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The Value Chain Approach for Economic Growth and Poverty Reduction

Jason Wolfe, Enterprise Development Advisor
jwolfe@usaid.gov +1 (202) 712 1882

DEVELOPMENT CHALLENGE

- *Will the poor be marginalized by globalization?*

Can small firms and farmers compete in globalized markets?

OPPORTUNITIES: COMPARATIVE ADVANTAGES

- ✓ Non-repetitive production processes
- ✓ Seasonal activities
- ✓ Low capital requirements
- ✓ Relative labor-intensiveness
- ✓ Small production volumes

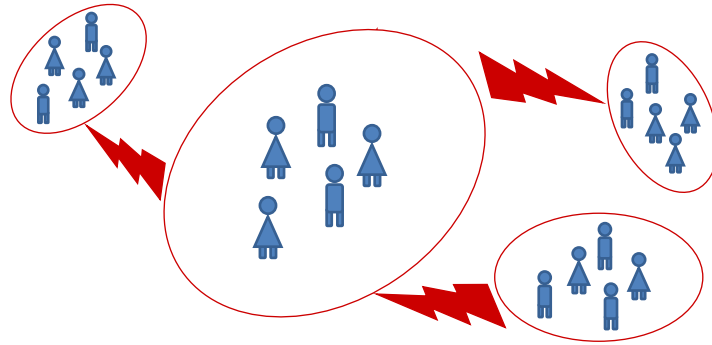


THREATS: GLOBALIZATION & COMPETITIVENESS

- Liberalization of tariff and non-tariff barriers
 - Bilateral free trade agreements
- Consolidation of national and global retailers
 - Wal-Mart
 - Increased concentration into international supermarkets
- Consumer concerns and standards
 - Labor practices, SPS, EUREPGAP
- Niche and specialty markets
 - Organic vegetables
 - Specialty coffee



GLOBALIZATION & COMPETITIVENESS



- **Globalization** shifts the nature of competitiveness
↳ **Entire industries**, rather than individual firms, are competing against each other for market share

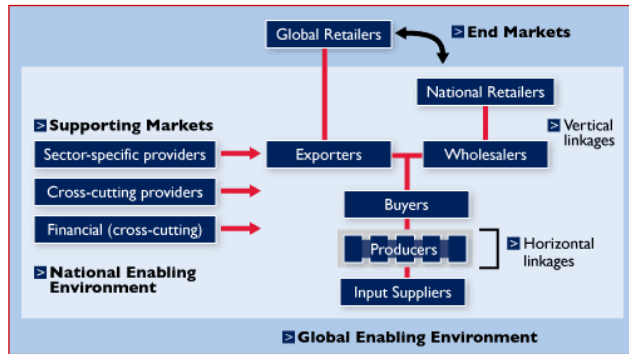
DEVELOPMENT OBJECTIVES

- Improving the competitiveness of target industries
- Improving benefits to small firms and farmers

How can we achieve **systemic competitiveness** to the **benefit of MSEs**?

WHAT IS A...

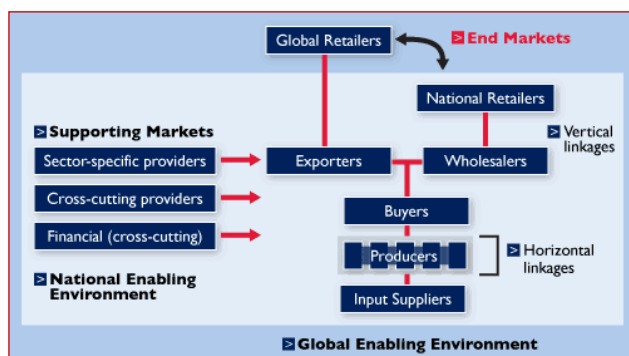
- Value chain?
- Supply chain?
- Industry?
- Subsector?
- Cluster?



Market system of linked firms that bring a product from inception to final market

END MARKETS

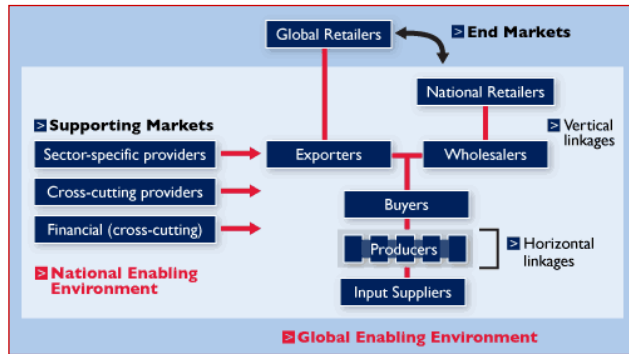
- End-market competitiveness
 - Efficiency/cost
 - Quality/product differentiation
 - New demand



End Markets define opportunities for growth

ENABLING ENVIRONMENT

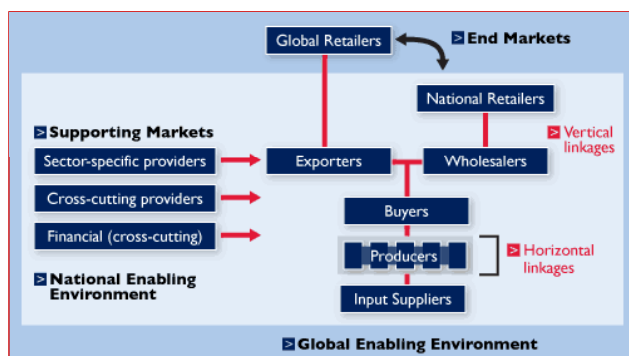
- Global
 - WTO, FTAs, standards
- National
 - Property rights, tariffs, taxes, regulations
- Local
 - Municipal infrastructure
- Industry
 - Codes, conventions



Enabling Environment circumscribes the boundaries of opportunities

INTER-FIRM COOPERATION

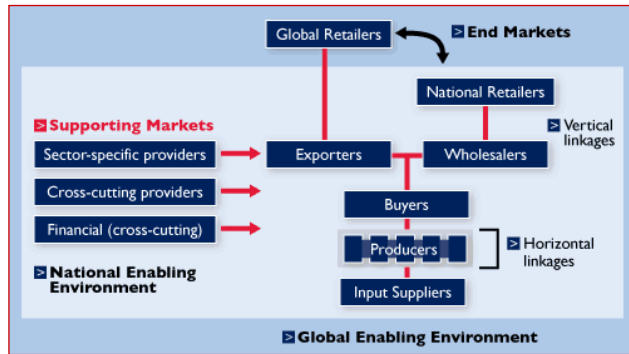
- Vertical linkages
 - Direct the product to market
 - Direct revenue and information to suppliers
- Horizontal linkages
 - Create economies of scale
 - Increase market power



Inter-Firm Cooperation is fundamental to growth and upgrading

SUPPORTING MARKETS

- Sector-specific services
- Cross-cutting services
- Financial services

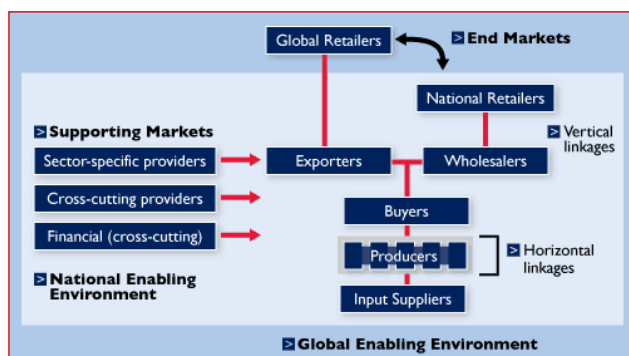


Supporting Markets supply the resources firms need to upgrade and compete

FIRM-LEVEL UPGRADING

- Improving process
- Improving products
- Specializing in new functions
- Moving into new market channels

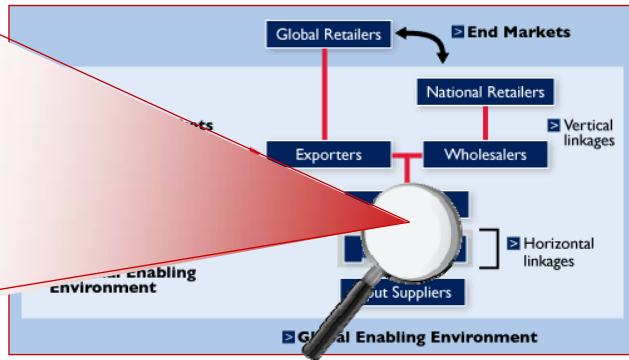
↓ *Increasing risks & rewards*



Firm-Level Upgrading improves the capacity to respond to market opportunity

RELATIONSHIPS

- Power asymmetries
- Learning and innovation
- Benefit distribution and risk mitigation
- Trust and social capital



Relationships are the engines that create investment and sustain competitiveness

PRINCIPLES OF THE VALUE CHAIN APPROACH

- Focusing on market systems
- Exploiting the power of end markets
- Building private sector ownership
- Limiting the role of the project: using a facilitation approach to intervention
- Leveraging incentives
- Transforming relationships and changing behavior
- Advocating for change in small, riskable steps

CASE STUDY: TANZANIA



High-Value Export Vegetables in Tanzania

Heavily rural population:

- 39.5 million people
- 28 million in rural areas

Poverty:

- \$340 per capita income
- 36% below poverty line

Economy depends heavily on agriculture:

- 85% of exports
- 80% of work force



TANZANIA: COMPARATIVE ADVANTAGES

- Smallholders have comparative advantage in production
- Approximately 1 million smallholders currently produce vegetables for market
- Soil and water resources are plentiful in Northern and Southern Highlands
- Smallholders have land, labor and desire to enter HVEV market channels



TANZANIA: OPPORTUNITIES

1. Increasing EU vegetable imports
2. Consumer trends towards healthy, convenient, fair trade, and eco-friendly food
3. De-commoditization / increased branding
4. Concentration of market power
5. Shifting procurement strategies

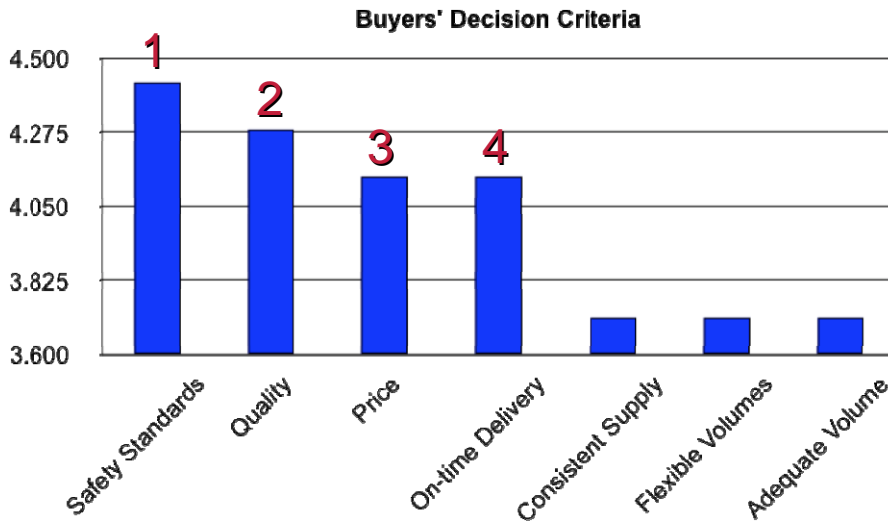


TANZANIA: THREATS

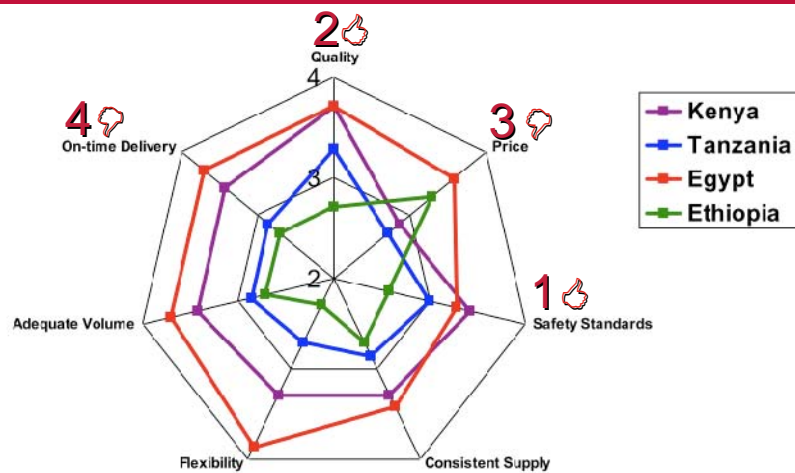
- Lack of cost-effective certification for smallholders in Tanzania
- Absence of lead firms willing to invest in the value chain and work with smallholder suppliers
- General factors preventing expansion of value chain
 - Limited air cargo capacity from Arusha-Moshi
 - Lack of inputs (esp. seeds) within Tanzania
 - Policy barriers (duties on inputs, National Certification)
 - Weak service markets



TANZANIA: VIEW FROM THE TOP OF THE CHAIN



TANZANIA: VIEW FROM THE TOP OF THE CHAIN



TANZANIA: VIEW FROM THE BASE OF THE CHAIN

End Market

- Limited knowledge of market conditions

Inter-Firm Cooperation

- Strict requirements and standards restrict entry into global markets
- Prefer selling to export markets but do not have access
- Need for an effective intermediary with exporters
- Need to improve trust in producer groups

Firm-Level Upgrading

- Buyer support can affect the ability of producers to upgrade
- Upgrading offers scope for collaboration with buyers
- Certification is more likely when they know other certified producers



YOUR QUESTIONS?

For more information and resources:
www.microlinks.org/valuechains