

# Sustainable business in value chains as a driver of development

## *Concepts and Models Examples from Central America*

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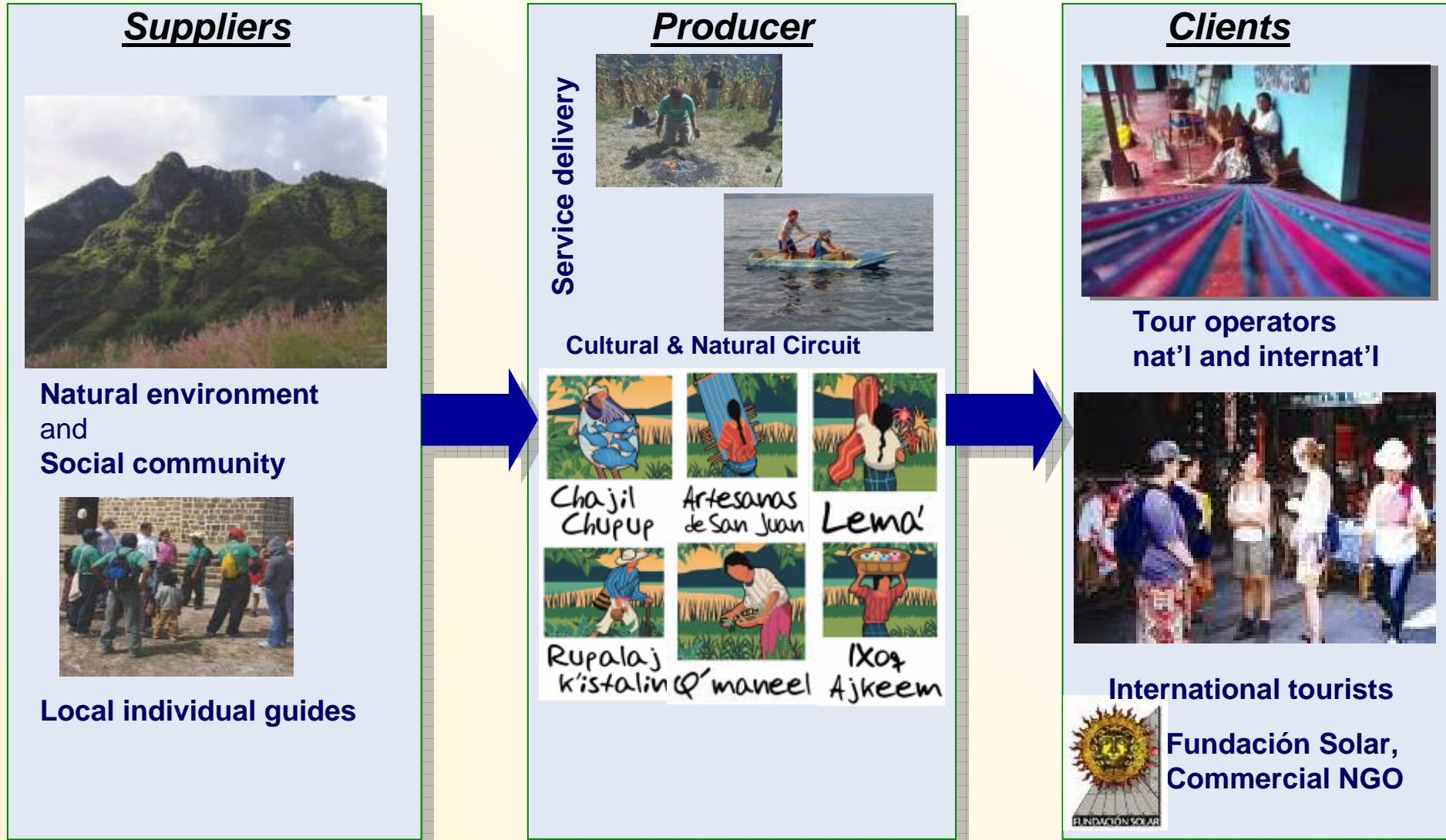
Advisor in eco-business, Danida, 2006-2009

*Premaca: Regional Environment Programme in Central America*

*Component 4: Eco-business*

# Example: Tourism

- ✓ Marketing and improvement of community tourism in San Juan la Laguna, Sololá, Atitlán, Guatemala.



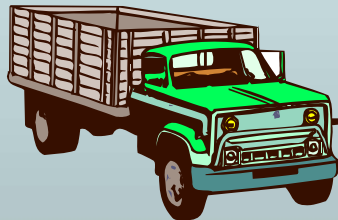
# Example: Sundried fruit



## Suppliers



Individual farmers' and groups' production



Transport

## Producer



Preparation



Drying with Solar Energy



Packing and design of display products

## Clients



Supermarkets

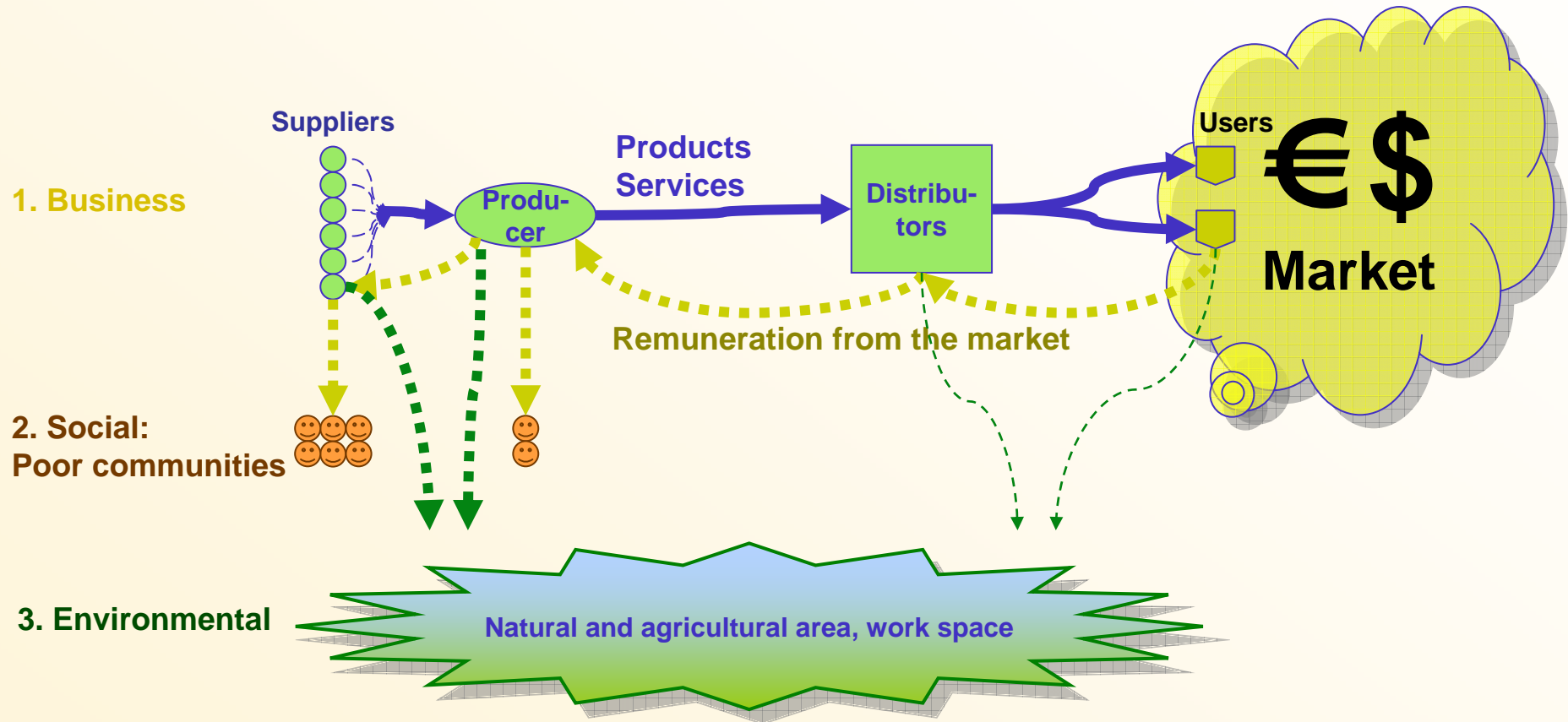
Markets  
México, USA, Europe



**Alimentos Campestres**

# Eco-business in development aid

Forrige Sidste Seneste

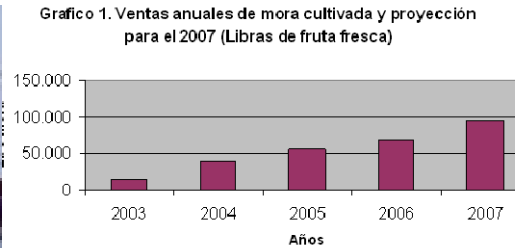


# Successes of Premaca-4

## Award / Prize in Honduras (FUNDER)

### Mora Lenca

- black berries
- clean production
- CSR



## Award / Prize in Guatemala (AGEXPORT)

### Danida

- Institutional
- Export support

### Chirrepec

- Fair Trade tea

### Mabeli

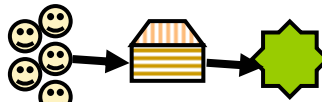
- Spa products



## >> Three models for value chains in Premaca-4

# Development Models of Premaca-4

## 1. Agro-business



### Strategy :

- push-strategy
- product and process
- management and investment

### Risk, assumption, complexity:

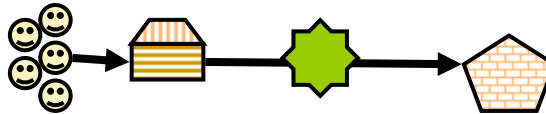
- market demand is there
- bottleneck is volume and quality
- clear focus, one business

### FUNDER (4b)

- 3-phase model, 4-8 years
- savings programme
- directly involved



## 2. Business chain



### Strategy:

- pull-strategy
- specific client demand
- technical assistance

### Risk, assumption, complexity:

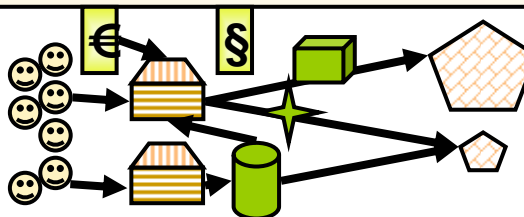
- bottleneck is market demand
- credit is available
- motivation comes from demand

### AGEXPORT (4a)

- 2 year model
- not start from bottom
- administer developm.aid



## 3. Business cluster



### Strategy:

- integral, bottleneck strategy
- multi-sector synergy
- private - public

### Risk, assumption, complexity:

- regional closeness motivates
- complex strategy
- sub-optimizing is not enough

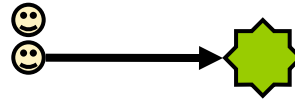
### FIDE (4b)

- Long time horizon
- not start from bottom
- mediate and inspire



# Alternative development models (not used)

## Micro-agriculture



### Strategy :

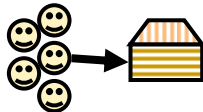
- self supply -> market profit
- differentiation
- bottom-up innovation

### Risk, assumption, complexity:

- limited risk
- tradition is the bottleneck
- local, small step, family scale

### NGO & Government

- traditional model
- livelihood
- 



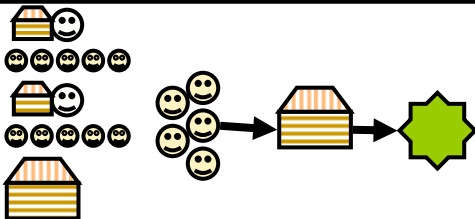
## Organization development:

- capacity and conscience training
- social
- .....

These models are not used in Premaca-4 as basic development models.

The two first ones though are often:

- supposed to have been used prior to Premaca-4 or
- used as sub-models when necessary



## Integral development:

- families
- schools, housing
- health
- .....

# Local business culture

... in Guatemala and Honduras

## Poor peoples' situation and background:

- Lack of education (low **human capital**). A simple farmer cannot have or easily acquire know-how for new products and processes
- Difficult access to credit (low **financial capital**)
- Simple technology (low **physical capital**)
  
- Lack of trust in others (low **social capital**, civil war and colonization)
- Environment full of **bureaucracy**
- Environment influenced by **criminality**
  
- Feudal and **paternalistic culture**  
(reinforced by traditional Finca-, State- and Int'l Aid culture)
- Small, **family size** (even though not efficient because of high transaction costs)
- Short sighted and **risk averse**
- >>**Life is difficult for the small farmer**

# International food convention



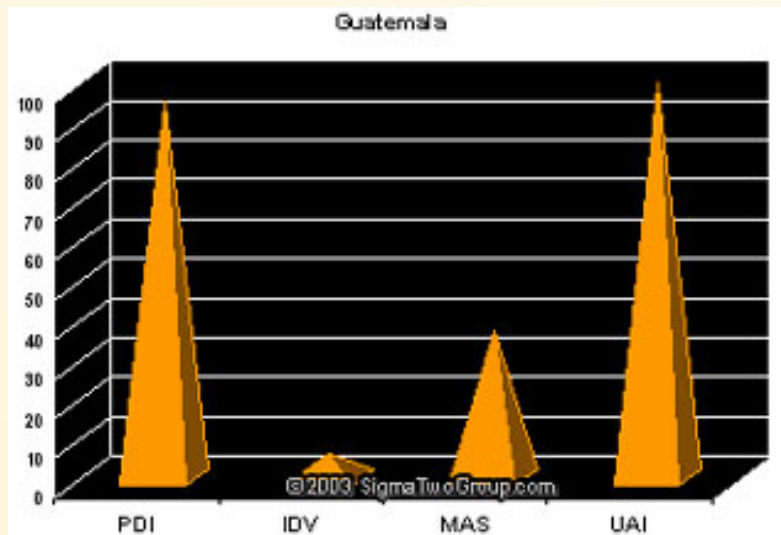
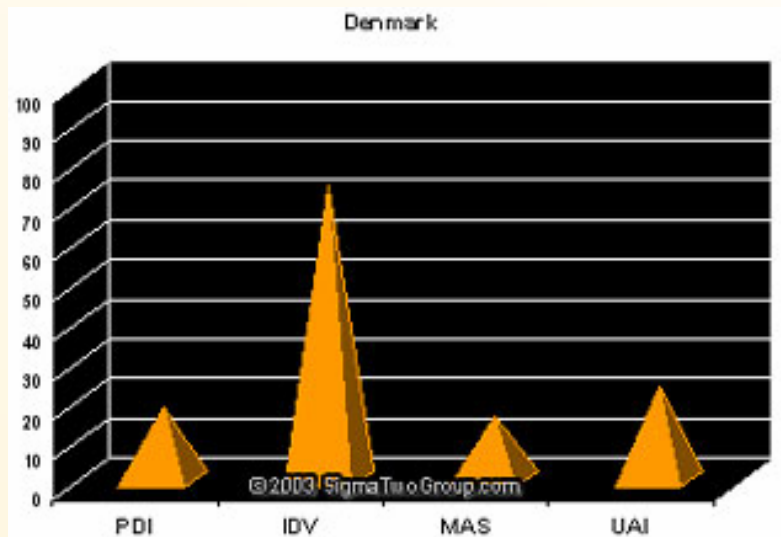
**19 - 20 de MARZO, 2009**

ANTIGUA GUATEMALA, CASA SANTO DOMINGO HOTEL & CONVENTION CENTER

LA FERIA AGRICOLA INTERNACIONAL MAS IMPORTANTE DE CENTROAMERICA



# Denmark vs Guatemala Culture



## Gert Hofstede's™ Cultural Dimensions

Denmark and Guatemala are almost totally the opposite.

A big challenge for development aid and B2B.

## Notes

PDI: Power Distance Index

IDV: Individualism

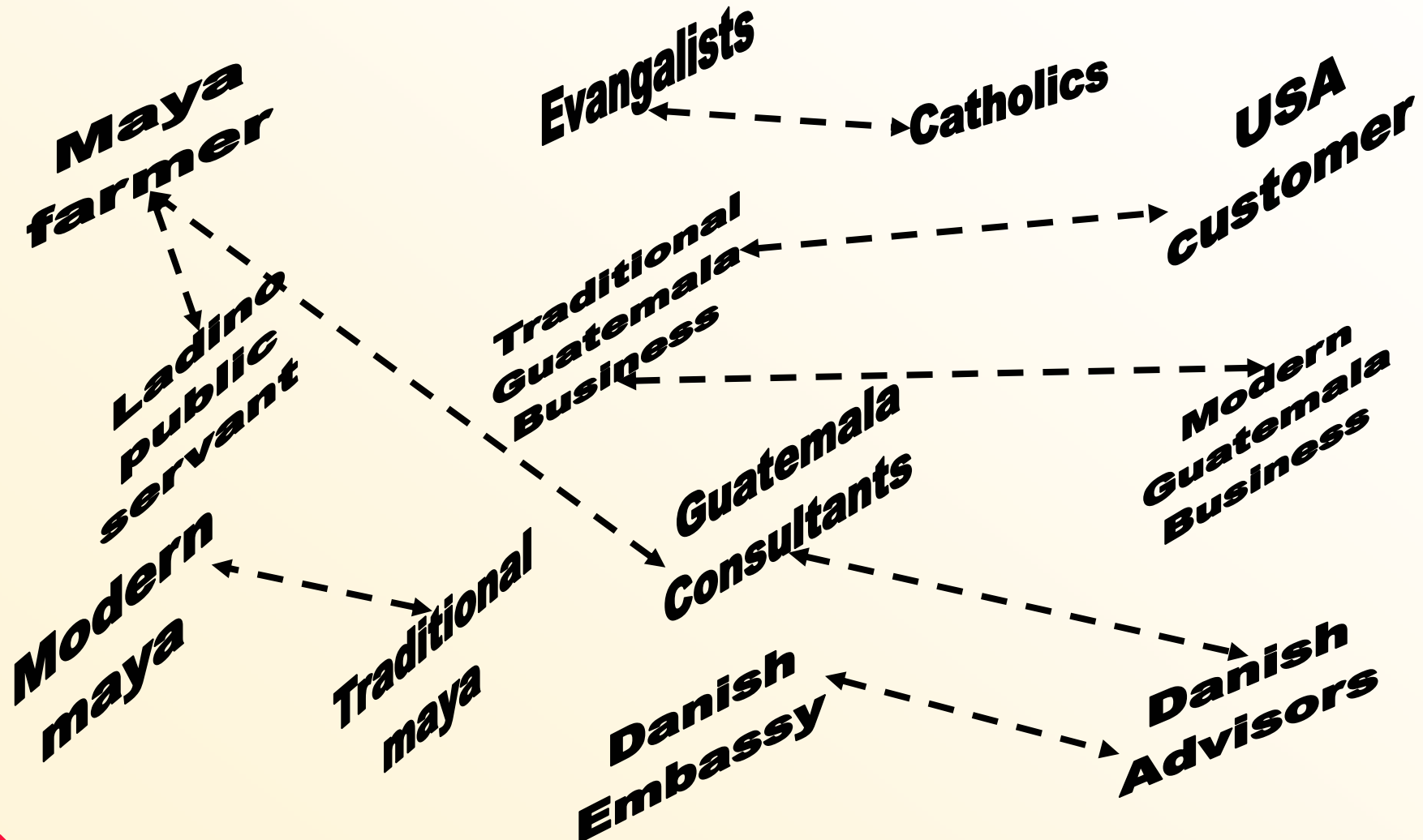
MAS: Masculinity

UAI: Uncertainty Avoidance Index

Source: [www.geert-hofstede.com/hofstede\\_dimensions.php](http://www.geert-hofstede.com/hofstede_dimensions.php)

# Cultural groups in Guatemala

... it is not just a clean cut Denmark–Guatemala difference. It is multidimensional:



# >> Private sector development

# Different private sector approaches

## Micro-macro

- **Individual businesses**
- Selected sectors (Agriculture, Tourism)
- Geographic communities
- National countries
- Multinational regions
- Global context

## Business environment:

- Legislation
- Schools
- Credit facilities (micro or trad. bank)
- Public services
- Leader training
- Professional consultants

## Commercial politics:

- Import / export restrictions and quota
- Standards (food security, environment, work conditions, ....)
- Fair trade movement
- WTO, EU agriculture, .....

## Business chain complexity:

- Business to Business B2B (bilateral partners with Danish lead firm)
- **Value chains**
- Clusters
- .....

## Functional areas:

- Technology transfer
- Cleaner production
- Marketing, CBI, Centre for Promotion of Imports from developing countries, agency of the Netherland Government.
- Training

## Supplementary criteria for development aid:

- **Environmental**
- **Social**
- Self supply, equality, growth
- Human rights

# Private sector (dis-)advantages

## Some advantages of a market driven, bottom-up, private sector:

- Generates economy (money, products, knowledge,...)
- Promotes entrepreneurs and leaders, rather than bureaucrats and managers
- “Liberates” individual human energy, makes people work hard and dedicated
- Learning by doing (successes and failures)
- Simplifies decisions
- Fewer meetings, reports, studies
- Motivates by external drivers
- Continuous renewal (not 4 year elections and clean out)
- Reduces corruption and bureaucracy
- Avoids worse alternatives (emigration, narco-trafficking, ...)

## Some disadvantages:

- Social losers are at a loss (at least at short sight)
- Collective goods come later (when wealth makes it possible)
- Macro-economical sub-optimization
- Lemming effects

# Drivers in the private sector

## What drives business development:

### ***Micro-level:***

- Profit
- Power and influence
- Self realisation
- Need of food, housing, security
- Coincidence .....

### ***Macro- / meso-level :***

- National comparative advantages
- Sector comparative advantages....

## Who drives business development:

### ***Micro-level:***

- Strong personality in the chain
- Individual stakeholder.....

### ***Macro- / meso-level:***

- Local or national politician
- Strong personality in a professional association.....

## Some rules-of-thumb:

Drivers are a sine-qua-non,  
that is they are essential !

Without obvious drivers: Forget it !

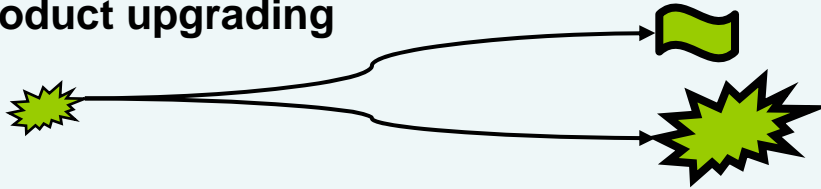
The development model must  
fit the primary drivers !

A suboptimal idea implemented with energy  
gives a far better solution than  
an optimal idea implemented without energy

# >> Value adding / upgrading

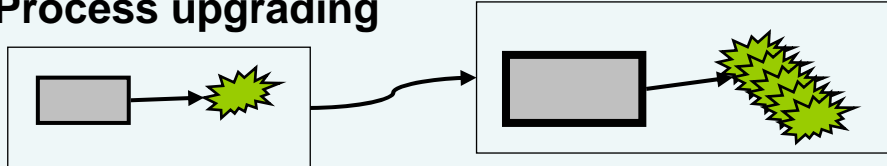
# Upgrading (where in chain) (Econ, Soc, Envir)

## 1. Product upgrading



More value-added products

## 2. Process upgrading



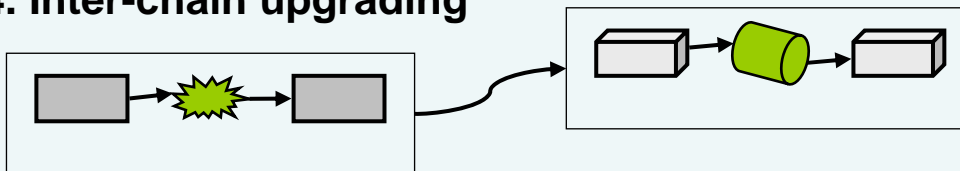
Producing more efficiently

## 3. Functional upgrading



Engaging in more value-adding positions in the chain, ex:  
Assembly -> OEM -> ODM -> OBM

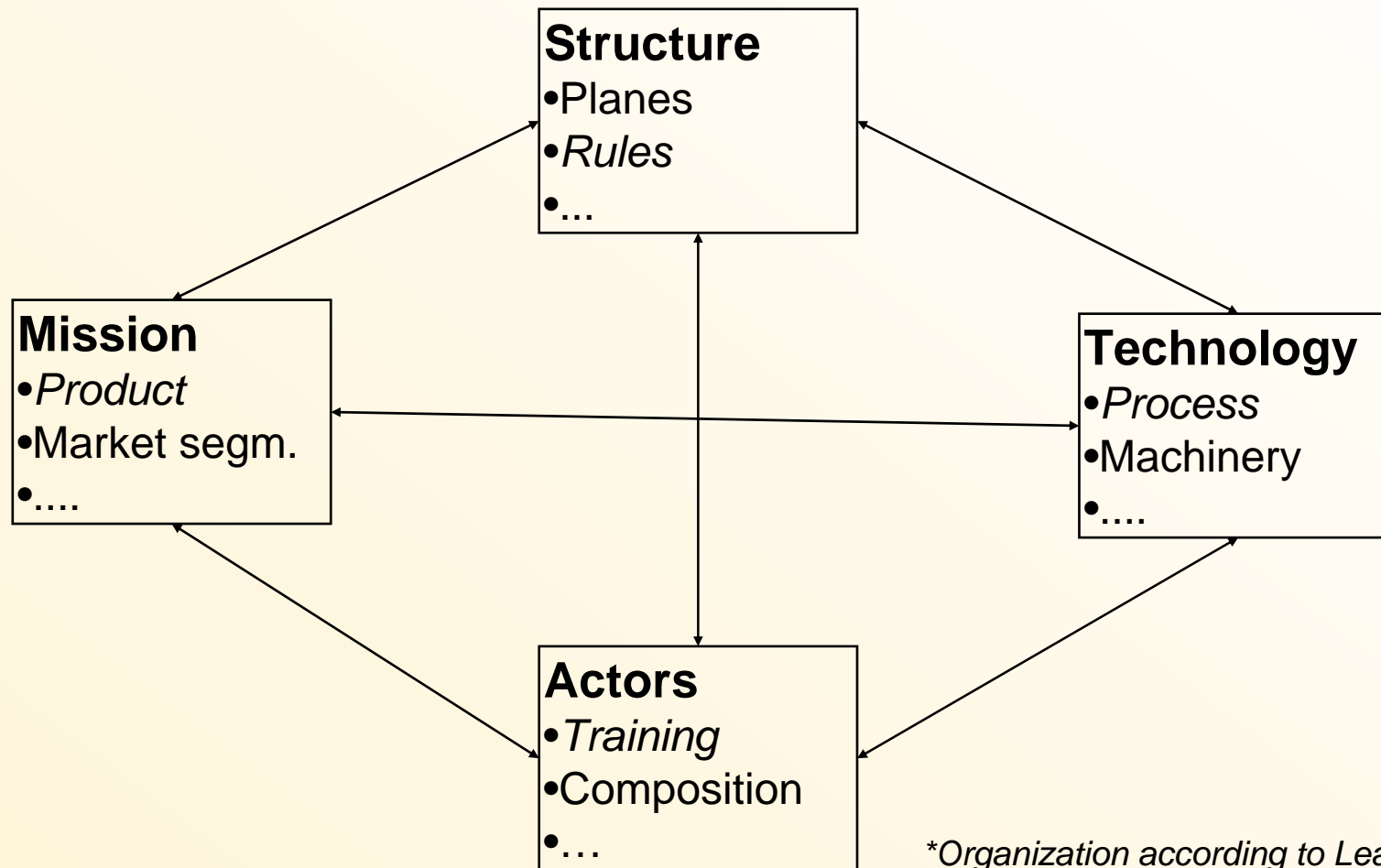
## 4. Inter-chain upgrading



Moving to a more value-adding chain, maybe another market

# Upgrading, where in organization

*The **eco-qualities** can show themselves  
or be produced in several areas\**



*\*Organization according to Leavitt's model*

# >> Value chain development and facilitation

# Why Value chain?

## Some advantages of business chains with lead firms:

- Gets change going now
- Promises a “better life”, “something better”
- Opens up to the free market
- Maintains a paternalistic culture
- Facilitates access to rich markets for poor producers
- Bridges the marketing know-how gap
- Gives jobs to people with low training
- Good learning process
- .....

## Some potential disadvantages (maybe):

- Monopolizes power to some extent in the chain
- Maintains a paternalistic and hierarchical approach
- Opens up for more advanced exploitation
- .....

# Phases of a value chain development

## Top-down

1. **Identify**  
Market potential  
Sector competitiveness  
Potential chains  
Lead firms
2. **Understand**  
Why is market not exploited  
Challenges for expansion  
Inhibiting factors
3. **Design**  
Strategy  
Systemic approach
4. **Implement**  
Engage facilitator  
Execute activities  
Adapt to changes

## Bottom-up

1. **Identify**  
Chains with good potential  
Drivers  
Facilitator
2. **Initiate**  
Business plan, participative process  
Fast successes, low hanging fruit
3. **Develop**  
Ensure focus on on-going business  
Execute decided project activities
4. **Exit process**  
Revise Business plan  
Stabilize new elements  
Celebrate successes

Very much the Premaca-4 approach

Macro- / meso-  
economy

Product		
Market	Present	New
Present		
New		

Micro-  
economy

Both models (for donor's intervention) have their pro's and con's !!

# >> The Development Aid System

# Danish development policy

## Programme objectives (Premaca 4)

- poverty reduction
- environmentally friendly
- commercial

## Paris Declaration

- harmonization (inter donors)
- alignment (donor-executor)
- ....

## Transversal Themes of Danida



- gender
- indigenous
- human rights
- regionalization (C.A.)
- HIV/AIDS
- .....

# Gender and indigenous



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# Paradigms for business development

<u>Predictable world</u>	<u>Turbulent world</u>
Plans	Visions
Control	Flexibility
Monitoring	Acting
Managers	Entrepreneurs
Analysis	Gut feeling
Optimal	Good enough
Refine	Reinvent
Efficiency	Creativity
Instruct	Inspire
Disciplin	Drive
Stable	Robust
Logical Framework	Game Plan
Processes	Results
The right solution	Many opportunities
Experts	Drivers

“Turbulent world” is often the most relevant approach to the private sector

Goals and means for development depend on context and world view

# Help style

<u>Paternalist style</u>	<u>Peer-to-peer style</u>
TA*: Parent <-> Child	TA*: Adult <-> Adult
"We like docile partners !"	"We like independent partners !"
"We know best !"	"We all have valuable knowledge !"
"Do this !"	"Consider this !"
"Understand it now !"	"Learn by doing !"
"Copy my model !"	"Take inspiration from these models !"
"We love you !"	"We respect you !"
"We will save you !"	"You must save yourself !"

Both styles have their pro's and con's,  
Peer-to-peer style goes best with independent,  
entrepreneur type business people

TA\*: Transaction Analysis, communication Parent – Child – Adult