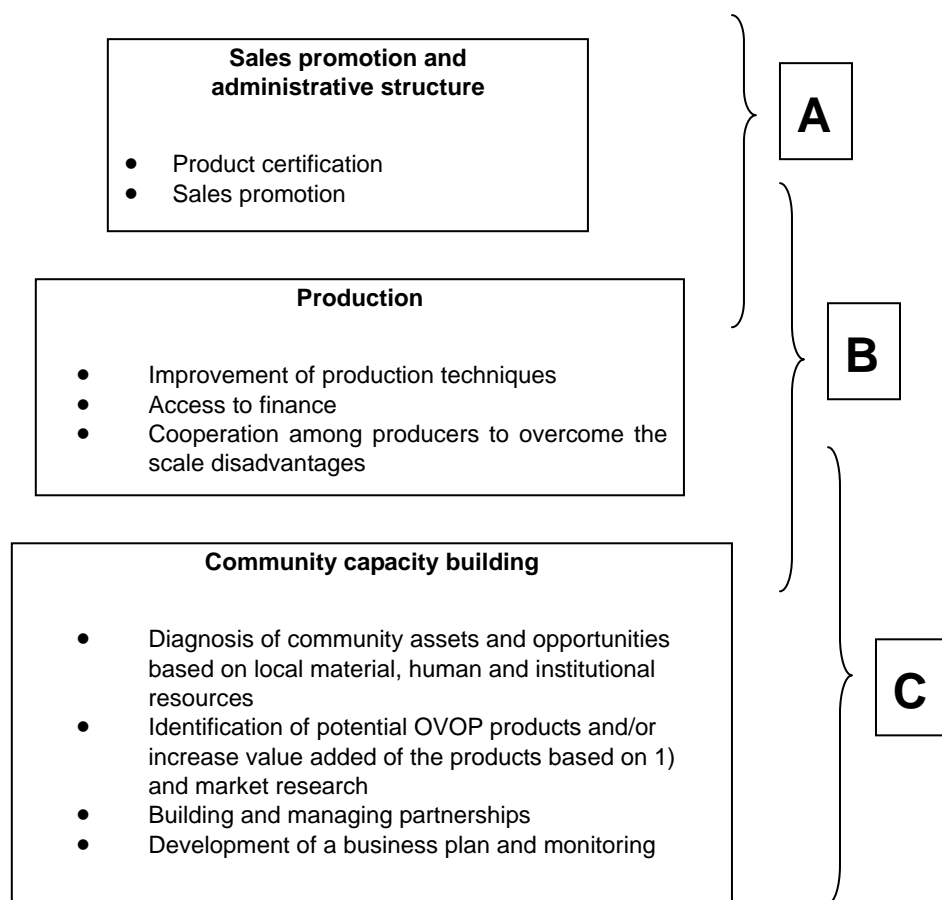
development approach, which has recently been adopted in Uganda, the United Republic of Tanzania and Malawi. Integration of lessons from past OVOP experiences and UNIDO's expertise, as well as an effective participatory rural development approach in Africa, would be necessary since the OVOP in its original form provides objectives and slogans without sufficiently specifying how to achieve them.

Taking the above into consideration, a preliminary project framework for a UNIDO OVOP project is proposed here based on the research findings of this report. Essentially, the framework is constructed keeping in mind the need to specify abstract concepts of OVOP and increase the possibility of achieving OVOP objectives in developing countries within a defined time period, which needs to be shorter than ones experienced in Japan. This should be reviewed and adjusted by responsible officers in the regional programme and technical branches. Once the framework is approved by relevant UNIDO staff, technical details of a prospective project would need to be developed in light of UNIDO expertise, donor priorities and development partner strategies and conditions in beneficiary countries.

Figure 6 below shows three overlapping areas, which must be considered to ensure a successful and sustainable OVOP project and achieve its objective—community development for poverty alleviation by producing differentiated products, by making use of local resources, and increasing value added. Successful OVOP communities in Japan have seen developments in all three functions. However, their success stories, which tend to emphasize the qualitative aspects of the communities, such as commitment, leadership and mutual support, have never been conceptualized and

theorized in a more generally applicable manner. UNIDO's tasks are thus to fill these gaps by drawing clues from Thai and Malawian OVOP experiences, UNIDO's expertise and a relevant development method in order to construct a more systematic approach for an OVOP-type project to be implemented in developing countries.

Figure 6. Scope of OVOP activities



Source: Author.

Thai and Malawian OVOP experiences reveal some insights into how function A—sales promotion, administrative structure and some production-related activities—can be effectively organized by different levels in government and producer groups. For

example, the OVOP certification and product ranking system (OPC of Thailand) used by these countries seem to have increased awareness and subsequently sales of their products among domestic and foreign consumers in a relatively short time. The manner in which some production techniques were provided and credit support was offered to producer groups should be transferable to future OVOP-type projects with necessary adjustments. However, their OVOP schemes have mainly focused on function A, and hence not much can be learned from their experiences with regard to how function B and especially function C can be devised in an OVOP project.

Fortunately, UNIDO's PSD branch has expertise in some of the B and C functions. Especially, UNIDO's programme on cluster and network development has a structured approach, which has proved effective in supporting different subsectors to overcome scale disadvantages and increase group productivity.³ This expertise could complement and improve the OVOP schemes so far implemented in developing countries.

The OVOP project should support existing producers by upgrading technologies or facilitating cooperation. It should also empower the community's diagnostic and operational capabilities to seize opportunities and develop necessary action plans and strategies based on its local material, human and institutional resources for community-wide development. By strengthening these capabilities a community will be in a position to determine its own development path and adapt to changing socio-economic environments. Engaging in this search process by a community may take long for it to decide its own development course than accepting top-down decisions

³ UNIDO, "Development of Clusters and Networks of SMEs," 2001.

by government agencies or development organizations on what products and enterprises to develop and what markets to target. However, it is crucial for communities to go through this process so that they can devise their own development path and build social capital to increase sustainability. Thus, the core of community development is not to lay out development plans and strategies for communities but, through a participatory process, promote their learning of how to carve their development paths and develop solutions themselves amid changing economic environments.

This participatory learning is aimed at strengthening the capabilities of the community at large, including both existing and potential producers, so as to create community-wide development effects. If UNIDO has the necessary expertise in community capacity-building, its own approaches can be applied to functions B and C in figure 6. In case in-house expertise is not enough, UNIDO could carry out function C in partnership with an organization specialized in community development. Regardless of whether partnership is necessary, the building of community capabilities has to be a participatory process. Recently, an approach, called enabling rural innovation (ERI), which integrates farmer participatory research and participatory market research, has been successfully piloted in Malawi, Uganda and the United Republic of Tanzania.⁴ This was initially developed for the empowerment of farmer communities, but the basic

⁴ Sanginga et al., "Enabling rural innovation in Africa: An approach for integrating farmer participatory research and market orientation for building the assets of rural poor," *Uganda Journal of Agricultural Science*, 2004.

principles and steps, outlined below, could be applied to the development of rural communities at large, including agro-industries.

1. Engagement of strategic partners
2. Participatory diagnosis building on community assets and opportunities, rather than problems and constraints, to have a vision of desired future conditions
3. Formation of production and market research groups to select, test and evaluate marketing opportunities, technology options and approaches to sustaining their natural resources
4. Participatory market research to identify and evaluate market opportunities for competitive and profitable products that will provide incentives for investment in improving material, human and institutional resources
5. Prioritization and selection of products considering not only profitability but also socio-economic and demographic conditions and consumption patterns of the community

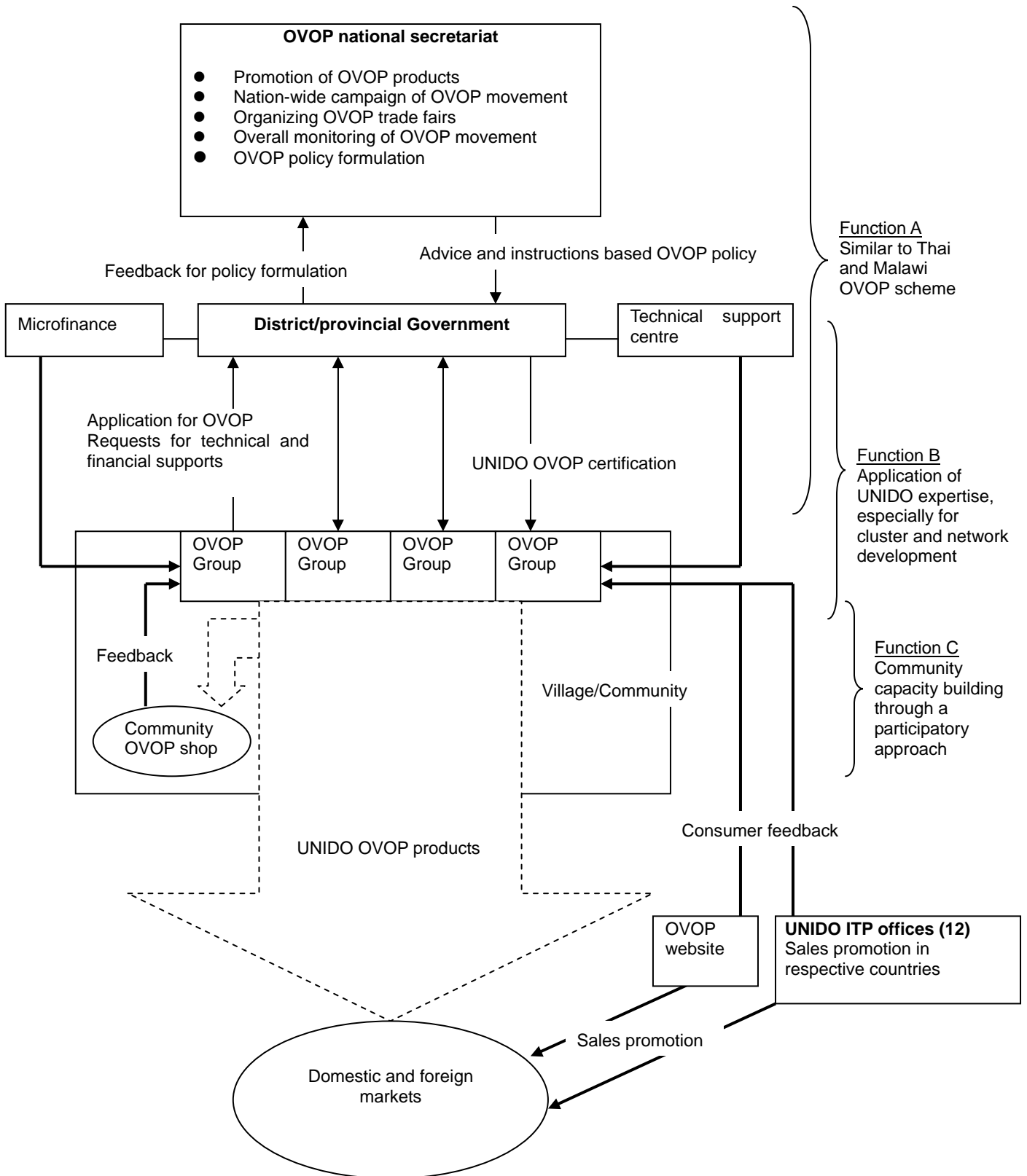
In this process, development partners have following critical roles to play:

- Facilitation of participatory processes and provision of technical and market information for better decision-making, building participants capacity, and strengthening bonding (organizational capacity, cooperation, collective action) and bridging (horizontal and vertical linkages) social capital of rural communities
- Facilitation of participatory monitoring and evaluation processes for institutional learning and change, and up-scaling with existing and new research and development partners

Further details can be found in relevant research papers, such as Sanginga et al. (2004).

Incorporating the above inputs to each function identified in figure 6, the following framework is proposed for an OVOP-type project of UNIDO.

Figure 7: Preliminary UNIDO OVOP-type project framework



Source: Author.

The above framework has been carefully constructed, keeping in mind the original ideal of OVOP movement and incorporating the strengths of Thai and Malawian OVOP programmes as well as UNIDO's expertise. In addition, the effective learning process seen in the Japanese OVOP has been devised in such a way so that it can be applied in the context of villages in developing countries that wish to sell their OVOP products mostly in major cities in their countries or in foreign markets.

To increase project effectiveness, the framework contains some recommendations for consideration by UNIDO staff in light of their financial resources and legal implications. First, taking the advantage of the UN position, one should consider the possibility of issuing UNIDO OVOP certificates for products produced in compliance with labour, environmental and product quality standards set by UNIDO OVOP projects. These products could carry a UNIDO OVOP brand logo on their packages for a limited time period, of say five years, to boost their initial exposure among foreign consumers. The effectiveness of OVOP-type projects is based on product differentiation, as discussed in the theoretical section. Using this brand strategy would be a distinct advantage for the successful implementation of OVOP projects by UNIDO.

Second, as part of the marketing strategy, cooperation of UNIDO Investment and Technology Promotion Offices (ITPOs) would be an added advantage for UNIDO OVOP projects. Considering their presence in major cities in developed and emerging countries, the ITPOs would be valuable assets for promoting UNIDO OVOP products in foreign markets. In cooperation with the respective governments, ITPOs can support sales promotion by organizing OVOP events, disseminating product information and by

displaying the products at appropriate sites. Another and more important role would be to provide consumer feedback to producers. In the case of Japanese OVOP producers, through their direct participation in selling at local shops and running restaurants using their products, they received feedback from consumers for product improvement. In the same vein, if producers involved in the UNIDO project receive feedback from consumers in both domestic and foreign markets, their learning capabilities will be enhanced. The producers of a UNIDO OVOP project cannot have direct interactions with foreign consumers to receive their feedback. But if ITPOs are encouraged to collect feedback from consumers through their sales promotion activities and send this information to OVOP communities for their collective learning, both current and potential producers will be able to understand better the preferences of international consumers and what the internationally acceptable standards are.

Finally, the project may consider the establishment of a UNIDO OVOP website on which UNIDO OVOP products could be viewed along with background information on the OVOP communities and development impacts of the project. The products could be ordered online, and customers could post their feedback on the products on the website. This will promote product improvement by the producers. Details on the feedback process from ITPOs and the website for inclusion in the project will have to be properly considered.

Final remarks

This report has first reviewed the concept and experiences of the Japanese OVOP movement and then showed how Thailand and Malawi have adopted, adapted and implemented it. It has also revealed the strengths and weaknesses of the existing OVOP project schemes. Based on these findings and analyses, a comprehensive project framework for a UNIDO OVOP-type project is proposed, which if implemented as a whole, could substantially increase the project impact on OVOP communities and the sustainability of the impact. Through this research input to OVOP project formulation, it is hoped that, based on this framework, relevant project officers and regional programmes will further refine the framework to ensure the successful operation of the project.

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