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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, 2006 to December 31, 2006

Prepared by
ACDI/VOCA

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AMAP

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I. EXECUTIVE SUMMARY

This document is the 2006 annual progress report, covering the period January 1, 2006 to December 31, 2006. This progress report to USAID/EGAT/PR/MD is 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 ACDI/VOCA consortium works 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) *enhancing the competitiveness of industries in which small enterprises participate;*
- 2) *promoting the private provision of business services critical to the rapid and sustainable increase in small enterprise incomes; and*
- 3) *facilitating small enterprise contribution to, and benefit from, industry growth.*

Under AMAP BDS, the ACDI/VOCA Consortium conducted activities under five task orders during the reporting period:

- 1) The first task order was awarded through **USAID/Kenya** and entails providing short-term technical assistance (STTA) to the Kenya Mission and implementing partners to ensure the quality of BDS program planning and strategy development, intervention design and impact assessments.
- 2) Under **Knowledge and Practice** (K&P) awarded on August 2003, ACDI/VOCA is working with USAID's Microenterprise Development Division to create growth in industries, clusters and value chains through research and implementation in the areas of market access, product development, technology support and interventions to strengthen the legal, regulatory and policy environment.
- 3) The **Growth Oriented Microenterprise Development Program**, awarded through USAID/India on September 30, 2005, provides technical assistance to MSEs 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 reporting period has been submitted to USAID/India.
- 4) **Assessing the Haitian Handicraft Value Chain for Improved Competitiveness**, which has been completed, was awarded by USAID/Haiti in March 2006. ACDI/VOCA conducted a value chain assessment to better understand the constraints and opportunities of the handicrafts industry in Haiti. A stakeholders' workshop was used to ground-truth constraints, develop a list of potential solutions to industry problems, and obtain commitment from the participants to implement the solutions.

- 5) **Knowledge and Practice II (K&P II)**, awarded in September 2006, is a follow-on to the K&P Task Order. K&P II will enable ACIDI/VOCA to continue to provide technical services to USAID staff and project implementers with the goal of promoting economic growth with poverty reduction through value chain approaches. Knowledge and Practice II aims to increase the adoption of value chain approaches and associated best practices in a range of USAID-funded programs. Programmatic work will begin in the first quarter of 2007.

II. ACTIVITIES AND ACCOMPLISHMENTS DURING 2006 - ANNUAL PROGRESS REPORT

During 2006, the ACDI/VOCA consortium members' accomplishments focused on implementing program activities under the five 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. AFE's two broad categories of STTA support are:

- 1) *Technical assistance in the implementation of market development approaches for targeted programs in Kenya; and*
- 2) *Design and implementation of an impact assessment system for the Kenya BDS and Kenya Horticultural Development Center programs implemented by Emerging Markets Group and Fintrac, respectively.*

In 2006, AFE continued discussions with Kenya BDS, ACDI/VOCA and technical consultants (Donald Snodgrass, Jennefer Sebstad, and Research International-Kenya) to explore possible timing for the final round of the impact assessment in 2006/2007. Henry Panlibuton of AFE later visited the Kenya BDS and HDC projects to provide oversight of the impact assessment final data collection.

AFE held preliminary discussions with Kenya BDS to explore a range of possible technical support initiatives for the program. Illustrative AFE interventions to support Kenya BDS include research, development, and design of a strategy to support the development and competitiveness of the mango industry in Kenya.

A revised work plan was approved in 2006. However, a modification request, which includes a revised budget and staffing plan for the BDS Short-Term Technical Assistance to USAID/Kenya task order not yet approved by the mission, thereby preventing the impact assessment from moving forward.

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 objectives of the task order are to conduct research into the development of 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.

ACDI/VOCA submitted a No-cost Extension Work Plan and Budget for Year 3 for Components A, B, C, D, F and H to USAID/EGAT/MD AMAP BDS in the first quarter of 2006. The Year 3

No-cost Extension and Budget were approved by Jeanne Downing (USAID/EGAT/MD AMAP BDS K&P CTO) and are effective as of April 5, 2006.

Tasks performed under the Knowledge and Practice Task Order in 2006 are described below.

Component A: Clients and Markets

Activities under Component A addressed the following deliverables:

1) Conceptual Framework

The conceptual framework for the Clients and Markets research describes how MSEs link into productive value chains and how MSE owners make their business and upgrading decisions. It was first articulated in the Component A research plan. From this initial framework, the team collaborated to define research hypotheses in three related areas: 1) vertical linkages between MSEs and buyers in the value chain; 2) horizontal linkages between MSEs; and 3) MSE upgrading. These hypotheses guide the overall research agenda and are continually refined through the field and desk studies.

The hypotheses in the conceptual framework were explored using qualitative data collected in Guatemala. These hypotheses also served as the basis for finalization of the questionnaires for the Guatemalan country study. In 2006, survey data from Guatemala were used to test the hypotheses. The lessons learned from these hypothesis tests, along with the continued development of the conceptual framework as part of the synthesis paper on upgrading, will contribute to the conceptual framework, which will be completed in the first quarter of 2007.

2) Focused Field Research

ACDI/VOCA Consortium member *Microfinance Opportunities* led the Focused Field Research task of Component A, which was carried out by Elizabeth Dunn of ACDI/VOCA and 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 final report was posted on microLINKS in the first quarter of 2006.

3) Guatemala Country Study

In 2004, Elizabeth Dunn (ACDI/VOCA), in collaboration with the Louis Berger Group (LBG) AMAP BDS team, carried out the qualitative phase of the Guatemala Country Study, investigating horticulture and textile handicrafts value chains. This study was the first of several empirical studies that are designed to test the Component A hypotheses and generate knowledge about how MSEs contribute to and benefit from participation in value chains. In Guatemala, the country study investigates two value chains that employ large numbers of MSEs: textile handicrafts and high-value horticulture.

The field approach includes both qualitative and quantitative components. The qualitative component provides background information on the firms in the value chain and how they are related. The quantitative field research-led by LBG- for this study was carried out in April and May of 2005. The quantitative component in Guatemala provides survey data from over 700

MSE producers and 140 buyer firms. The country study report pulls both types of information together to improve our understanding of MSEs in value chains, leading to more effective strategies for increasing both MSE benefits from and contributions to value chain competitiveness. The final report is expected to be completed in January 2007.

One byproduct of this study is the “Research Protocol,” which details the research methods and approaches for quantitative data collection. This paper has been formatted for public distribution and is expected to be published in the first quarter of 2007. A second byproduct is a PowerPoint presentation on the preliminary results for horticulture, which was presented at the VIII Interamerican Forum on Microenterprises in Bolivia in 2005. Elizabeth Dunn will participate in USAID Breakfast Seminar Series scheduled in Washington, D.C., on February 8, 2007 to present the findings of the study.

4) Tanzania Country Study

Tanzania was identified as the location for the second country study. With input of USAID/MD and USAID/Tanzania, the horticulture value chain was selected for study.

The primary purpose of this activity is to develop a detailed understanding of the factors and conditions affecting smallholder producers within the context of the high-value vegetables value chain in Tanzania. This initial qualitative assessment is one part of an approach that combines qualitative and quantitative analysis of smallholder participation in competitive and export-driven industries. During the field work, the following high-value vegetables with similar agro-climatic requirements and known export potential were emphasized: snow peas, baby carrots, patti pan squashes, zucchini, sugar snap peas, baby corn, French green beans, broccoli, baby leeks and cauliflower.

The qualitative portion of the country study was led by Elizabeth Dunn (ACDI/VOCA), with assistance from Banu Akin (ACDI/VOCA), Gitau Mbure (ACDI/VOCA) and Shand Evans (LBG). This field work, conducted in three areas of Tanzania, was carried out in the fourth quarter of 2005, and the findings presented to Thomas McAndrews (USAID/Tanzania) in the same quarter.

The quantitative field study, managed by LBG, took place in the third and fourth quarter of 2006. Tabular and descriptive information is expected to be available in January 2007. ACDI/VOCA submitted a synthesis of the Integrated Framework from the Tanzania Diagnostic Trade Integration Study (DTIS) to USAID/Tanzania on October 17. The first draft of the country study is expected to be ready for review in the first quarter of 2007.

5) “Synthesis Paper: Lessons Learned on MSE Upgrading in Value Chains”

The deliverable entitled “Lessons Learned on MSE Upgrading in Value Chains: A Synthesis Paper” examines how MSE owners’ responses to upgrading opportunities are influenced by value chain characteristics and the associated incentives, disincentives and constraints to firm-level upgrading. It is based on the secondary data available from nine AMAP-related studies of value chains in agribusiness and handicrafts.

The research team for this deliverable was comprised of Elizabeth Dunn, Jennefer Sebstad, Holly Parsons and Lisa Batzdorff from ACIDI/VOCA. The paper was completed and posted on microLINKS in December 2006.

Component B: Market Assessment

In Year 2, ACIDI/VOCA proposed to conduct value chain studies using mission buy-in. Mission buy-in to AMAP BDS is crucial to achieving the goal of broad application of BDS best practices. One of the key tools in securing mission buy-in is through the practical and direct use of the value chain analysis tool in helping missions either evaluate existing programs or design new programs.

In order for ACIDI/VOCA to test the conclusions reached during the two-day AMAP BDS K&P retreat organized by ACIDI/VOCA in January 2005 (i.e. which interventions work, which do not), we proposed to conduct these studies in countries that have previously utilized or are currently utilizing different types of value chain interventions.

Through discussions with USAID/MD and the respective missions, ACIDI/VOCA selected Ecuador and Madagascar as countries in which to conduct value chain analyses. These analyses were done in collaboration with International Resources Group's (IRG) FRAME project which uses a *Nature, Wealth and Power* framework that is highly complementary to the value chain approach developed under AMAP BDS. The analyses supplement current research on the value chain approach by extending the framework to incorporate environmental sustainability issues and by applying this—in the case of Ecuador—to a service industry.

1) Ecuador

Robert Fries (ACIDI/VOCA) and Marcela Correa (CARANA) conducted a value chain analysis of the ecotourism sector in Ecuador. Following the field analysis, the stakeholder workshop was held on June 1, 2006. The USAID/Ecuador mission participated in this workshop. The report was finalized and posted on microLINKS in the third quarter of 2006. A Breakfast Seminar based on the paper was delivered by Bob Fries and Marcela Correa on November 16.

The analysis found that ecotourism was not clearly differentiated from other types of nature-oriented tourism in the global marketplace. End market research demonstrated Ecuador's comparative advantages in nature-oriented tourism and ecotourism, and the fact that Ecuador has been losing market share to two of its major competitors, Peru and Costa Rica. Subsequent field analysis pointed to a number of factors contributing to this gap between comparative advantage and competitive performance. The study team concluded that the industry can become more competitive and sustainable by (1) building an industry orientation, (2) expanding inter-firm cooperation, and (3) consciously investing in and promoting itself as a leader in a brand of sustainable tourism that appeals to a broad spectrum of market segments.

2) Madagascar

Criss Juliard and Maziar Sassanpour of ACIDI/VOCA, along with Charles Benjamin of IRG and Aro Ratovonomenjanahry and Pascal Ravohitrarivo, conducted a value chain analysis of the aromatic and medicinal plants (AMP) value chain in Madagascar. The field analysis took place

in the second quarter of 2006, followed by the stakeholder workshop, which drew on facilitation techniques developed under the System-wide Collaborative Action for Livelihoods and Environment (SCALE). The report was completed and posted on microLINKS in the third quarter of 2006.

The study concluded that strengthening Madagascar's AMP sector requires a focus on five key actions:

- 1) Emphasize AMP in natural resource management and biodiversity conservation practices and training.
- 2) Establish and diffuse AMP norms, standards and certification.
- 3) Support mainstreaming of traditional medicine.
- 4) Mainstream "informal" processors, collectors and distributors.
- 5) Launch coordination and branding campaign.

Component C: Intervention Design and Implementation

Work under Component C focused on the following deliverables:

1) Conceptual Framework: Strategy Paper

After final revisions, the paper was posted on microLINKS in the first quarter of 2006 under the title "Globalization and the Small Firm: An Industry Value Chain Approach to Economic Growth and Poverty Reduction."

2) Thematic Paper: MSEs and Competitiveness

CARANA Corporation, member of ACDI/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 was designed to identify characteristics of industries in which MSEs can contribute to overall competitiveness and propose approaches for the successful integration of MSEs into these sectors and industries.

Santiago Sedaca and Brett Johnson (*CARANA*) submitted the draft paper for review in the first quarter of 2005. In the third quarter of 2005, ACDI/VOCA and USAID collaborated to revise the focus of the paper to align it more closely to the framework emerging from work on the "Conceptual Framework Strategy Paper." Recommendations from the paper will be used to inform one in a series of practical guidelines or "briefs" that will succinctly describe emerging good practice in the application of the value chain approach. These briefs will be developed under K&P II through collaboration with practitioners, donors and researchers working in the area of value chains, and will remain "living documents" to be updated as new recommendations surface.

3) Case Study: Indonesia Cocoa Value Chain

During the second quarter of 2004, AFE conducted the value chain analysis of the cocoa industry in Indonesia for USAID/Jakarta, with technical input from USAID/MD. Based on this assessment, Henry Panlibuton (AFE) prepared a case study to provide practitioners and USAID missions with a practical illustration of the factors, decisions, interventions and actions for

improving the incomes, profitability, productivity and sustainability of MSEs engaged in a targeted subsector or value chain.

In 2005, AFE revised the case study by integrating the taxonomy matrix developed in the knowledge sharing event in January. This paper was finalized in the third quarter of 2006.

4) Case Studies: Implications for the Integration of MSEs into Productive Markets

The ACDI/VOCA Consortium is developing case studies to investigate the behavioral patterns of small firm-led linkages, the role of networks, and inter-firm cooperation, strategies and tactics that MSEs use to enter the particular subsector or market and to remain competitive “rent-gathering” players. The case studies identify how MSEs participate in and contribute to the productivity of select markets, paying particular attention to how MSEs access information and acquire knowledge through participation in productive markets. The studies also assess (using qualitative tools) MSE contribution to the growth and robustness of markets. Each study reinforces the value chain analytical framework by emphasizing one or more specific elements of the framework as “key messages,” such as discussing the importance of the business enabling environment, supporting markets, horizontal linkages, etc. The case studies also reflect the heightened emphasis on relationships, particularly as they pertain to power, learning and benefit flows. The case studies are posted on ACDI/VOCA’s website and on microLINKS.

a) Azerbaijan – Beef and Dairy

The central theme of this case is the critical role that supporting markets can play in value chain growth. The case looks at how small livestock farmers in Azerbaijan benefited from greater access to supporting markets for veterinary products and services. During the first quarter of 2006, a draft abstract was prepared by AFE and submitted to USAID for comments. In the second quarter, AFE began revising the study to incorporate USAID comments. The paper will be completed in 2007.

b) Bolivia – Tourism

This study examines the critical role of a lead firm in stimulating enterprise development and growing the market, and ways in which the enabling environment changed to support business development. The draft abstract was returned to Conservation International (CI) with comments in the second quarter of 2006. The paper was revised and submitted for approval in the fourth quarter of 2006.

c) Ghana – Baskets

This case illustrates the effect of strong international competition on the Ghanaian “baskets for export” value chain. It shows how the behavior of market players in the value chain needed to change to meet the competition. During the first quarter of 2006, a draft abstract was prepared by AFE and submitted to USAID for comments. In the second quarter, AFE began revising the study to incorporate USAID comments. The paper is expected to be completed in 2007.

d) Mali – Shea Nuts

This case study focuses on market actors’ incentives to invest in upgrading operations and developing reliable sources of supply, and the importance of inter-firm cooperation

in enhancing or limiting these incentives. The final version of the case study was posted on microLINKS in July, 2006.

5) Write-up of Value Chain Studies as AMAP BDS Products

Under this activity ACDI/VOCA revised and reformatted AMAP-related value chain analyses to not only leverage AMAP BDS funds, but also to enable ACDI/VOCA to produce additional case studies for a fraction of the cost; the work was done in the US.

In the first quarter of 2006, Ruth Campbell (ACDI/VOCA) revised the India Growth-Oriented Microenterprise Development (GMED) program's Organic Agriculture Value Chain Assessment conducted by AFE. The principal objective of the assessment was to understand the functioning and dynamics of the value chain, identify key players and propose possible initiatives for the GMED program to promote increased enterprise income and employment. The report, "Organic Agriculture Products Value Chain Assessment," was finalized and posted on microLINKS in the third quarter of 2006.

Component D: Impact and other Post Intervention Assessments

1) Field Impact Study – India

The primary purpose of this activity is to create a performance framework that will generate information about the effectiveness of the approach used in the GMED program awarded to ACDI/VOCA by USAID/India under the AMAP BDS IQC. This performance framework consists of both a monitoring and evaluation component and an impact assessment component.

In the second quarter of 2006, Institute for Human Development (IHD), an Indian research firm, was contracted to carry out the baseline survey of the Impact Assessment. Throughout the second quarter, the ACDI/VOCA team, consisting of Gary Woller and Joe Le Clair, worked to prepare a research plan for the baseline study and baseline survey. In June, 2006 Gary Woller and Joe LeClair traveled to India to meet with GMED staff to address and clarify the project's current interventions, update the causal models for each sub-sector, review project indicators and discuss other information needed to create the research plan and subsequent baseline survey (value chain members, client verse control groups, expansion plans, secondary data sources, etc.).

The India Field Impact Study Focus Group Guides were completed by Gary Woller in the fourth quarter of 2006 and submitted to IHD for use in the surveys. The research plan and baseline survey are near completion and are awaiting input from GMED.

2) Methodology Paper: Impact Assessment Primer Series

The purpose of the Methodology Paper, led by DAI, is to explore various methodological aspects of impact assessment. At the Component D team retreat, held at in Washington DC on February 8-9, 2006, it was decided that the paper should be broken up into a series of short (5- to 10-page) papers covering the following topics:

- a. Assessing the Impact of New Generation Private Sector Development (PSD) Programs
- b. Developing a Causal Model for PSD Programs
- c. Conducting an Evaluability Assessment
- d. Creating a Research Plan and Selecting an Impact Assessment Approach
- e. Methodological Challenges
- f. Selecting Appropriate Indicators
- g. Planning and Budgeting for Impact Assessment
- h. Collecting and Using Data
- i. Analyzing and Interpreting Results
- j. Impact Assessment and Program Monitoring
- k. Learning More: Useful Resources

Elizabeth Dunn of ACDI/VOCA will author one paper in this series, “Conducting an Evaluability Assessment.” It is expected to be completed in the first quarter of 2007.

3) Impact Assessment Contest

In the third and fourth quarter of 2006, the Component D team held an impact assessment contest. Two co-winners and one runner-up were selected. An award ceremony was held on November 30, 2006.

Component F: Training

1) Development of Facilitator and Field Manuals

ACDI/VOCA is developing training modules to be used to train USAID missions and practitioners. In 2005, ACDI/VOCA designed and developed the curriculum for a one and a half-day agriculture value chain training module, which was presented at the Springfield Center, entitled “Wealth Creation for the Rural Poor through Competitive Agricultural Markets.” The development of training modules is done through collaboration with all consortia members, QED and USAID/EGAT/MD.

In the first quarter of 2006, the ACDI/VOCA Consortium developed additional components and tools including “Guidelines for Stakeholder Workshop Facilitation,” “Interview Techniques” “Conducting Value Chain Analysis” and “Value Chain Mapping” as part of the facilitator manual. The current 3 ½ days curriculum includes modules based on project learning cycle, from selection to implementation, with a variety of participatory activities. ACDI/VOCA tested these modules with various audiences including practitioners through a two-day value chain team leader training in Washington, DC on March 20-21, 2006. During the second quarter of 2006, feedback from these trainings was incorporated into the modules. The Value Chain Training Curriculum was posted on a test-site on microLINKS in the fourth quarter of 2006. The curriculum is being turned into RAF Seminar Series format in collaboration with QED and is expected to be finalized by the end of the first quarter of 2007.

2) Regional Value Chain Workshops

In the third quarter of 2006, planning started for the Asia regional value chain workshop for USAID mission staff and program implementers. The workshop will be held in Phnom Penh, Cambodia, in March 2007. Through the USAID/EGAT/MD office, ACIDI/VOCA continued discussions on a value chain training with East Africa regional missions, including Kenya, Uganda, Ethiopia and Tanzania. ACIDI/VOCA developed a four-page brochure to disseminate training options to mission staff.

Component G: Short-Term Technical Assistance to Missions

There was no activity under Component G planned for 2006.

Component H: Knowledge Management

1) Increase User Access to BDS Information by Updating and Upgrading AMAP BDS E-Toolbox

The ACIDI/VOCA Consortium's e-toolbox is a cost-effective mechanism for disseminating information on BDS and microenterprise development to missions and practitioners, though it is currently underutilized. Posting program design tools and other AMAP BDS generated documents on-line facilitates increased access by missions to the information necessary to formulate strategies incorporating BDS best practices as well as promote a broader dissemination of best practices among practitioners.

During the second quarter of 2006, ACIDI/VOCA added an AMAP feature to its homepage, linking the public to AMAP activities, publications and contracting information, as well as to the e-toolbox. In the third quarter, a value chain section was added to the ACIDI/VOCA website. The section includes AMAP information and other value chain resources. ACIDI/VOCA also continued preparing summaries of AMAP deliverables for posting, including a five-page summary of the Mexico coffee case study developed under Component C.

Task Order 3: GMED (Contract No. GEG-I-00-02-00016-00 Task Order No. 801)

A detailed report pertaining to this task order for this reporting period has been submitted to USAID/India.

Task Order 4: Assessing the Haitian Handicraft Value Chain for Improved Competitiveness (Contract No. GEG-I-00-02-00016-03 Order No. GEG-I-02-03-00016-00)

In March 2006, ACIDI/VOCA was contracted by the USAID/Haiti mission to conduct a value chain assessment of the Haitian handicraft sector. The primary objective of this activity is to determine constraints and opportunities to growth and expansion of the sector, and propose strategies to facilitate a more viable and competitive approach to ensuring continued competitiveness of the industry.

The assessment team, consisting of Eric Derks (AFE) as Team Leader, Ted Barber (ACDI/VOCA) as Handicraft Sector Specialist and Elizabeth Dalziel (ACDI/VOCA) as Field Researcher, conducted the field assessment in the second quarter. Eric Derks, Ted Barber and Olaf Kula (ACDI/VOCA) facilitated a stakeholders' workshop to present the findings of the field assessment and the complementary end market analysis completed by DAI, and to encourage private sector stakeholders to develop a competitiveness strategy and action plans to address key constraints.

ACDI/VOCA submitted a No-cost Extension to USAID/Haiti CTO Eunice Irizarry on May 4, 2006 in response to a request by the mission for changes in the work plan. The task order was extended through August 31, 2006. The final report, "Haitian Handicraft Value Chain Analysis," was finalized and posted on microLINKS in the fourth quarter of 2006.

Task Order 5: Knowledge and Practice II (Contract # GEG-I-00-02-00016-00 Task Order # 4)

The goal of the AMAP BDS Knowledge and Practice II (K&P II) Task Order is to improve development practice through increased adoption of value chain approaches that benefit small and very small firms and associated emerging good practices in a range of mission programs. In the fourth quarter of 2006, the K&P II work plan was approved; work will begin the first quarter of 2007. The focus for Year One of the Task Order will be in three activity areas:

- 1) Translate and disseminate AMAP BDS learning in forms accessible to missions and implementing partners and which articulate AMAP learning regarding "emerging good practice"
- 2) Facilitate learning and exchanges among donors and practitioners in order to improve good practice in implementing the value chain approach; and
- 3) Codify "emerging good practices" in the form of guides, on-line materials and/or training modules.

III. FINANCIAL AND TECHNICAL RESOURCES DURING THE PERIOD & CONTRACT TO DATE

At the time of reporting, December 2006 invoices had not yet been processed. As of November 30, 2006, the ACDI/VOCA Consortium provided 2,073.56 days of technical assistance to USAID through the Knowledge and Practice task order and 216.88 days of technical assistance through the Kenya STTA task order. From inception to November 30, 2006, ACDI/VOCA billed USAID a total of \$2,021,029.12 under the Knowledge and Practice Task Order and \$291,430.69 under the Kenya STTA task order. Through the Haitian Handicraft task order, which was completed in August 2006, 110.48 days were worked and USAID was billed \$130,690.80.

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 the practice of cost control—attempting to keep every activity under budget and ahead of schedule.

IV. IMPACT AND LESSONS LEARNED

Drawing upon the results of the deliverables in Year 2, many key lessons emerged on the constraints and opportunities for making industries or value chains, and the MSEs that participate in them, more competitive.

Business Enabling Environment

- Competitive industries require strong local, national and global regulatory and policy environments.
- In the absence of incentives to change existing policies, local and regional officials tend to protect the status quo.
- Trade agreements can open up opportunities for firms, while international standards with expensive requirements for compliance can just as easily close these trade opportunities.
- Local policies can be influenced more easily than laws and regulations and can have significant impact on industry competitiveness.
- Building a pro-PSD enabling environment requires private sector input and leadership in setting the agenda; global buyers and foreign investors can influence this agenda.
- Not all enabling environments are pro-MSE.

End Market

- End markets drive both quality and standards.
- Lead firms in a value chain can drive investments in upgrading throughout the chain.
- Selling exclusively to the market channel with the highest prices may not maximize MSE benefits.
- Similarly, herding MSEs into one market channel, such as the export market, is often not in their best interest; returns to all firms including MSEs are likely to fall in any market channel as new entrants begin selling.
- Globalization and liberalization trends are forcing enterprise development strategies to shift from an enterprise focus to an industry focus.
- Competitive advantage is derived from the efficiency at which the demanded characteristics are delivered, the unique combination of demanded characteristics delivered, and the ability to shape demand to better fit the limitations on what can be delivered.

Supporting Markets

- Competitive industries require the availability of critical support markets (financial, industry-specific, business management and information communication technologies).
- Demand for supporting market goods and services is derived from growth of the core value chain.
- Lead firms may provide services such as quality control, transport, finance and product development.

- Critical support services can be provided to MSEs on a fee-for-service or embedded service basis; embedded service provision reduces MSE risks and builds stronger buyer–seller relationships, but can reduce the liquidity of the embedded service provider.
- Fee-based service provision requires adequate demand to warrant service provision in areas where markets are weak; fee-for-service provision lessens MSE dependency on buyers or suppliers, and requires that MSEs have adequate liquidity to pay for services.
- Agricultural enterprises would benefit from alternative financing, such as longer-term loans that coincide with their harvest income.
- Lack of investment capital or poorly designed loan products is a major constraint to upgrading.
- Since firms buying from MSEs must satisfy their own buyers, they often provide MSEs with embedded services to encourage product upgrading and to control for quality.

Inter-firm Cooperation (Horizontal and Vertical Linkages)

- Globalization increases the importance of inter-firm cooperation among industry participants.
- Efficient vertical and horizontal linkages are an important source of information, technical assistance and risk sharing for product and functional upgrading.
- A well-functioning value chain transmits information about consumer preferences and the price signals associated with those preferences.
- Recognizing joint constraints that require collective action is critical to generating external economies needed for an industry to become more competitive.
- When an intermediary is eliminated, the functions they performed need to be taken on by other firms in a value chain.
- When needed functions are not performed reliably, a new layer of firms may be (re)introduced between buyers and MSEs.
- Leadership and incentives are critical to getting firms to cooperate.
- Constraints or bottlenecks at any point in the value chain affect participants at all levels of the value chain.
- A strong lead firm may force existing inefficiencies in value chain linkages to be addressed.
- When firms are dealing with a large number of MSEs, transaction costs are higher. Horizontal coordination among MSEs can help to reduce these costs.
- Strong horizontal coordination can produce collective demand for service providers, drawing them into rural areas where there tends to be a lack of infrastructure and communication facilities, which makes service provision more costly.
- Market leaders with the capital, skills, commitment and incentives to invest in upgrading in value chains that incorporate large numbers of MSEs can greatly accelerate growth and productivity.
- Private sector market leaders are more likely to invest in upgrading when they are able to maintain some level of exclusivity in the market channel.
- Private sector market leader willingness to invest in upgrading in a value chain is more likely to occur in the presence of a facilitating entity.

Firm-level Upgrading

- Farmers must perceive realistic market opportunities if they are to commit to spending time in project planning and adopting practices that cost them money and effort.
- Upgrading facilitates MSE participation in wider markets.
- Upgrading enhances value chain productivity and competitiveness, as well as increasing the potential benefits to MSEs.
- Process upgrading is driven by the need to cut costs and/or increase output in response to competition.
- Product upgrading is driven by changes in end markets associated with changing consumer preferences.
- Functional upgrading is driven by the desire to eliminate the market power of intermediaries, the desire to improve the flow of market signals to producers, or both.
- Functional upgrading, or moving to a new level of the value chain, entails risks.
- Channel upgrading is driven by MSE desire to increase benefits, reduce risks, and/or enhance long-run sustainability.
- Channel upgrading is a dynamic response to dynamic market conditions.
- There is often an interplay between different types of upgrading, especially product upgrading.
- Physical and social distance between producers and end markets can hinder upgrading.
- Information and communication technology can facilitate upgrading.

Power

- Power in commercial relationships is primarily derived from owning key determinants that drive sales: if the product branding is defined by locality, skill-set or social story, then considerable power rests with the entity that owns these determinants.
- In any given industry, relationships can range from highly dependent to balanced, and these relationships can change depending on shifting market demands.
- Win-win relationships can translate into increased collective efficiencies, external economies of scale and improved competitiveness.
- Power in value chains typically translates into the ability to extract rents: firms able to wield power through branding or access to world-wide suppliers and those traders in a chain able to control information can often exact a larger share of benefits from producers and suppliers.

Learning

- For small firms to compete and upgrade in response to market opportunities, they must have access to new skills, know-how and learning on a continuous basis.
- In relatively flat value chains, where production is sold and consumed locally, learning tends to be limited.
- Fostering access to a new end market or support markets that deliver new technology can substantially shift the learning dynamic.

- When learning and innovation are not an integral part of an industry's norms, the industry's competitive advantage cannot be sustained.

Benefits

- If industries are to maintain their competitiveness, benefits must be sufficient to provide incentives for changes in behavior patterns that entail new risks and the adoption of innovations.
- Distribution of benefits creates upgrading incentives or disincentives.
- Competitive industries require an efficient distribution of increased skill levels and an equitable distribution of resulting financial benefits among all levels of industry participants.
- Distribution of benefits depends on power relationships and the strength of the value chain's infrastructure—the quality of the business enabling environment, the number and nature of vertical linkages, the effectiveness of cooperation to address joint constraints, and the depth and robustness of support markets.

Intervention Strategies

- The structure and conduct of industry players will determine appropriate strategies to build industry competitiveness.
- Ensuring that stakeholders drive the process of building competitiveness is critical to sustaining competitiveness.
- Stakeholder ownership of a competitiveness plan is a process; initial steps must focus on building trust and measurable win-win outcomes for the participants.
- Incentives must be clear to stakeholders for them to take ownership of the process of developing a competitiveness strategy.
- Ensuring that MSEs are able to contribute to and benefit from overall industry competitiveness requires that MSEs be able to supply products or services to buyers in a chain at a lower cost than lead firms procuring those same products or services themselves; this places a priority on maximizing the efficiency of relationships between buyers and sellers.

V. MAJOR PROBLEMS ENCOUNTERED IN IMPLEMENTATION & SOLUTIONS APPLIED

AMAP BDS is advancing the field of research and methodologies for reducing poverty through equitable growth on a rapid, continual basis. The challenge facing the ACDI/VOCA Consortium is how best to incorporate the concepts and frameworks emerging from the research in a timely fashion into future products and revising those already developed; discussions on how to incorporate these concepts frequently slow down actual work on the deliverables.

ACDI/VOCA worked throughout 2006 on addressing these challenges by training our subcontractors and staff on the evolving value chain framework. Additionally, ACDI/VOCA broadened the technical input to AMAP BDS by dedicating additional staff to working on AMAP BDS and shifting additional technical responsibility and input to staffers Ruth Campbell and Banu Akin.

Furthermore, in order to do justice to this rapidly expanding field of practice, research deliverables are often lengthy and nuanced. In an effort to develop case studies that illustrate the value chain approach, writers can be tempted or feel pressured to represent projects selectively.

ACDI/VOCA is addressing these inter-related challenges by prioritizing the development of short (two- to eight-page) practical guidelines or “briefs” under K&P II that present AMAP research findings in a practical and accessible manner. Similarly, recent and future case studies will be shortened and will focus on aspects of projects that illustrate good practice, rather than on presenting projects as a whole.

The delay in receiving USAID concurrence for the proposed Kenya STTA budget modification and implementation plan may affect the timing of the final impact assessment. Similarly, changes in GMED activities over the first 18 months of the program forced a delay in the baseline survey. Consequently, a program extension will be needed to allow for sufficient time for interventions to demonstrate impact.

VI. ACTIVITIES PLANNED FOR NEXT QUARTER

The following activities are planned for the first quarter of 2007:

Kenya Short Term Technical Assistance (STTA) Task Order

- Completion of data collection for the final impact assessment (pending budget approval).

Knowledge & Practice (K&P)

- Completion of the Ghanaian “Basket for Export” value chain case study.
- Completion of the Azerbaijan beef and dairy value chains case study.
- Finalizing and posting of Component A “Conceptual Framework.”
- Finalizing and posting of the value chain training curriculum at microLINKS, in RAF Seminar Series format.
- Revision of the India GMED causal model.
- Delivery of the Asia Workshop on March 12-16 in Phnom Penh, Cambodia, for USAID personnel and project implementation staff.
- Completion of India baseline assessment research and drafting of the report.
- First internal draft report on Tanzania country study, in collaboration with LBG.
- Finalizing of the Impact Assessment Primer Series paper “Conducting an Evaluability Assessment” by Elizabeth Dunn.
- Guatemala country study Breakfast Seminar presented on February 8 by Elizabeth Dunn.

Knowledge & Practice II (K&P II)

- Launch of a learning network for participants of the Asia workshop as well as other invited practitioners, researchers and donors.
- Preparation for East Africa workshop for USAID personnel and project implementation staff.
- Drafting of four “briefs” (the value chain framework, value chain analysis, and designing for competitiveness) to be refined at the Asia Workshop and through the learning network.
- Preparation for the third country study qualitative field study phase.