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COMPONENT A: RESEARCH ON CLIENTS AND MARKETS AMAP BDS KNOWLEDGE AND PRACTICE TASK ORDER RESEARCH SUMMARY – SEPTEMBER 2005

The Clients and Markets research seeks to promote economic growth with poverty reduction by building knowledge about the participation of micro- and small enterprises (MSEs) in value chains. It focuses on identifying opportunities for increasing both 1) the contributions that MSEs make to value chain competitiveness and 2) the benefits that MSEs receive. The Clients and Markets research plan, submitted by lead contractor ACDI/VOCA in early 2004, provides the framework for this research and a blueprint for research collaboration between contractors in three AMAP consortia. It includes a shared vision and shared research objectives, an initial conceptual framework, a draft set of hypotheses, and descriptions of initial research activities. In addition, the research plan incorporates structural elements to coordinate the work of the consortia members.

RESEARCH ACTIVITIES

- ***Conceptual Framework and Research Hypotheses:*** 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. From this 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.
- ***Country Studies:*** At the center of the Clients and Markets research agenda is a series of large-scale field studies using a combination of qualitative and quantitative research methods. These country studies are designed to improve the understanding of MSE participation in value chains and identify opportunities for improving value chain competitiveness and MSE benefits through enhanced inter-firm coordination and MSE upgrading. The first phase of the study uses qualitative methods to identify the firms in the value chain, the market relationships between them, and key issues related to MSE participation in the value chain. The second phase includes a survey of two populations: 1) MSE producers and 2) firms in the value chain that buy the products sold by MSEs. The guidelines for the research are provided in a detailed research protocol, which is adapted to fit the context of each country. The first country study was conducted in Guatemala on two value chains that employ large numbers of MSEs: textile handicrafts and high-value horticulture.

- ***Focused Field Research:*** The purpose of the Focused Field Research (FFR) was to provide a qualitative exploration of the research hypotheses related to MSE owners' willingness to participate in value chains, enter new markets, and upgrade their businesses. This field research was conducted within the context of the Guatemalan textile handicrafts value chain and provided important input into the Guatemala country study (see above).
- ***AMAP BDS Knowledge and Practice Lexicon:*** The lexicon was created to provide the team members with a common language for internal and external communication of key value chain concepts.
- ***Understanding Micro and Small Enterprise Growth:*** Based on reviewing a large number of empirical studies and interviewing leading experts, this paper describes current thinking about how MSEs grow. It explores the role of contextual, microeconomic, individual, and firm-level factors in influencing MSE growth, which is defined in terms of increased employment.
- ***Synthesis Paper--Lessons Learned on MSE Upgrading in Value Chains:*** Based on a desk review of nine value chain studies, this paper will synthesize the lessons learned on MSE upgrading by examining how value chain characteristics affect opportunities, constraints, incentives, and disincentives for five types of MSE upgrading (i.e., process, product, functional, channel, and inter-sectoral upgrading).
- ***Barriers and Risks to Horizontal Coordination between MSEs:*** An extensive review of literature will be used as the basis for developing an in-depth understanding of the factors that promote and impede horizontal linkages between MSEs within different cultural contexts. The study will provide information about the conditions that must be met for successful cooperation between MSEs.
- ***Myth of the Malicious Middleman:*** This study will examine the role of the intermediary in bringing to market the products of large numbers of MSEs. It will describe the critical functions of the intermediary and examine how intermediaries might enhance or inhibit MSEs' abilities to succeed in global markets.
- ***Trade-Offs Between Buyer-Initiated and Producer-Initiated Agglomeration Strategies:*** The study will explore different strategies for increasing the horizontal coordination of MSEs' activities or outputs, in order to generate transaction cost savings, increase collective economic efficiencies, improve learning, and/or achieve economies of scale. The paper will examine strategies such as a trader (middleman) organizing the collection of outputs from multiple firms, self-organization by producer groups or

producer cooperatives, or methods for sourcing from large numbers of MSEs that are organized directly by lead firms (e.g., an exporter).

- ***Where is the Wealth? Returns to MSEs in Value Chains:*** This study will use MSE income and other benefit data from several countries to investigate the benefits that MSEs receive from participating in value chains and identify the combination of factors that lead to higher MSE returns.
- ***Component A Annual Management Conference:*** ACIDI/VOCA will host a one-day workshop in 2006 for members of the Component A team, leaders of each of the AMAP BDS consortia, and USAID to share and interpret the findings to date, re-assess the hypotheses, and update the research plan.