

**Minutes:
Global Value Chains Working Group – Danida Inspiration Meeting**

**Tuesday, March 9th, 2010 – 13:00-16:00
Meeting Room 1, Department of Geography and Geology, University of Copenhagen**

Participants: Arne Wangel (DTU), Flemming Winther Olsen (UM), Hans Henrik Madsen (UM), Ingrid Kelling (DIIS), Iona Eberle (DDRN), Jakob Lindahl (RUC), Janne Schneider (UM), Kaspar Nielsen (DIIS), Kostas Karantininis (KU), Kris B. Prasada Rao (DDRN), Lars Christian Oxe (UM), Lotte Thomsen (ITU), Olav Jull Sørensen (AAU), Peter Gibbon (DIIS), Peter Lund-Thomsen (CBS), Søren Borch (ConDiv)
Rapporteur: Iona Eberle

This Global Value Chains Working Group held an informal inspiration meeting with Danida to discuss possibilities for the integration and utilisation of value chain approaches in the private sector framework of the new Danida strategy.

1. Introduction

Overview of Danida's process - Janne Schneider (JS), ERH, Ministry of Foreign Affairs (UM)

Janne Schneider opened the session by briefly introducing current discussions in relation to the new Danida strategy, which in alignment with the recommendations of the Africa Commission will have added focus on private sector driven growth. In relation hereto, there is an interest in better integrating new concepts, including value chain approaches in B2B strategies and other business programmes.

Considerations regarding GVC tools in new strategy - Hans-Henrik Madsen (HM), UFT, UM

Hans-Henrik Madsen presented two Danida-supported projects in Albania and Ukraine, where value chain analysis (VCA) had been applied in order to define local needs and strengthen the value chain. Drawing on experiences from these cases HM noted that:

- While extensive research had been done on the production side, the marketing dimension was often left unexplored.
- There may be many reasons as to why a given value chain may not function optimally, thus making it difficult to assess where and how to target interventions. In the case of fruit production in Albania for instance, issues with the value chain in question could just as much be conceptualised as a matter of (lack of) quality of the product as a matter of lack of marketing.

Conclusively, HM asked whether other instruments, projects or programmes could be integrated in value chain development such as B2B, credit mechanisms etc.

2. Case presentations

Sustainable business in value chains as a driver of development: Premaca programme - Søren Borch (SB), Consultant

Søren Borch gave an introduction to the Ecobusiness component of the Danida-supported Premaca programme, a regional environment programme in Central America, and opportunities and challenges of value chain approaches in development projects were discussed.

The Ecobusiness component of the Premaca programme aimed at targeting and uplifting poor communities by developing environmentally sustainable business opportunities and business chains, based on the premise that market remuneration should flow back to primary producers and suppliers. Different projects such as community tourism development and dried fruit processing, marketing and branding were initiated. SB highlighted the Premaca programme in Guatemala, where the Ecobusiness component was instigated in cooperation with three different organisations, each applying a different development model, reflecting three different approaches to business and value chain development.

The three different development models were:

1. Agribusiness model, which relied on a “push” strategy focusing on the producer and the start-up phase of the business and support to management.
2. Business chain model, which adopted a “pull” strategy with focus on demand and bottlenecks related to market demand.
3. Business cluster model, which had an integral bottleneck strategy and aimed at multi-sector synergy with focus on stakeholders other than producers and consumers, such as local municipalities and credit institutes.

The Ecobusiness component principally adopted a bottom-up approach based on local producers and existing needs, with an overall focus on entrepreneurship and business development. Some of the advantages of value chain development as reflected in the Premaca programme, was the ability to build on an existing paternalistic culture where lead firms took on a ‘parental role’ and could support other entrepreneurs and producers, as well as the supporting of links and relations between companies. This was especially important given the local context, which is marked by low social capital and lack of trust. However, SB also underlined that the maintenance of a paternalistic culture also may have notable disadvantages as it can monopolise power, maintain hierarchies and open up for more advanced exploitation. SB also introduced opportunities for value chain development from a top-down approach, which allows for the identification of market potential and sector competitiveness, and the identification of potential chains and lead firms that could be supported. Ideally, bottom-up and top-down approaches should be combined.

SB concluded that some of the central experiences with value chain development were the following:

- Attention should be paid to local (business) culture. As an example, Gert Hofstede’s Cultural Dimensions Index reveals that Denmark and Guatemala are virtually at opposite ends of the spectrum, which presents a big challenge for development aid and B2B. Furthermore, it is important to remember the multidimensionality of cultures and consider cultural links, gaps and differences between different social groups in the partner country.
- Business drivers are central. Attention to business drivers and entrepreneurship – who and what drives business – is essential - “a suboptimal idea implemented with energy gives a far better solution than an optimal idea implemented without energy”.
- Attention needs to be given to the business vs. aid challenge. Business and development generally have different paradigms and working ‘cultures’.

Entrepreneurship and value chains: Dried fruits in Tanzania - Olav Jull Sørensen (OJS), Aalborg University

Olav Jull Sørensen first introduced some principal concepts in global value chains (GVC) and presented examples from cases in Vietnam, Georgia and Tanzania.

OJS identified five basic questions pertinent to GVC and analysis:

1. Formation: Who and how are multiple actors linked?
2. Management: How is the chain managed, what tools exist for coordination?
3. Embeddedness: How are the actors connected to specific places?
4. Relations: What mechanisms tie actors together (governance)?
5. Location: Where are the actors located (spatiality)?

OJS underlined that GVC is a flexible instrument and can be applied to study different phenomena and for different purposes – e.g with focus on value creation, environment or knowledge flows. Therefore, value chain frameworks may vary substantially depending on the the aim of the study, and value chain analysis will have to be supplemented with other models, instruments, literary sources etc. Attention to support actors within a value chain framework is of key importance. A question that remains to be answered in this regard is where and how donors should position themselves in a value chain context. OJS furthermore underlined that in VCA, companies often are treated as black boxes, yet the companies themselves are central to VCs and there is much knowledge to be derived from investigating

internal functions and actors within a company. In addition to company analysis a value chain framework may benefit from competition analysis, as competition via the entrance of other actors strengthens the value chain. It was also highlighted that our understanding of entrepreneurship generally is very limited and needs to be developed, which is reflected by the fact that the entrepreneurship of producers in the South often is overlooked.

Subsequently, OJS introduced three cases from an appraisal study related to the development of value chains (local and global) for fish and fruits/berries in Georgia, and dried fruits in Tanzania.

- Fish GVC in Georgia: The fish GVC was based on an already existing local value chain, and was borne out of a context of import substitution and increased demand for the product due to urbanisation and growth in income and tourism. A value chain approach was found to be suitable in this case, where a clear gap between demand and production existed.
- Fruits/berries VC in Georgia: Value chain development was needed in the face of the loss of the Russian market, which previously had been the target of apple exports, and a local market that was too small to absorb the production.
- Dried fruits in Tanzania: This was a triple helix project with cooperation between researchers, the private sector and government/donors to develop a value chain 'from scratch'. In this case the sector is both donor driven and subsistence oriented, and the focus was on value chain association and enhancing communication between links.

Key experiences from the case studies include:

- The link between information flow and production flow. In the case of fruits/berries in Georgia, notable challenges occurred in relation to the lack of support actors (government and cooperative institutions), and with a notable lack of agricultural extension services, the building of the value chain was challenged by the commercialisation of knowledge generation and the information flow. Additionally, the building of the value chain was constrained by limited land availability as farmers on average only had 1 ha of land, which perhaps would enable the farmers to survive, but not to prosper.
- The importance of drivers such as urbanisation and tourism growth in the case of the fish GVC.
- Theory of learning as an important part of VCA.

3. Discussion

JS opened the floor by returning to the question of possibilities for using value chain approaches in business sector strategies. HM asked whether value chain approaches can be utilised to create synergies between donors and/or programmes in order to address needs and gaps.

The discussion initially focused on the concept of a value chain and value chain analysis, and the many different definitions and application possibilities. More research on what a value chain approach and what value chain support actually means, was needed. It was underlined that the development of a toolbox or methodology may especially be pertinent in a donor context. Furthermore, it was noted that in the discussion on how to implement value chain analysis in business sector strategies and development programmes, the direction of a given strategy and anticipated goals had to be established as well as the gaps and needs that a VCA should address.

The mismatch between the business sector and business-focused strategies on one side and development on the other was underlined. It can be difficult to align both directions as development practitioners and government institutions often may not be thoroughly familiar with the rules of the game when it comes to business. It was stressed that one should pay more attention to broader/new types of partnership definitions when applying VCA in a B2B framework. Furthermore, the incorporation of VCA in a B2B framework may also open up for the integration of other types of Danish businesses that might find a VCA beneficial.

The need for attention to local contexts both in relation as to identifying which value chains or sectors may need support as well as whether VCA may be relevant at all, was continually underlined. Consideration must be given to questions of land tenure and other developments such as urbanisation and migration. Moreover,

a better understanding of the producers that would be targeted in a VC project in terms of needs and ambitions, as well as a better understanding of entrepreneurship as such is needed.

With respect to benefits of, and possibilities for, VCA in development strategies, it was highlighted that:

- VCA can be helpful in defining and quantifying problems in a set chain or framework.
- A VCA can make it easier to target an intervention (instead of having a sector-wide approach).
- There is potential learning to be derived from CSR projects, which rest on value chains.
- Relying on 'pull' mechanisms in the targeting of VC projects was seen as beneficial, as there is an already established market for the product.

In conclusion, it was underlined that the question of applicability is central - one will need to balance theoretical approaches and ideas with demands on the ground. VCA should be thought of as a method in different projects and programmes, not as a new paradigm. Furthermore, it was stressed that a key challenge with respect to donor involvement in the development of value chains will be to align the short-lived timeframe of many donor projects with the long-term timeframe of entrepreneurs and producers, and the need for long-term involvement that many value chains may require.