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Integrating Economic Growth and Poverty Reduction

The Role of Micro and Small
Enterprise (MSE) Development

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ECONOMIC GROWTH & POVERTY REDUCTION (EGwPR)

- The importance of economic growth to poverty reduction
- Why isn't growth enough?
 - Gaps between rich and poor
- Challenge of fostering growth that reduces poverty through enterprise development
 - Our challenge today

A STRATEGY FOR EGwPR

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

... while fostering their access to resources
to enable them to compete?

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

DEVELOPMENT CHALLENGE

In this era of globalization ...

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

Will the poor be marginalized by globalization

Or can they learn to compete?

THREATS: GLOBALIZATION & COMPETITIVENESS

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

Key result to globalization - Increased competitiveness

THE EFFECTS OF GLOBALIZATION ON COMPETITIVENESS

Globalization changes competitive environment

Globalization → Shifts the Competitiveness Strategy



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

Even in local markets – the effect of imports

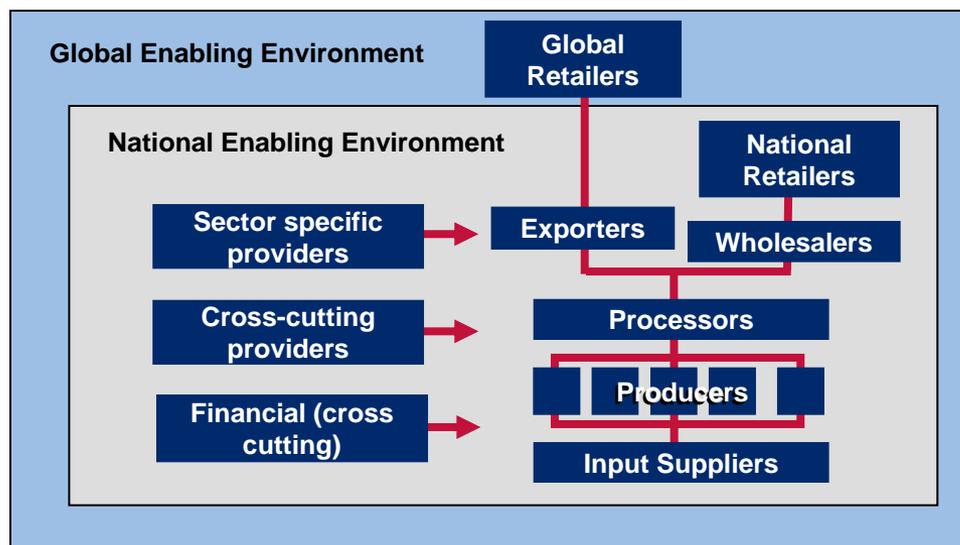
THUS A STRATEGY FOR EGwPR HAS TO

... promote systemic competitiveness ...
that benefits small firms...

HOW?

ACHIEVING SYSTEMIC COMPETITIVENESS

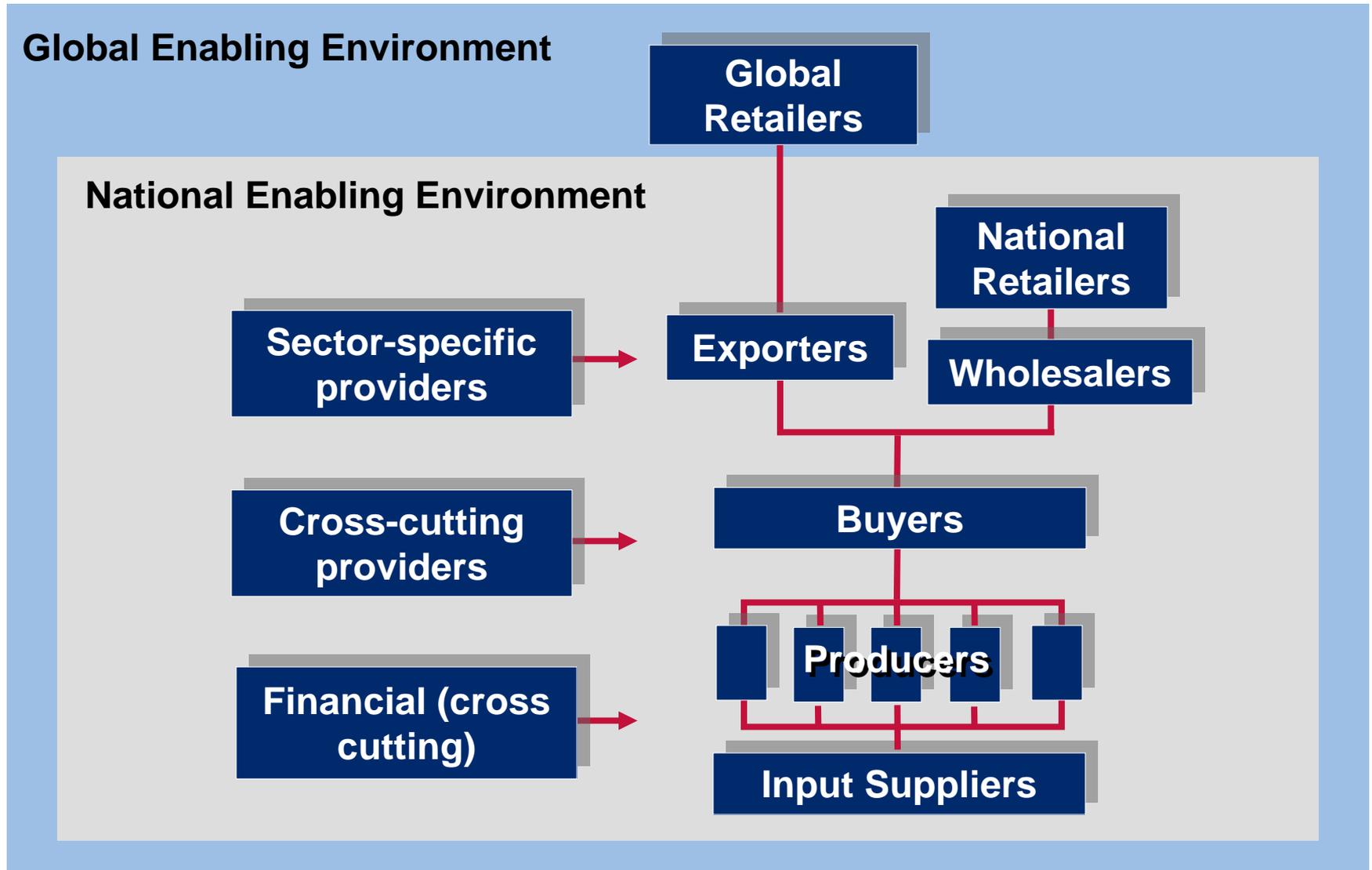
- **THE VALUE CHAIN FRAMEWORK**



- **AN INTERVENTION STRATEGY: Project Cycle**

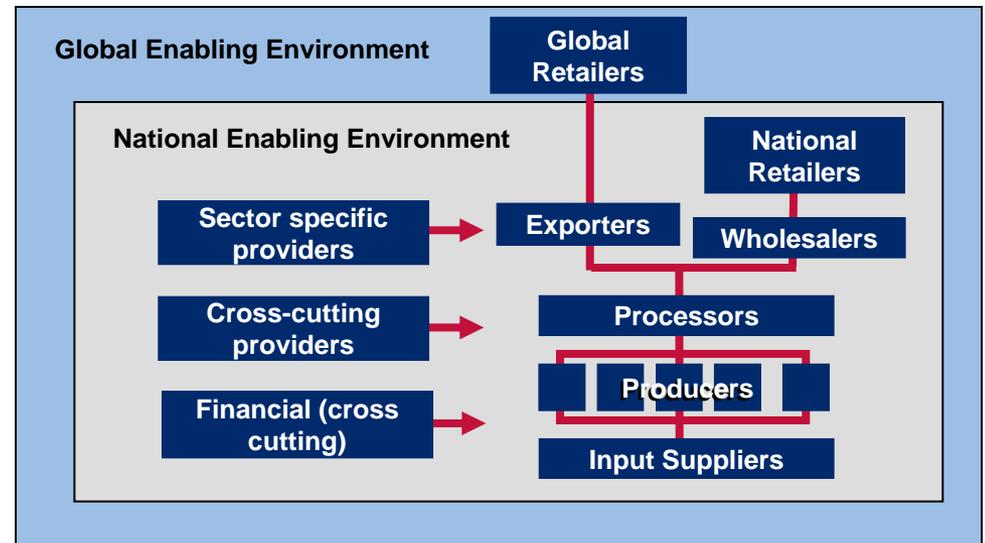


THE FRAMEWORK: WHAT IS A VALUE CHAIN?



FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

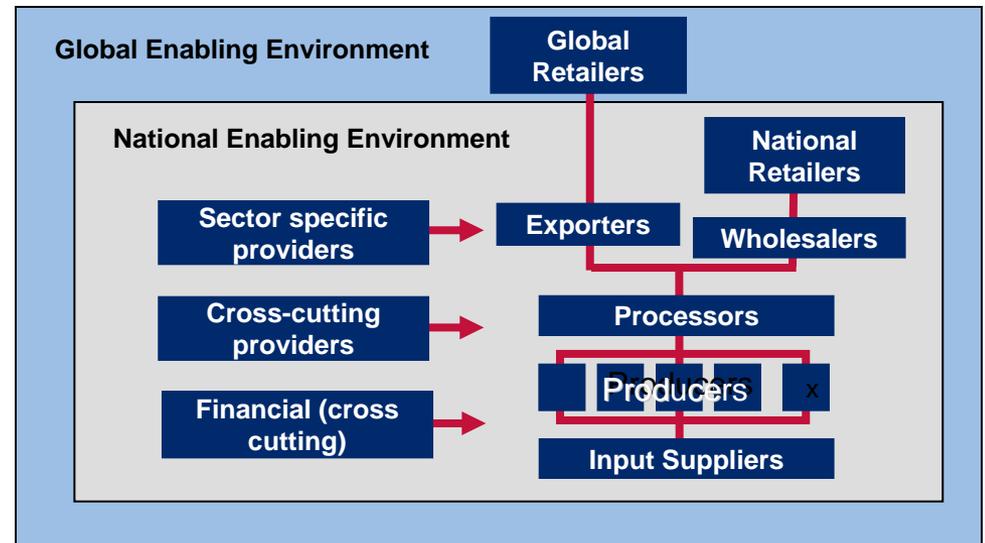
1. End Market
2. Enabling Environment
 - Global
 - National
3. Inter-Firm Cooperation
 - Vertical
 - Horizontal
4. Supporting Markets
 - Sector specific
 - Cross cutting
 - Financial
5. Firm Level Upgrading



FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

End Markets ... define opportunities for growth

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

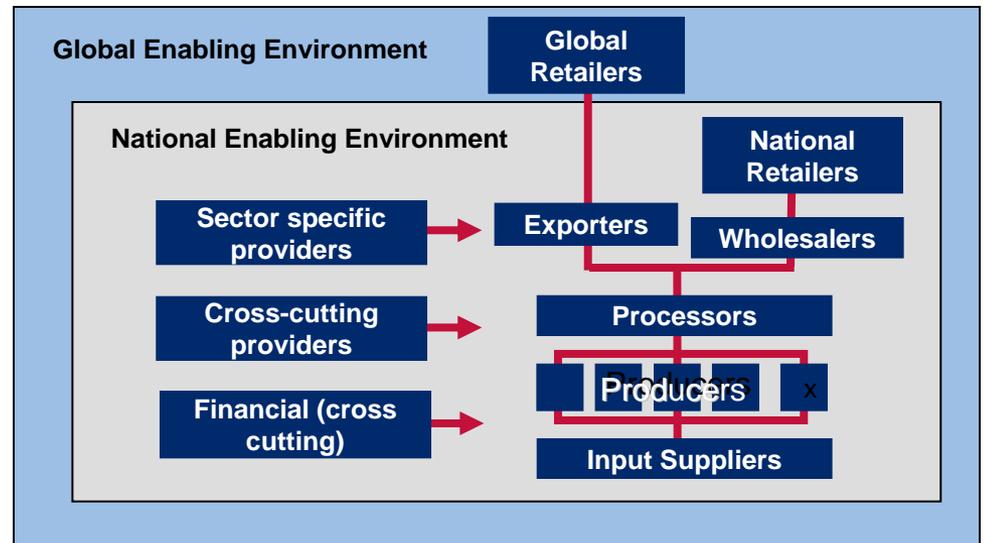


End market demands drive standards

FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

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

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



FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

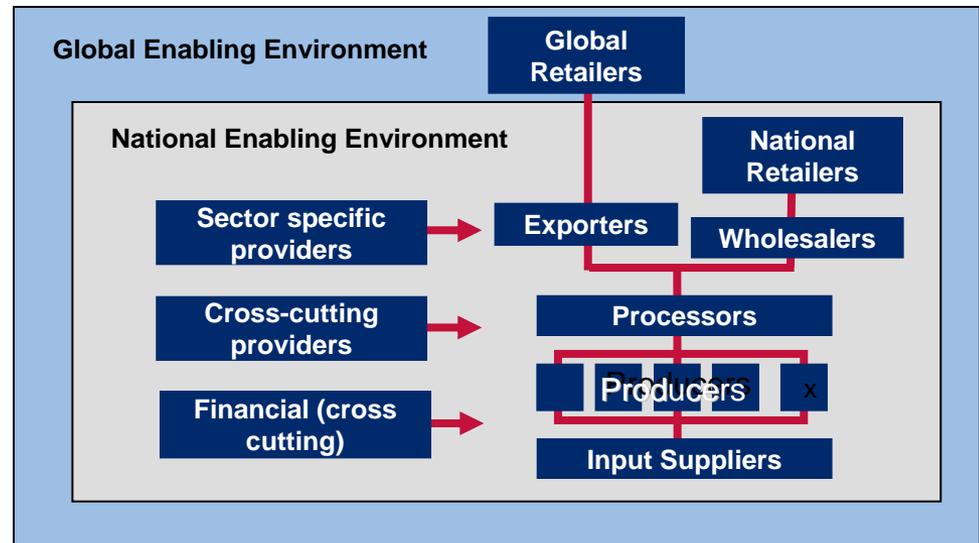
Inter-firm cooperation - Vertical and Horizontal Linkages are fundamental to growth

Vertically linked firms:

- get product from input supply to final market

Horizontally linked firms:

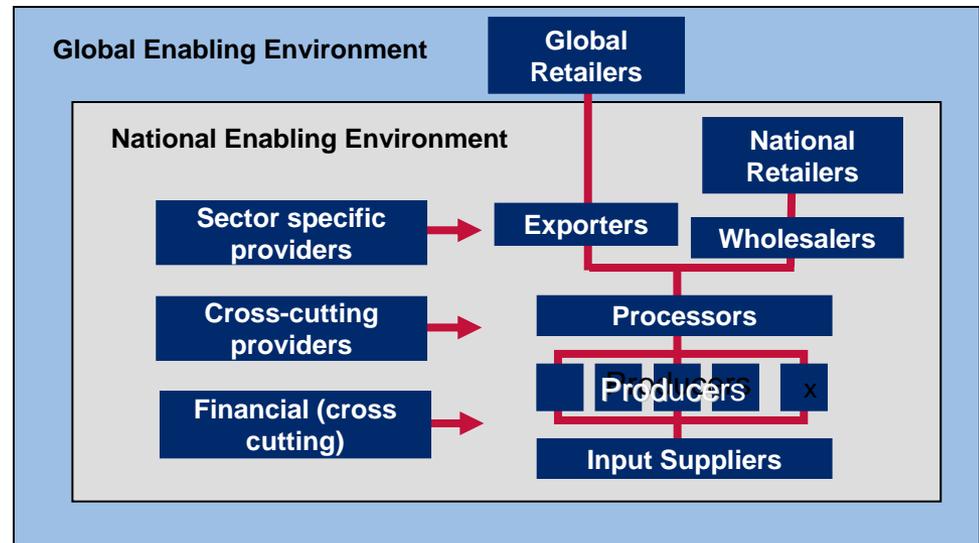
- create economies of scale
- increase bargaining power e.g. input and bulk sales



FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

Supporting Markets include the resources firms need to compete

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



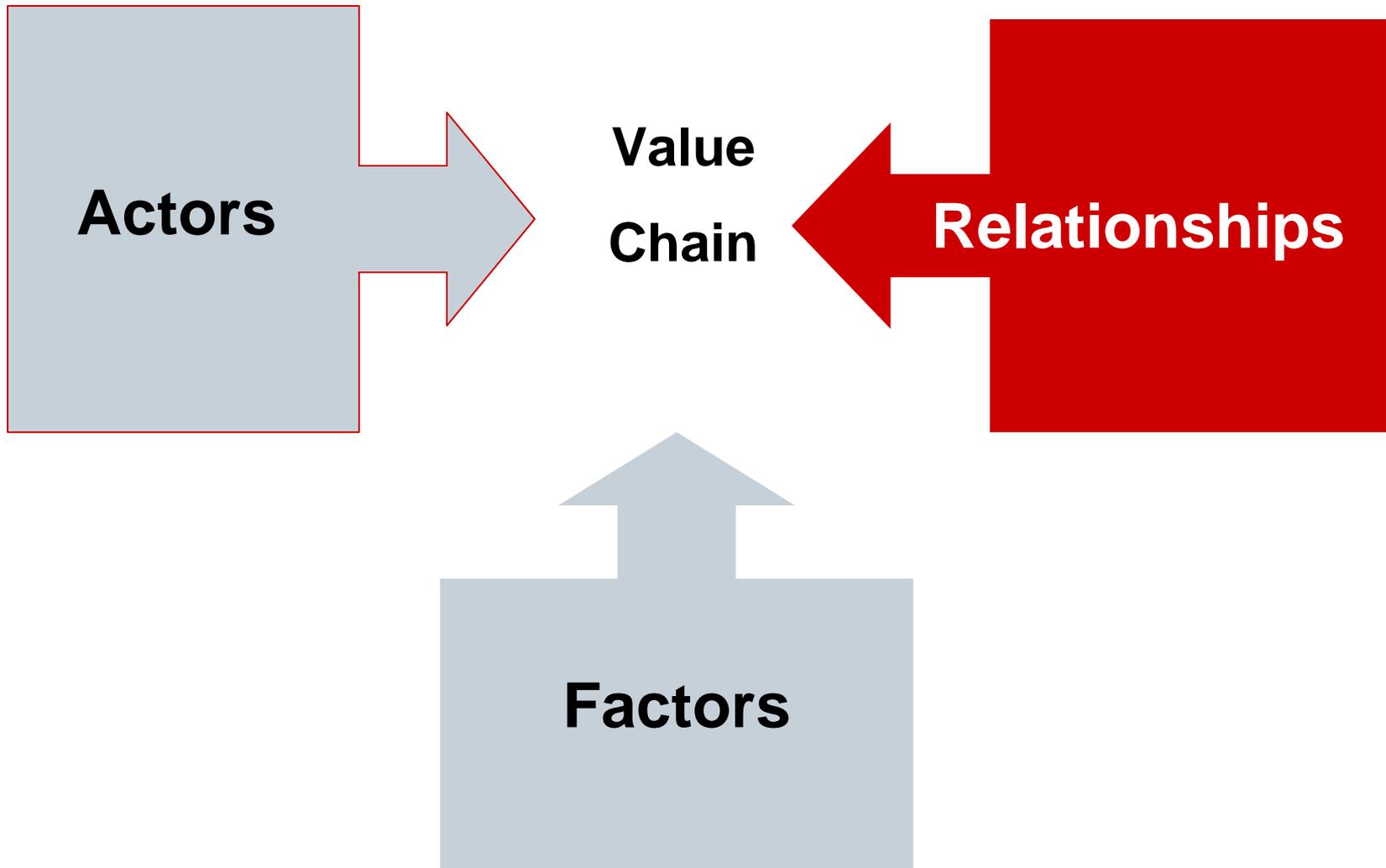
FACTORS AFFECTING VALUE CHAIN COMPETITIVENESS

Firm-Level Upgrading

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

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

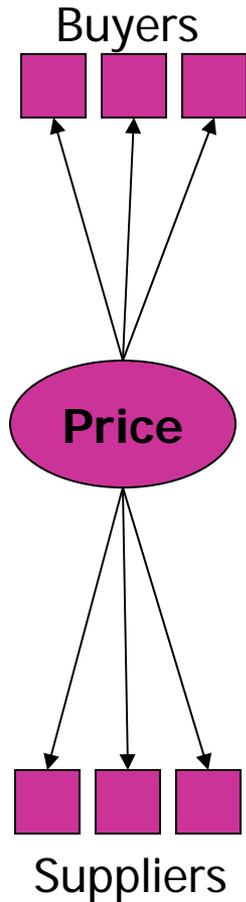
COMPETITIVENESS OF VALUE CHAIN



VALUE CHAIN GOVERNANCE

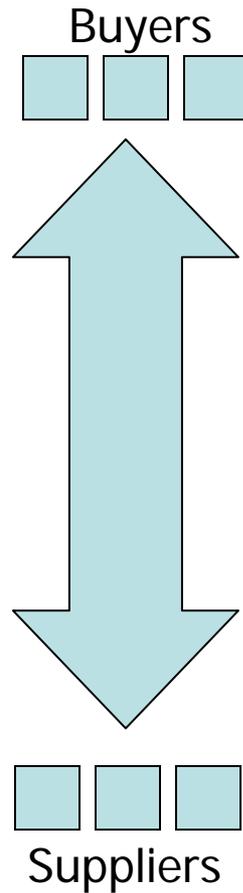
Market

(Tomatoes)



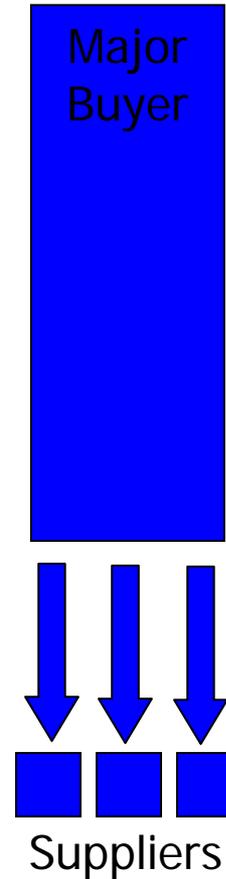
Balanced

(Organic Coffee)



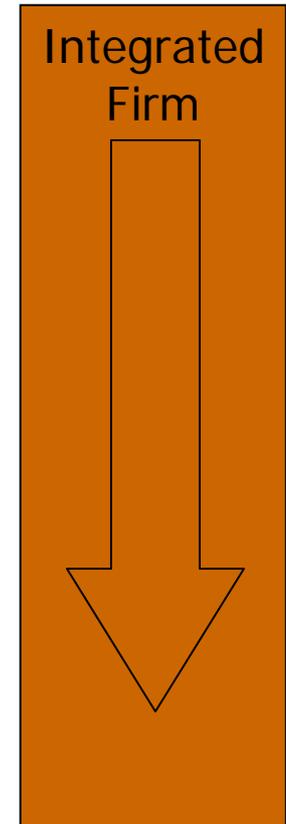
Directed

(Export Crafts)



Hierarchy

(Cut Flowers)

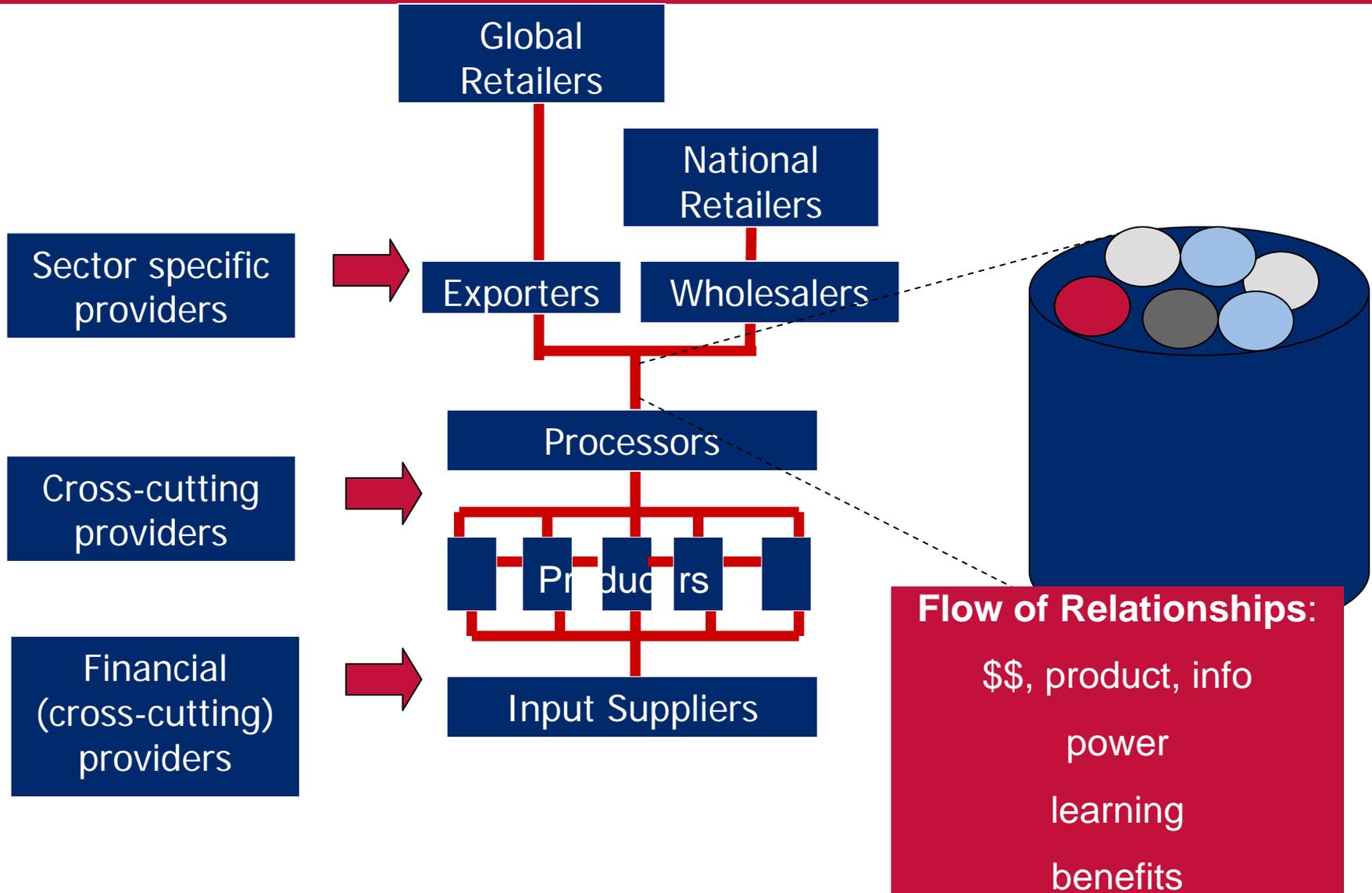


RELATIONSHIPS & VALUE CHAIN GOVERNANCE

- Market-based
 - “arm’s length” transactions between buyers & sellers
 - little or no formal cooperation among participants
- Balanced
 - fairly equal decision making among participants
 - cooperation but no one dominates
- Directed
 - controlled by firm(s) who determine product specifications, trade rules, etc.
- Hierarchy
 - vertically integrated enterprise
 - controls various functions along value chain

Type of governance may also vary between value chain actors

RELATIONSHIPS BETWEEN VALUE CHAIN ACTORS



RELATIONSHIPS AFFECTING VC COMPETITIVENESS

Power / Learning / Benefit

Promote win-win relationships

Asymmetrical

Win-Win



RELATIONSHIPS AFFECTING VC COMPETITIVENESS

Power / Learning / Benefit

Foster learning

Where will learning come from over time?

- Buyers as catalysts for change and learning
- Input suppliers as sources of information
- Traders as disseminators of innovation
- Service providers' contributions to learning

RELATIONSHIPS AFFECTING VC COMPETITIVENESS

Power / Learning / Benefit

Expand depth & breadth of benefits

Sources of Benefit:

- Value of expected returns
- Dependable returns
- Reduced risks

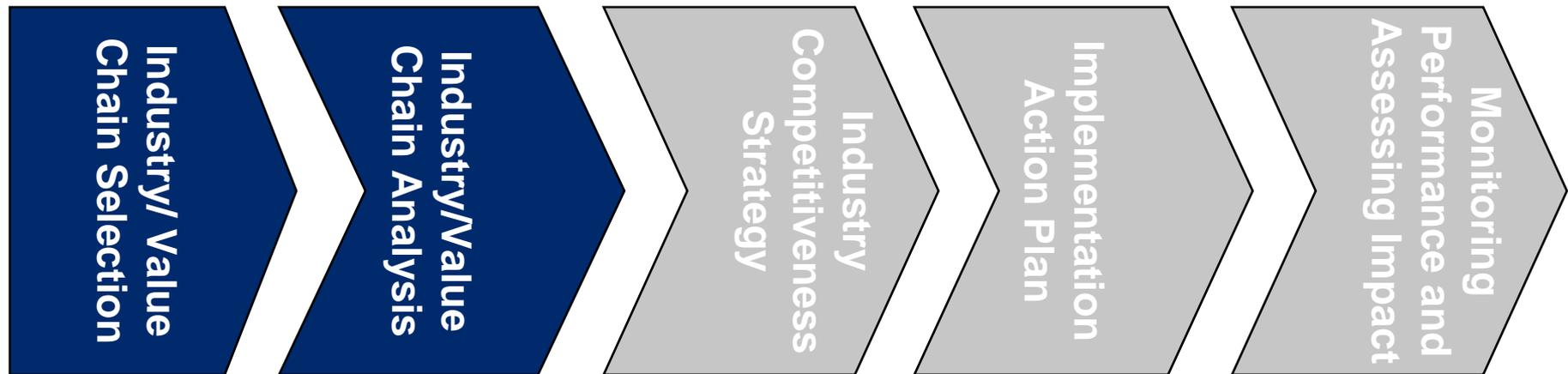
Create incentives for investment



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YOUR QUESTIONS?

THE PROJECT CYCLE



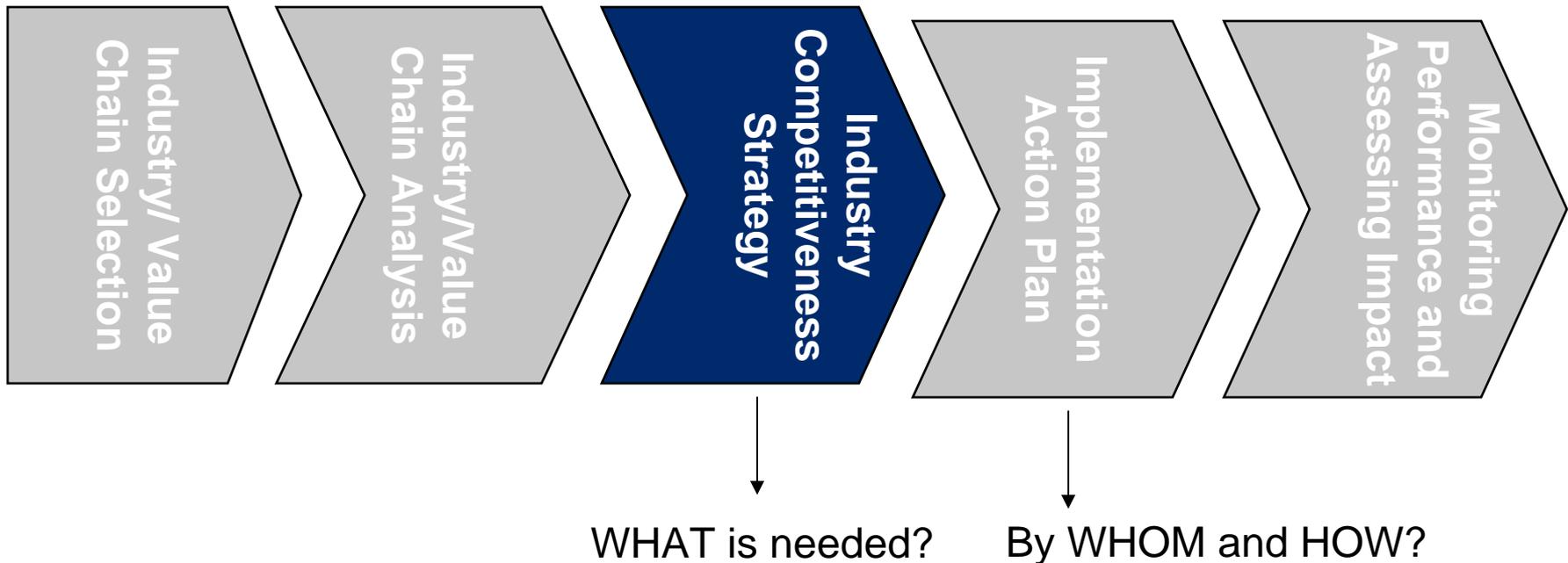
Selection Criteria:

1. Competitiveness
2. Impact
3. Cross Cutting Issues

Analyze:

- *Mapping the Value Chain*
 - *Markets*
 - *Functions*
 - *Channels*
- *Analyzing constraints & opportunities*
 - *Using the VC Framework*

THE PROJECT CYCLE: COMPETITIVENESS STRATEGY



To get to “WHAT is needed” – we need to:

1. Prioritize constraints
2. Identify interventions
3. Develop a process for competitiveness

DEVELOP A COMPETITIVENESS STRATEGY

To optimize the

- Competitiveness of the industry
- Benefits to micro and enterprises (increased employment and income, decreased risk, improved learning)

DEVELOP A COMPETITIVENESS STRATEGY

That involves industry stakeholders



Building industry stakeholders' ownership of the competitiveness process.

Select interventions with the industry stakeholders

DEVELOP A COMPETITIVENESS STRATEGY

Industry stakeholders must come to agreement on:

- How to create **competitive advantage**
- What needs to be the focus of the **upgrading strategy**
- What is needed to **sustain competitiveness**

STEPS: DESIGNING COMPETITIVENESS STRATEGY

1. Identify **competitive advantage**
2. Develop a commercial **upgrading strategy**
3. Create a process to **sustain competitiveness**

STEP 1: CREATING COMPETITIVE ADVANTAGE

End-market demand characteristics affect how or whether and MSE dominated industry can achieve competitive advantage in terms of:

- **Efficiency**
 - Focus on lower costs (competition based on price)
- **Differentiation** by product or management
 - Focus on quality, uniqueness (competition based on differentiation)
- Ability to take advantage of **new demand**
 - Niche markets, fair trade, organic

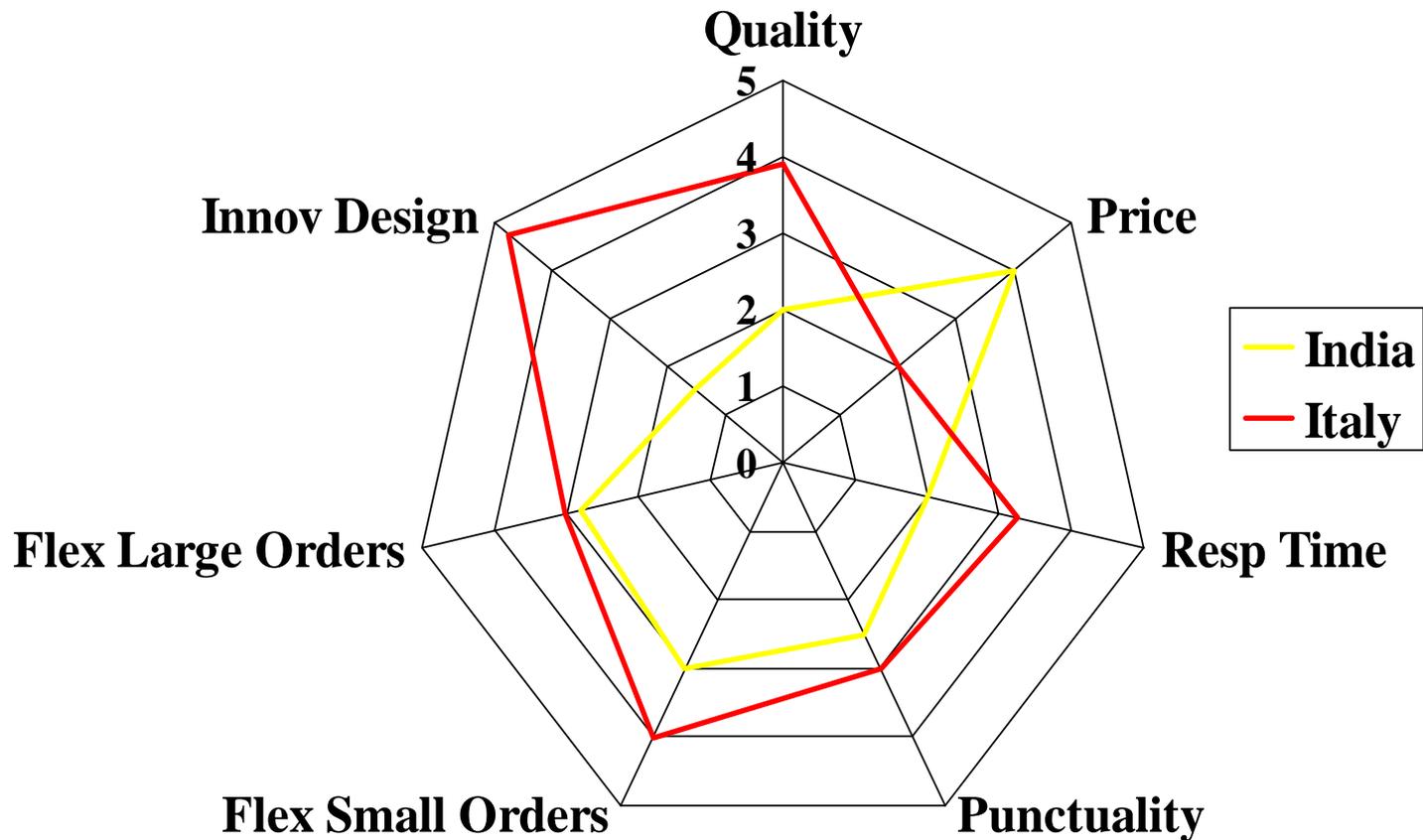
End Markets



Demand

STEP 1: CREATING COMPETITIVE ADVANTAGE cont'd

- Benchmarking



STEP 2: DEVELOPING AN UPGRADING STRATEGY

To **turn comparative advantage into competitiveness**, industries/firms must resolve key constraints and take advantage of opportunities by developing **upgrading strategies**.

Step 2: Developing A Commercial Upgrading Strategy

Post value chain analysis

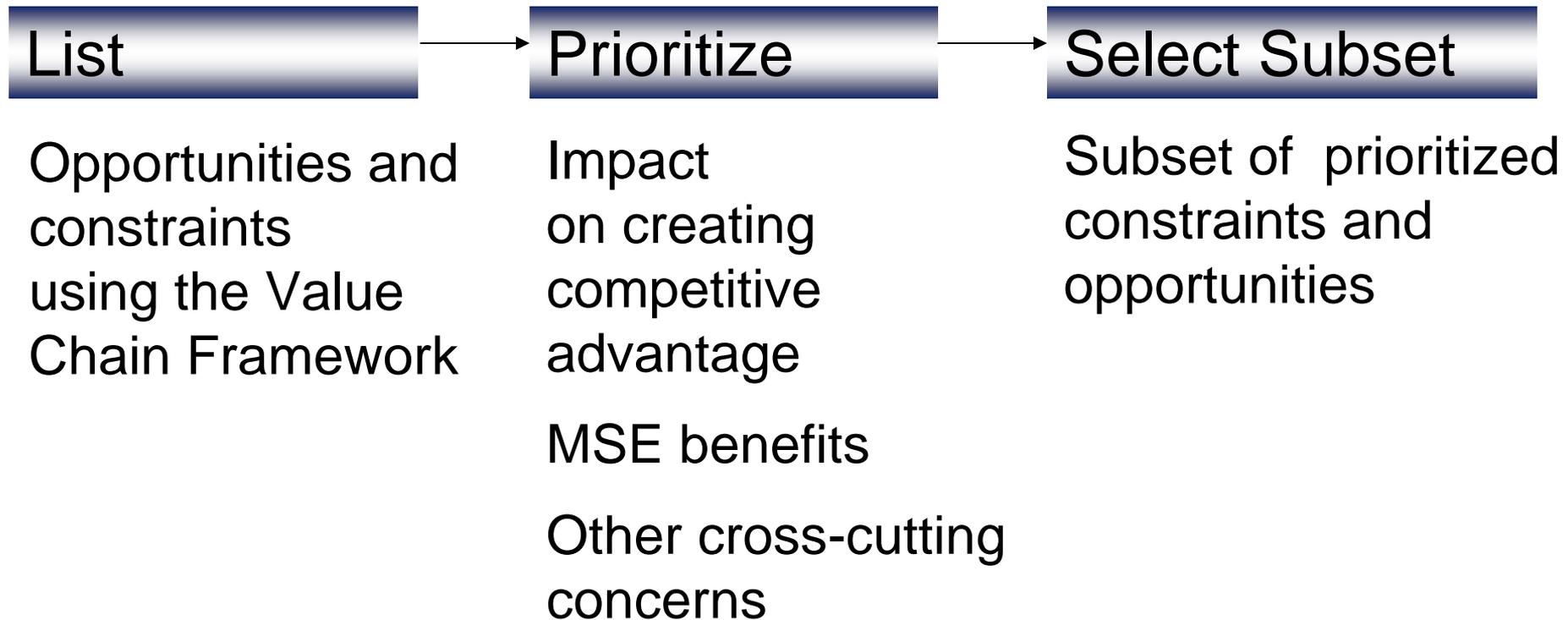
a list of constraints and opportunities...but...



**Do we need to address
ALL of the constraints
to improve
industry competitiveness
and MSME benefits?**

STEP 2: DEVELOPING AN UPGRADING STRATEGY cont'd

Prioritizing constraints and opportunities:



STEP 2: DEVELOPING AN UPGRADING STRATEGY cont'd

Prioritizing constraints using competitiveness lens

- Haiti craft's competitiveness strategy - Go up-market
 - Highly differentiated products
 - New designs every 6 months
 - Improved transport
- Bangladesh shrimp's competitiveness strategy – Improve quality
 - Quality assurance/seal
 - Finance
- Kenya tree fruits' competitiveness strategy – Quality & Quantity
 - Quality
 - EUREGAP
 - Quantity
 - Variety

Step 2: Developing A Commercial Upgrading Strategy

Principles for developing upgrading strategy

- Select interventions (constraints and opportunities) that will result in short term benefits
 - To create **incentives** for change
- Trying to balance longer term competitiveness and shorter term benefits to MSEs
- Upgrade using small “riskable” steps
- Start where the industry is



MARKET STRUCTURE

NO INDUSTRY LEADER(S)

CLEAR INDUSTRY LEADER

MARKET CONDUCT

COLLECTIVE ACTION

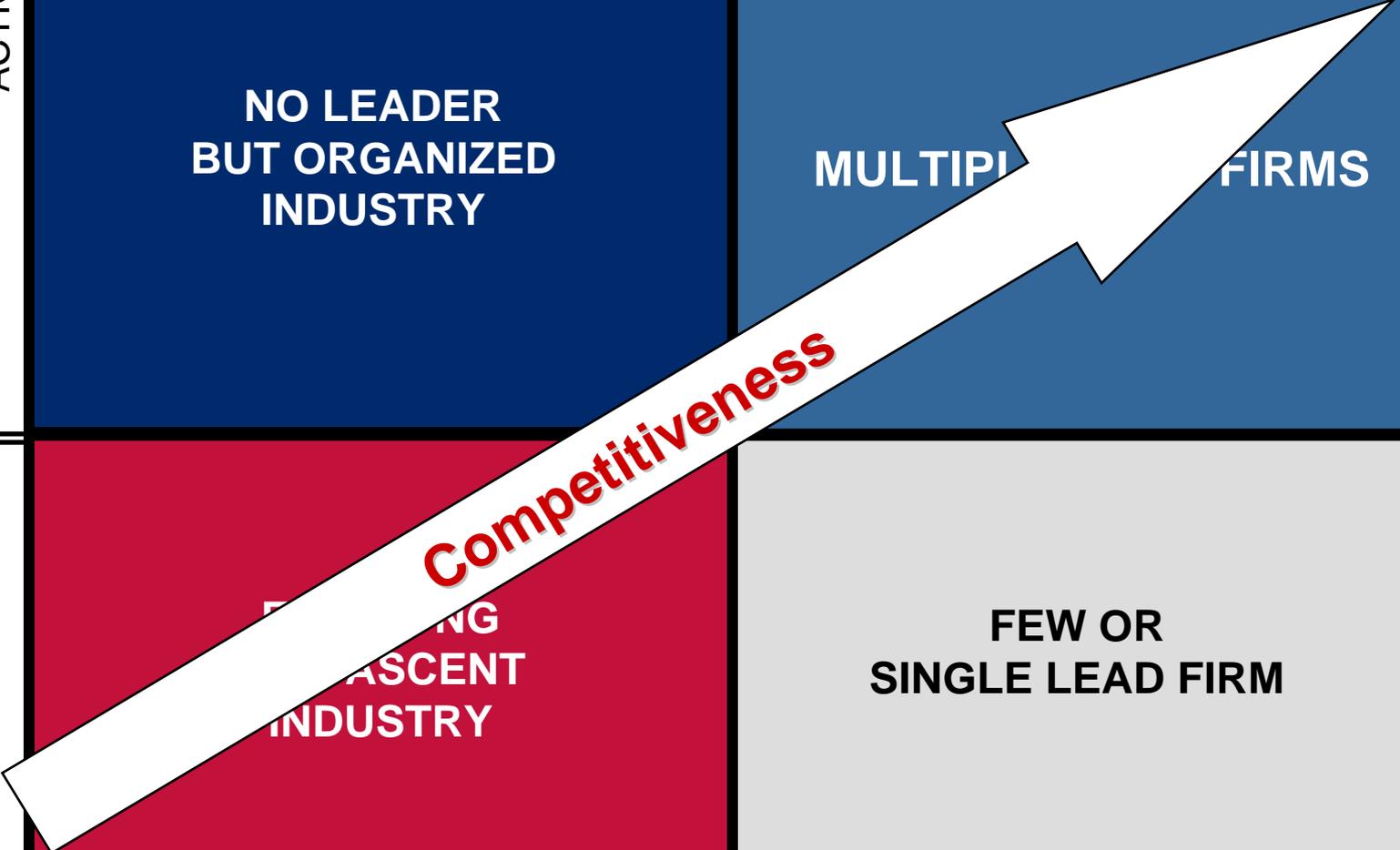
ATOMISTIC

NO LEADER BUT ORGANIZED INDUSTRY

MULTIPLE FIRMS

EMERGING ASCENT INDUSTRY

FEW OR SINGLE LEAD FIRM



STEP 2: DEVELOPING AN UPGRADING STRATEGY cont'd

Importance of incentives to upgrading

- Actors – esp MSEs - must have incentives for upgrading
 - This means that must reap benefits from upgrading
 - The risks must be managed
 - The supporting markets must be in place to enable upgrading
 - Relationships must be win-win

- Case of Mali shea

Step 3: Sustaining Competitiveness

- To achieve and sustain **growth**, industries/firms must be able to respond to **changing market demands** efficiently and effectively.
- This requires improvements in:
 - An enabling environment
 - Cooperation & coordination among stakeholders
 - Win-win relationships
 - Access to learning and innovation
 - Breadth and depth of benefits

Step 3: Sustaining Competitiveness

Individual strategy

Industry shared vision



Few external economies

No 'industry strategy'

"I compete with my neighbor"

**Key participants in the
same boat**

*"My neighbor and I compete
with country X"*

Step 3: Sustaining Competitiveness

Changing behavior – in what way?

Upgrading

New practices

New relationships

Step 3: Sustaining Competitiveness

- Collective action
 - Work toward vision for creating competitiveness
 - Work toward improved efficiency / differentiation
 - Address enabling environment
 - Resolve relationship issues
 - Learning and innovating



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