

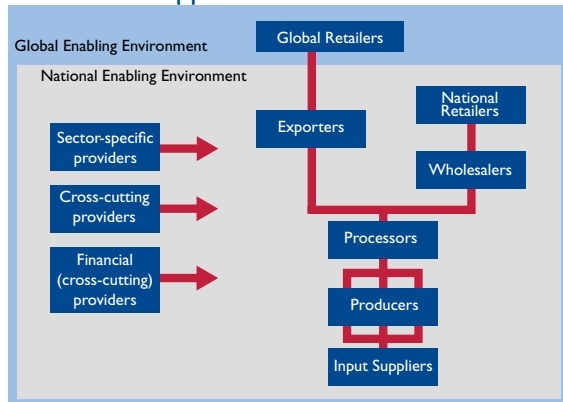


VALUE CHAIN APPROACH:

Bringing Small Enterprise into Competitive Industries in the Global Economy

Globalization is changing the environment in which poverty reduction strategies are being implemented. In this new context, two things are clear: poverty alleviation cannot be sustained without economic growth; and economic growth cannot be sustained in non-competitive industries. ACDI/VOCA's value chain approach focuses on industries employing large numbers of the poor and with the potential to become and remain competitive in global markets. This approach therefore has relevance in a wide array of programs for which poverty reduction and/or wealth creation is either the ends or the means.

Value Chain Approach



“Value chain” refers to all the activities and services that bring a product (or a service) from conception to end use in a particular industry—from input supply to production, processing, wholesale and finally, retail. It is so called because value is being added to the product or service at each step. Taking a “value chain approach” to economic development means addressing the major constraints and opportunities faced by businesses at multiple levels of the value chain.

Under the Knowledge and Practice Task Order of the AMAP BDS IQC, ACDI/VOCA has developed a framework that underpins this approach (see figure). Value

chain analysis uses this framework to examine the structure and the dynamics of the value chain. The structure of the value chain influences the dynamics of firm behavior and these dynamics influence how well the value chain performs in terms of two critical outcomes: value chain competitiveness and MSE benefits.

Structure

The structure of a value chain includes all the firms in the chain and can be characterized in terms of five elements:

1. End market opportunities at the local, national, regional and global levels—the framework prioritizes this element because demand in end markets defines the characteristics of a successful product or service.
2. Business and enabling environment at the local, national and international levels—this includes laws, regulations, policies, international trade agreements and public infrastructure (roads, electricity, etc.) that enable the product or service to move through the value chain.

The AMAP BDS IQC

ACDI/VOCA is one of three prime contractors under the AMAP BDS IQC. Each prime contractor has an approved consortium of subcontractors but additional subcontractors can be brought on for specific task orders. The goal of AMAP BDS is to create wealth in poor communities and promote economic growth by sustainably linking large numbers of microenterprises into productive value chains. The IQC can be used to provide short- or long-term services to USAID missions in areas consistent with this goal.

3. Vertical linkages between firms at different levels of the value chain—these are critical for moving a product or service to the end market and for transferring benefits, learning and embedded services between firms up and down the chain.
4. Horizontal linkages between firms at the same level of the value chain—these can reduce transaction costs, enable economies of scale, increase bargaining power, and facilitate the creation of industry standards and marketing campaigns.
5. Supporting markets—these include financial services, cross-cutting services (e.g., business consulting, legal advice, telecommunications) and sector-specific services (e.g., irrigation equipment, design services for handicrafts).

Dynamics

The participants in a value chain create the dynamic elements through the choices they make in response to the value chain structure. These dynamic elements include:

1. Upgrading—increasing competitiveness at the firm level through product development and improvements in production and marketing techniques or processes
2. Inter-firm cooperation—the extent to which firms work together to achieve increased industry competitiveness
3. Transfer of information and learning between firms—this is key to competitiveness since upgrading is dependent on knowledge of what the market requires and the potential returns on investments in upgrading
4. Power exercised by firms in their relationships with each other—this shapes the incentives that drive behavior and determines which firms benefit from participation in an industry and by how much

Illustrative Uses of the Value Chain Approach

- Economic growth—through the mobilization of industry participants, the value chain approach can be used to increase the competitiveness of industries and the sustainability of donor interventions in support of economic growth.
- Financial services—value chain analysis can identify mechanisms for financial service delivery embedded in market transactions and assist lending institutions with expanding their definition of creditworthiness.
- Natural resources management—the value chain approach can be used to strengthen the competitiveness of natural resource-based industries and to develop competitiveness strategies that are beneficial both to the environment and to local business development.
- Health—value chain tools can be used to mobilize industry participants to identify and address health-related constraints to competitiveness and can be used to increase the effectiveness of service delivery in the health industry itself.
- Conflict mitigation and management—value chain analysis can prioritize industry constraints and opportunities in post-conflict situations and value chain tools can bring together diverse, even antagonistic, stakeholders to work towards a common economic vision.



For more information see www.acdivoca.org/valuechains