Strengthening Value Chains to Promote Economic Opportunities

By Ruth Campbell

Most products change hands many times before they reach the final consumer. Input suppliers, producers, processors, wholesalers and retailers produce, transform, store, transfer or market the product, adding to its value at each step in the process. The value chain refers to this range of activities that brings a product—or a service—from its conception to its end use in a particular industry.

Working towards its vision of "a world in which people are empowered to succeed in the global economy," ACDI/VOCA promotes economic opportunities for a wide range of businesses. Many of our programs specifically target micro and small enterprises (MSEs)—including the self-employed such as smallholder farmers—since they employ most of the world's poor. Generally, the best way to support MSEs over the long term is to support the industries in which they participate, since businesses in an industry are largely interdependent. For example, without input suppliers, artisans would be unable to produce their handicrafts, and without ginneries and millers, farmers would be unable to process their crops. Furthermore, in the context of a global economy, competition is not primarily between individual firms within an industry; rather, industries as a whole must compete with similar industries in other countries.

The Value Chain Approach

Taking a value chain approach to economic development involves addressing the major constraints and opportunities faced by businesses at multiple levels of a given value chain. This can include a wide range of activities such as facilitating access to cheaper or better inputs, strengthening the delivery of business and financial services, increasing access to higher-value markets or simplifying export licensing.



The value chain approach is a useful tool in increasing MSE incomes.

The Value Chain Analysis

ACDI/VOCA's value chain approach uses a framework to analyze all the participants in a value chain and the dynamics of the relationships among them (see diagram at right). This value chain analysis looks at interfirm relationships to see how and where they can be used to facilitate production and marketing efficiencies and enable the flow of information, learning, resources and benefits. The value chain analysis also examines other factors influencing the chain's performance, including access to and the requirements of terminal markets, the legal, regulatory and policy environment, and the availability and quality of support services such as financial services, equipment manufacture and repair, business management services and information technology.

Many industries with significant potential to become and remain competitive in global markets provide employment for large numbers of MSEs. Agriculture, tourism, timber production and fisheries, for instance, employ a great percentage of the poor in developing countries. ACDI/VOCA has designed benchmarking tools to assess the competitiveness potential of industries and developed methodologies and approaches to strengthen the overall performance of industries and the MSEs they employ.

Ensuring Sustainability through a Participatory & Stakeholder-driven Approach

ACDI/VOCA's value chain approach is distinguished by two characteristics. First, it is participatory. By working with stakeholders from all levels of the value chain and of all scales to understand opportunities for and constraints to increased competitiveness, ACDI/VOCA is able to identify solutions and nurture both healthy competition and strategic collaboration among industry participants. Second, the approach is stakeholder driven. Business owners and employees are the people whose livelihoods depend on the competitiveness of the industry in which they are employed. It is these firms individually and collectively that must create a vision of success and invest time and resources into making that vision a reality. ACDI/VOCA stands ready and equipped to facilitate this process.

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Determinants of Industry Performance

ACDI/VOCA's value chain approach employs a framework to analyze all the participants in a value chain and the dynamics of the relationships among them. White lines indicate product flows.







