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# **The Role of Value Chains in Pro-Poor Private Sector Development**

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## FOCUS & PURPOSE

- **Articulate an approach to economic growth that reduces poverty.**
  - Accepting that economic growth is a pre-requisite to effective poverty reduction
- **Offer a framework for a pro-poor PSD strategy**
  - A framework that considers the factors needed by the poor if they are to be able to participate in growth industries
- **Discuss challenges & opportunities**

# THE DEVELOPMENT PROBLEM FOR PRO-POOR PSD

*In this era of globalization ...*

Can small firms and farmers compete in international, national or even local (globalized) markets?

Will the poor be marginalized by globalization

Or can they learn to compete?

# THE EFFECTS OF GLOBALIZATION ON COMPETITIVENESS

## *Globalization changes competitive environment*

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Globalization → Shifts the Competitiveness Strategy



Firms within one country are not competing against each other, but industries are competing

**Even in local markets – the effect of imports**

# OBJECTIVES OF A PRO-POOR PSD STRATEGY

## To improve the ....

- Competitiveness of value chains in which large numbers of MSEs participate
- Benefits to MSEs (increased employment and income, decreased risk, improved learning)

# A PRO-POOR PSD STRATEGY

... link large numbers of small firms  
into value chains with potential for growth...

... while fostering inter-firm relationships & access to  
resources  
to enable small firms to compete?

*... with the understanding that  
competitiveness drives growth!*

# WHAT IS A VALUE CHAIN?

Global Enabling Environment

Global Retailers

National Enabling Environment

Sector-specific providers

Exporters

National Retailers

Wholesalers

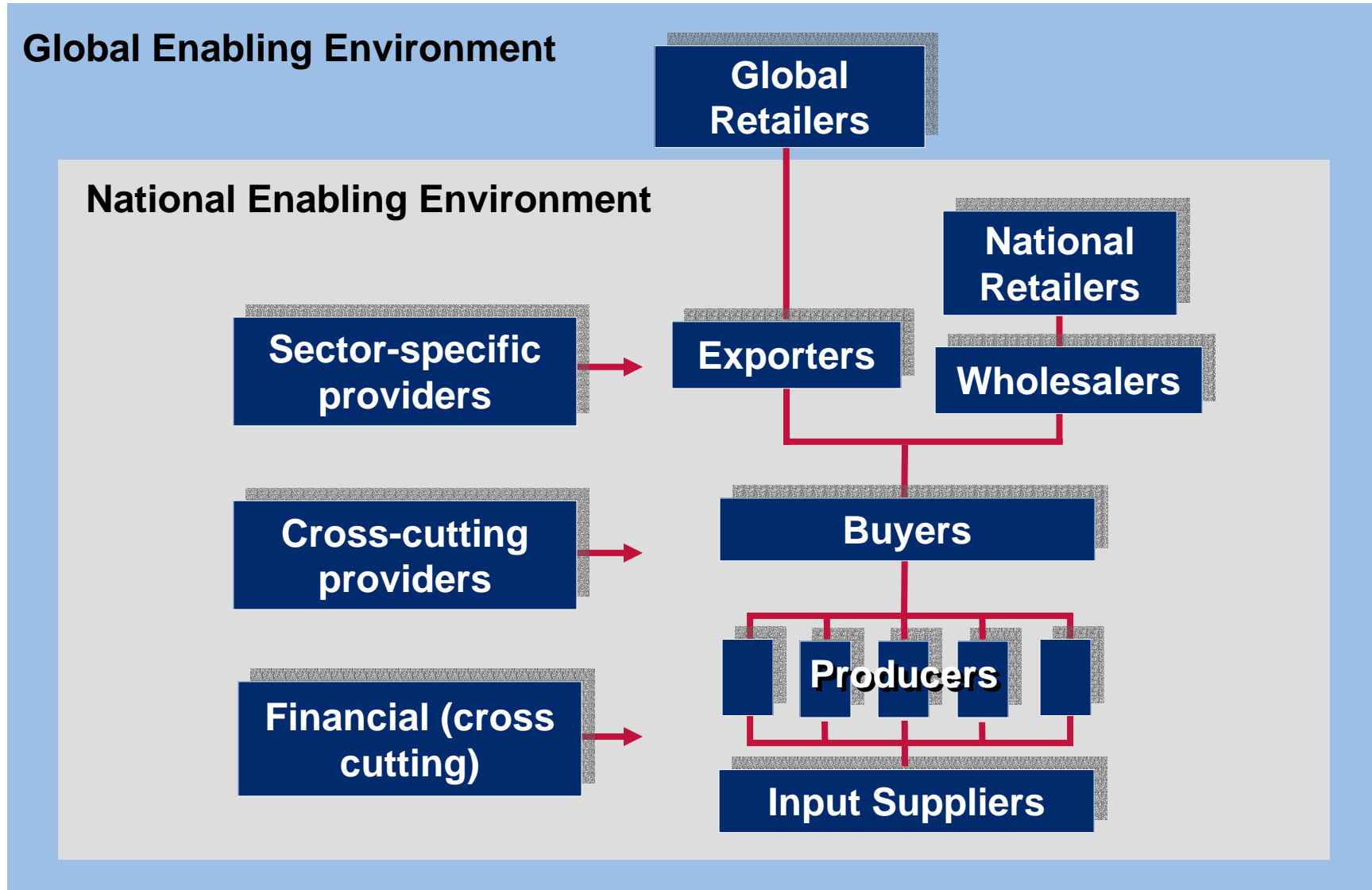
Cross-cutting providers

Buyers

Financial (cross cutting)

Producers

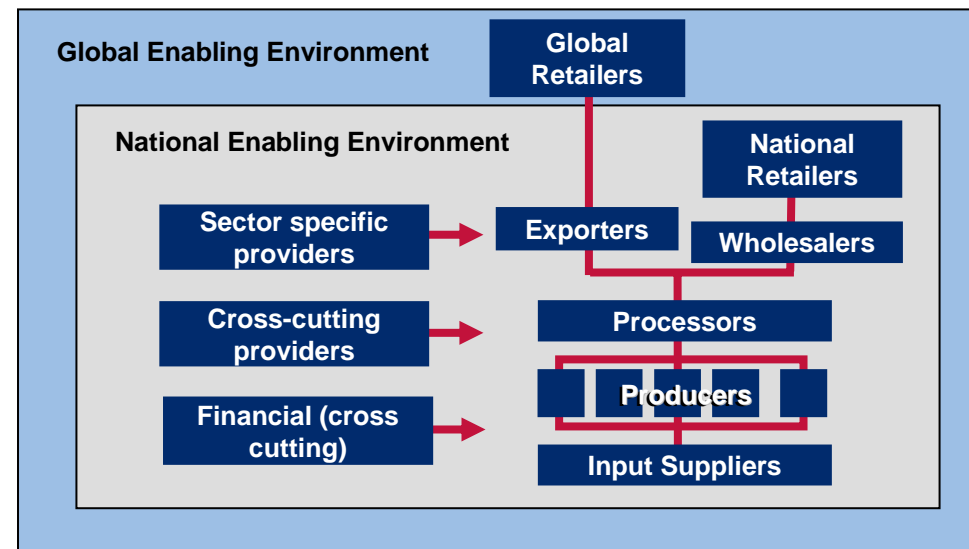
Input Suppliers



# THE FRAMEWORK

## *Factors affecting value chain competitiveness*

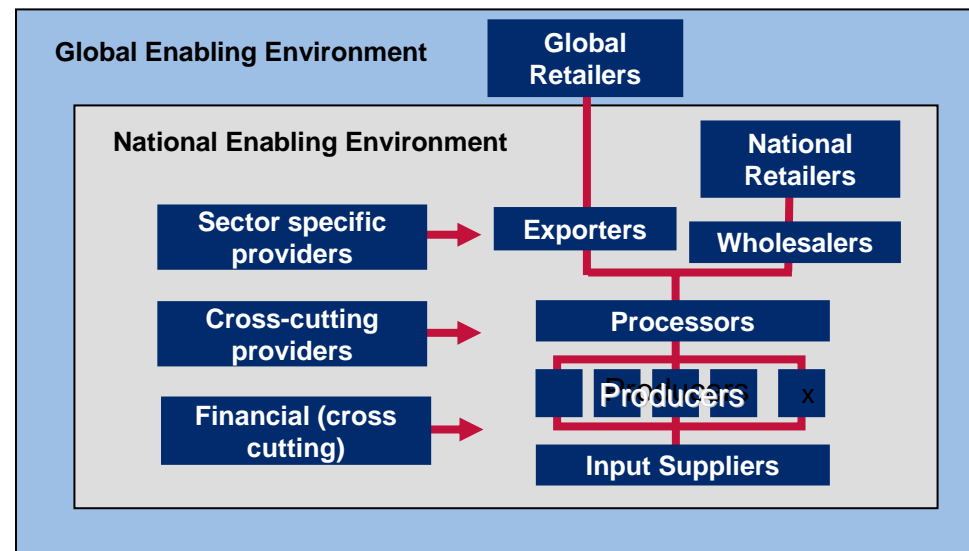
1. End Market
2. Enabling Environment
3. Inter-Firm Cooperation
4. Relationships
5. Firm Level Upgrading
6. Supporting Markets



# FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

## *End Markets ... define opportunities for growth*

- Potential for competitiveness dependent on:
  - **Efficiency/low cost**
  - **Quality/product differentiation**
  - **Changes in demand (e.g. specialty coffee)**

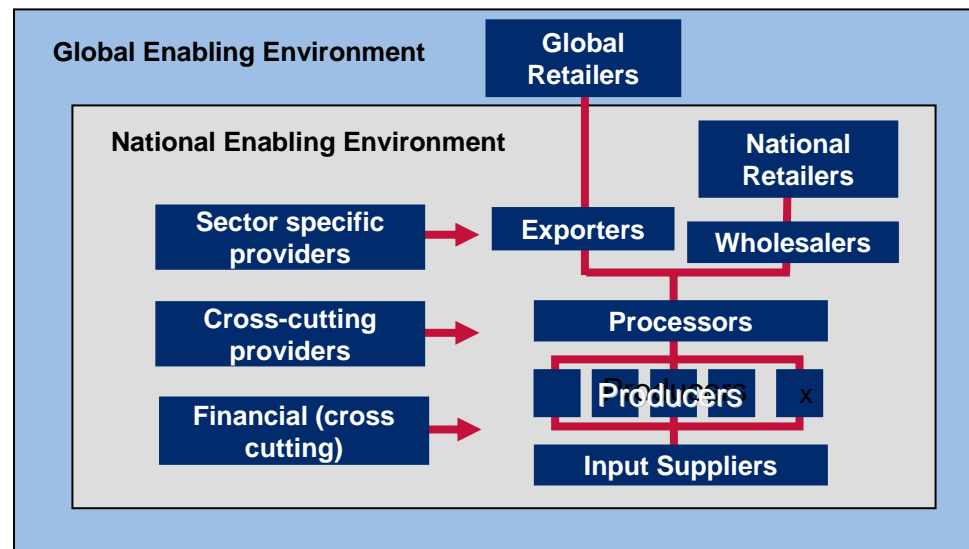


*End market demands drive standards*

# FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

***Global, National, & Local Enabling Environment defines boundaries of opportunities***

- Global
  - WTO, FTAs, standards, VC governance
- National/BE
  - Property rights, tariffs, tax policies, regulations
- Local
  - Municipal infrastructure
- Industry
  - Standards



# FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

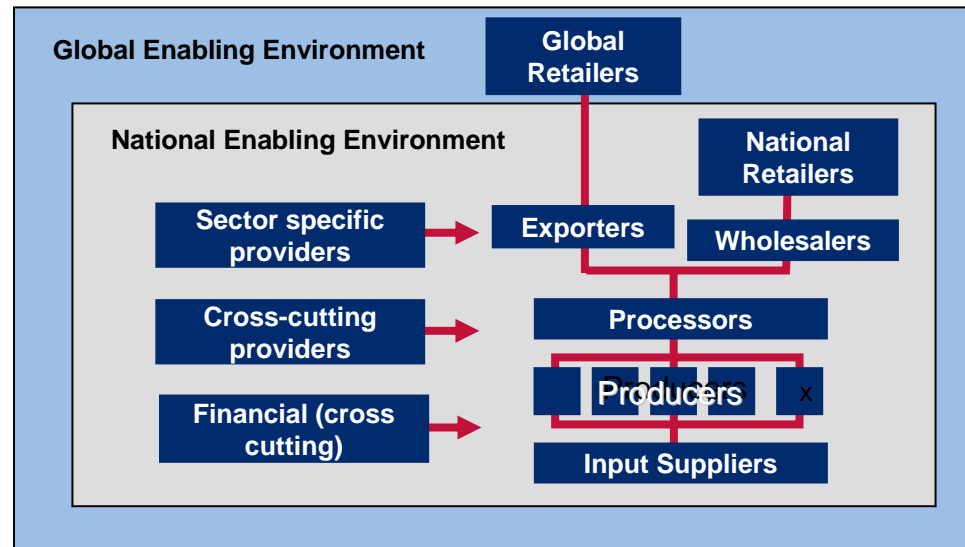
***Inter-firm cooperation - Vertical and Horizontal Linkages are fundamental to growth***

Vertically linked firms:

- get product from input supply to final market

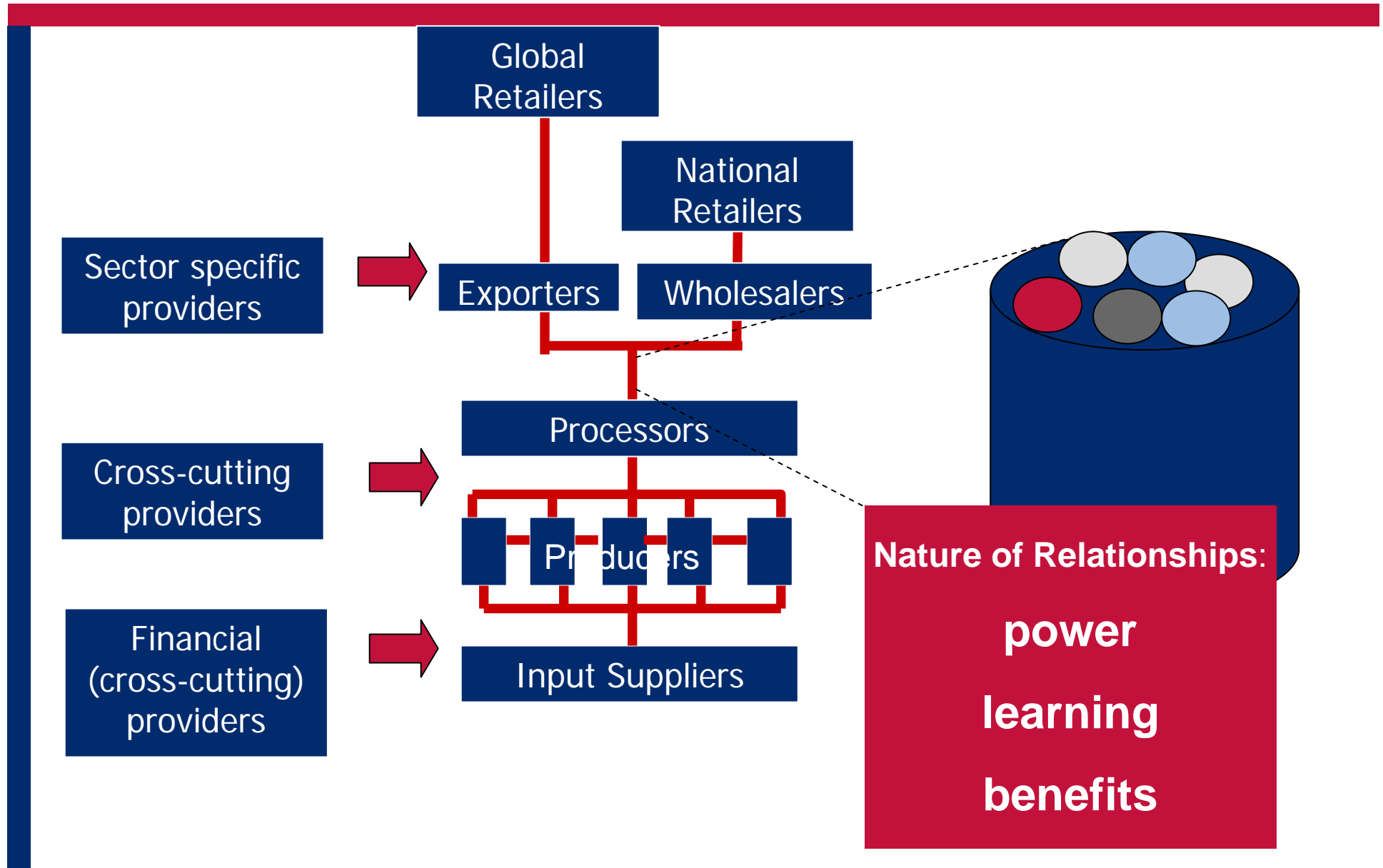
Horizontally linked firms:

- create economies of scale
- increase bargaining power e.g. input and bulk sales



# RELATIONSHIPS AFFECT COMPETITIVENESS:

## *Power, Learning & Benefits*



# FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

## *Firm-Level Upgrading*

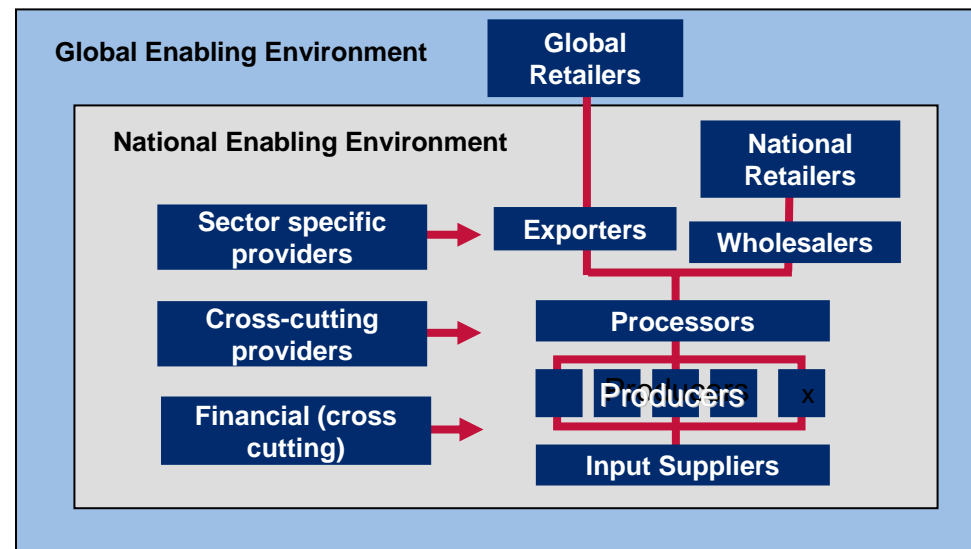
- **Upgrading by:**
  - Improving products
  - Improving process
  - Specializing in new functions
  - Moving into new market channels
- **Upgrading requires:**
  - Access to supporting mkts
  - Access to learning, know-how, skills
  - Appropriate incentives (consider risks, expected returns)

*...current capacity to be able to respond to opportunities*

# FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

***Supporting Markets provide the resources firms need to compete and upgrade***

- Sector Specific providers
- Cross-cutting providers
- Financial (*cross-cutting*) providers



# CHALLENGES

- Clarifying **an intervention strategy**
  - Driven by stakeholders
  - With a clear role for a project vs stakeholders
  - Moves from addressing constraints to a process for competitiveness
  - Based on competitiveness
- Changing inter-firm **relationships** from win-lose to win-win
- Moving **from an individual to a shared vision**
- Understanding **incentives** and disincentives
- Taking advantage of collective efficiencies & technology & competitive strategies



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**YOUR QUESTIONS?**