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**Accelerated Microenterprise Advancement Project ( AMAP)  
Business Development Services (BDS)  
under Indefinite Quantity Contract  
GEG-I-00-02-00016-00**

**ACDI/VOCA CONSORTIUM**  
**Annual Progress Report**  
**January 1, 2004 to December 31, 2004**

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**AMAP**

**Table of Contents**

**I. Executive Summary ..... 3**

**II. Activities and Accomplishments during the Reporting Period ..... 4**

**Task Order 1: BDS STTA to USAID/Kenya (GEG-I-00-02-00016-00, Order No. GEG-I-800-02-0016-00)..... 4**

**Task Order 2: Knowledge and Practice (GEG-I-00-02-00016-00, Order No. 2) ..... 6**

**III. Financial and technical resources expended by activity during the period and contract to date..... 19**

**IV. Impact and Lessons Learned..... 19**

**V. Major problems encountered in program implementation and solutions applied ..... 20**

**VI. Information developed through the participation in program implementation ..... 20**

## I. Executive Summary

This document is an annual progress report covering the period January 1, 2004 to December 31, 2004 to USAID/EGAT/PR/MD as required by contract No.: **GEG-I-00-02-00016-00. The Accelerated Microenterprise Advancement Project—Business Development Services** (AMAP BDS) is an indefinite-quantity contract (IQC) awarded by USAID to ACDI/VOCA and its partners who form the AMAP BDS IQC consortium. Through AMAP BDS, the consortium partners work with USAID, private and public sector partners and donors to develop business services that fuel micro- and small enterprise (MSE) growth. Our strategies focus on:

- 1) increasing opportunities for small firms to contribute to and benefit from their participation in local, national, regional, and global markets; and
- 2) enhancing the competitiveness of markets in which small firms can or could participate.

Under AMAP BDS, the **ACDI/VOCA Consortium** conducted activities under three task orders during the reporting period. The first task order was awarded through **USAID/Kenya** and entails providing short term technical assistance to the Kenya Mission and implementing partners to ensure the quality of BDS program planning and strategy development, intervention design and impact assessments. The second task order is **Knowledge and Practice (K&P)** awarded on August 2003, under which ACDI/VOCA takes the lead in coordinating the contributions of the three BDS consortia to research on the factors and strategies necessary to create wealth in poor communities and coordinate the consortia's efforts to promote economic growth by sustainably linking large numbers of small firms into more profitable markets. The third task order "**Growth Oriented Microenterprise Development Program**", which is awarded through USAID/India on September 30, 2005, provides technical assistance to micro- and small enterprises to create sustainable growth in jobs and generate long-term impact on households and communities by integrating growth-oriented microenterprises into productive agriculture and urban services markets. A detailed report pertaining to this task order for this period has been submitted to USAID/India.

## II. Activities and Accomplishments during the Reporting Period

During the year 2004, the ACDI/VOCA consortium members' accomplishments focused on implementing program activities under the task orders awarded.

**Task Order 1: BDS STTA to USAID/Kenya** (GEG-I-00-02-00016-00, Order No. GEG-I-800-02-0016-00)

ACDI/VOCA Consortium member *Action for Enterprise (AFE)* was contracted to work with the USAID Kenya Mission to incorporate BDS principles into current and future programs starting in June 2003. In 2004 AFE provided short-term technical expertise in strategy development, work plan development, quality control, research and development, and monitoring and evaluation services to the USAID Mission and to the implementing partners undertaking subsector/BDS market development activities in Kenya.

During the first quarter of 2004, AFE began conducting an impact assessment of two private sector development programs being funded by USAID Kenya: (1) the Kenya Business Development Services Project (implemented by Deloitte, Touche, and Tohmatsu) and (2) the Horticulture Development Center Project (implemented by Fintrac). The objective of the impact assessment was to determine the effectiveness of project strategies to:

- develop/improve the competitiveness of targeted industries,
- increase the integration of micro- and small-enterprise (farmers and others) into supply chains,
- develop "commercially viable solutions" to constraints facing businesses in the targeted industries, and
- increase rural household incomes.

In the first quarter, Action for Enterprise conducted extensive analysis of the structure and activities of the Deloitte and Fintrac projects, leading to preparation of partial drafts of the causal model and survey design. In addition, AFE prepared and transmitted TOR for Research International (RI), a local Kenyan research firm, to support the baseline survey of the impact assessment. RI was contracted to collect and compile quantitative and qualitative data and forward AFE M&E Specialists for further review and analysis. AFE negotiated the first phase of contract for local field work with RI. Once contracted for Phase I, RI reviewed briefing materials for the impact assessment exercise and held initial meetings with Deloitte and Fintrac in Nairobi.

Also in the first quarter, AFE completed a draft of the baseline research design plan, which details the conceptual framework and survey design process, and developed updated work plan incorporating a causal framework and research methodology.

In the second quarter of 2004, AFE continued the impact assessments of the Kenya Business Development Services Project and the Horticulture Development Center Project. Due to contractor travel restrictions in Kenya, AFE conducted several activities in the United States that had originally been planned for the field. The first crucial activity was in bringing Melissa

Baker, Research International (RI) Manager, to the United States to support the development and design of the impact assessment survey. Ms. Baker met with AFE monitoring and evaluation specialists and USAID/MD and provided valuable input on the scope of research activities and research methods (survey, individual interviews/case studies of enterprises), levels of analysis/variables, and sample design methodology. As a result of this trip, the RI Manager was better able to effectively train and orient her team.

AFE also continued to review and provide feedback to the Kenya BDS and Horticultural Development projects by e-mail and telephone to ensure that the proposed impact assessment framework reflected their programmatic strategies and structure. AFE reviewed quarterly progress reports and other relevant project documentation.

As a result of their activities, AFE developed an initial Impact Assessment Framework, which included variables, design of participant/ control samples, sampling plan, and design of questionnaire. AFE also drafted a "causal model" to show the relationship between project activities, projected results and outcomes of these activities, and ultimate developmental impact. The model reflects current private-sector based approaches to enterprise development (including BDS) that many programs have incorporated, including Deloitte and Fintrac in Kenya. Once the draft model was complete, AFE met with USAID/MD and other AMAP BDS partner organizations, including ACDI/VOCA, DAI and others, to solicit feedback on both the Impact Assessment Framework and the causal model. This feedback was subsequently incorporated into both instruments.

During the third quarter of 2004, AFE continued conducting the impact assessment of two private sector development programs. AFE's local partner, RI Kenya, held initial meetings with the Kenya BDS and Horticultural Development Centre (HDC) projects. As a local partner for data collection on the impact assessment, RI facilitated feedback from the projects during the research planning phase. In early August 2004, Don Snodgrass (M&E Specialist for AFE, team leader) also met with RI and the HDC and BDS projects in Kenya to get their input into the impact assessment research plan.

In mid-September 2004, Don Snodgrass and Jennefer Sebstad met with Melissa Baker, (Research International/Team Leader) in Boston to finalize the research plan and implementation schedule. Final versions of both the overall impact assessment plan and qualitative research plan were completed. Copies were e-mailed to USAID Kenya, USAID/MD, and local partner programs. Also in September, AFE signed sub-contract with RI Kenya, formalizing their role in baseline data collection and compilation for the impact assessment.

At the end of the third quarter, draft versions of the overall research plan and the qualitative research component were sent to USAID Kenya, USAID/MD, and local partner programs for review and comment.

In the fourth quarter of 2004, AFE facilitated the participation of the Kenya BDS Chief of Party (David Knopp) at the SEEP Annual General Meeting in Washington, D.C. Various presentations on the innovative approaches of the Kenya BDS project were made to enterprise development practitioners and donors. In addition, a de-briefing meeting was held with *Emerging Markets*

*Group (EMG)* to discuss the status and plans for the impact assessment activities in Kenya. EMG's Kenya BDS project is a key implementing partner in the impact assessment survey.

Through the fourth quarter, AFE continued working on impact assessment for USAID Kenya projects promoting commercially viable solutions in selected subsector/value chains. AFE consultants Don Snodgrass and Jennefer Sebstad met with the local research firm representative to finalize work plans and questionnaires. Jennefer Sebstad also completed field work in Kenya for qualitative aspect of assessment. Finally, working with AFE, a local research firm began conducting baseline information gathering.

## **Task Order 2: Knowledge and Practice** (GEG-I-00-02-00016-00, Order No. 2)

The Knowledge and Practice task order was awarded in August 2003. The work plans for Components A, B, C, D, F and G were approved on February 6, 2004. The objectives of the task order are to conduct research into the development of micro and small enterprises (MSEs) and to develop a set of best practices to increase their participation in productive economic sectors at the local, regional, national, and/or global levels.

Tasks performed in 2004 include the following:

### **Component A: Clients and Markets**

In the first quarter of 2004, ACDI/VOCA submitted the Research Plan for Component A that provided a guiding framework for Component A, also known as the Clients and Markets Research. The plan included a blueprint for research collaboration between contractors in three AMAP consortia. The collaboration was organized around a number of shared components, including a shared vision, research objectives, conceptual framework, and core hypotheses. In addition, the research plan incorporated structural elements to coordinate the work of the consortia members.

Activities under Component A addressed five deliverables:

#### ***1) Conceptual Framework***

In the second quarter of 2004, substantial progress was made on the development of the conceptual framework and research hypotheses for Component A. ACDI/VOCA submitted an initial outline for the conceptual framework to the AMAP BDS CTO for review and conducted a literature review on the topics of social capital, transaction costs, risk, and value chain governance. Based on this research, an initial conceptual framework and set of hypotheses was developed and presented to the Component A team, consisting of representatives from ACDI/VOCA, USAID, *Development Alternatives, Inc (DAI)*, and *Louis Berger International (LBI)*. The outline of the conceptual framework paper and the set of research hypothesis were further refined during in-depth discussions throughout the second quarter. As a result of these discussions, one-page information sheets were developed to communicate the Component A approach and activities to USAID missions and local partners.

In the third quarter of 2004, a detailed outline of the conceptual framework paper was submitted to USAID/MD. Component A Leader Elizabeth Dunn worked with USAID/MD and the Component A team to revise the hypotheses. Component A research hypotheses were finalized and circulated to USAID/MD and to the team. The hypotheses were used in the fourth quarter as the basis for creating the questionnaire for the Guatemalan country study.

## **2) *Focused Field Research. (FFR)***

The purpose of the Field Focused Research (FFR) was to provide a qualitative exploration of a set of key variables related to MSE owners' willingness to participate in value chains, enter new markets, and upgrade their businesses. The FFR investigated how these variables affect MSE owners' decisions. In the first quarter of 2004 ACDI/VOCA, with the leadership of component manager Elizabeth Dunn, established the FFR's critical components: 1) the purpose and objectives of the activity; 2) the role of the FFR relative to other Component A activities; and 3) a narrowing down of possible research approaches. A detailed action plan for this activity was developed.

In the second quarter, the Component A team selected the handicraft value chain in Guatemala for analysis. The team jointly developed the research protocol. Liz McGuinness at *Microfinance Opportunities*, an ACDI/VOCA Consortium team member, conducted the necessary background research. The team identified local partners in conjunction with USAID's handicraft project in Guatemala based on the firms' reputation and proven performance.

In the third quarter of 2004, Microfinance Opportunities conducted the Focused Field Research, which was carried out as planned by Elizabeth Dunn, with the assistance of Lillian Villeda of the USAID Microenterprise Development office. The team conducted qualitative research of the textile handicraft industry in Guatemala during the period, July 18 - August 6, 2004.

The primary objective of the field study was to build knowledge about the Guatemalan textile handicrafts value chain, the firms operating in it, and the relationships between those firms. The study identified opportunities for micro and small enterprises (MSEs) to derive sustainable benefits from their participation in the value chain. At the same time, the study examined the prospects for MSEs to contribute to improving the global competitiveness of the value chain. Improved competitiveness of the value chain was understood to be a necessary, although not sufficient, condition for MSEs to derive increased participation benefits. A secondary objective of the field study was to advance the research agenda for Component A of AMAP BDS Knowledge and Practice by 1) exploring the relevance of the emerging conceptual model and hypotheses; 2) identifying critical variables for further empirical investigation; and 3) providing useful background information for the design of a subsequent quantitative study.

Using focus group discussions and individual interviews, the team interviewed over 70 people, including representatives from every level of the textile handicrafts value chain. As a result the team mapped out the structure of the traditional textile handicrafts value chain.

The team met with and briefed USAID staff in Guatemala, including James Stein (Director, Central American Regional Office, USAID/Guatemala/TEA) Glenda de Paiz (Program

Management Specialist, USAID/Guatemala/CAP) Kurt Rockeman (Regional Environment and Rural Diversification Officer, USAID/Guatemala/CAP), Loren Stoddard (USAID/Guatemala/GDA).

The research team presented their preliminary findings at a stakeholders' presentation on August 5, 2004. The meeting attendees included representatives from USAID, AGEXPRONT, the Government of Guatemala, and value chain participants.

Preliminary findings in the form of bullet points were distributed to the AMAP team in early August to provide input to the quantitative survey work headed by LBI. The outline of the final report was circulated to USAID/MD and was approved by the client. During the third quarter Elizabeth Dunn and Lillian Villeda worked on the final report for the FFR.

During the fourth quarter, work continued on the final report. A first draft of the report was submitted to Monique Cohen, Jennefer Sebstad, and Jeanne Downing for review comments. Elizabeth Dunn will incorporate the comments during the third quarter of 2005 and submit the report to ACIDI/VOCA.

### ***3) Country Studies: Guatemala***

In the second quarter of 2004, the country selection criteria were refined by the Component A team and a country selection matrix was developed. The first country (Guatemala) was selected, and work began to identify one or more value chains of high priority to the USAID mission. Ideas for the research methods were presented to the Component A team and a partial draft of the research protocol was developed. Initially, four sectors were identified: 1) horticulture, 2) handicrafts, 3) tourism, and 4) Forestry Products. Based on the team's experience and the priorities of the USAID Mission, the team decided to conduct the studies on two value chains in Guatemala that employ large numbers of MSEs: high-value horticulture and textile handicrafts value chains.

In the third quarter, we investigated the aforementioned value chains. The field research included both a qualitative and a quantitative component. The qualitative component provided background information on the firms in the value chain and how they are related. The quantitative component provided survey data from over 700 MSE producers and 200 buyer firms. The country study report pulled both types of information together to improve our understanding of MSEs in value chains and led to effective strategies for increasing both their benefits and their contributions.

During the third quarter, Elizabeth Dunn performed the following activities:

- Provided comments on the initial version of the MSE questionnaire
- Prepared a document providing a detailed description of the necessary components of a research protocol and provided the paper as guidance to LBG country study team (8/23)

- Reviewed the first full version of the research protocol during September and provided written comments on the main document, the revised MSE questionnaire, the lead firm interview guide, and the outline of the final report
- Developed detailed field work timetable and provided it as guidance to the LBG country study team (9/16)
- Developed a SOW and budget for a qualitative study on the Guatemalan horticulture value chain and had it approved by USAID/MD.

During the fourth quarter of 2004, Elizabeth Dunn completed a major revision of the research protocol for the country study by incorporating information from the qualitative studies, creating general and sector-specific definitions for use in the field work, creating a sampling plan for the study, completing the description of the empirical approach, and revising and incorporating the latest value chain maps.

#### **4) *Research Paper on Understanding MSEs***

This research paper, entitled “MSE Growth and Upgrading”, reviews and synthesizes the theoretical and empirical literature with the research objective of understanding which types of enterprises, under what conditions, are likely to grow and/or upgrade in response to new opportunities. Research included a broad literature review, focused primarily on evidence from developing countries. It examined factors that influence MSE owners’ business development decisions, including the role of entrepreneur characteristics, firm-level characteristics, and the influence of the enabling environment. The research considered both positive factors that promote business growth and upgrading and negative factors that inhibit or constrain them.

In the second quarter, the Component A team discusses ideas for the structure and content of the paper. These ideas were later refined into a written outline, and a list of interview candidates was developed.

In the third quarter, Elizabeth Dunn, leader of this activity, reviewed and provided comments on the outline, submitted the revised version to USAID/MD and received approval on August 17, 2004.

Work on this paper resumed toward the end of the fourth quarter after being paused for several months due to the author’s scheduling conflicts.

#### **5) *Qualitative Study on Guatemalan Horticulture Value Chain***

The purpose of the qualitative field study was to develop a detailed understanding of the factors and conditions affecting MSEs within the context of the Guatemalan fresh produce and mini-vegetable value chain. Preliminary research revealed that there are approximately 250,000 MSE producers who cultivate these crops. Fresh produce crops include onions, bell peppers, cabbage, lettuce, potatoes, and broccoli. Mini-vegetables include baby carrots, snow peas, green beans, French beans, and Chinese cabbage. Products from these two categories are often cultivated and marketed together.

Objectives for the qualitative field study included the following:

- Understand the constraints and barriers to improved inter-firm cooperation and coordination;
- Identify opportunities for enhanced cooperation and coordination between MSEs and other firms in the value chain;
- Understand the incentives and disincentives for MSE upgrading;
- Explore the interaction between governance, expected return, transaction costs, social capital, and risk in influencing firm behavior and relationships; and
- Contribute context-specific information for use in the development of the follow-up survey, a second field research activity under Component A.

The qualitative field study explored the relationships between MSEs that produce horticultural crops and the lead firms that buy their products, including jobbers/brokers, intermediaries, regional distributors, and exporters. Preliminary information about the Guatemalan horticultural value chain was available from a set of expert interviews conducted in July 2004. The design and implementation plan for the qualitative field study was based on this preliminary information.

As planned, Elizabeth Dunn (Team Leader) and Jennifer Straghalis (Strategic Planning Specialist, Level 2, Mid level) conducted the field work between October 13, 2004 and October 29, 2004 in Guatemala City and in areas of the Western Highlands where most of the MSE producers of horticultural crops are concentrated. The data were collected through in-depth interviews with these value chain participants. Within one week of returning from the field, detailed informant profiles were submitted to the LBG survey team. The relevant findings from the qualitative study were incorporated directly into the research protocol for the quantitative study by Elizabeth Dunn.

### **Component B: Market Assessment**

In the second quarter, the ACDI/VOCA consortium reviewed and contributed to the proposed Component B decision guide and selection criteria for USAID Missions (led by LBI).

Activities under Component B addressed two deliverables:

#### ***Participatory Appraisal for Competitive Advantage (PACA)***

ACDI/VOCA provided short term technical assistance in support of research into Component B from February 1 to March 6, 2004. ACDI/VOCA fielded two Level One Microenterprise experts, Richard Hatch (Strategic Planning specialist) and Christian Schoen (Training Specialist) to lead a participatory appraisal for competitive advantage (PACA) pilot project in central Serbia in conjunction with USAID/Serbia's Community Revitalization through Democratic Action (CRDA), currently implemented by ACDI/VOCA. In the fourth quarter, ACDI/VOCA submitted the final report to USAID/MD.

## ***Indonesia Cocoa Value Chain Analysis***

In the first quarter of 2004, the ACDI/VOCA consortium provided value chain analysis to uncover critical constraints to the competitiveness of Indonesia's cocoa industry, and identify opportunities for intervention. Henry Panlibuton (Team Leader/Action for Enterprise Consultant) and a team of advisors conducted a value chain analysis of the cocoa industry in Indonesia for USAID/Jakarta, with technical input from USAID/MD. The assessment was conducted using a value chain approach. The primary objectives of this assessment were to:

- determine the major constraints and opportunities to growth and expansion of the cocoa sector in Indonesia (primarily Sulawesi);
- propose strategies to alleviate or at least mitigate those constraints, and;
- assess current public and private sector investments to support cocoa in Indonesia.

The core team consisted of Henry Panlibuton, Maggie Meyer (ACDI/VOCA), and Hussein B. Sutadisastra (local consultant). Additional support and technical input was provided by Judith Payne (USAID/EGAT), Firman Aji and Muhammed Rum Ali (USAID/Indonesia) and Hubert Schmitz (Institute for Development Studies, University of Sussex).

The assessment took place over a one month period, with in-country fieldwork from March 19 to April 5, 2004. Interviews were conducted in Jakarta (March 19 to 23) and Sulawesi (March 24 to April 2). Two focus group discussions with 16 key value chain participants were also conducted in Palu, Central Sulawesi and Makassar, South Sulawesi on March 27 and April 1 respectively. Final de-briefing meetings of USAID/Indonesia and USAID/MD were conducted on April 5, 2004 before departure from Indonesia.

AFE finalized the value chain analysis of the cocoa industry in Indonesia for USAID/Jakarta, with technical input from USAID/MD. Henry Panlibuton prepared and presented the findings of this value chain analysis to practitioners and USAID during the "Value Chain Analysis" workshop facilitated by ACDI/VOCA in June 29-30, 2004.

### **Component C: Intervention Design and Implementation**

In the first quarter of 2004, ACDI/VOCA, as the Component C leader, submitted the final research plan for Component C. This plan, along with the Component A research plan, provided conceptual guidance for the overall K&P research by the three consortia that will be conducted over the next three years. ACDI/VOCA took the lead in establishing a core team of Component C implementers that includes representatives from each of the three consortia and the CTO of AMAP BDS.

In order to develop the final research plan, ACDI/VOCA hosted and attended meetings throughout the first quarter. These meetings, comprising staff from USAID/MD, DAI, and LBI, were part of the effort to collaborate, while building the research agenda and prioritizing activities.

More specifically, ACDI/VOCA hosted component C Intervention Design and Implementation Conceptual Framework Workshop that took place on January 8 and 9, 2004. This workshop brought together ACDI/VOCA, LBI, DAI, selected sub-contractors, USAID Microenterprise Development staff and three industry experts – Albert Berry, Hubert Schmitz and Richard Hatch. The main objective of this workshop was to refine and adopt the core research hypotheses that shape and drive research activities over the course of the program. The meeting was divided into two separate, but related sessions.

On January 8, this session brought together the Component C consortium members, selected sub-contractors and consultants, USAID Microenterprise Development staff and two industry experts – Albert Berry and Hubert Schmitz. The objective of this one-day session was to ensure that the core research hypotheses that drive research activities over the course of the program were informed and shaped by both the researcher and practitioner perspectives in private sector and MSME development. At this session, meeting participants exchanged information on relevant research and critical knowledge gaps on effective strategies and practices in linking MSEs to opportunities in competitive markets, and then used this information to refine and “fill gaps” in existing Component C research hypotheses and related products. As the first formal meeting of an advisory committee, meeting participants clarified the roles and functions of the core team and the advisory committee in guiding and supporting the research process and its products.

On January 9, 2004, a half day session revisited the existing research plans and activities in light of refined core research hypotheses. This session brought together the core decision making group of the K&P teams, consisting of the lead contractor representatives and USAID MD staff. The meeting participants worked to formalize the Year One research plan by refining existing, adding new or possibly delaying currently planned activities to correspond with critical knowledge and practice gaps that surfaced in advisory committee meeting. The planning session was guided by understandings already reached by the consortia on LOE, sharing lead and support roles in managing and implementing Component C research activities. Both sessions were facilitated by Marshall Bear.

Work under Component C focused on six deliverables:

### ***Mozambique Rural Finance Services Study***

In the first quarter of 2004, ACDI/VOCA initiated the planning for the Rural Financial Services Study in Mozambique to provide the USAID mission in Mozambique with an assessment of financial service constraints in selected value chains and posit a range of products to address those constraints. The location for the study was selected as the Chimoio area of Manica Province because of the area’s rural location, strong agriculture base and potential and recent influx of new businesses.

In April of 2004, Olaf Kula (Team Leader/ACDI/VOCA) and Elisabeth Farmer (ACDI/VOCA) traveled to Chimoio in the Manica Province of Mozambique at the request of USAID/Mozambique to conduct an assessment of rural financial services in the Beira Corridor using the value chain analysis methodology. A key objective of this research was to identify integrated development approaches that (1) increase the competitiveness of industries in which

small and very small firms participate, and (2) increase the ability of smallholders to contribute to and benefit from increased industry efficiency. This industry competitiveness approach – which was determined to be consistent with the objectives of the Mission’s Strategic Objective (SO) 6, Increasing Rural Household Incomes – became the basis of the assessment.

The ACDI/VOCA assessment team was accompanied in the field by Philip Tonks (Rural Finance Activity Manager for USAID/Mozambique) and Todd Thompson (Mission Director USAID/Mozambique). In preparation for the fieldwork, the team conducted an extensive review of existing literature on rural finance (agriculture and agribusiness) in southern Africa, value chain analysis, and the horticulture and oilseeds industry in regional and global markets. The objectives of the assessment were:

- To identify factors critical to increased efficiency and competitiveness of the Beira agribusiness cluster;
- To assess the potential for increased incomes and growth by firms at all levels in the horticulture and oilseeds value chains;
- To assess the degree to which opportunities for private sector investment in the cluster is constrained by a lack of financial service access; and
- To identify service, product and institutional options for responding to existing constraints.

The assessment took place over a two-week period from April 12 to April 24, 2004. The objectives were met through a series of meetings and interviews with 35 key stakeholders. Interviewees included participants from two value chains (horticulture and oilseeds), input suppliers, exporters, smallholder farmers, large international firms, as well as representatives from banks, MFIs, NGOs, and various firms providing a range of services to participants in the agribusiness cluster. Interviews were conducted in Maputo (April 12 to 13), in Chimoio (April 14 to 16 and April 19 to 20), and in Sussundenga (April 17). The final de-briefing meeting of USAID/Mozambique was conducted on April 22, 2004 before departure from Mozambique.

During the third quarter, Olaf Kula and Elisabeth Farmer revised the report based on comments from the practitioners and USAID/MD. The final report was published in the fourth quarter of 2004.

### ***Financing for Growth Paper***

This product initially consisted of a thematic paper and a case study based on the findings of the paper. Based on the discussion with the consortia and USAID/MD, the case study was postponed to Year 2.

The planning sessions for the thematic paper began during the second quarter. Given the limited services provided by financial institutions in rural areas, this paper examined the existing research concerning the characteristics, constraints, opportunities, good practices, and tools that can inform missions and practitioners about embedded financial services to rural enterprises. Bob Fries, ACDI/VOCA Vice President for Program Services, was selected to lead this activity.

Banu Akin (ACDI/VOCA) and Adina Saperstein (ACDI/VOCA) began research for the literature review just prior to the end of the second quarter.

In the third quarter of 2004, Bob Fries worked closely with members of the DAI-led AMAP Financial Services consortium. Banu Akin worked with Mr. Fries to complete the literature review. The draft paper, based on the approved outline, was submitted on September 30, 2004.

The final paper was submitted to USAID/EGAT/MD AMAP BDS CTO in December 2004 and was published at microlinks web site. ([www.microlinks.org](http://www.microlinks.org))

### ***Conceptual Framework- Strategy Paper***

The Conceptual Framework deliverable serves as the Component C strategy paper. This framework paper was designed to establish the governing rationale for the AMAP K&P activities and to address several key questions, including:

- why support and consideration for small firms (MSEs) needs to be an integral part of economic growth strategies;
- why practitioners concerned with economic growth and equity should target support activities within value chains and clusters; and
- how BDS principles from the Market Development Paradigm provide guidance for how donors and practitioners can work to increase the productivity and growth of markets and value chains, while promoting equity for its participants.

The conceptual framework also proposes broad intervention strategies based on typologies for countries and markets.

In the first quarter of 2004, the ACDI/VOCA team began drafting the outline of the Conceptual Framework deliverable. Through the second quarter, Olaf Kula (ACDI/VOCA) and Vikas Choudhary (ACDI/VOCA) worked on this paper along with active input from USAID/MD Office. Vikas Choudhary complemented the existing literature review and added additional references to recent work in developing country and industry typologies.

In the third quarter, Olaf Kula continued working on the conceptual framework strategy with active input from USAID/MD Office. The outline was drafted during the third quarter and approved by USAID/MD.

Olaf Kula, Jeanne Downing (USAID/EGAT/PR/MD), and Michael Field (USAID/EGAT/PR/MD) continued working on the paper during the third and fourth quarters of 2004. Also in the fourth quarter, Olaf Kula incorporated the team's comments and inputs into the draft report. This paper was rescheduled to be presented in the third quarter of 2005.

### ***Case Study of Geographically Remote Communities***

*Conservation International*, a member of ACDI/VOCA's AMAP BDS Consortium, was selected to implement the case study of geographically remote communities. The purpose of the study

was to provide practitioners and USAID Missions with practical illustrations of factors, decisions, interventions, and actions that lead to the successful achievement of two key development objectives: 1) growth of the targeted subsector or value chain in which micro and small-scale enterprises (MSEs) work and earn their livelihoods; and 2) improved incomes, profitability, productivity and sustainability of MSEs, engaged in the targeted subsector or value chain, as a result of project interventions.

The study focuses on “critical success factors” (CSFs) that explain how and to what extent the Conservation Coffee project achieved the key development objectives and how further strengthening or promotion of these CSFs could increase development achievements. The study discussed the CSFs in the geographical context of the Conservation Coffee project.

In the second quarter, Conservation International drafted and presented the outline for the case study to USAID for approval and started the desk study and discussions with partners.

In July 2003, Edward Millard (Conservation International/Team Leader) conducted the research in Chiapas, Mexico. Between July 19 and 26, 2004, Mr. Millard interviewed project staff and regional staff at Conservation International offices to understand how the value chain system is achieved. Mr. Millard held meetings and interviews with the related parties, including the former D.C.-based coffee director and Starbucks representatives.

In the fourth quarter of 2004, Mr. Millard completed and submitted the draft report to ACIDI/VOCA and USAID/EGAT AMAP BDS CTO for review. The final report is expected to be submitted in the third quarter of 2005.

### ***Thematic Paper: Competitiveness***

A significant number of USAID Missions have programmatic objectives including competitiveness, yet many of these missions either lack a MSE development program or do not integrate their MSE initiatives into their overall competitiveness strategies. Mission competitiveness programs tend to focus on the enabling environment and linkages to external markets. It is less common for competitiveness programs to look at the range of inter-firm cooperation strategies in which MSEs can enhance industry competitiveness through reduced transaction costs, risk pooling, capital spreading and transfer of innovations.

In the third quarter of 2004, *CARANA Corporation*, a member of ACIDI/VOCA AMAP BDS Consortium, was selected to study the perceived weakness in mission competitiveness programs that do not adequately address the role of inter-firm linkages in competitiveness strategies, particularly in those countries where MSEs constitute the largest number of firms in critical sectors. The paper, led by Santiago Sedaca at CARANA, identifies characteristics of industries in which MSEs can contribute to overall competitiveness and proposes approaches for the successful integration of MSEs into these sectors and industries. The paper also addresses where CSF principles can be used by industries as a product branding strategy and how MSEs can benefit.

The paper draws from existing literature, particularly the literature review conducted by ACDI/VOCA on value chains and industry competitiveness strategies for MSEs. CARANA also references its own field experience, which has been written up in industry case studies. Industries with no active donor support are also included as a basis for comparison with industries supported by donors. In addition, CARANA interviewed program officers from missions with competitiveness programs to determine the perception and bias about the role of MSEs in competitiveness strategies.

Santiago Sedaca communicated with Olaf Kula (ACDI/VOCA, Component C manager) and the DAI consultant responsible for developing similar papers on *Agribusiness and Trade* to develop a common format for all three of these pieces. The final product was scheduled to be assembled into one of a series of mission guides on integrating MSEs into multiple mission strategies.

In the fourth quarter, Santiago Sedaca continued working on the paper with inputs from Olaf Kula. The final report is scheduled to be submitted in the third quarter of 2005.

### ***Case Study- Ecuador Tourism***

The Ecuador Tourism Case Study, a deliverable under the 2004 work plan, was intended to explore MSE participation in economic growth strategies, strategies for manufacturing, transformation and/or service sector industries. The study was cancelled in the first quarter of 2005 with the concurrence of AMAP BDS CTO and BDS Technical Advisor Jeanne Downing.

### **Component D: Impact and other Post Intervention Assessments**

In 2004, ACDI/VOCA revised the deliverables under this component. Initially, according to the approved work plan, two deliverables were planned: (1) Input into Conceptual Framework and (2) AIMS Review.

In discussions with USAID MD and the DAI Component D manager, it was decided that an AIMS review did not add as much value as other activities identified in the Component D Research Plan. As a result, the AIMS review was tabled indefinitely and ACDI/VOCA's LOE was reallocated to activities to be identified in the Component D planning process.

As planned for the first quarter of 2004, ACDI/VOCA provided ongoing input and contributions to the DAI-led Component D research, conceptual framework and the Impact and other Post Intervention Assessments. The lead consultant providing inputs and contributions was Elizabeth Dunn.

Through the second and third quarters, Elizabeth Dunn continued to provide ongoing input and contributions to the DAI-led Component D research, conceptual framework and the Impact and other Post Intervention Assessments.

Elizabeth Dunn performed the following tasks in the third quarter:

- Participated in team conference call, resulting in a strategy and timetable for moving forward on Component D
- Reviewed impact assessment literature in preparation of Sept. 29-Oct. 1 team meeting
- Participated in (and facilitated) Sept. 29-Oct. 1 team meeting, which resulted in an outline for the Conceptual Framework paper.

In the fourth quarter, ACDI/VOCA continued to provide ongoing input and contributions to the research. Elizabeth Dunn actively participated in the Component D research team. She played a key role in helping draft the initial outline of the conceptual framework, which was developed during a team meeting at the beginning of the fourth quarter, and provided on-going review comments as the more detailed outline evolved.

### **Component F: Training**

Work under Component F focused on three deliverables:

#### ***Development of a three hour module for training on microenterprise development approaches to economic growth activities, Charlottesville, VA***

ACDI/VOCA coordinated with QED and USAID/EGAT/PR/MD staff to develop a three-hour PowerPoint presentation that improves upon past presentations and incorporates the latest AMAP BDS K&P research findings. ACDI/VOCA worked with USAID/EGAT/PR/MD to determine the appropriate expert to deliver the presentation from among the pool of consortia members. Olaf Kula and Janis Sabetta delivered the presentation to USAID EGAT staff at the Charlottesville, VA training on June 16, 2004. The main themes of the presentation included:

- MSE development is crucial to economic growth,
- BDS development is more than MSE development,
- BDS development is broader than the market development paradigm, and
- Effective private sector and enterprise growth agendas that focus on building strong industries, clusters and/or value chains need to include small firms.

Janis Sabetta delivered the BDS teaching case, similar to the “Fredonia” case used in the microfinance field. This case presented the importance of value chain analysis, incorporating MSEs in economic growth programs, and how to formulate strategies that incorporate MSEs into private sector and economic growth programs. The case presented a fictional market with problems that appear familiar to the participants. The teaching case was designed to lead the participants to understand technical considerations for MSE development and economic growth strategies, including models or approaches that help to answer the following questions:

- What are some critical success factors to encourage the incorporation of MSEs into productive value chains, and help mission private sector programs achieve economic growth?
- How do MSEs grow? What are the risk and other factors that hinder them from contributing and benefiting from participation in a value chain? And

- Are all MSEs ready for export markets? Should the focus be on upgrading and other sustainability enhancing measures?

***Global Value Chain Analysis Training, Washington, D.C., June 29-30, 2004***

ACDI/VOCA delivered a two-day training session on June 29-30, 2004 to an audience largely of practitioners (and selected USAID staff), identified as microenterprise BDS practitioners. The training took place at ACDI/VOCA's "Eagle" conference room, and administrative services were provided by QED through a Support Services technical instruction.

The purpose of the training was to present the strengths and weaknesses of value chain analysis for the development and implementation of micro and small enterprise development programs. The training included examples from industry and agriculture, practical advice and encouragement for the participants to conduct their own field research using value chain analysis techniques, and expose both practitioners and USAID staff to the elements of value chain analysis that will contribute to the learning and production of a value chain analysis training manual (similar to GEMINI subsector analysis training materials). The two-day course curriculum included the following subcomponents:

1. A one hour introductory presentation – Hubert Schmitz, IDS Sussex
2. Critical Success Factors – H. Schmitz, IDS Sussex
3. Market assessment, value chain mapping and analysis – H. Schmitz, IDS Sussex
4. The project life cycle – Olaf Kula, ACDI/VOCA
5. Other application possibilities: Financial, agriculture, and trade development design – Olaf Kula, ACDI/VOCA
6. Practical value chain analysis examples: case study from Indonesian agriculture – Henry Panlibuton, Action for Enterprise
7. Small producers in global chains: case study from Indonesian industry. – Lienda Loebis, MOIT (Ministry of Industry and Trade), Jakarta.
8. Value chain analysis and beyond: relevance for AMAP BDS – Jeanne Downing, USAID/EGAT/PR/MD

In the third quarter of 2004, ACDI/VOCA Consortium delivered the following training:

***EGAT workshop "breakout" session in Washington, D.C., July 1, 2004***

ACDI/VOCA conducted a five-day workshop with the purpose of providing USAID/EGAT officers and partners with knowledge, tools and contacts to better implement programs and activities that promote economic growth in developing and transition countries. Hubert Schmitz, with the *Institute of Development Studies* and a member of ACDI/VOCA AMAP BDS Consortium, prepared and conducted a one-and-a-half hour session on value chain analysis as a relevant framework for building private sector development programs.

The audience was comprised of USAID program officers who manage mission programs in the areas of enterprise development, trade, and/or agriculture. The objective of the session was to illustrate the importance of value chain analysis in the design and day-to-day operations of

programs with an economic development, equity or poverty alleviation focus. The session emphasized the potential of value chain analysis to shape the way USAID in both Washington and in the field approaches economic development challenges—particularly with the impact on the global market on firms everywhere and of all sizes.

### **Component G: Short Term Technical Assistance to Missions**

In the first quarter of 2004, Elizabeth Dunn provided short term technical assistance to USAID/EGAT/PR/MD and USAID/South Africa on defining and counting microenterprises in agricultural and agribusiness projects. USAID/SA was undertaking a field activity to define and count microenterprises in agriculture-related activities, “Microenterprises in Agriculture: Measurement and Definitions”. Related to this specific field activity, USAID/EGAT/PR/MD has an interest in ensuring that the work in South Africa is consistent with, and contributes to, evolving microenterprise development policies at the global level. ACDI/VOCA submitted the Scope of Work on January 22, 2004 and received approval on January 23, 2004. Elizabeth Dunn provided technical assistance to USAID/MD and acted as USAID/MD liaison to the consultant team hired by USAID/South Africa. She provided comments and suggested revisions to SOWs for the consultant team. She also provided technical support to the team and written comments on the final report.

There was no activity planned under Component G for the second, third, and fourth quarters of 2004.

### **III. Financial and technical resources expended by activity during the period and contract to date.**

As of December 31, 2004, ACDI/VOCA Consortium provided 784.77 days of technical assistance to USAID through the Knowledge and Practice task order and 148.38 days of technical assistance through the Kenya STTA task order.

From inception to December 31, 2004, ACDI/VOCA billed USAID a total of \$809,429.82 under the Knowledge and Practice Task Order (No: 01) and \$190,344.63 under the Kenya STTA task order under the main AMAP BDS IQC.

ACDI/VOCA is committed to providing technical assistance with cost control and value in mind. As we provide technical assistance we strive to also build our pool of qualified individuals in every labor category and level recognizing the value of engaging qualified junior level staff. We will continue its practice of cost control—attempting to keep every activity under budget and ahead of schedule.

### **IV. Impact and Lessons Learned**

The first quarter of 2004 was largely dedicated to building on the collaborative relationships developed across the three implementing consortia in order to come up with a research plan and work plans that fulfill the mission of AMAP BDS. We continued to marvel at the challenges of collaborating across three consortia, but have been impressed by the willingness of competing

firms to work together. Programmatically, we have begun to draw important lessons from the literature. In addition, Kenya BDS has made progress in identifying appropriate criteria for measuring the impact of interventions where there is no direct link between the project and the microenterprise beneficiary

In the second, third and fourth quarter of the year, ACDI/VOCA and its partners continued implementing the work plan activities.

We started drawing important lessons from the literature. These will be tested over the course of the project. The following lessons are tested through the activities to be carried out in quarters 2-4 are:

- There are opportunities for growth for micro and small firms in global value chains in particular industries and functions within industries;
- Embedded services are the dominant mechanism for transferring knowledge and inputs to MSE's;
- The nature of relationships (governance) in value chains determines the rate of learning and location of value in chains;
- Technology changes are driving down the firms size at which economies of scale can be reached.
- Both global and national enabling environments affect the competitiveness of industries in which small firms participate.

## **V. Major problems encountered in program implementation and solutions applied**

The relationship with the contracting office has been improved considerably. We enhanced our systems and built the procedures to manage this contract most efficiently. We appreciate the efforts by all parties to improve the contracting process and we anticipate a more constructive and efficient relationship between our consortium, the contracts office and our CTO.

We did not encounter major problems implementing the program. We are expecting to continue with the same level of collaboration and the efficient relationship between our consortium, the contracts office and our CTO.

## **VI. Information developed through the participation in program implementation**

ACDI/VOCA continued to share information among consortia both within the BDS IQC as well as with the other technical areas.

Working through the online discussion platform, members of the consortia continued to share documents and responded to technical suggestions.

ACDI/VOCA also held workshops and meetings that aimed to help build consensus among the consortia members and USAID/EGAT/PR/MD. ACDI/VOCA brought in experts in the field of small enterprise development to provide fresh perspective on strategies to build participation of

small enterprise in higher value markets. Experts include Marshall Bear, Richard Hatch, Albert Berry, and Hubert Schmitz.