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LESSONS LEARNED ON MSE UPGRADING: EVIDENCE FROM NINE VALUE CHAINS

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PRESENTATION OVERVIEW

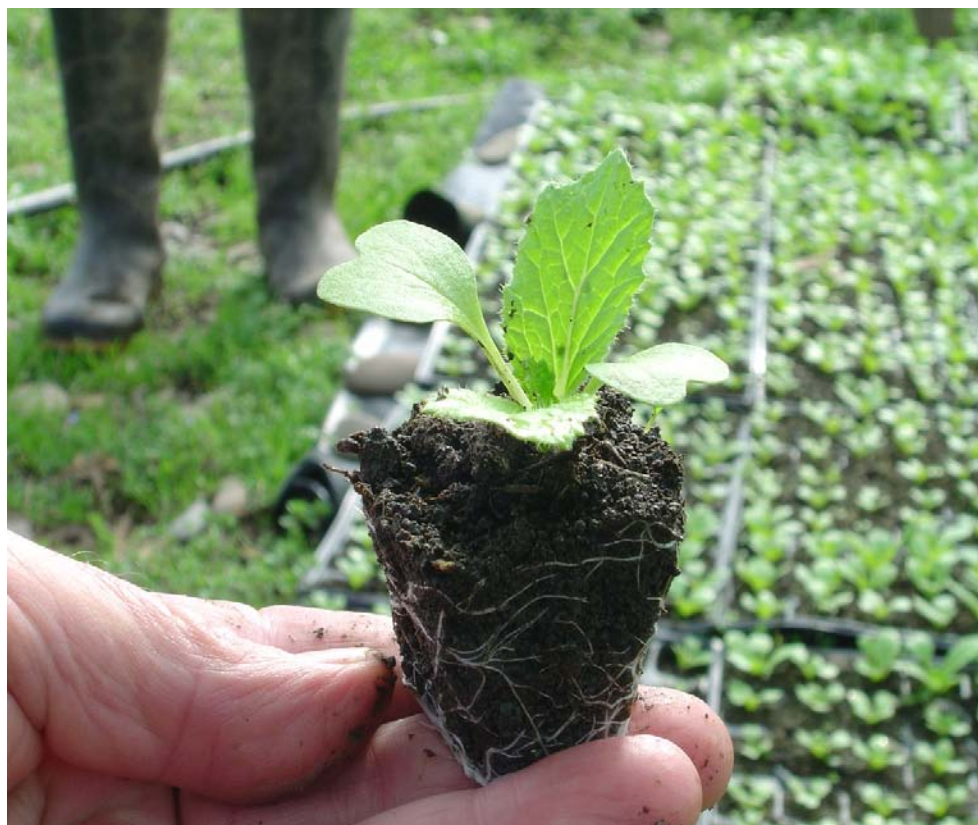
1. Upgrading and MSEs
2. Background on Study
 - study questions
 - 9 value chains
 - study approach
3. Findings
 - by type of upgrading
 - cross-cutting themes
4. Implications for facilitating upgrading



1. UPGRADING AND MSEs

What is upgrading?

- “Innovation that increases value added”
- Types of upgrading
 - **Process**: *efficiency*
 - **Product**: *quality*
 - **Functional**: *level*
 - **Channel**: *end market*
 - **Intersectoral**: *new value chain*
- Focus of study: firm-level upgrading by MSEs



1. UPGRADING AND MSEs

Why care about MSE upgrading?

- **Globalization:** Upgrading can facilitate MSE participation in wider markets
- **Economic Growth:** Upgrading can enhance value chain (VC) productivity and competitiveness
- **Poverty Reduction:** Upgrading can increase the benefits to MSEs



2. BACKGROUND ON STUDY

Key Research Questions

- What are the **conditions** that favor MSE upgrading?
- How is MSE upgrading influenced by the **structure of the value chain**?
 - End market opportunities
 - Business enabling environment
 - Vertical linkages
 - Horizontal linkages
 - Supporting markets
- What are the recurrent upgrading **needs of MSEs** and how can they best be met?



2. BACKGROUND ON STUDY

Value Chains Included in Study

Handicrafts	Guatemalan textiles
	Indian handmade shoes
	Pakistani embroidery
Agriculture	Honduran horticulture
	Guatemalan horticulture
	Indonesian cocoa
	Kenyan avocado
	Mozambican oilseeds
	Mexican specialty coffee

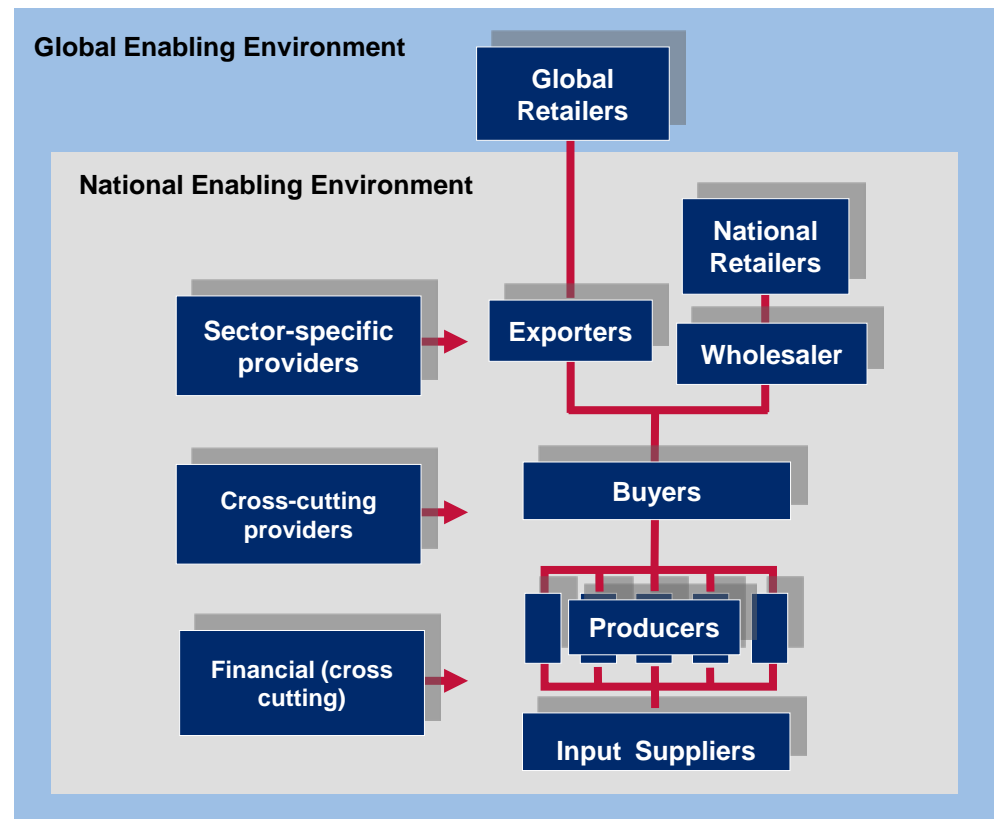
2. BACKGROUND ON STUDY

Study Approach



- Document review
- Data matrix for each VC
 - 5 VC characteristics
 - 5 types of upgrading
- Upgrading as **decision** made by MSE owner, based on
 - incentives
 - risks
 - constraints

GLOBAL VALUE CHAIN



3. FINDINGS

Findings in Five Areas

- Process Upgrading
- Product Upgrading
- Functional Upgrading
- Channel Upgrading
- Cross-Cutting Themes

Two Types of Findings

- Main driving forces
- Generalized patterns



3. FINDINGS: PROCESS UPGRADING

Process upgrading (PCU) is driven by the need to cut costs and/or increase output in response to competition

- **Vertical linkages** are important source of information and technical assistance for PCU
- **Horizontal linkages** also are source of information and learning for PCU
- Lack of **investment capital** can be a major constraint to PCU



3. FINDINGS: PRODUCT UPGRADING

Product upgrading is driven by changes in end markets associated with changing consumer preferences

- A **well-functioning VC** transmits both **information** about consumer preferences and the **price signals** associated with those preferences
- Since firms buying from MSEs must satisfy their own buyers, they often provide MSEs with **embedded services** to encourage product upgrading



3. FINDINGS: FUNCTIONAL UPGRADING

Functional upgrading is driven by the desire to improve the flow of market signals to producers, the desire to eliminate the market power of intermediaries, or both

- When an intermediary is eliminated, its **functions** are taken on by MSEs, by their buyers, or by both
- When needed functions are not performed reliably, a **new layer** of firms may be (re)introduced between buyers and MSEs
- Moving to a new level of the value chain entails significant **risks**



3. FINDINGS: CHANNEL UPGRADING

Channel upgrading is driven by MSE owners' desire to increase benefits, reduce risks, and/or enhance long-run sustainability

- Channel upgrading is a **dynamic** response to dynamic market conditions
- Selling to **multiple market channels** may be best strategy for maximizing MSE benefits



3. FINDINGS: CROSS-CUTTING THEMES

- There is often an **interplay** between different types of upgrading, especially product upgrading
- **Physical and social distance** can hinder upgrading
- **Information and communication technology** can facilitate upgrading



4. IMPLICATIONS FOR FACILITATING UPGRADING

- **Evaluate incentives and risks for MSE upgrading**
 - Consider factors affecting MSE owners' decisions
 - Consider lead firms' incentives to assist MSEs
- **Identify and facilitate opportunities for learning**
 - Learning often precedes upgrading
 - Much learning can be embedded in value chain
- **Improve MSE access to market information**
 - Vertical linkages play a critical role in transmitting market information and price signals to MSEs
 - Market information improves MSE bargaining power
- **Facilitate MSE access to investment finance**
 - Matched to upgrading opportunities

4. IMPLICATIONS FOR FACILITATING UPGRADING

- **Promote effective collaboration between MSEs**
 - To improve learning, information, bargaining power
 - To reduce lead firms' transaction costs
- **Identify socio-cultural factors that affect relationships**
- **Reduce MSE isolation**
 - Physical infrastructure and communication
 - Literacy and social capital
- **Resist urge to herd all MSEs into one market channel**



CONCLUSION

THANK YOU!

**What do YOU think about the
implications?**

**Please watch for upcoming paper:
www.microlinks.org**

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PHOTO CREDITS

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