

Green Growth in Practice
Lessons Learnt
from promoting
Eco-Enterprises in Honduras and Guatemala



under Danida's
Regional Environmental Programme in Central America
PREMACA

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ABBREVIATIONS AND ACRONYMS

| | |
|----------|--|
| AGEXPORT | Association of Exporters of Guatemala |
| CCAD | Central American Environment and Development Commission |
| CSR | Corporate Social Responsibility |
| Danida | Danish International Development Assistance |
| DKK | Danish Kroner |
| D.O. | Denomination of Origin |
| FAO | Food and Agriculture Organisation of the United Nations |
| FIDE | Foundation for Investment and Development of Exports (Honduras) |
| FLO | Fair-trade Labelling Organisation |
| FUNDAECO | Fundación para el Ecodesarrollo y Conservación |
| FUNDER | Foundation for Rural Enterprise Development (NGO in Honduras) |
| GAP | Good Agricultural Practices |
| GDP | Gross Domestic Product |
| GMP | Good Manufacturing Practices |
| HACCP | Hazard Analysis and Critical Control Point – system to assess food safety risks |
| ICT | Information and Communication Technology |
| IFAD | International Fund for Agricultural Development |
| INCAP | Institute of Nutrition of Central America and Panama |
| ISO | International Organization for Standardization |
| IUCN | International Union for Conservation of Nature |
| M&E | Monitoring and Evaluation |
| PEE | Programa de Encadenamientos Empresariales – AGEXPORT’s value chain programme |
| PIU | Project Implementation Unit |
| PPP | Purchasing Power Parity |
| PREMACA | Danida’s Regional Environmental Programme in Central America |
| Qq | Quintal (100 pounds~46 kg), (metric quintal=100 kg) |
| R&D | Research and Development |
| REDD | Reduced Emissions from Deforestation and Degradation |
| S.A. | Sociedad Anónima (private shareholding company) |
| UNCTAD | United Nations Conference on Trade and Development |
| USD | United States Dollar |
| UTZ | UTZ Certification is a large sustainability programme for coffee, cocoa and tea. Before 2007, known as certification by the Utz Kapeh Foundation |

Note: The above-mentioned certification agencies have different standards and regulations for the various product groups. Information may be obtained from their websites, e.g. www.globalgap.org, www.fairtrade.net/our_standards.html and www.utzcertified.org

PREFACE

In 2005, the Danish government approved a grant of DKK 250 million in support of a Regional Environmental Programme in Central America (PREMACA), designed with a 5-year implementation period (2005-10) and four components with the following objectives and budget frames:

Component 1. Institutional support to the Central American Environment and Development Commission (CCAD): *“By late 2010 CCAD capacity has been strengthened as regards implementation of the Central American Regional Environment Plan.”* (DKK 15 million)

Component 2. Support to environmental research and advocacy organisations: *“The countries in the Central American region, by means of the research and advocacy work carried out by civil society organisations, have made progress in the construction and implementation of local, national and regional policies, legal frameworks and environmental norms which are articulated in sustainable development policies.”* (DKK 51 million)

Component 3. Support to decentralized environmental management in Honduras and Guatemala: *“Decentralized environmental management in Honduras and Guatemala has been strengthened at both local and national level and poverty has been reduced, thus improving the environment and quality of life among the population in selected municipalities.”* (DKK million 124 million)

Component 4. Support to eco-enterprises in sustainable management of natural resources and poverty reduction in Honduras and Guatemala: *“Income and employment have been generated in poor communities in Guatemala and Honduras by establishing successful enterprises based on environmental conservation and the sustainable management of natural resources.”* (DKK 40 million).

In addition, DKK 20 million was allocated for an Advisory and Monitoring Unit. During implementation, budget allocations have been revised and the implementation period has been extended till end 2012 where the Danish support will be phased out.

At the time of approval of PREMACA, the detailed design of Component 4 had not been developed. For Guatemala, it was ready by mid 2006 allowing start at the end of the year, while for Honduras design and appraisal was done late 2006/early 2007 with activities starting during 2007. Thus, at the time of this lessons learnt exercise, operations had been on-going for four to five years.

The Component applies a value chain or supply chain approach in its promotion of “eco enterprises” which are not “ecological enterprises” but enterprises that make progress towards sustainability in three areas: economic (financial/commercial), social (employment conditions, gender, livelihoods), and the environment, - the goal being that the eco-enterprises become profitable and viable, but with a strong social and environmental responsibility. Performance, results and impacts are assessed as highly satisfactory by this Study, an assessment that is also supported by rewards and prizes given to the interventions in Honduras and Guatemala.

In order to assess if there are lessons that may be used in other contexts, the Danish Ministry of Foreign Affairs launched this lessons learnt exercise. According to the Terms of Reference, *the component is “an example of green growth before the term came to be”, and it has received international acclamation. It delivers excellent results on all three parameters of sustainable development, economically, socially and environmentally. It is well anchored locally in the existing institutions (both public and private) but also has an international perspective, being part of a “sustainable” niche in the international trade agreements.*

Part of the success may be explained by specific contextual factors in Guatemala and Honduras and the capacity of the implementing partners which may not be found in other countries. This study attempts to identify such special circumstances in order to develop lessons that have some validity in other contexts (please refer to Chapter 7). The study attempts to answer the following specific questions of the Terms of Reference:

1. “What are the circumstances around and prerequisites for the success of the component; and what is the replicability of the approach in other regions e.g. Africa?”
2. How did the preparatory and pre- implementation studies and consultative processes facilitate the success by identifying specific drivers toward sustainable green production and marketing, and by identifying specific bottlenecks to be overcome to make successful value chains?
3. How has capacity development been part of the component’s activities and outcomes? What is the use of Technical Assistance in this respect?
4. Are results sustainable? This relates to economical, social and environmental sustainability”.

For implementation of the study, Chief Economist Jakob Grosen of Development Associates ApS was contracted. He visited Honduras and Guatemala during 4-17 December 2011 and was supported by two resource persons, Dr Isabel María Pérez Chiriboga and Mr Ruben Gallozzi Calix, who undertook case studies and systematised the monitoring data of the implementing institutions. Valuable support was also provided by the implementing partners and by the office of PREMACA in Guatemala City.

The support for eco-enterprises has influenced hundreds of different enterprises and thousands of individuals. Each of them has a different story to tell and this relatively brief report can only capture a few. Further information can be obtained from PREMACA’s website www.dinamarca.org.gt as well as from the websites of the implementing partners, FUNDER www.funder.hn, FIDE www.hondurasinfo.hn, SNV www.snvla.org, and AGEXPORT www.export.com.gt

EXECUTIVE SUMMARY

Under its Regional Environmental Programme in Central America (PREMACA), Danida has over the period 2006-2012 invested some DKK 50 million in promoting eco-enterprises in Honduras and Guatemala. The investment has almost exclusively been in the form of technical assistance. Special focus has been on enterprises of rural producers in poor and often socially excluded indigenous communities. The majority of the supported enterprises are engaged in traditional export crops (coffee, cocoa and tea), horticulture, handicrafts/manufacturing and eco-tourism.

“Eco-enterprises” are not only enterprises with ecological production but many different types of enterprises, which are improving on the economic, environmental and social dimensions.

On the economic dimension, the enterprise should be profitable and generate increasing profits and income for members and shareholders through growing sales and better prices. Support is provided for development of contractual relationships with buyers, better supply and quality management, marketing and various environmental certifications to improve market access and prices.

On the environmental dimension, the eco-enterprise must engage in a gradual process of improving its environmental management, either through conservation and rational use of national resources or through improved cultivation, processing and manufacturing methods. Technical assistance is provided for transforming the production, processing and manufacturing systems as well as improving recording in order to obtain environmental/quality certifications which vary according to what is realistic and feasible and demanded by

the buyers. For example, for vegetables, subject to pest attacks, the ambition may be to obtain certification of Good Agricultural Practices (GAP) to ensure that pesticides are used without any risks to producers and consumers, while for coffee and cocoa producers, who have hardly used any chemical inputs, the ambition may be to move to some type of organic certification.

Third, the eco-enterprise must have a social dimension, engaging in processes that have various positive impacts on members, workers and the local community. Support has been provided for improving the capacity and participation of women, and several enterprises have invested in improving the education of their members. More recently, the issue of malnutrition and health has also been addressed.

Design and Implementation

For implementation of the support, Danida partnered with two not-for-profit private associations of exporters, FIDE in Honduras and AGEXPORT in Guatemala. In Honduras, a partnership was also established with FUNDER, an NGO specialised in development of rural enterprises. Furthermore, SNV, a Dutch NGO, was engaged for knowledge management. In addition, design and implementation encouraged the implementing partners to enter into alliances with institutions that have relevant services for eco-enterprises, e.g. related to the social and environmental dimensions.

All partners had previous experience in promoting value chains with rural producers and the design was therefore largely based on their systems and methodologies, however with the difference that the environmental and social dimensions now had to be included. During implementation, the partners developed their own more

specific strategies for these dimensions, e.g. strategies for gender equality, and applied these strategies to their entire portfolio, not only to the Danida-funded value chains.

Unlike other value chain programmes, limited investments were made in market studies. Instead, concrete and real market opportunities were identified by the implementing partners and their member exporters and producers. Thus, the market was not approached as a “theoretical concept”, but as “the supermarket Walmart in the capital, or the importer Mr X in Houston or Frankfurt”.

A second special feature is a substantial technical assistance investment per eco-enterprise, in many cases in the range of USD 50,000 – USD 100,000. Some enterprises have received a mentor or manager for a year or more, plus up to 10 different high-quality short-term inputs in areas such as management and accounts, conversion of production systems to obtain environmental certification, websites, marketing and packaging materials, cultivation and processing technologies, waste management etc.

In the case of start-ups, FUNDER often invests capital and provides a temporary manager. This addresses a common problem faced globally by rural enterprises of poor farmers during their start-up phase, where they do not have sufficient turnover to employ professional staff, and none of the farmers have background and skills for management.

The robustness of any value chain depends on the commitment and decent behaviour of the producer and the buyer. To confirm this commitment, the implementers have used various measures, such as demanding that the buyer co-finances the technical assistance, and that the producers provide counterpart contributions. FUNDER has in

some cases demanded that the producer group goes through a pilot commercialisation exercise to ascertain if the group has the discipline and cohesiveness to comply with the requirements of the buyer.

Results and Impact

By end 2012, some 150 eco-enterprises will have received direct support. In addition to these direct beneficiaries, there are numerous indirect beneficiaries, including buyers, input suppliers and service providers as well as farmers who supply to the eco-enterprise though they are not members. The supported eco-enterprises have within a period of 5-6 years generated some 10,000-15,000 jobs, annual incremental sales and income of at least USD 6 million and USD 4 million respectively, implying a very satisfactory return on the Danida investment of about USD 10 million. The majority of the enterprises are on a positive growth path, and therefore the figures are expected to further improve in the years to come. Moreover, the partners have adopted the eco-enterprise concept and methodology for their entire value chain portfolio, and in the case of AGEXPORT and FUNDER, it has been solidly institutionalised.

Many of the eco-enterprises have within a couple of years doubled their turnover from a combination of increased volume and higher prices. Price improvements from environmental certifications vary between products and over time, with changing market conditions, but can be significant; for example, an eco-enterprise, producing macadamia nuts, obtained a 300% price increase following organic and Fair Trade certifications.

On the environmental dimension, the majority of the eco-enterprises have obtained or are in the process of obtaining some kind of product certification (GAP,

organic, traceability, Fair Trade, UTZ etc.). Improved handling or elimination of pesticides has an immediate positive impact on the health of producers and consumers. In the longer term, positive impacts on natural resource sustainability are expected from better management. Better practices have also been introduced in processing and manufacturing, including handling of residues and waste products.

In Honduras, micro enterprises have been formed of solid waste collectors who are among the poorest and most socially excluded in the society. They are now collecting solid waste at the source instead of scavenging on a garbage dump, involving considerable health risks. Contracts have been made with large recycling companies, providing much better prices. This initiative is complemented by PREMACA's support for environmental management in selected municipalities.

On the social dimension, there have been notable improvements in women's participation in the work and in company management as well as in ownership of land and company shares, not very common in these highly male-dominated societies. The technical assistance support has provided many members with skills and confidence to manage not only the enterprise activities but also to engage in community affairs. Furthermore, their success in business has earned them recognition and respect in a society where indigenous communities often are marginalised and socially excluded.

The technical assistance approach may also partly explain the progress on social empowerment. Though poor, the eco-enterprise members have not received a "poor treatment". Instead, they have received first class technical specialists, obtained a professional company image,

and been invited to participate in trade fairs in the US and Europe.

Sustainability

Many of the supported eco-enterprises are on a sustainable growth path but will in the future depend on alliances. Part of the strategy has been to assist the eco-enterprises with development of alliances with buyers, input suppliers, financial institutions, local governments, environmental and social agencies, and other donor programmes.

The implementing partners will need to support several of the eco-enterprises, after termination of PREMACA funding. As their eco-enterprise-programmes are now widely recognised among development partners, FUNDER and AGEXPORT have already secured sufficient funding from other development partners to continue their programmes for several years to come.

Lessons

The lessons or success drivers relate to the design and implementation stages. Some of the key ones are summarised below.

A key success driver has been the anchoring of implementation in associations of buyers/exporters (FIDE and AGEXPORT) and FUNDER with strong links to buyers. This has allowed implementation to be guided by concrete and real market opportunities rather than "5-year plans". Furthermore, as the selected partners already had prior experience in working with value chains of rural producers, it was possible to quick-start implementation.

The support has been designed not as "a Danida programme" but as support for the partners' different programmes, facilitating ownership and improving sustainability prospects. Alliances between the partners and organisations with relevant expertise and/or financing have been encouraged.

One lesson is that the support may be limited to only technical assistance which, however, has to be substantial and include facilitation of access to financial services from MFIs and banks. The design should include all types of technical expertise required to take the eco-enterprise to a level of self-reliance where the exporter/buyer respects it as a commercial partner on equal terms. Though only technical assistance, it should be appraised as any investment. If a credit facility is included, it should be implemented by professional financial institutions.

Contracting of high-quality specialised service providers with hands-on experience has been a key success driver. This assumes direct contracting rather than competitive bidding procedures and that producers and buyers are involved in selection and co-financing of the services.

Whereas the design should allow for gradual processes towards realistic environmental and social targets, the (early) profitability of the enterprise is a must.

The ethical standard and commitment of both producers and buyers should be carefully assessed and tested, e.g. by demanding co-financing.

The eco-enterprise should be helped to establish a network of relevant alliances, also with other donor-funded programmes.

Replicability in Danida's African Partner Countries

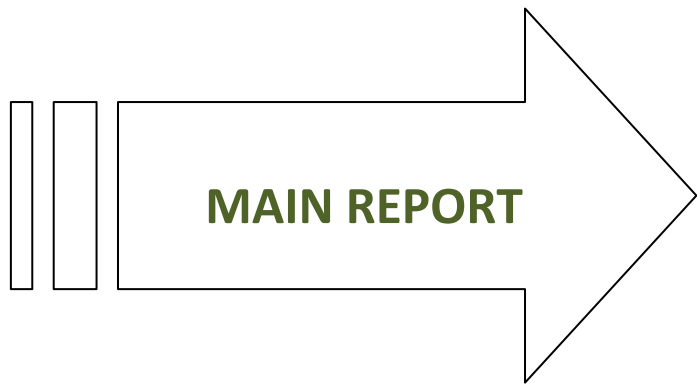
The support included a strong knowledge management component, and therefore there are numerous guidelines, tools and prototypes of potential relevance to other countries. A self-diagnostic tool has been developed and tested which allows an enterprise to make a self-assessment against a number of economic, environmental and social benchmarks. The

process and methodology for obtaining a recognised denomination of origin for Marcala coffee in Honduras could be highly relevant for some of Africa's coffee growing regions. Once and if successfully completed, a prototype plant in Honduras for converting coffee waste (pulp etc.) into bio-gas, - fertilizer, and -ethanol could also be relevant. The same applies to an initiative in Guatemala for accessing carbon credits under REDD (Reduced Emissions Deforestation and Degradation).

The study concludes that the overall macro and sector contexts in Danida's African partner countries (though highly diverse) do not exclude replication of the model and lessons. However, in some African contexts, there may be three specific challenges. First, there is an issue of scale. To justify a technical assistance investment of USD 50,000 to USD 100,000 in an enterprise, there has to be convincing prospects that the enterprise within a few years will obtain a turnover several times that amount. Except for some large cooperatives, such enterprises may be few in very poor and sparsely populated African countries.

Second, though the country (in its capital) may have plenty of "report-writing consultants", it may be a challenge to find specialised high-quality service providers with hands-on experience to solve practical problems in the field.

And third, one may not find a private association of exporters/buyers with prior experience in promoting value chains involving poor rural communities. However, one may partner with an organisation of buyers/exporters without such experience but the challenge will then be to ensure that the organisation owns and institutionalises the activity, avoiding that it becomes donor-driven. And more time should be allowed for, probably 7-10 years.



1 COUNTRY CONTEXTS

Guatemala and Honduras are indeed different from many of Danida's partner countries in Asia and Africa in terms of history, culture and ethnicity, natural resources, and economic and social development. However, this does not imply that the challenges and opportunities for developing eco-enterprises are completely different and that the lessons from the interventions in Honduras and Guatemala are of no relevance to Danida's work in Asia and Africa.

When considering national social and economic indicators for Guatemala and Honduras, it should be highlighted that there are extreme differences between the various social groups and therefore, national totals and averages do not reflect the reality of the individual groups. Somewhat simplified, the countries can be described as dual societies, comprising a "first world society" and "a third world society" though obviously there are segments in-between, on the way up or down. "The first world society" comprises the rich and wealthy families and the upper parts of the urban middle classes, often descendants of European immigrants and having a life style comparable to their European and US counterparts.

"The third world society" is primarily composed of indigenous peoples, descendents of African slaves, European immigrants who did not make it, and racial and ethnical mixes. Their society is male-dominated, often with significant gender inequality. They often survive on small farms or as low-paid labourers on the large farms and estates or in the towns. Poverty incidence is high, and they have high rates of illiteracy and malnutrition, and generally poor health indicators. For example, malnutrition in some of Guatemala's indigenous populations is worse than in many African countries but this is not only due to poverty but also related to education, traditions and cultural habits.

In Guatemala, the extreme differences between the two societies, combined with racial discrimination and prejudice, resulted in 36 years of armed conflict between the two (1960-1996), or rather between indigenous groups (50-60% of the population) and the "first world" controlled governments, - not a particularly conducive background for developing a harmonious partnership between a buyer (often from the first world society) and a producer group (often from the third world society).

Table 1 overleaf compares Guatemala and Honduras with three of Danida's partner countries in Africa, Ghana, Kenya and Tanzania, on various dimensions. On the economic front, Guatemala and Honduras are significantly ahead largely because their "first world society" and industry and services have more weight in the total economy than what is the case for the African comparators. However, inequality is also higher and national indicators for human and social development do not differ that much. According to one assessment¹, more than 40% of the households in both countries are socially excluded.

The business environment is also relatively similar, though with Ghana significantly ahead, but in terms of competitiveness Honduras and Guatemala out-performs the African comparators. Infrastructure services, roads and electricity, are generally better than in Africa.

¹ "Estado de la Región en Desarrollo Humano Sostenible – 2010" co-sponsored by Danida

On the Environmental Performance Index there are no significant differences between the countries. As all countries, Guatemala and Honduras have positive environmental policy statements, but policy is what government does. It is fair to say that implementation has not been favoured in any particular way by positive policies and support of the two governments for promotion of eco-enterprises even though in Honduras there has been cooperation on phyto-sanitary and veterinary health and on developing environmental certification. In Guatemala, the implementing partner AGEXPORT did not find understanding and support from the outgoing government but does have more positive expectations to the new government (taking over 2012). In Honduras, part of the implementation period was influenced by political instability and turmoil (*coup d'état* in 2009, partly having its origin in first-third world differences and conflicts).

With modest tax revenues (10-14% of GDP), Guatemala and Honduras have public sectors which relative to the economy are smaller than in the African comparators. Some services, which are standard in African countries such as a public agricultural extension service, do not exist. The responsibility for much of the economic and social development is left to private and civil society organisations which partly for this reason also tend to play a stronger role in the national development than what is found in Africa.

On governance indicators, Guatemala and Honduras perform worse or similarly to their African comparators. Drug trafficking has become a serious cancer in society, fuelling corruption, widespread crime and some of the highest murder rates in the world. Since 2005, the murder rate in Honduras (number of murders per year per 100,000 people) has doubled reaching the current level of about 80 (with a similar rate, Tanzania would have some 36,000 murders per year). Crime, lack of security and corruption constitute serious obstacles to growth and investments.

The major part of exports and the supported eco-enterprises are agriculture-based. The general environment for agricultural development is in no way more conducive than in Danida's African partner countries. There are serious issues of land rights, access to finance, and poor public services. Furthermore, parts of the region, in particular Honduras, suffer from recurrent droughts and floods. Farmers in Honduras, as their Tanzanian counterparts, have also suffered from government-imposed export bans, introduced on arguments about food security and escalating prices.

With some exceptions (high quality coffee, cocoa and tea for niche markets), farmers in Honduras and Guatemala generally use more chemical fertilizer and pesticides than their African counterparts. Mismanagement of toxic pesticides is a major problem, with serious consequences for the producers' and the consumers' health but consumers (and governments) are becoming increasingly conscious about the problem.

With respect to access to first world markets, there is a difference. Honduras and Guatemala are close to the United States, and can export to the US by truck through Mexico or by sea or air over relatively short distances. Though smaller, there are also first-world markets in nearby Central American countries and Mexico. However, for accessing the European and Asian markets, they face similar challenges as Danida's partner countries in Africa.

Furthermore, given the relatively high weight of the "first world society", Honduras but Guatemala in particular have a larger "first world market" within their countries than what is the case for the African comparators. However, it should be highlighted that their domestic "first

world consumers” do not yet give the same preference to organic, fair trade or similar products as consumers in Europe and the US do but they are becoming increasingly conscious about products which are safe to eat. Supermarkets such as Walmart are therefore demanding safe products from their suppliers, for example produced with Good Agricultural Practices (GAP).

This may not yet be the scenario among Danida’s African partners but their growth is in most cases higher than in Honduras and Guatemala, in particular within the middle classes, which rapidly increases the domestic “first world market”. In addition, some of Danida’s African partner countries do have a large tourism industry, with first world consumer preferences.

Table 1 Comparisons between Guatemala and Honduras and Selected Danida Partner Countries in Africa

| | Guatemala | Honduras | Ghana | Kenya | Tanzania |
|---|---------------------------------------|--------------|--------------|--------------|--------------|
| Population 2010, million | 14.4 | 7.6 | 24.4 | 40.5 | 44.8 |
| <i>Source: World Bank, World Development Indicators (WDI)</i> | | | | | |
| Economic Indicators | | | | | |
| GDP per capita, 2010, current USD | 2,862 | 2,026 | 1,283 | 775 | 527 |
| GDP per capita, 2010, Purchasing Power Parity | 4,785 | 3,923 | 1,690 | 1,689 | 1,433 |
| Agricultural Value Added as % of GDP | 13 | 13 | 30 | 19 | 28 |
| Trade (export+import) as % of GDP | 61 | 108 | 64 | 65 | 62 |
| <i>Source: World Bank, WDI</i> | | | | | |
| Poverty and Inequality | | | | | |
| Poverty Headcount Ratio, % of population below USD 1.25 PPP | 12 (2006) | 23 (2007) | 30 (2006) | 20 (2005) | 68 (2007) |
| Gini index (0-100), the closer to 100 the more unequal | 54 | 58 | 43 | 48 | 38 |
| <i>Source: World Bank, WDI</i> | | | | | |
| Human and Social Development | | | | | |
| Human Development Index Rank 2011 (HDR 2011) | 131 | 121 | 135 | 143 | 152 |
| Literacy Rate of Adult Females (>15 yrs), 2009, % (WDI) | 69 | 83 | 60 | 84 | 67 |
| Environment | | | | | |
| Environmental Performance Index (0-100), HDR 2011 (the closer to 100 the better performance) | 54 | 49 | 51 | 51 | 48 |
| Business Environment and Competitiveness | | | | | |
| Ease of Doing Business Rank <i>World Bank Doing Business Report 2011</i> | 97 | 128 | 63 | 109 | 127 |
| Global Competitiveness Index - Rank 2010/11 <i>World Economic Forum, 2011</i> | 78 | 91 | 114 | 106 | 113 |
| Governance | | | | | |
| <i>Source: IDA Resource Allocation Index 2010, 1=lowest, 6=highest</i> | | | | | |
| Policies for social Inclusion | <i>Guatemala is not IDA eligible,</i> | 3.7 | 4.0 | 3.7 | 3.7 |
| Public Sector Management and Institutions | <i>therefore no ratings</i> | 3.6 | 3.9 | 3.8 | 3.8 |
| of which "Transparent Accounts & Corruption" | | 3.3 | 3.7 | 3.3 | 3.3 |

As in Africa, the famous middleman, with his exploitative behaviour, does also threaten the establishment of more beneficial long-term buyer-producer partnerships in Honduras and Guatemala where he is referred to as the prairie wolf (*coyote*).

A key factor in the success of the programmes in Honduras and Guatemala has been the ability to contract (at acceptable costs) service providers who were capable of providing specialised and high-quality services to rural producers. Though information is not available to assess differences in this area, it is the assessment of the author that this is likely to be more of a challenge in Danida’s African partner countries. For example, in many African countries it may be difficult to

find and contract (at reasonable costs) an experienced agro-engineer to go and assist a producer group in a remote rural area with installation and operation of a drip-irrigation system.

Another key factor has been the anchoring of implementation in high-performing private and civil society organisations, i.e. two associations of exporters, FIDE in Honduras and AGEXPORT in Guatemala, and two NGOs, the national NGO FUNDER in Honduras and the Dutch SNV/Honduras. Involvement of medium-sized and large buyers/exporters has been crucial. Well-functioning organisations of exporters/traders/manufacturers can be found in some of Danida's African partner countries but they may not have the experience and engagement in value chain development as FIDE and AGEXPORT had when the cooperation started.

FUNDER's structure and model is unique and an NGO or social enterprise with similar features may not be easily found but hopefully the model will serve as inspiration. For further details on the implementing partners, please continue to the next chapter.

2 IMPLEMENTING PARTNERS AND ALLIANCES

2.1 Guatemala

AGEXPORT – Asociación Guatemalteca de Exportadores

AGEXPORT has its origin in a public institution which the military government closed. In 1982, following the closure, three former staff members and five exporters decided to fill the vacuum and start their own private not-for-profit organisation, initially focusing on non-traditional products (AGEXPRONT) but later becoming the organisation for all exporters (AGEXPORT). In 1986, traditional exports (coffee, sugar, bananas, meat, cotton etc.) constituted 75% of total exports of USD 1 billion, while in 2010 the situation had been reversed, with non-traditional exports (including services) constituting 73% of total exports of USD 8.5 billion. About 67% of exports have their origin in rural areas and the export sector creates more than 1 million jobs. AGEXPORT has recently issued a new strategy (2012-2015) which aims at doubling the 2010 figures by 2015.

AGEXPORT is today a large organisation, having more than 900 members of which 80% are small and medium enterprises. It has more than 200 staff and a vision to convert Guatemala into an export country. It has its headquarters in Guatemala City and in 2010 it established a branch office in Quetzaltenango in the western part of the country working with rural producers and enterprises. It provides many of the services that some African governments try to offer, for example it provides exporters with a one-stop office that helps them with all the bureaucratic formalities in the export process. It operates a foreign trade school (ISO certified) providing more than 200 training sessions per year for more than 6,000 trainees, including certificate courses on quality management, food safety, ISO certification, contract negotiation, and sales promotion. It publishes a directory of exporters, and organises trade fairs (e.g. the AGRITRADE EXPO for Central America) and participation of members in international shows and fairs.

A crucial element of the structure and work of AGEXPORT is 19 product or branch commissions, e.g. on handicrafts, food and beverages, wood and furniture, fruits, flowers and ornamental plants etc. These commissions comprise enterprise owners or staff from the same product group, and jointly they work on how they pro-actively can overcome constraints and develop their exports, e.g. through joint market promotion efforts, product development etc. The commissions are supported by secretariat functions provided by AGEXPORT and may have different supporting alliances.

During the first and very difficult start-up phase, USAID and the International Trade Centre (UNCTAD) assisted the organisation. USAID has since then been an important financier and did also provide the funds that allowed AGEXPORT enter into support for developing value chains. Through this support, AGEXPORT gained experience in developing value chains, linking producers in poor regions of Guatemala to buyers and exporters. The experience was institutionalised in a permanent value chain programme (PEE – *Programa de Encadenamientos Empresariales*) under AGEXPORT's Development Directorate. This constituted the foundation for starting the partnership with PREMACA/Danida for development of eco-enterprises.

AGEXPORT's value chain methodology includes well-defined and established processes which allowed AGEXPORT to have it certified by ISO 9001:200 and successfully audited in 2010 and 2011. After PREMACA/Danida, also IFAD entered as a financier; in addition, IFAD has "contracted" AGEXPORT to provide advisory services for introducing the model in other Central American countries. AGEXPORT has supported about 80 enterprises, linking them to the export markets; about 40 of the enterprises have been supported with funds from USAID, 8 from IFAD and 35 from PREMACA/Danida. The environmental and social dimensions of Danida's support for eco-enterprises have been introduced for all.

Value Chain Support – Objectives, Methodology and Process

AGEXPORT defines the immediate objective of its support for value chains as (author's translation): *a local production which produces in a sustainable form for the market, generating income and employment and strengthening the rural farm economy.* The overall goal is defined as: *indigenous communities with an economy of dignified farmers, generating better livelihoods conditions, and with an organisational structure and strength that demands respect and consideration by community leaders and governments in municipalities and regions.* The process of engaging with rural producers and developing the value chains comprises four phases, which highly abbreviated are summarised in the following.

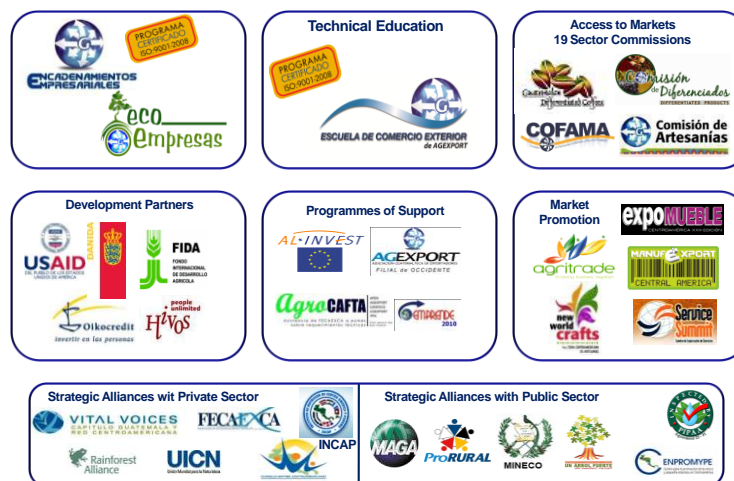
It starts with an Identification Phase to find a concrete potential market opportunity and potential producers who may exploit this opportunity. To capture the opportunities, efforts are made to raise awareness among producers and buyers about the existence of support (the Competitive Fund). Focus is often on a relatively limited geographical area. In the subsequent Design Phase, AGEXPORT works with the pre-selected producer group to design the structure of the value chain, using own staff as well as allied partners and contracted specialists if required. AGEXPORT undertakes a diagnostic study of the producer group and assesses the viability of the products in the markets and possible adaptations required, as well as the environmental management issues. AGEXPORT arranges and accompanies the negotiations between producers and buyers with the view to develop firm commercial commitments/agreements. On this basis, a profile of the value chain, including preliminary budget for the technical assistance investment, is prepared to clear the way for presentation to the Selection Committee.

Based on the profile, further work is undertaken in the Approval Phase in order to present a comprehensive robust proposal to the Selection Committee. This includes baseline studies of the producer group and buyer, business plans, negotiations of detailed contracts, assessment of the economic, environmental and social dimensions, and detailed proposals for the support and how it will be managed, i.e. the role of different players in the value chain. The producer group is invited to the session of the Selection Committee to defend and discuss the proposal.

Once approved, the Implementation Phase starts. Technical support is usually provided for a period of 18 – 24 months, within a budget range of USD 50,000 to USD 100,000. In line with the implementation plan, technical assistance services are contracted or mobilised for: the institutional development of the group, improving the productivity and quality of production and the environmental management, addressing the social dimensions (e.g. gender equality), improving the group's position in the market, and developing alliances with local institutions, e.g. municipalities, and other complementary initiatives.

Alliances in Guatemala

AGEXPORT's value chain programme benefits from the services of other units within AGEXPORT as well as a number of alliances that AGEXPORT has entered into, either before or during the PREMACA support. These alliances are formal institutional agreements between AGEXPORT and the allied partners. The alliances are related to market development, product and technological development, access to credit, and financial and other support from government programmes and institutions. PREMACA's support has played a catalytic role in establishing new types of alliances related to the environmental and social dimensions. For example, AGEXPORT has entered into an alliance with VITAL VOICES for promotion of gender equality, with INCAP to address the issue of malnutrition, and with a number of civil society organisations working on environmental issues, including FUNDAECO, IUCN, and Rainforest Alliance.



2.2 Honduras

FUNDER, an NGO, and FIDE, a private sector organisation, have implemented the support for value chains and clusters in Honduras while the Honduras branch of the Dutch NGO SNV has played a facilitating and catalytic role in systematising the development of lessons, prototypes and innovations. In addition, a number of alliances have contributed to the implementation.

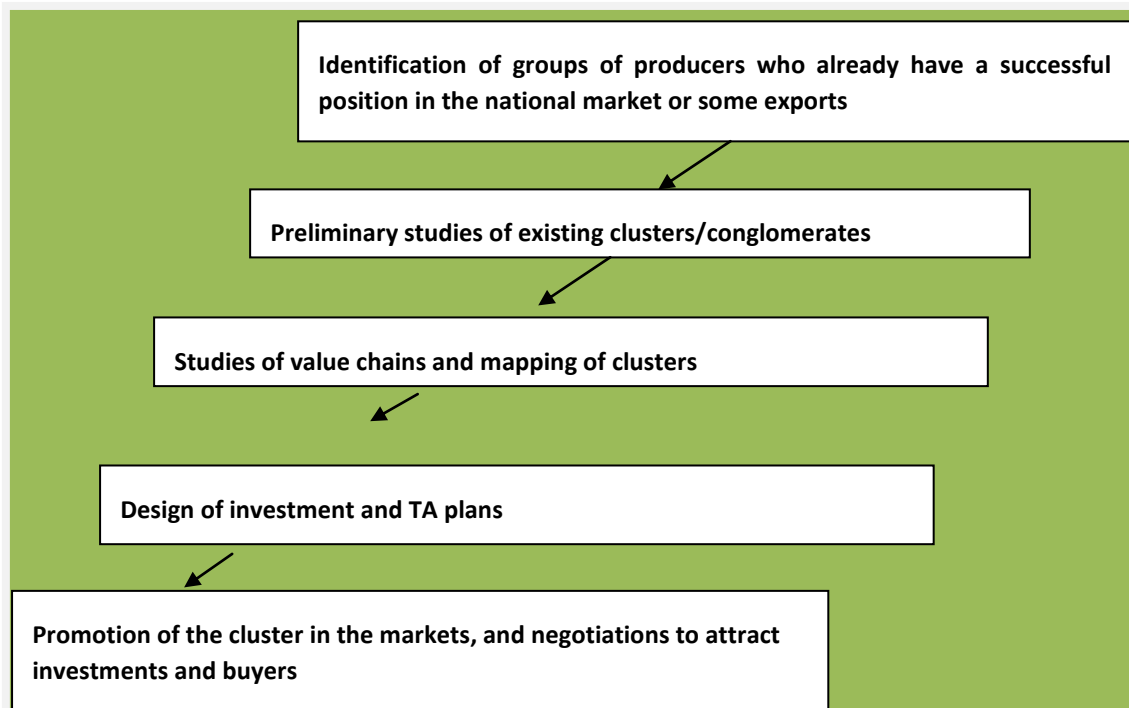
FIDE – *Fundación para la Inversión y Desarrollo de las Exportaciones*

FIDE was established in 1984 as a private not-for-profit organisation to promote investments and exports, and to work with government and others for a better business environment. FIDE also executes programmes, funded by government and development partners, including the EU, USAID, the World Bank and IDB, e.g. a national competitiveness programme. It promotes exporters abroad, e.g. through publication (digital and hard copy) of a catalogue of exporters, and provides business development services.

Like AGEXPORT, FIDE is a membership-based organisation, but significantly smaller. It has not yet to the same extent as AGEXPORT developed and institutionalised its activities for promoting value chains and clusters, thereby generating adequate financial support for its own institutionalised programmes. In the past, FIDE has been an executor of donor-funded and defined programmes which creates issues of sustainability when the programmes come to an

end. However, over recent years FIDE has developed its strategy for promoting value chains and clusters and currently, FIDE is exploring how it may continue supporting the consolidation of the value chains of eco-enterprises when PREMACA ends in 2012.

FIDE's strategy is based on the demand of national and international buyers and applies a gradual stepwise process as illustrated below.

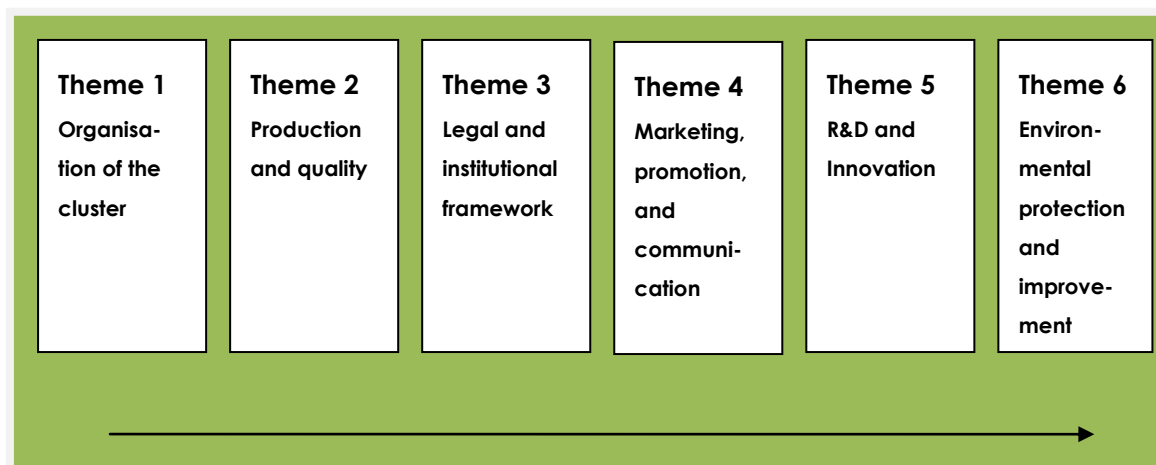


The strategic approach of FIDE has also been to take the cluster as the starting point and within the cluster to support selected eco-enterprises. In this approach, FIDE has addressed subjects such as quality systems, training, R&D and innovations, creation and promotion of the image of the cluster, company register, and participation of cluster representatives in international trade fairs.

Though FIDE does not apply one standard model for all its support for cluster and value chain development, it generally addresses most of the themes illustrated below. This has been the case in its work with the Marcala coffee cluster for which an Origin Denomination has been introduced. Work in the Marcala cluster has been based on synergies and cooperation with FUNDER and SNV.

Within and outside the clusters, FIDE provides different types of technical assistance to the different enterprises: (i) the *export enterprise*, i.e. the enterprise that is already exporting, which is supported by FIDE's Export Division with market intelligence, participation in trade fairs and export promotion activities; (ii) the pre-export enterprise and the potential export enterprise; the pre-export enterprise is well established and supplies to the national market but wishes to and can export to the region while the potential export enterprise is a less advanced small enterprise, a producer or a group of producers who need more support for development of exports. FIDE supports these types of enterprises with developing linkages to buyers and

product development to ensure that the products meet the standards of the market. The majority of eco-enterprises belong to this category.



Generally, FIDE focuses on already established clusters and enterprises with some prior level of institutional development and with a position in national market and/or export markets. The technical assistance of FIDE to eco-enterprises has compared to the technical assistance provided by FUNDER and AGEXPORT therefore been less comprehensive, with smaller amounts and shorter duration.

Cooperation with the individual enterprise starts with a diagnostic study of the enterprise and a market analysis which then serves as the basis for developing jointly with the enterprise a business strategy/plan which in turn is the basis for designing and implementing the technical assistance. At termination of the technical assistance, an evaluation of its impact is undertaken and sustainability issues are assessed. In some cases FIDE follows the enterprise after the technical assistance.

In the eco-enterprise programme, FIDE has focused on: (i) the Marcala coffee cluster; (ii) a programme promoting supply contracts between horticultural producers and supermarkets (exporters) involving support for five eco-enterprises; and (iii) value chains for honey producers involving five eco-enterprises.

FUNDER – *Fundación para el Desarrollo Empresarial Rural*

FUNDER is a private not-for-profit institution established in 1997 to reduce rural poverty. FUNDER is an unusual combination of a microfinance institution and a provider of business development services, often in the form of placing staff in executive management positions in rural enterprises together with venture capital. Its structure and operations are based on four centres: (i) a centre for promotion of community-based savings and credit groups/associations (*cajas rurales*); (ii) a centre for agribusiness and value chain development promoting rural enterprises through business development services; (iii) a centre for financial services providing innovative financial products; and (iv) the “green drop centre” (*Centro Gota Verde*) promoting renewable energy and bio-fuel technologies.

The Agribusiness Centre is implementing the support for eco-enterprises but the other centres play a role as well. Often, it is a sub-group of members of a savings and credit association who

decides to start a commercial/productive business together. Thus, they already know each other and have experience in working together as associates.

The Agribusiness Centre may then decide to assist them if there is a market or buyer for their products. As the enterprise starts, it does not yet have the volume and profit for employment of a professional manager and an accountant. The members are farmers who are engaged in production and have no particular background or interest in management and accounts. Thus, it would be a lengthy process transforming them into managers/accountants, and with no guarantee of success. This is exactly the problem that most African rural enterprises face in their start-up phase, and FUNDER seems to have found a promising solution to the problem.

In a first primary phase, FUNDER provides the management who takes the group through a pilot commercialisation exercise to test if the group has the cohesiveness and discipline to satisfy the conditions of a contract with a buyer. Specialised technical assistance may also be provided, e.g. on Good Agricultural Practices. If the group fails to demonstrate convincing performance and potential, FUNDER may terminate its support, but if the exercise is positive FUNDER continues supporting the group into the next phase, the growth phase.

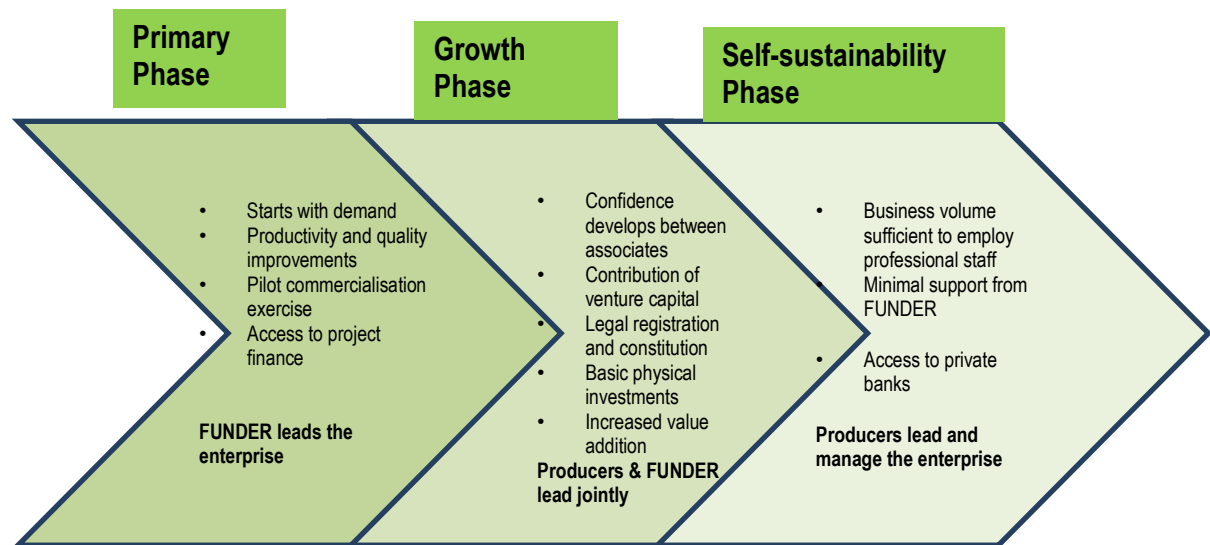
In the growth phase the enterprise is legally registered and constituted. Members are capacitated in board functions to oversee operations. Support for improved productivity and quality continues. Investments in basic physical structures will at this stage often be required to expand production and sales while the new enterprise does not yet have access to credit from banks or others. Here, the Centre for Financial Services may enter and solve the problem by providing venture capital and/or credit. However, it is the Financial Services Centre and not the Agribusiness Centre which decides on the investment. To some extent, this separation addresses the concerns of traditional theory to avoid merging the role of providing credit (being a tough creditor) and the role of providing business development services (being a mentor and friend).

As sales volumes increase during the growth phase, the enterprise becomes capable of financing its own qualified staff (e.g. an accountant) who often may be recruited from the better educated children (16 – 28 years of age) of the member producers. Thus, in this growth phase, the management is joint but with the producers increasing their participation over time as the turnover increases. If relevant, some of enterprises may also in this phase receive support from FUNDER's Green Drop Centre.

As the enterprise develops a capacity where FUNDER's executive management services no longer are required, it enters the self-sustainability phase. In this phase, FUNDER has no executive functions but may initially provide limited advisory services. The enterprise now has the strength and history required to access bank finance, and FUNDER may facilitate the access. At the end of this phase, FUNDER also has to sell its capital investment. Normally, it is sold at a somewhat discounted price to the producers/shareholders or to new producers who wish to become shareholders/members.

The total duration of the three phases may take from two to eight years. About 11 of the eco-enterprises supported have reached the third self-sustainability phase and an estimated seven to eight of these will have completely exited by the end of PREMACA in 2012. There are obvious challenges in the third phase to ensure a proper exit. The sale of share capital also means an exit of FUNDER from participation in oversight, and therefore at this stage it is an important

assumption that the members have the capacity to provide the required oversight of contracted staff. As in Africa, contracted staff may occasionally mismanage the enterprise or misappropriate funds, a risk that increases if members are unable to provide the required oversight.



The sale of the equity investment is not likely to make the model financially self-sustainable, not even if the venture capital investment was sold at a market price. However, it is a model that is highly relevant to development of rural enterprises in Africa. Also in Africa, the model will depend on funds from development partners and governments, but their contributions are likely to generate high social and economic returns, if properly managed.

FUNDER’s rural enterprise development is supported by several development partners, with PREMACA/Danida being the major one during recent years. As a result of its cooperation with PREMACA, FUNDER has introduced the “eco-enterprise concept” for all of its rural enterprises, applying its environmental strategy as well as its strategy for gender equity in all of its support. The majority of enterprises are based in agriculture (coffee and cocoa, fruits and vegetables, and food staples) but recently FUNDER has also engaged in other sectors, e.g. wood furniture, recycling of solid waste, bio-fuels. Recently, FUNDER has started supporting existing enterprises, providing only technical assistance using the AGEXPORT model, for example for a *rambutan* processing and exporting company.

FUNDER’s model implies that the technical assistance has a much longer duration than that provided by FIDE. It comprises five different forms: (i) technical support for production/processing/manufacturing, introducing improved farming and processing methods (e.g. Good Agricultural and Good Manufacturing Practices), irrigation, product registries, quality control systems etc. where FUNDER may use short-term specialists, training, and exchange visits between farmers; (ii) enterprise management, including design and monitoring of business plans, decision processes, legal registration, accounts and audits, human resource management and introduction of Information and Communication Technology; (iii) commercial management, including market intelligence and a mobile phone based price information system, quality monitoring, participation in national and international trade fairs, training in marketing, negotiation and export procedures, and design of logos, packaging materials and websites; (iv) promotion of value addition and quality, including research and development of new products and processes, access to equipment suppliers, design and feasibility studies of process flows and

processing plants, post-harvest management, training in hygiene and Good Manufacturing Practices.

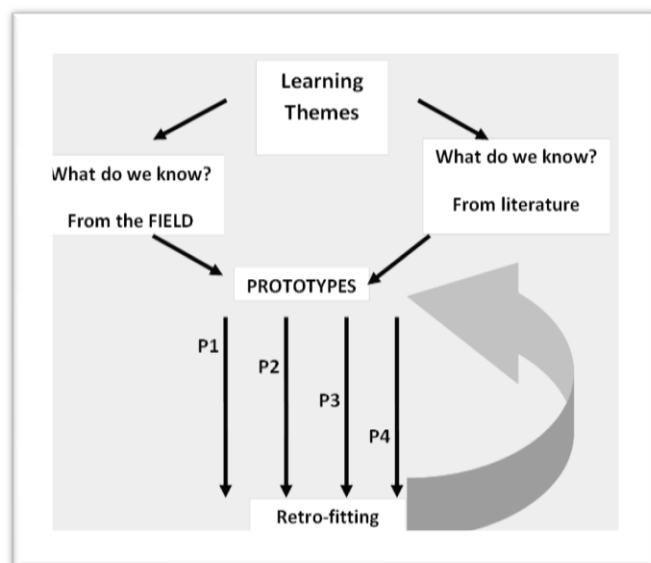
The technical assistance is being assessed and planned based on a very elaborate Monitoring and Evaluation system managed by staff in the Agribusiness Centre. Quarterly reports are prepared providing information on costs, activities, results and impact as well as on future requirements and plans for technical assistance. For impact, data are provided on household income, employment generation, investments, sales and other financial data for the enterprise, etc. The system has been endorsed by FUNDER's donor committee and is therefore used for reporting to all donors.

SNV

SNV is a Dutch NGO, or as it presents itself "a social enterprise", with some 1,500 staff, and present in 40 countries. A large part of its activities used to be financed by the Dutch government which however has decided to phase out support for SNV's activities in Latin America (support will continue in Africa and Asia). Therefore, during the implementation SNV's Honduras branch faced itself issues of business strategy as it had to transform itself from a subsidised NGO to a kind of not-for-profit "consultancy firm" that generates its income from sale of services. This required a significant reduction in staff and other costs.

In the partnership with PREMACA, SNV has provided advisory services to FIDE and FUNDER as well as directly to eco-enterprises supported by FIDE and FUNDER. The services have focused on

generating lessons and prototypes based on experiences gained from working in the field with eco-enterprises, value chains and clusters as well as global experiences and knowledge as presented in international literature. The starting point has been to identify what we do not know but want to know, i.e. the learning theme, and then through study of international knowledge and experiences as well as experimental processes in implementation how this knowledge gap can be addressed. On this basis, "prototypes" are developed which can be used as best-practice models by FIDE, FUNDER and others to improve



their work with eco-enterprises, value chains and clusters. A "prototype" can be a methodology, a tool (e.g. the eco-enterprise self-assessment tool), a policy, or a technological model (e.g. the bio-ethanol plant).

Once developed, the prototype is applied in implementation and in this process new lessons may be learned – e.g. some aspects did not work as expected. This then necessitates adjustments and retro-fitting of the prototype. A review of the prototypes is presented in Chapter 6.

Based on its work with developing prototypes, monitoring implementation, and systematising results and lessons, SNV's other role was to contribute to the dissemination of information. This has been done through publications, videos, its website, and workshops and seminars.

Alliances in Honduras

The support has introduced cooperation between the three implementing partners, in particular in the Marcala cluster, and it has facilitated knowledge exchange with AGEXPORT's value chain unit. Implementation has benefited from existing alliances of FIDE, FUNDER and SNV and has inspired the development of new alliances.

Alliances have developed with buyers such as the large supermarkets (Walmart-Hortifruti, La Colonia etc.) for fruits and vegetables, with the Swiss Chocolates Halba for cocoa, RECIPLAST for developing a micro enterprise in solid waste collection (in Comayagua, RECIPLAST has contributed USD 50,000 for development of the micro enterprise), and a number of international coffee companies such as the US Royal Coffee, Highland Coffee, Mitsui (Japan) etc. FUNDER has facilitated a co-investment of Chocolates Alba (USD 100,000) in agro-forestry of small cocoa producers and FIDE's alliance with Walmart has helped to develop and audit Good Agricultural Practices of more than 35 small horticultural producers/supplier enterprises. Upstream in the value chains, alliances with suppliers of equipment and agricultural equipment have helped the development of eco-enterprises. Alliances with a number of financial institutions have helped eco-enterprises access credit.

In the area of the environment, alliances have been made with CEHDES (council for sustainable development, CNP+LH (centre for cleaner production), the Climate Change Fund of Honduras and the Dutch Green Development Foundation. FUNDER has recently entered into an alliance with the Danish NGO "Forests of the World" (previously Nepenthes).

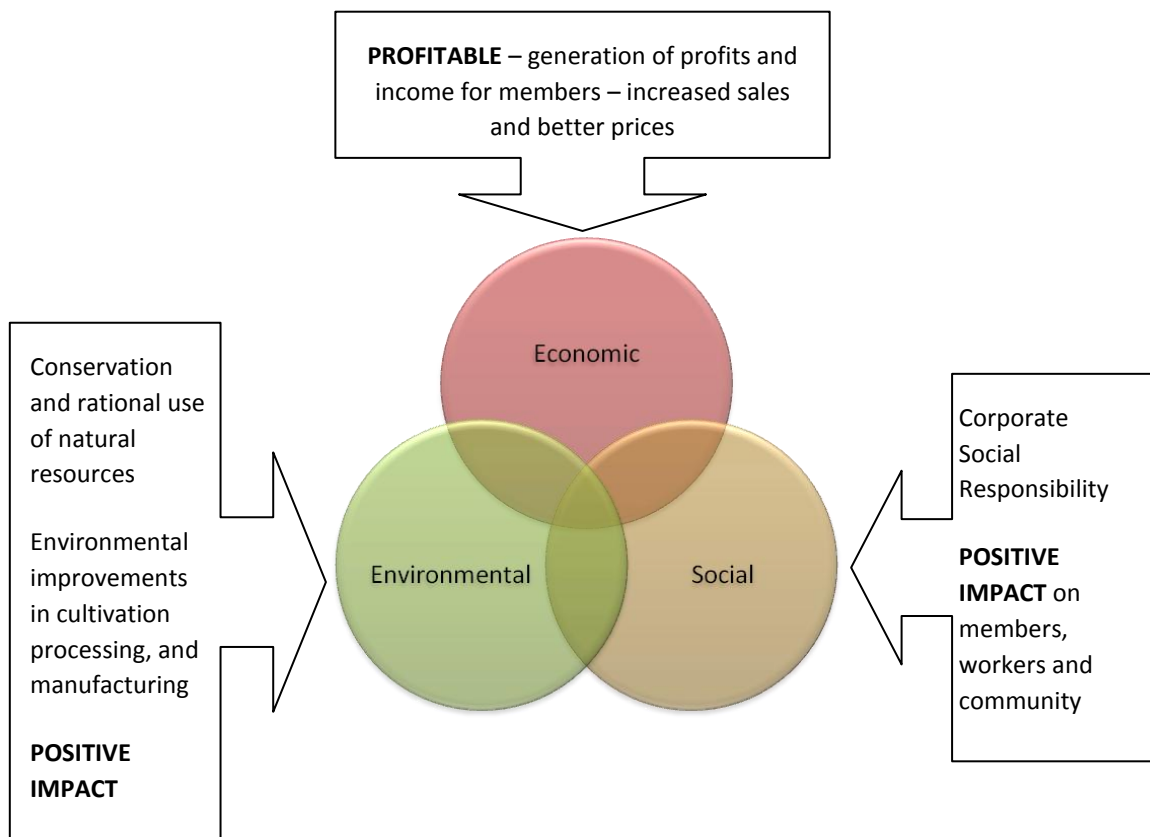
With respect to agricultural research, support has been obtained from a number of national, regional and international research centres.

With government, there has been cooperation with the Ministry of Agriculture and Livestock (SAG) and the Ministry of Industry and Commerce (SIC), the National Agricultural Institute (INA), the national fund for sustainable rural development (FONADERS) and others. FUNDER has entered agreements with the municipal governments of La Ceiba and Comayagua, related to development of micro enterprises in solid waste collection.

CHAPTER 3
DESIGN AND IMPLEMENTATION

The needs of the buyer constitute the starting point of any intervention, by determining quantity and quality, other product parameters and the timing of supply that the eco-enterprise needs to comply with

Eco-enterprise = Sustainability and Positive Impact on Three Dimensions



3 DESIGN AND IMPLEMENTATION

3.1 Strategic Principles and Features

Starting Point=Market=Buyer=Company=Person

As in any value chain programme, the market and demand is defined as the starting point. In the original design, in particular in Guatemala, the market or demand was to some extent perceived as a general economic concept or entity which required major market studies and research as is often the strategy and approach in value chain programmes. However, during implementation it was found that there was limited need for market studies and that the issue could be approached in much more concrete and practical terms, i.e. the market is the buyer and his or her relationships, often personal, with other buyers and the producers. Business is often based on personal relationships and confidence, and business opportunities develop in such relationships. Though market studies may adequately analyse general market trends and constraints, they often fail to capture specific opportunities and provide the basis for concrete interventions. The businessman is more likely than the consultant or researcher to capture the opportunities as they emerge, and opportunities also exist in declining markets. And without the decision of the businessman to go for the opportunity, there is no basis for development of the value chain.

This more practical approach was possible because private associations of buyers/exporters were selected as the two main implementing partners, AGEXPORT in Guatemala and FIDE in Honduras. The third implementing partner, FUNDER in Honduras, has its base in rural savings and credit associations as well as companies and groups of rural producers but in addition it has strong networks and relationships with supermarkets, exporters and other buyers. Though business opportunities and plans are developed within and together with the producer groups, real and profitable market opportunities reflecting the buyers' concrete demand constitute the foundation for FUNDER's interventions.

The approach may be illustrated by the following example: a member exporter would receive a request from an importer in Frankfurt (with whom he/she had had a long-term business relationship) for delivery of 10 tons of a special type of mini-cucumber produced applying Good Agricultural Practices (GAP) or organically. This would be the basis for developing the relationship with producers to deliver the production, and from the initial request the distance to contracts, production and exports would be relatively short. The importer in Frankfurt would already have assessed and assured the market while the exporter in Honduras or Guatemala would have undertaken an initial assessment of the possibilities of responding to the request.

Thus, implementation of the value chain support was not developed according to "a 5-year plan" based on market studies and uncertain forecasts of market trends but by engaging with buyers and producers who along the way identified (unforeseeable) concrete commercial opportunities. However, in addition ideas and opportunities for increasing value addition and sales and introducing the environmental and social dimensions also emerged within the implementing partner organisations which then "sold" the ideas to buyers and producers. Furthermore, the organisations' market networks as well as their normal marketing intelligence services reduced

the need for contracting market studies. For example, AGEXPORT has a market intelligence unit at headquarters as well as networks in major export markets.

In Honduras, a cluster approach was also partly applied, i.e. working with producers of the same products or services in a defined geographical zone and addressing constraints in all of their vertical and horizontal linkages, including public services. Such an approach obviously requires plans and strategies but given the time and budget available, it was only partially implemented and not in a fully comprehensive way, e.g. in the case of Marcala coffee.

“The Good and the Bad”

The ultimate goal for donors and NGOs supporting value chains is to improve the livelihoods of the small and poor producers in the chain. The target group is not the buyers who often belong to the rich and powerful strata of society. However, large and reliable buyers can play a crucial role by having a wide outreach to poor communities, thereby obtaining the scale required to make the value chain profitable. A successful value chain requires a partnership between the two, based on a long term commitment from both as well as mutual respect, confidence and trust. Decent behaviour is required by both sides.

Globally, there are many examples of buyers exploiting their position as the only buyer and failing to comply with their contractual obligations and commitments to the producers who suddenly may have no market for their produce. There is therefore a tendency in the donor community to be in particular suspicious about the buyers, except for fair trade and similar buyers. However, in this case the underlying philosophy of the design and implementation was that there are good and bad elements on both sides. Among the buyers there are also those with a strong sense of social responsibility and companies and persons who recognise that the foundation of their enterprise and long-term profit lies in good and permanent relationships with small producers, based on mutual trust. Among the small producers, there are some who cheat with the quality, put stones in the bag etc and there are some who do not comply with their commitment to the buyer because they go for short-term financial gains; for example, a producer group may fail to comply with its long-term supply contract with a supermarket because it is attracted by a higher price offered (on the day) by the traditional middleman.

Thus, the issue is to identify “the good” and “the bad” on both sides, and work with “the good” or rather those who see an advantage in a long-term relationship based on respect for given commitments and agreements. In design and implementation this has been done in various ways. Producer groups have been required to provide counterpart contributions and their history has been screened when approving the support. Before entering into major technical assistance and capital investments in a group, FUNDER does in some cases take the producer group through a commercialisation pilot exercise to ascertain whether the group has the coherence, capacity and commitment to comply with contractual obligations.

The commitment of buyers is tested by demanding that they invest own resources in the partnership, for example advisory services, inputs for the producer group, or provide an advance payment to the producer group to give it the working capital to start planting and sowing. For example, during implementation AGEXPORT found that the contracting of technical specialists through open competitive bidding in many cases did not result in contracting of specialists who had the expertise and background required to ensure that production complied with the

requirements of the buyer and international markets. It was therefore decided to involve the buyer in the selection of technical specialists and in addition demand that the buyer financed 40% of the cost.

When screening and approving a value chain project, the buyers' history is checked. AGEXPORT and FIDE have a fairly good picture of the past performance and current financial status of their members.

Institutional Anchoring of the Implementation

The design fully anchored the implementation in private and civil society organisations, which had prior experience in working with value chains or clusters (Chapter 2). Thus, their on-going value chain activities constituted the basis for the partnership together with their commitment to introduce or strengthen environmental and social dimensions in their future work. While an international adviser initially was placed in the PREMACA unit in Guatemala City to facilitate the start-up and establishment of reporting and monitoring, the implementation was fully in the hands of the selected implementing partners, largely using their approaches, and implementation and monitoring systems as the basis.

This implied that the Danida support for eco enterprises did not become a coherent and uniform "Danida programme" but rather support for different programmes of the partners which were already in operation at the time of design, such as the supply/value chain programme of AGEXPORT and the agribusiness programme of FUNDER. The main effect of Danida's financial support was to introduce or strengthen the environmental and social dimensions in their programmes and help the partners to expand their operations, while promoting exchange of experiences between organisations and countries in Central America. However, the programmes remained the programmes of the partners, supported by Danida as well as others.

As a result, definitions of indicators in the monitoring systems also differ which complicates an aggregate assessment of results and impact. Also the way monitoring is done differs. For example, FUNDER surveys and reports on actual employment generated while FIDE provides estimates of incremental labour days generated based on quantitative sales figures (from invoices) combined with farm models estimating how many labour days are required to produce for example one ton of tomatoes.

Each partner has its specific strategy and approach for value chain development. Despite the differences, the partners share a common commitment to promoting profitable green value chains integrating environmental and social responsibility but design and implementation management allowed them to use and develop their own systems for how to do it. For example, instead of imposing one identical gender policy for the Danida support, the partners were encouraged to develop their own gender policy which they would then apply to all of their operations and not only to the Danida supported activities. This was achieved particularly in the cooperation with FUNDER and AGEXPORT.

Promotion of Networks and Alliances

The design envisaged that the implementing partners, in particular FIDE and AGEXPORT, would outsource a significant part of the technical assistance services to specialised service providers. This would be in form of contracts between the implementing agency and the service provider,

where Danida funds (in some cases complemented by the buyers' contribution) would fully finance all costs of delivering the defined technical assistance.

However, in addition to service contracts the strategy was to facilitate alliances between implementing partners and other associated institutions and programmes. The rationale of this strategy is that the enterprises need access to a network of many different services and support programmes, including credit, and that there are institutions which are created and specialised in addressing specific issues of the eco-enterprise and beneficiaries. Unlike a service contract, an allied or associated partner is expected to fund all or part of the services and activities from its own budget though in some cases the implementing partner (with Danida funds) may provide "seed money" or co-financing.

It is important to underline that the partners (before Danida's support) already benefitted from a number of alliances and that new alliances have developed not between the "Danida programme" and the allied institution but between the implementing partner and the institution. AGEXPORT has for example invested considerable efforts in developing networks and entering into formal alliances, e.g. with VITAL VOICES for promotion of gender equality, FUNDAECO and other environmental organisations for forest management and access to carbon markets (REDD: Reduced Emissions from Deforestation and Degradation), INCAP (Instituto de Nutrición de Centroamerica y Panamá) for addressing the issue of malnutrition among the beneficiaries, and CABEI, EU, and Oiko Credit for facilitating access to credit.

In addition, the producer groups have been encouraged to develop alliances with programmes and institutions working in their area. Alliances have developed in particular with private and civil society organisations while it generally has been a challenge to develop helpful alliances with public institutions, e.g. the municipality to rehabilitate the market access road or the agricultural research institute to help with a specific pest problem.

Gradualism and Pragmatism

Though environmental sustainability was a key objective, the bar was set at a realistic height, recognising that improvements can only be achieved in a gradual process and that opportunities differ between different crops and products. For example, cocoa producers, who have produced without any major use of chemical inputs, may move relatively quickly towards an organic certification while producers of vegetables, subject to pest attacks, may gradually move towards GAP certification, managing required chemical inputs without risks to the producers/workers, the environment and the consumers. Environmental certification, apart from being costly, also requires a relatively advanced stage of institutional development as it is highly demanding on the capacity to keep proper records. For a group of rural poor, it is a gradual process to reach such a stage.

The design did not include blue-prints for how to address the social dimension but elements were introduced during implementation, not as a result of demands by PREMACA/Danida but rather through dialogue and influence. As mentioned, AGEXPORT and FUNDER developed strategies for promotion of gender equality and applied these strategies not only for the Danida-supported activities but for all of their activities. In Guatemala, where there are serious problems of malnutrition among indigenous groups, it was recognised that many beneficiaries, despite income improvements, did not improve their diet, and that the poor diet had negative

impact on health, and thereby on the progress of the producer and the enterprise. Therefore, AGEXPORT decided to introduce support for nutrition and health as part of the technical assistance package where relevant.

As in many programmes, “employment creation” was introduced as a target and as an indicator for social and economic impact. Creating a job that provides the employee with permanent and satisfactory income is however a challenge, especially when funds mainly are for technical assistance. When working in a private sector context subject to unforeseeable market fluctuations, there is no guarantee that a certain input of technical assistance will generate a certain number of jobs. Furthermore, in this case the basic assumption was that there would be buyers who had an interest in products produced with more environmentally friendly methods and social responsibility and that conversion to such a production system would be profitable.

During appraisal and the initial review, it was discussed and recognised that targets for direct job creation should not be overly ambitious and that employment needed to also include “strengthened or improved employment”, e.g. more secure and permanent employment, less health risks, a better salary etc. Indirect employment creation from increased production for exports, for example downstream among transport and shipping agencies, and upstream among companies providing services and inputs for producers, was not taken into account.

Realistic and achievable targets are also crucial to performance because *success creates motivation* which in turn improves performance. If unrealistic and unachievable targets (success indicators) are defined, the intervention will eventually risk being perceived as a failure, thereby de-motivating the staff involved. The (reduced) targets were indeed surpassed during implementation and the devil’s advocate (considering the stick more important than the carrot) may therefore argue that targets were not sufficiently ambitious and that laziness and poor efforts would follow. However, implementation performance proved him wrong.

Technical Assistance without Credit – but “we are serious about it”

A key issue during the design process and implementation was if the support should include a credit component or matching grants for financing capital investments and working capital. It was recognised that producer groups in order to comply with the requirements of the buyers not only needed better skills and practices but also in some cases had to invest in equipment and physical facilities, and furthermore, that increased production and sales necessitated more working capital. With limited access to credit, this could be a constraint.

It was, however, decided not to include a credit component. FIDE and AGEXPORT are not established for providing credit and have no experience in credit management. However, they can help their client enterprises with accessing credit from professional institutions and on-going donor-supported credit programmes, e.g. by developing alliances. AGEXPORT has made progress on this but some of the interviewed enterprises still mention access to credit, in particular for working capital, as a key problem. AGEXPORT expects to strengthen its facilitating role in the immediate future with employment of a “credit access facilitator”.

With respect to FUNDER’s beneficiaries, it has been less of an issue as FUNDER is an unusual combination of a microfinance institution, business development agency and “venture capitalist”. Several of the productive enterprises have been initiated by a sub-group of members of a FUNDER-supported savings and credit association (“*caja rural*”). If their productive

enterprise has potential, they may access credit from FUNDER's microfinance department or FUNDER may decide to enter as a partner and shareholder investing capital and providing the management for the start-up and development stages until the enterprise is well consolidated.

The other option considered was to provide matching grants for capital items, such as processing and storage facilities, and farm infrastructure. It was decided not to do so in order to avoid that the programme became driven by "free hand-outs" and also in order to avoid distortion of credit markets. Except for Information and Communication Technology (ICT) for accounts, management and communication, and in exceptional cases items for piloting new technology, the programme has refrained from grant-financing major capital items, also in Guatemala though the design included a window of opportunity saying that the Steering Committee in the second year of implementation could make exceptions if it was found that development of weak groups of poor members could not progress without matching grants for capital investments and working capital.

Thus, the main instrument for developing the enterprises and the value chains was technical assistance, but with a serious investment and strong result-orientation. Unlike some African programmes where a few thousand dollars is allocated for a semi-educated extension worker to assist the group, a major investment (USD 50,000 – 100,000) was provided to contract a range of high quality specialists, e.g. an agro-engineer to help with design and installation of a drip-irrigation system, a professional marketing company to help with designing marketing and packaging materials and a website of international standard, a specialist in production methods required for achieving various forms of environmental certification etc. In many cases, a major contribution from the buyer further increased this investment. Involvement of the buyers in selecting the specialists improved quality and ensured accountability of the service providers. Specific results had to be achieved.

The special FUNDER model also underpins the seriousness of the technical assistance. In many cases, FUNDER partners with newly formed groups of rural poor. At their initial stage of development, the groups do usually not have the turnover that would allow them to employ professional management and accountants, and the group members do not themselves have the required skills. Furthermore, they do not have the capital for the investments required to progress. FUNDER solves this issue by investing as a shareholder and by providing professional management. Thus, FUNDER does not serve as "an adviser without responsibility" but rather as a CEO with his own money at stake. FUNDER will lose its money if poor quality services are provided.

Speed and Results

With a 5-year implementation frame, there was a need for speed and rapid results which in turn required cooperation with implementing partners, buyers and producers who had some prior relevant operational experience. There was limited time for establishing new enterprises and developing them from scratch. Focus needed to be on producers and groups which had some production experience and in the case of groups had demonstrated that they were capable of working together. Commitment and ability to work under a contract and comply with contractual obligations was also important and the implementing partners had, as mentioned, different methodologies for testing that. The main exception from this general principle was in the case of FUNDER which has a special methodology for developing young and weak enterprises (see Chapter 2).

3.2 The Intervention in Guatemala



The design included three key elements. A **Value Chain Fund** which provides grant-financing of mainly technical assistance to eco-enterprises in value chains for the purpose of reducing poverty and improve the use of natural resources. It allows however also financing of ICT equipment for accounts and management as well as training and participation in international trade fairs. The Fund is a competitive fund to which eco enterprises (+ buyers) submit their proposals and business plans. A **Selection Committee** approves or rejects the proposals based on quality and a first-come-first-served basis. Proposals are generally prepared with assistance of staff from AGEXPORT's Value Chain Department but it is the Selection Committee which scrutinises and approves or rejects the proposals

The Selection Committee has been instrumental in the success of the intervention. In addition to a PREMACA representative, it comprises entrepreneurs, who are members of AGEXPORT and have years of experience in successfully operating large enterprises. On a voluntary basis, some have invested a considerable part of their time in analysing and commenting upon proposals, partly because of interest and partly because of a feeling of social responsibility. They have identified overly optimistic financial projections and market assumptions in the proposals and introduced relevant requirements to business plans. For example, after the end of PREMACA support, eco-enterprises will often need continued technical assistance support in specific areas and they also need to finance the recurrent costs of environmental certifications. Business plans now include these costs in their projections.

In the session of the Selection Committee, a representative of the eco-enterprise is invited to present and defend the proposal. In this interview session, the Committee gets an impression of the representative's entrepreneurial capacity and whether the representative/enterprise has ownership of the proposal and fully understands the proposal and its implications. Often, the representative from the eco-enterprise also receives valuable advice and guidance from Committee members with substantial business experience. In a closed session without the eco-enterprise, a decision on the proposal is taken, approved, rejected or the applicants may be asked to return to the drawing table to revise and improve the proposal in certain areas.

The design defined three categories of eco enterprises and upper ceilings for how much they could receive in technical assistance: (A) grassroots groups of very poor members, operating informally or semi-formally with rudimentary management systems but a strong desire to develop their business (max USD 75,000); (B) groups and small enterprises with some degree of formality, access to credit, and experience in marketing but with operations that impact negatively on the environment (max USD 55,000); and (C) formal small and medium-sized enterprises with a business vision, a degree of environmental conscience and potential to increase sales and employment (max USD 45,000). However, the design allowed the Selection Committee to approve exceptions from these ceilings, and indeed during implementation, some technical assistance grants in the range of USD 90,000 to USD 116,000 have been approved. The average grant per enterprise is about USD 68,000 complemented by an average counterpart

contribution estimated at USD 157,000. The support from the Fund is provided for a period of 18 up to a maximum of 24 months.

The second element in the design was a **professional team** to support the development of the eco-enterprises and value chains. The intervention makes use of three categories of human resources:

1. The permanent employees in AGEXPORT, in particular the specialised technical and administrative staff in the Value Chain Department (PEE) whose salaries and costs are largely funded by the different development partners supporting the value chain work of AGEXPORT. The specialised staff members play a key role in the initial diagnostic study of the enterprise and in helping the enterprise to develop its plan and proposal for support. Beyond this department, other departments and units as well as the top management of AGEXPORT also provide important contributions to implementation and they are largely financed through the membership contributions.
2. Long-term technical advisers who support the eco-enterprise on a permanent basis and often lives with or in the village of the eco enterprises throughout the period of support or part of it. This type of support is focused on the institutional development of the eco-enterprise and is in particular for the weak informal grassroots groups who need hand-holding during their initial development phase.
3. Specialised consultants and service providers providing short inputs on specific issues, such as certification and traceability, drip irrigation, development of marketing materials and establishment of a website, processing, storage and packaging, environmentally friendly production methods, nutrition, etc. It is quite common that an eco enterprise receives 10 different specialised technical assistance inputs, generally of high quality meeting international standards.

In addition to these paid human resources, an important input is provided by the sub-sector/industry/product Commissions of AGEXPORT such as the commissions on fruits; food and beverages; flowers and ornamental plants; handicrafts; and wood and furniture. The Commissions analyse constraints and opportunities for developing their industry and its exports, organises participation in trade fairs, and make other joint actions to facilitate progress in the industry. The commissions also serve as very useful platforms for networking.

The third main element of the intervention was establishment of an **Information Platform** to provide all stakeholders (donors, producers, buyers, technical service providers etc) with access, on-line and physical, to transparent information about processes, results, and the knowledge and experiences generated as well as to allow for effective monitoring and social audit.

The design provided a total Danida contribution of DKK 22 million (~USD 3.7 million). This plus an additional allocation of DKK 1.5 million is expected spent by December 2012. Of the original allocation, DKK 15 million was allocated for the Value Chain Fund. An amount of DKK 1.7 million was allocated for salaries and operations of the Value Chain Department, DKK 4.4 million for market information and research and the remaining for audit, information platform and other minor cost items. During implementation, only a negligible amount has been used for market research while new items have been introduced, such as a contribution to development of

AGEXPORT's environmental strategy and support for strengthening women in leadership and management.

More recently through its partnership with FUNDAECO, Rainforest Alliance and IUCN, AGEXPORT has seen it as priority to explore how Guatemala with its vast areas of pristine forests may access carbon markets for preserving the forests but also to obtain funds for economic and social development in the forest regions. Under the REDD programme (Reduced Emissions from Deforestation and Degradation) FUNDAECO, for example, has in the context of the partnership with AGEXPORT and with PREMACA support² developed concrete initiatives jointly with the Althelia Climate Fund (BNP-Paribas) for how to access carbon credits³ through forest conservation. An AGEXPORT staff member has specialised in this subject and participated as member of the official national delegation in the 2011 Durban conference.

3.3 The Intervention in Honduras



A revised and detailed description of the support for Honduras was finalised in May 2007 following a review/appraisal in December 2006, which recommended inclusion of FUNDER as an implementing partner. While FIDE and AGEXPORT had certain similarities, FIDE had at the time less prior experience in working with poor rural producers. FIDE had its focus on the formal sector and on developing industrial clusters, e.g. tourism, and attracting foreign investments, e.g. into the textile industry. FUNDER, having a strong profile in developing enterprises of poor rural producers, was therefore included as implementing partner. It was considered that there would be options for synergies and complementarity between FIDE, with a membership base of medium and large enterprises, and FUNDER with its network of poor rural producers.

In addition, the Honduras office of the Dutch NGO, SNV, was included to take responsibility for knowledge management, i.e. to assist with developing guidelines and innovative models (prototypes) for replication, and to organise learning processes working with FIDE and FUNDER to systematise and disseminate the experiences and results obtained during implementation. For example, during implementation, SNV developed a guideline on how to promote eco-enterprise development and an instrument for self-assessment (autodiagnóstico) adapted to the concept of eco-enterprises, which assists the enterprises in planning how to improve and move forward on the three dimensions: economic, environmental and social.

Activities in Honduras started in the second half of 2007, with an allocation of DKK 18 million and a relatively short implementation period of three and half years till end 2010, later extended by two years. At design about 71% of the budget was allocated for FIDE and FUNDER, with equal shares, while 5% was allocated for SNV (which also contributed own funds) and some 22% was kept as unallocated reserve.

² PREMACA has contributed to the baseline study.

³ One ton of reduced or avoided CO² emission may obtain a price in the range of USD 4 – USD 20 depending on future markets, and additional plus points, such as protection of the Maya culture and heritage.

FUNDER had the basis to quick-start implementation. It was already engaged with a number of rural groups and enterprises which had the potential of becoming eco-enterprises by introducing the environmental and social dimensions. Over the implementation period, FUNDER introduced the eco-enterprise concept for all enterprises in its agribusiness development portfolio, significantly enhancing its capacity to absorb Danida financing. On this background and considering the good performance and results, the initial allocation for FUNDER's activities was doubled.

The majority of the enterprises are agriculture-based: speciality coffee, cocoa, fruits, vegetables, and seed. In addition, FUNDER engaged in promoting enterprises working with recycling of solid waste, partly based on cooperation with PREMACA's sub-component 3.b supporting environmental management of selected municipalities in Honduras. Standing out in the portfolio is a consultancy company (ISEN) which in addition to potato processing provides business development, marketing and environmental services.

While FUNDER's business model, i.e. becoming a co-investor and providing management, is applied to many of the eco-enterprises, FUNDER has in recent years also introduced a model whereby FUNDER only provides business development and technical services without taking an ownership share and the CEO responsibility.

FIDE progressed fairly well on facilitating supply contracts between supermarkets and exporters on one side, and rural enterprises on the other. Unlike FUNDER, it is not part of FIDE's approach to provide long-term institutional development support, taking a weak group of members with no skills to a level of sustainability. Rather the approach is to provide short-term technical assistance in specific areas in order to secure the enterprise a market contract, thereby increasing its sales and income, which in turn is assumed to provide for its future growth and institutional development. This approach is obviously better suited for enterprises which already have achieved some level of institutional development.

Recently however, FIDE has started work with honey producers in the south (Choluteca) trying to link them to pharmaceutical companies. The area has high incidence of extreme poverty, and suffers from drought which climate change is projected to aggravate. Though the intervention may have high priority from a Danida poverty reduction perspective, questions remain whether FIDE has the time and resources to develop producer organisations with very rudimentary skills to a level of self-reliance. One may question if it is because of Danida influence that FIDE has initiated the intervention in Choluteca which appears to be beyond its core competence and mandate, however the answer is blowing in the wind.

With respect to cluster development, a plan to develop a cluster of eco-tourism in the north and east had to be abandoned as Honduras lost its attraction as a tourist destination due to political instability (*coup d'état*), wars between drug gangs and an increasing murder rate. However, better progress was achieved in the Marcala coffee cluster, involving also cooperation with FUNDER and SNV. In Marcala, FIDE assisted with introduction of the Marcala origin denomination (*Denominación de Origen Café de Marcala*), the first protected denomination of origin in Central America and recognised by the EU.

SNV expanded, as compared to design, its volume of activities and thematic coverage during the implementation, financed by a significantly increased budget allocation. In addition to

systematising results and processes of FIDE and FUNDER, and extracting lessons, SNV has produced a number of guidelines and tools as well as piloted some innovations with the intention of developing prototypes for replication and upscaling. Guidelines include: “How to invest with social impact”; “How small initiatives may access carbon market”; the self-assessment tool mentioned above; strategies for strengthening conglomerates (clusters); guideline for how eco-enterprises can access finance; a technical guide for introducing Good Agricultural Practices (GAP) and a manual for GAP auditing; etc.

In terms of costs, the most significant initiative was the investment in developing a prototype plant for production of bio-ethanol, bio-gas and organic fertilizer from residual products from the de-pulping and washing process in the coffee washing stations, and products which generally are polluting soils and water streams. If a commercially viable method could be found for turning these pollutants into valuable products, it could have significant positive impact on the economy of the coffee washing stations and the environment, not only in Honduras but potentially in many of the world’s coffee growing regions. The development process included establishment of an experimental small scale plant, search for solutions to problems arising (for example how to access raw materials for maintaining adequate capacity utilisation throughout the year) and a feasibility study.

3.4 Budget and Inputs

With re-allocations of PREMACA budgets during implementation, the total allocation for promotion of eco-enterprises in Honduras and Guatemala comes to DKK 49.4 million corresponding to USD 8.2 – 9.5 million depending on the dollar exchange rate. In addition there are the indirect costs of the support (including reviews) and participation of the PREMACA office, initially having a dedicated international eco-enterprise adviser. These costs may amount to an estimated DKK 5 million, giving a total Danish investment in the area of DKK 55 million (~USD 10 million).

This investment has to be seen in relation to the results, outcomes and impacts generated, directly as well as indirectly. This is the subject of the next chapter.

| ECO Enterprises | | |
|--|------------------------|-------------------------|
| Original Budget and Expected Final Allocation | | |
| | Original Budget | Final Allocation |
| Country & Partners | amounts in DKK'000 | |
| 4.a Guatemala | | |
| AGEXPORT | 22,000 | 23,545 |
| 4.b Honduras | | |
| FIDE | 6,447 | 9,954 |
| FUNDER | 6,474 | 12,843 |
| SNV | 774 | 3,039 |
| Unallocated | 4,305 | - |
| Total Honduras | 18,000 | 25,836 |
| Total Component | 40,000 | 49,381 |

Included is an additional allocation to FUNDER, being processed during the study. The expected final allocation corresponds to expected total expenditure

4 RESULTS, OUTCOMES AND IMPACT

4.1 Objectives and Indicators

The design documents for Guatemala and Honduras defined the objective as:

Generation of employment and income in poor communities (in Guatemala/Honduras) through creation of successful businesses based on environmental conservation and sustainable management of natural resources

Three supporting results were defined with some differences between the two countries but basically saying that: (i) the implementing partners had made a contribution to the above objective; (ii) the implementing partners had capacity (in Honduras sustainable capacity) to assist eco-enterprises on their three dimensions; and (iii) a system of knowledge management had been established promoting application and dissemination of good practices, - in Guatemala, through AGEXPORT's Information Platform, while in Honduras through the participation of SNV.

The design introduced a relatively simple and low-cost indicator system for reporting to PREMACA and allowed the implementing partners to use their specific systems. "Enterprise sales" is used by all systems and is relatively easy to quantify and monitor based on accounts and invoices though assessment of the "before situation" is not possible for those enterprises which did not have proper accounts and registries at the start of the support. The differences in M&E systems create challenges for a study like this, but it should be appreciated that the applied approach to M&E has ensured ownership, while being relatively low-cost.

The definition of indicators for "employment" has been subject to much discussion. The concept "incremental employment" has been used, trying to capture employment of temporary and permanent labourers but not reduction in underemployment of member producers. The concept "improved employment" has also been used, comprising both the producer and the contracted labourers, but without agreed clarity on what "improved" means. Is it work with less health risks from pesticides? Does the income/salary need to be above the poverty line/minimum wage? And sometimes, there are conflicts between "improved" and "incremental", e.g. investment in a machine may reduce the required labour input while increasing productivity allowing for payment of higher salaries.

FUNDER in Honduras has the most comprehensive monitoring system and is monitoring real developments rather than making deductions. Furthermore, the system also provides some indication of the development in the strength of the enterprise based on its progression through the three phases, i.e. primary, growth and self-sustainability.

In Guatemala, "sales" is the principal indicator while in Honduras attempts are also made to monitor and report on trends in employment and in the income of the producers who are shareholders and members of the enterprise. In the case of agriculture-based enterprises, one can use farm models to make (theoretical) deductions, for example one ton of coffee produced under a particular system and sold at price "X" will create "Y" number of labour days in the field, "Z" number of labour days in the coffee processing plant, and a net income to the producer of A.

However, overall the systems are not well suited for assessing the financial viability of the enterprise (trends in profits and equity), and the total direct socio-economic impacts. Using a small coffee farmer as an example, the direct socio-economic impacts (excluding indirect and multiplier effects) include:

- The farmer increases her income from (i) increasing production, through area expansion and/or productivity improvements; (ii) receiving a higher price per unit from the coffee washing enterprise where she is a member/shareholder; and/or (iii) receiving a higher dividend from the enterprise.
- In case of higher production, she may need to employ more farm labourers and the coffee washing enterprise may need to employ more labourers in the process, thereby creating employment and income in the local community.
- The coffee washing enterprise may expand and purchase coffee from producers who are not members/shareholders of the enterprise, thereby increasing their income.

In order to fully capture these direct income effects, a very costly and comprehensive monitoring system would need to be established. In Guatemala, no attempts are made to capture the income effects while estimates are made in Honduras. However, guesstimating income effects does not *per se* inform the assessment of the following two issues.

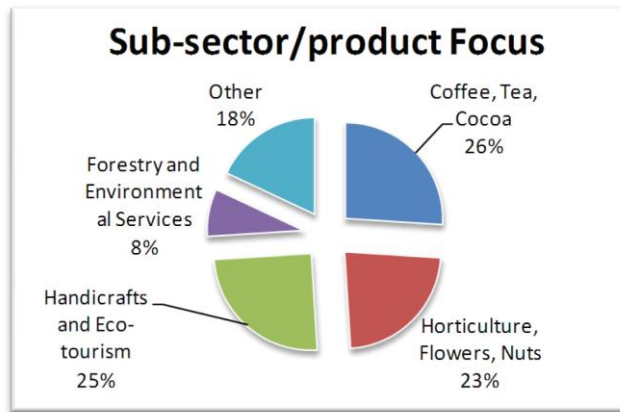
First, in the case of cooperatives or joint partner enterprises, there are sometimes conflicts between short-term individual member interests to increase his/her income as much as possible now and the concerns for developing a strong joint enterprise (in principle, in the long-term interest of the individual). For example, the individual coffee farmer may strive to get the highest possible price from the joint coffee processing enterprise or extract all enterprise profits as dividend instead of ploughing profits back into the capital of the enterprise in order to ensure its sustainability, e.g. allowing it to replace obsolete equipment.

Secondly, the global monitoring systems do not provide a clear answer to a crucial question which is a fundamental underlying assumption of the support: *Does the producer gain from converting to a more environmentally friendly production method?* A significant increase in sales obviously indicates that there is market for the more environmentally friendly product but farmers are often concerned that conversion to for example organic production reduces productivity and increases costs. A change in the sales figure may be due to higher prices and/or higher volumes, but does not indicate whether it is more profitable to produce with more environmentally friendly methods.

While the global indicator systems do not help to provide an answer to this question, there are several case studies which confirm the validity of the assumption that there are win-win situations where both the producer and the environment benefit. However, such win-win situations may change over time with developments in the market. For example, there are indications that the recent boom in world market coffee prices has reduced the price difference between organic speciality grades and standard grades of coffee.

Finally, the different M&E systems do not make it straightforward to undertake a fair comparison of the number of eco-enterprises supported and the sub-sector/product focus of the enterprises. FIDE reports the highest number of eco-enterprises but some of these are individual producers who have just been facilitated to have a contract with a buyer. With respect

to the sub-sector/product focus, classification can occasionally also be difficult where enterprises are engaged in several different activities. The three dominant areas are (i) coffee, cocoa and tea; (ii) horticulture, flowers and nuts (macadamia and cashew); and (iii) handicrafts and eco-tourism. The latter has considerable weight in Guatemala but not in Honduras where horticulture and coffee dominate. With the new value chains being processed in Guatemala, handicrafts and eco-tourism may account for more than 40%, about the same as agricultural eco-enterprises, while the remaining part is related to manufacturing, environmental services, aquaculture and forestry.



4.2 Effectiveness – Achievement of Objectives and Targets

Though implementation is still in progress and there are the above-mentioned issues of the indicator system, this section concludes that the programme has been highly effective in achieving its objectives and results defined in the design.

Guatemala

The indicator system and target values for the indicators were not fully defined in the design document but during implementation. AGEXPORT’s Progress Report for 2010 presents the data shown in Table 2. The majority of enterprises are of small and medium size and have several years of operation. However, a few are new start-ups with less than one year of operation when AGEXPORT started the support. In terms of number of supported eco-enterprises, AGEXPORT was behind the target in December 2010 but reached it in 2011. By late 2011, the portfolio (including new ones being processed) comprised 35 value chains involving 82 eco-enterprises. AGEXPORT does not report on the number of new jobs created but on “direct beneficiaries”, which refers to the members and shareholders of the enterprises and staff/labourers employed by the producers and enterprises. This is also referred to as “improved employment” or “improved jobs”. The members/shareholders constitute the majority of this figure. As shown in Table 2, this “outreach target” had been surpassed by end 2010. However, the figure provided in the 2010 report was based on projections included the cooperation contracts with the enterprises. In the progress report for the first half of 2011, AGEXPORT reports a figure of 3,855, being what had been realised, according to obtained documentation.

Table 2 Target Achievement by AGEXPORT in Guatemala

| | Target for end 2010 | Achieved end 2010 |
|---|---------------------|-------------------|
| Number of supported eco-enterprise value chains | 37 | 29 |
| Direct beneficiaries | 5,260 | 5,927 |
| Sales generated (USD) | 10,802,446 | 13,309,023 |
| Investment by Competitive Fund (USD) | 2,229,030 | 1,980,167 |
| Counterpart contribution (USD) | 3,932,176 | 4,364,808 |

Source: AGEXPORT’s 2010 Progress Report

Investment in technical assistance support by the Competitive Fund had by end 2010 been less than budgeted for but the mobilisation of counterpart funds from producers and buyers was higher than expected.

Also the sales figure does not represent actual sales. The amount reflects the sales projected in the business plans of the approved support project, thus it is work in progress. The sum of these projections amounted to USD 13.3 million, about 30% higher than the target. In its progress report for the first half of 2011, AGEXPORT reports, based on documentation, an actually achieved figure of USD 4,453,648.

The sales indicator and its trends are regularly monitored in AGEXPORT's system. The current figure for the sales of the enterprise is compared with the figure at the time when PREMACA support was initiated (if available, and 0 in the case of start-ups). Using the data provided by the system in October 2011, it is apparent that there are significant differences in sales growth between the enterprises, please see below.

These differences may be explained partly by different levels of success in developing production and sales and partly by time factors, i.e. some have received support for longer time than others. Half of the enterprises have increased sales by more than 50% and only one enterprise has experienced lower sales, reportedly because of personal problems between the members.

| Change in Annual Sales from Start of PREMACA Support till October 2011 | |
|---|------------------------------|
| Change in Sales | Number of enterprises |
| Decline | 1 |
| 0 – 49% | 6 |
| 50-99% | 3 |
| 100 – 199% | 1 |
| 200% and more | 3 |

The above figures do not include enterprises which were start-ups or had no proper records, when PREMACA support was initiated. Their sales reached some USD 855,000 in October 2011.

AGEXPORT's monitoring system and progress reporting to PREMACA does not include environmental indicators, such as number of environmental certifications. However, environmental management, often including certifications, is part all cooperation plans with all enterprises. Business plans include the costs of the recurrent audits of the certifications to ensure that the enterprise generate sufficient revenue to pay for such after the end of AGEXPORT's support.

With respect to gender, AGEXPORT has adopted a gender strategy and made an alliance with VITAL VOICES to promote women's participation. However, its indicator system and progress reporting do not yet include gender disaggregated data.

It is assessed that the three results (or immediate objectives) have been achieved, although no verifiable and quantifiable indicators are defined for these results. First, AGEXPORT has supported initiatives that have generated employment and income in poor communities and which have contributed to conservation and sustainable use of natural resources. Second, AGEXPORT, through its internal units and staff as well as through alliances and a large pool of

screened service providers, has established capacity to provide eco-enterprises with adequate support in the future. The sustainability of this capacity, at least for the medium term, has recently been secured with a large USAID donation. Third, a well-functioning information platform has been established, producing information of good quality.

Honduras

For the objective, the design document defined three categories of indicators related to poverty (employment, gender disaggregated, and income), the enterprise (sales and investment), and the environment, see Table 3. The definition of indicators was slightly different between FIDE and FUNDER, and during implementation the actual monitoring was also different. As to the number of supported eco-enterprises, the figure of FUNDER only includes enterprises with several members or shareholders while the figure of FIDE also includes some individual farmers, e.g. if Walmart has entered into a contract with an individual farmer. It should also be recalled that while FUNDER normally supports an enterprise for a period of 3-5 years, FIDE usually provides short-term technical specialised support of less than a year.

By end 2010, the indicators/targets were all achieved and in some cases, in particular for FUNDER, achievements significantly surpassed the initial targets, please see Table 3. With a 2-year extension, and additional budget, the end result at PREMACA closure in 2012 will be even more impressive.

FUNDER has also made impressive progress on promoting gender equality after introduction of its gender strategy. By end 2010, women accounted for 33% of the jobs created. By end 2011, FUNDER could report that women had 62% of the jobs in the collection and processing plants of the enterprises, that women filled 30% of the management positions (up from initially 12%) and that 62 women had become shareholders (up from a few).

FUNDER does in its monitoring system follow how the enterprises progress through the three institutional development phases, and does also apply the auto-diagnostic tool to assess progress on the three dimensions, economic, environmental and social. In its monitoring system by December 2011, information on 39 out of 41 enterprises could be obtained as to the development phase of the enterprise at the start of PREMACA's support, at status that has improved since then. Anyway, in December 2011 it was projected at which development phase the enterprises would be at the end of PREMACA's support (almost all 41 enterprises have at one stage received PREMACA support). This information is presented in below in Figure 1.

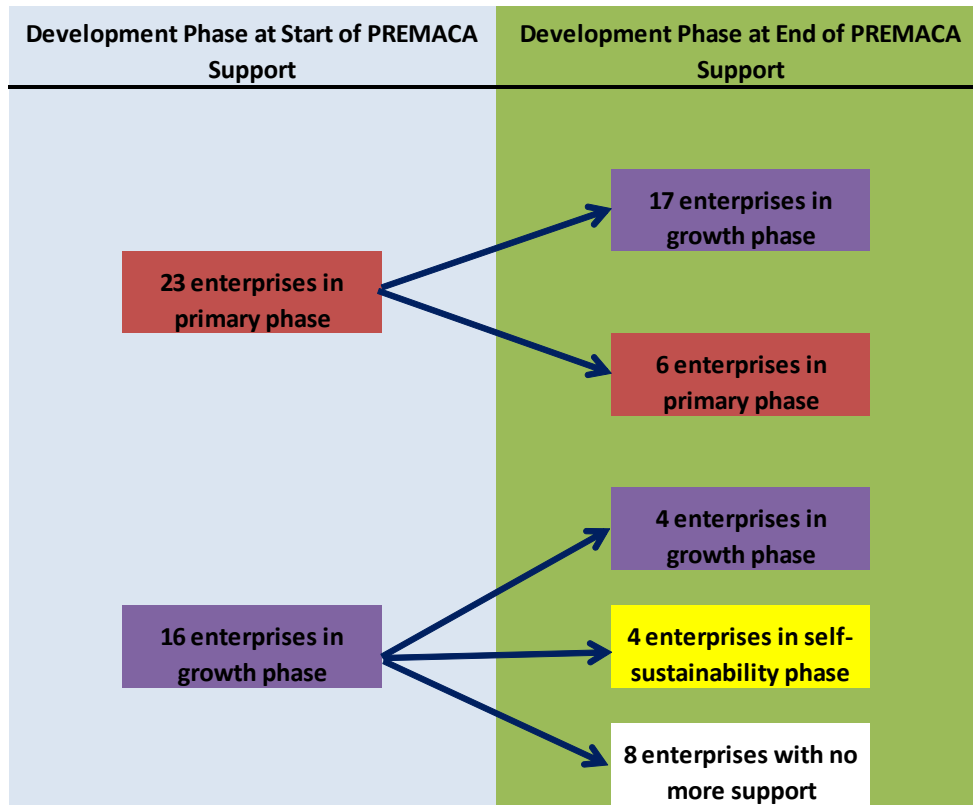
It is noteworthy that some eight enterprises are expected to exit the self-sustainability phase and require no further assistance by the end of PREMACA while some 31 enterprises (6 in primary, 21 in growth and 4 in self-sustainability phase) will require further assistance after PREMACA. For all of these enterprises, FUNDER has identified the future funding source.

FIDE does not apply the same kind of institutional development approach as FUNDER, partly because FIDE (mainly) works with small and medium enterprises at a more advanced institutional development stage at the time the support is initiated.

Table 3 Honduras - Achievement of Indicators/Targets for the Immediate Objective

| | Partner | Target 2010 minimum | Women's Share (%) | Achieved End 2010 | Women's Share (%) |
|--|--|---------------------|-------------------|-------------------|-------------------|
| 1. Poverty Reduction Indicators | | | | | |
| 1.a Employment Creation (~ no full time jobs) | | | | | |
| | FIDE | 800 | >30 | 780 | |
| | FUNDER | 1,000 | >30 | 1,574 | 33 |
| 1.b Income (USD) | | | | | |
| | <i>Incremental accumulated income</i> FIDE | 1,000,000 | | 965,550 | |
| | <i>Additional income of the poor, accumulated</i> FUNDER | 400,000 | | 2,016,000 | |
| 2. Enterprise Indicators | | | | | |
| 2.a Sales | | | | | |
| | <i>Annual incremental sales, USD</i> FIDE | 2,000,000 | | 2,355,000 | |
| | <i>Accumulated incremental sales, USD</i> FUNDER | 1,000,000 | | 5,417,000 | |
| 2.b Accumulated investment | | | | | |
| | <i>not at an indicator for FIDE only</i> FUNDER | 200,000 | | 599,000 | |
| 3. The Environment (same or similar targets for FIDE and FUNDER) | | | | | |
| 3.a Quality of Environmental Plan - percentage of all enterprises with: | | | | | |
| | Plan of satisfactory or highly satisfactory quality | | 90 | see note | |
| 3.b Environmental Certification - percentage of all enterprises with: | | | | | |
| | Satisfactory or highly satisfactory certification | | 90 | see note | |
| <i>Number of Eco-enterprises (MSMEs) and Individual Producers supported by FIDE</i> | | | | 50 | |
| <i>Number of Eco-enterprises supported by FUNDER</i> | | | | 31 | |
| NOTE: In the case of FIDE, the environmental targets were revised to +60% of the enterprises having an environmental management plan while +40% had an environmental certification. By end 2010, the achievements were respectively 58% and 46%. - While FUNDER by end 2010 had supported 31 enterprises, 34 quality management plans had been introduced (for some enterprise more than one). With respect to environmental certification, the following were obtained or in process: 23 GAP, 18 GMP, 20 cleaner production, 10 organic, 3 ISO9001&HACCP, 5 traceability. | | | | | |
| Source: Annual Reports for 2010 of FIDE and FUNDER | | | | | |

Figure 1 Institutional Development of Eco-Enterprises Supported by FUNDER, at the Start and End of PREMACA Support



To recapitulate, the design document also included three results (immediate objectives), defined in more qualitative terms and without quantitative, measurable indicators, i.e:

1. The implementing partners have made a sustainable contribution to establishment of eco-enterprises in line with the objectives for the economic, environmental and social dimensions.
2. The implementing partners have sustainable capacity to develop eco-enterprises in value chain and clusters through their own professional teams, information dissemination and networks with providers of business development services and other institutions.
3. The implementing partners apply good practices and lessons relevant to promoting eco-enterprises in their context and their own experiences have been systematised and disseminated.

The first result is related to the immediate objective and based on the above analysis, it can be concluded that it has been successfully achieved. However, there is an issue in the definition of the second result related to the concept “sustainable capacity”. FIDE but in particular FUNDER have developed capacity to work with eco-enterprises in value chains and clusters, but the sustainability of this capacity depends on future funding. Here, FUNDER is more fortunate at the moment as it has secured continued funding for its Agribusiness Centre and is able to identify the future funding source for each PREMACA-supported eco-enterprise after the end of the PREMACA support, in case the enterprise does need further support. It is the author’s assessment that FIDE’s capacity with respect to development of eco-enterprises in value chains

and clusters is less institutionalised and perhaps for this reason, the future funding to sustain this capacity is not yet secured. This constitutes a risk for the supported honey producer groups in the south, which are likely to need further support after PREMACA ends.

With respect to the third result, both FIDE and FUNDER apply what may be termed good practices, but they are “good” to different contexts. FUNDER’s model represents an excellent practice for developing weak rural enterprises or enterprises from scratch, having poor members with limited managerial capacity, but the model is not designed for enterprises at an advanced development stage.

FIDE’s model on the other hand is good practice in relation to medium-sized enterprises and small enterprises at a more advanced institutional development stage. FIDE also has developed good practices for developing emerging clusters and introducing denomination of origin, and Good Agricultural and Manufacturing Practices. However, with its focus on specialised technical assistance of relatively short duration and moderate amounts addressing specific technical issues, the FIDE model does not represent good practice for development of rural enterprises from scratch. For this reason, FIDE should probably not have engaged in supporting the establishment of the honey enterprises in the south whose level institutional and human resource development is rudimentary.

4.3 Emerging Impacts

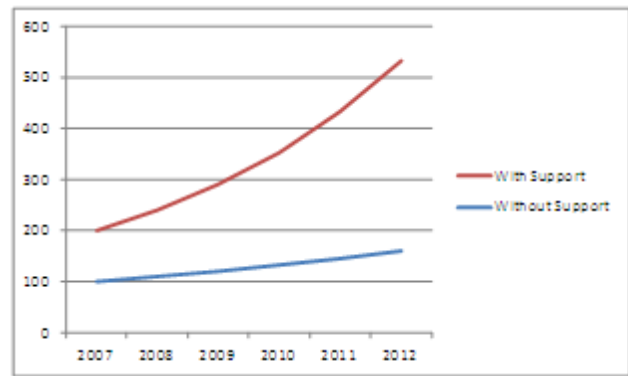
Economic and Social Impacts

As highlighted, the M&E systems do not provide the information required to systematically describe changes in household income/livelihoods and in the poverty levels of the local communities where the eco-enterprises operate. Furthermore, no comprehensive baseline and repeat studies have been undertaken to assess the “before” and “after” situations. However, there is a wealth of case studies and reports from interviews with beneficiaries which combined strongly point to significant improvements in incomes and livelihoods.

In many cases, household income of the eco-enterprise member has been more than doubled, allowing her to buy more land and employ more labourers. Often the extra income is invested in the children’s education. And in some cases, the member has invested her efforts in improving her own educational level, allowing her to take supervisory or management positions in the company. Overleaf, the abbreviated story of Piedad Flores illustrates the context and some of the common impacts achieved through the support. The story of Piedad Flores and her cooperative is unique but among the more than 100 supported eco-enterprises many similar positive results have been achieved by the enterprise and its members.

Assessment of the global impact on income of the support involves assumptions and guesses. The “sales” indicator can be used as a rough approximation for “income” since in labour-intensive, low-input, agricultural production/ processing enterprises, it may be assumed that at least 70% of the sales revenue goes towards paying for the labour input, i.e. income of the producer/member and the hired labourers. However, data on sales revenue would be required for at least 4-5 years in order to establish a trend and then this trend would have to be

compared with the hypothetical counterfactual trend that would have been achieved without the support as it is the difference between these two trends that represents the impact of the support.



It should however also be highlighted that the counterfactual in some cases is zero in case of start-ups or a negative declining path. For example, FORESCOM (in the

Maya Biosphere Reserve, Petén, Guatemala) was on a declining path towards bankruptcy when AGEXPORT entered in 2009 and managed to make a complete turnaround. In 2011, its exports of certified wood (SmartWood of Rainforest Alliance) is expected to reach one million US dollars and during the year FORESCOM was awarded a national export prize (*“Galardon Nacional a la Exportación”*)

The monitoring systems in Guatemala and Honduras report that total incremental sales by December 2010 amounted to a total of some USD 12 million. This figure covers in some instances more than one year and it does not take into account that some of the going enterprises would have had a sales growth also without the support. Thus, the figure does not indicate the annual actual incremental sales growth (or decline) considering the counterfactuals. However, one could use the figure for guesstimates. Combined with information obtained from case studies, a conservative estimate would be that the support currently is generating annually at least some USD 6 million in incremental sales, implying an annual incremental income of at least USD 4 million, figures which are likely to increase over time. This should be considered a highly conservative estimate and it does not include indirect multiplier effects. Yet, it provides a high return on Danida’s investment of about USD 10 million, even though Danida’s investment has played mainly a catalytic role and has been complemented by investments of producers, buyers and other development partners.

The Abbreviated Story of Piedad Flores, Member of the Integrated Agricultural Cooperative

Mujeres 4 Pinos



Piedad Flores lives in the community San Mateo Milpas Altas, de Santiago Sacatepéquez, in the central high planes (altiplano) of Guatemala. She belongs to the ethnic group Cackchiquel and is 34 years of age.

Her family was poor and could not afford to send her to school. She helped her mother selling vegetables in the market and reaching 12, she got a job to pack vegetables for the large men-owned marketing cooperative "4 Pinos", and at 15, she got work in a textile factory. At 17, she married and got 4 children over the 9 years that the marriage lasted. During the marriage she worked with her husband in the field and learned how to produce vegetables. From her work, she managed to save and buy 0.23 ha of land for her own. The land was registered in her husband's name since she could not read or write. Reaching 25 and pregnant with

the fourth child, her husband left her and took a loan, using her land as collateral.

She got temporary shelter with her father-in-law, and though pregnant, continued cultivating the land, selling vegetables. Gradually she saved sufficient to buy back her land, as well as a small plot where she constructed her own house. She sold her vegetables to the men's cooperative 4 Pinos. In 1998 they informed her that they no longer could buy from her, and she then had to sell in the local market.

In 2005, she becomes a member of the recently established but not yet legally constituted cooperative Mujeres 4 Pinos ("the women's 4 Pinos"). The "men's 4 Pinos" was then already a large export cooperative and a member of AGEXPORT. It had close to 600 members, all men except from a few widowers of members. The *men's 4 Pinos* accepted supplies only from women married or related to a member. A progressive manager convinced members to change this system, partly because they could not meet the demand, and in 2010 it opened its doors for supplies from the *women's 4 Pinos*. With a secured market, the *women's 4 Pinos* qualified for eco-enterprise support from AGEXPORT, and membership grew rapidly from around 70 to 318 women, cultivating 178 hectares with different types of vegetables, mainly green beans. On average, each member today obtains an income above the poverty line and in addition, the members employ close to 900 labourers in their production.

The technical assistance support of AGEXPORT has helped the *women's 4 Pinos* to become legally, registered, develop its marketing tools and participate in national and international trade fairs, introduce accounts and management systems, product quality management and certified environmental management systems (e.g. GlobalGAP) including safe handling of pesticides, drip irrigation and cultivation under protective tunnels, and to have health checks and treatment. AGEXPORT has also facilitated IFAD funding of a warehouse.

In this process, Piedad grows with the rapid growth of her cooperative, takes the sixth grade, learns to read and write and how to operate a computer, and she is elected for leadership positions. She buys more land, increases her production and since 2010 she has employed 9 workers during the two annual crop seasons, paying each USD 65 per week. She escapes poverty and becomes able to pay for the education of her four sons who currently are in the 10th, 8th, 6th and 2nd grades.

If you one day should be fortunate to meet Piedad Flores, she is likely to proudly hand you her well-designed business card and a brochure, refer you to their website (www.mujirescuatropinos.com), and inform you that already during the 2010/11 season, her cooperative had exports worth one million US dollars.

Human Development and Empowerment

The story of Piedad Flores indicates strong impact on human development and empowerment, and this is assessed as a general feature of the support, though not quantifiable. At the design stage, there was probably some uncertainty as to whether it would be possible to develop relationships between “first world” buyers and “third world” producers, based on mutual respect and trust, but this has largely been achieved.

The implementation approach provides part of the explanation for this success. The producers of the eco-enterprises, who in many cases belong to the “socially excluded” and have low status in society, have been approached as business partners, and not as recipients of hand-outs. The approach has been to invest all the technical assistance required to make them professional business partners with capacity to manage business relationships with large buyers and exporters, and meet the requirements of international markets.

Support has been provided for professional designs of business cards, brochures, websites, and packaging materials of an international standard, giving the enterprise and its members a professional business image, and thereby pride. Producers, who had never travelled beyond their local community, have participated in international trade fairs in the US and Europe. Some may negatively consider such as “donor-paid tourism” but the impact has been much more than the excitement of the travel. The producers have learnt that all the production procedures and processes, which their local buyer demands, are not because of personal harassment but because consumers and markets in Europe and the US demand so. They have seen and assessed their competitors and been inspired to do things differently.

Pride, self-esteem and motivation have also been stimulated by introduction of prizes for “best rural exporter” which are awarded in annual functions, attended by the media.

Their dedication, hard work and compliance with contractual obligations have earned them the respect of their “first world business partners”, whether a large export company or a supermarket like Walmart, who in many cases have invested own funds in development of the production of the eco-enterprise. Though these partnerships function because of the profit interests of both, human relations and respect for each other have in many cases also contributed to strengthening the partnership.

Their success in business and their individual human growth has also earned them respect in their local community, empowered them to participate in community affairs and given them the confidence to claim their rights in front of local governments and authorities.

Emerging Environmental Outcomes and Impact

The majority of the eco-enterprises are engaged in agricultural production, and for all of these eco-enterprises environmental management systems have been introduced, in most cases allowing for some kind of product certification (GAP, organic, traceability, Fair Trade etc.). The immediate impact is on the health of producers and consumers through reduction or elimination of pesticide use, elimination of toxic pesticides, and safe handling of pesticides.

Better methods in the processing also make a contribution, for example in an eco-enterprise in Honduras a safe method of cleaning carrots has replaced the traditional practice of washing the carrots in highly polluted river.

In the coffee processing plants, better handling of the pulp and other waste products has been introduced, avoiding pollution of rivers. In the Marcala coffee cluster, SNV has piloted a prototype plant for converting waste into bio-ethanol, - gas and –fertilizer, see Chapter 6. With funding from Spanish AECID, SNV has replicated and improved this model and prototype plant, i.e. an additional indirect benefit of the PREMACA support.

Improvements in the natural resource base and its sustainability are likely to emerge in the longer term from for example: organic methods of improving soil fertility, tree planting and soil protection measures, and better management of forest resources.

There are also improvements to the urban environment, for example through introduction of Good Manufacturing Practices (GMP) and cleaner production. As an exception to its agriculture-based portfolio, FUNDER has engaged in establishing micro enterprises of solid waste collectors in the towns of Comayagua and La Ceiba, please see the abbreviated story of *Reciclaje de Honduras* overleaf. Safer methods of waste collection have been introduced and collectors have been trained in how to handle waste without risking their health. In the longer term, the initiative is likely to provide a major contribution to improving the environment on the town of Comayagua. For example, alliances have been made with schools and colleges to separate the solid waste, and students are paid an agreed amount for the waste which contributes to raising their environmental awareness.

Manuel López, producer of carrots in Cerrón Marcala in Honduras, has been supported by FUNDER to introduce Good Agricultural Practices and now sells to the big supermarkets, Walmart and La Colonia. Manuel López states:

“We know that we as producers have to supply products which do not harm the consumers”.



Institutional Impact

The implementing partners have fully adopted and institutionalised the eco-enterprise concept. The support has also contributed to establishing partnerships and alliances between the implementing partners and organisations that have relevant services to offer for development of eco-enterprises.

Finally, but not least important, a cooperation and working relationship has been established between the implementing partners. At the design stage, it was wished but perhaps not expected that a close working relationship would develop between FIDE and AGEXPORT, anchored in the “first world society”, and FUNDER, anchored in the “third world society” but this has actually been achieved.

Developing a Micro Enterprise of Solid Waste Collectors

The Eco-enterprise “Recicla de Honduras”, in Comayagua, Honduras



“Before I worked as an assistant to a mason, but there were weeks without any work. I then realised that collection of recyclable material could help me permanently.” Ángel Mario Carrillo (Chairman of Recicla de Honduras).

In the old provincial town Comayagua in central Honduras, organised management of solid waste was absent till a few years ago. Solid waste was disposed of irregularly or if regularly at a polluting garbage dump outside the town where collectors (and animals) scavenge for any waste of value. These collectors (*pepenadores*) have low social status in society, are illiterate and among the poorest people in Honduras. On a good day, a collector can earn 3-4 dollars, insufficient to properly support a family of 5 or more members. Before the enterprise, they collected and sold individually, had fights between each other, and they did not obtain a decent price when they sold the collected plastic and metal to middlemen and buyers from the recycling companies.

Inspired by FAO, FUNDER decided to intervene. It organised the collectors and obtained commitments from some large recycling companies. In 2009, the enterprise was formally established by 31 collectors (16 women) and with FUNDER as shareholder investing USD 1,500. With support of PREMACA, FUNDER provided a fulltime technical specialist serving as managing director, passing on his knowledge to members in learning-by-doing processes. In addition, investment support (USD 1,000) was obtained from one large buyer, RECIPLAST, allowing the eco-enterprise to buy machinery to make and compact plastic pellets (pet). Furthermore, RECIPLAST allowed the eco-enterprise to use, free of cost, one of its warehouses in Comayagua. Important sales contracts were also obtained with another large recycling company, RECIGROUP.

The business model of the eco-enterprise was to develop collection from the source rather than scavenging on the solid waste dump. Agreements were made with a network of suppliers including a large beer company, the schools and colleges, residential areas, commercial centres, hotels and restaurants. Investments were made in bicycles to collect the waste along pre-determined routes. In establishing the networks for collecting the solid waste at the source, support was provided by the environmental authorities in the municipality of Comayagua, which helped to raise awareness and installed containers in the schools to separate the different types of solid waste. Schools and their students are paid for the solid waste which raises awareness about its value and the need for recycling.

Under PREMACA’s Component 3 for decentralised environmental management, the municipality of Comayagua receives support for its environmental management. This has enhanced the support of the municipality for the eco-enterprise and at the same time the eco-enterprise is helping the municipality to improve solid waste management. Recently PREMACA has approved investment in a modern solid waste management facility to replace the garbage dump. Construction is on-going and when completed, no collectors will be allowed to enter. Thus, Reciclaje de Honduras was established at the right moment, collecting at the source, which will also reduce the pressure on the new facility.

In its first year, 2009, the eco-enterprise had sales of 53,000 Lempiras which in 2010 increased by 10 times to 588,000 Lempiras (~USD 30,000) and in the 2011 growth seems to continue along this exponential trend. Through joint marketing and the contracts with the recycling companies, the collectors are now obtaining prices which are about the double of the prices they received before. The members are still poor but they are moving rapidly out of poverty and towards better health and education as well as recognition by the society.

5 ISSUES OF SUSTAINABILITY

Sustainability issues vary between the three implementing partners which have different strategic approaches and methodologies. The following assesses the overall sustainability issues in their portfolio of the supported eco-enterprises as well as the likelihood that the implementing partners will continue their services for promoting eco-enterprises after termination of PREMACA support.

Any enterprise is a living organism and guarantees for eternal sustainability can never be issued. Even large corporations face from time to time insurmountable problems but it is their capacity to address such problems that indicates their sustainability. By their nature, small group-based enterprises are often dependent on a few key persons. With their departure and changes in the inter-personal dynamics of the group, the future outlook can change rapidly.

5.1 Specific Sustainability Issues of Implementing Partners

FIDE primarily assists well-established enterprises with punctual specialised technical assistance, of relatively short duration and amount, to help them satisfy the requirements of the buyers. The philosophy is that sustainability is ensured by establishing a long-term contractual relationship between producer and buyer and by developing the capacity of the producer to comply with contractual obligations. For enterprises at a relatively advanced stage of institutional development and where owners have a relatively high level of managerial capacity, this seems as an appropriate and workable model with limited sustainability risks, as illustrated by the story of PRYCOVE overleaf.

However, it is not likely to ensure the sustainability of eco-enterprises, which are at a more rudimentary institutional development stage, such as the honey producers in the south who may need assistance after closure of PREMACA to reach a stage of self-sustainability.

As mentioned in Chapter 4, FIDE is still in the process of institutionalising its services for eco-enterprises in value chains and clusters, and has yet to secure funding for the continuation of these services after the closure of PREMACA.

FUNDER prioritises rural enterprises in their primary establishment or early growth phases and provides technical support for the longest period of time. The participation with capital and managerial expertise and its 3-phase model is designed to ensure that the enterprise is not left without support until it is self-sustainable. However, there are challenges in the exit phase passing over full managerial responsibility to the producers/members and disposing of the shares.

The eco-enterprise methodology is fully institutionalised within FUNDER's Agri-business Centre which has funding from several development partners and programmes. Funding sources have already been identified for those eco-enterprises, which are supported with PREMACA funds and which will need continued assistance after closure of PREMACA. Thus, no major sustainability issues are expected for the supported eco-enterprises or with respect to FUNDER's ability to continue its services.

The Story of the Vegetable Production and Marketing Company PRYCOVE in Honduras



PRYCOVE is located outside the capital Tegucigalpa and provides today a regular supply of high quality vegetables to supermarkets, hotels and fast food chains. The company is owned by two producers who since 1995 on individual basis have produced vegetables for the local market. Working with the producers, FIDE identified weaknesses in their individual production and post-harvest handling systems, including management of agro-chemicals. The producers engaged with FIDE under the common goal of creating better and more

permanent employment in the local community through improvements in production methods and market linkages.

FIDE helped them to introduce Good Agricultural Practices (GAP), producing vegetables which satisfy the food safety and quality standards of “first world buyers” in Tegucigalpa. Supply contracts were made with Hortifruti, a subsidiary of Walmart, and Quiznos, a fast food franchise. In 2010, the two producers were facilitated to establish the joint shareholding company PRYCOVE Ltd. (*Sociedad de Responsabilidad Limitada, S. de R.L.*). In addition to Hortifruti and Quiznos, PRYCOVE is today supplying to clients such as Hotel Intercontinental and Hotel Marriot, Wendy’s, and Price Smart. To ensure a constant and regular supply according to the needs of these clients, PRYCOVE needs to carefully plan the cycles of the different crops.

PRYCOVE feels that the domestic market does not yet sufficiently appreciate the difference between products produced using GAP and products produced by traditional practices. However, PRYCOVE does recognise that GAP has contributed to its current position in the market.

PRYCOVE has created 13 permanent jobs within distribution, marketing, accounts and farm management, and in addition PRYCOVE employs 10 farm labourers of whom four are women.

In addition to the technical assistance received from FIDE, PRYCOVE is also receiving technical support from EDA (a USAID project). PRYCOVE plans to continue its growth, and is for this purpose considering the possibility of including more shareholders and how to access financial institutions or investors.



Safe storage of pesticides

AGEXPORT is in a category in-between FUNDER and FIDE. As mentioned, it supports enterprises at a relatively advanced institutional stage but also a number of enterprises in their early development phase. The technical assistance support is for 18 to 24 months but in many cases very intensive, involving up to 10 different specialists and if required, e.g. by an institutionally weak enterprise, a full time adviser is provided for the entire period or most of it. Though many of the eco-enterprises during the intensive support of AGEXPORT have had an exponential growth, economically and institutionally, it remains a question whether AGEXPORT should have a small “emergency window”, allowing it to return after the end of the support to fix a specific problem.

The eco-enterprise approach is integrated in AGEXPORT’s value chain programme (PEE) which is a relatively large unit within AGEXPORT and fully institutionalised in the organisation. Members of AGEXPORT’s Board and management actively support and promote the programme. The successful performance of the PEE unit has secured financing from other partners (IFAD, USAID, Hivos, Cordaid etc). Recently USAID has made a major commitment, which will allow AGEXPORT to continue its value chain work several years after the closure of PREMACA.

5.2 Sustainability of the Support Services in the Long Term

FUNDER and AGEXPORT are fortunate to have secured alternative donor funding after termination of PREMACA support and can therefore continue their activities for the next several years. However, given that Honduras and Guatemala are middle income countries, the day will come sometime in the not so distant future where international aid will cease. That day is closer for Guatemala than for Honduras.

At that time, the implementing partners will have to identify other funding sources than aid. Today, it is not obvious which would be the realistic options. In the case of FUNDER, the model of providing venture capital + managerial services may be modified to increase self-financing. The partners may also be able to mobilise more co-financing from buyers, and the governments may be persuaded to co-finance some services as part of its support for socio-economic development. Finally, if environmental improvements and certifications open new markets and provide better prices, the partners may be able to charge the financially stronger rural enterprises fees for its services which fully cover the costs.

5.3 Issues of Multi-purpose Enterprises and Cooperatives

Rural enterprises in Honduras and Guatemala are constituted as cooperatives or shareholding companies (Sociedad Anónima S.A. or Sociedad de Responsabilidad Limitada, S.R.L) or they may be informal or semi-formal associations and family businesses. Compared to Africa, the shareholding company is more common, having the features of a “partnership company” with the shares owned by a group of producer members. The shareholding company, where there are a few owners (who are friends), is generally much easier to manage (please refer to the story of PRYCOVE) than the large cooperative or enterprise with several hundred members.

Furthermore, in some cases cooperatives as well as enterprises engage in a multitude of diverse activities, going beyond their core business, which overstretches their limited management capacity, a frequent problem in multi-purpose cooperatives in Africa. This sustainability risk is accentuated in the eco-enterprise concept, where inclusion of activities related to the social and environmental dimensions will tend to challenge the management capacity.

These challenges are illustrated by the story of the eco-enterprise Alianza S.A. in Guatemala, see overleaf. Its primary product is organic macadamia nuts and its secondary product is roasted, processed and packed coffee but it also produces bamboo furniture, bottles and sells spring water, and operates an eco-hotel. In addition, it is engaged in several social/community activities. The enterprise made a loss on the drinking water business and decided to lease the facility to three members who now seem to operate it with a profit. Alianza S.A. could probably benefit from also leasing the eco-hotel to a sub-group.

The concept of leasing non-core assets and transferring management of the related activities to sub-groups is innovative and could be a useful inspiration for many of Africa's multi-purpose cooperatives whose management is overstretched by too many diverse activities.

5.4 The Long-term Reliability of the Buyer

It is crucial to sustainability that the buyer continues in the partnership and honours his obligations and commitments. In value chain work, there are numerous cases of disappointments where the buyer has left the partnership, either because his market disappeared, e.g. due to low-price competition from Brazil and Vietnam, or because he found a cheaper and more attractive source for his raw materials, or bankruptcy.

The producers' dependency on the partnership with the buyer is a sustainability risk, and the implementing partners have applied various measures to mitigate this risk.

All implementing partners do in various ways check the history and financial status of the buyer and require that the buyer provides some kind of co-financing for developing the production of the producer enterprise, thereby indicating his commitment to the partnership.

It is the policy of AGEXPORT not to engage in value chains based on experimental production and small niche products. The poor cannot afford experiments with uncertain outcomes. Thus, it has to be a proven production process and a product with a well-established market. With respect to niche products, the idea is to avoid complete dependency on one small niche product. For example, a group of horticultural producers should be supported to engage in production and sales of a wide range of vegetables, and avoid developing dependency on only one specific type for which there is a small market, which could collapse. Though the partnership between the producer group and the buyer may be based on a couple of primary vegetables, the producers should have the skills to produce other types which the buyer may request when markets change.

Though one may argue that speciality coffee and cocoa are niche products, the international markets for these products are so large and permanent that these products cannot be categorised as small niches.

Another risk mitigating measure is to assist the eco-enterprise with development of partnerships with several buyers.

THE STORY OF

EXPORTADORA E IMPORTADORA AGRICOLA E INDUSTRIAL ALIANZA S.A.



The enterprise is located in the community Nueva Alianza, in the Municipality El Palmar in the Department Quetzaltenango in Guatemala. It has 40 households as partners, represented by the father in the family, and if he passes away, the wife inherits the share. The families and their forefathers were during four generations employed as workers on the farm Alianza which in the early 1990s became mismanaged and indebted. The workers were no longer paid their salaries, and when the farm went bankrupt ownership passed to a bank. With no salaries and the bank intending to dispose of the farm, they formed a labour association and decided to take over the farm and start farming for their own benefit. This unsustainable illegal situation was eventually solved with a loan from a donor-supported land fund which allowed the workers to pay out the bank. They started to produce and sell locally within the informal Alianza enterprise. In 2008, they got in contact with AGEXPORT and formally established the shareholding company (S.A) to manage the marketing.

Today, its main products are organic macadamia nuts and secondly, processed and packed coffee for export. It also produces bottled spring water, manufactures bamboo furniture, operates an eco-hotel and manages a 12 ha forest reserve, the source of the water. In addition it engages in social work, has constructed a school and is currently constructing a health centre and improved houses of cement, as well as installing drinking water and improved stoves in the houses.

The initial support under the eco-enterprise programme focused on establishing basic accounts, and linking the enterprise to better markets. In 2009, a partnership was established with the agency JI Cohen for the processing and export of Macadamia nuts. Together with organic certification, Fair Trade certification (FLO) and introduction of traceability, this opened the markets in Europe and the US. AGEXPORT helped with marketing tools, website, logo etc. and in 2009 and 2010, Alianza participated with JI Cohen in the German BIOFACH fair. In 2009, it was awarded AGEXPORT's rural export prize.

The price increased from about 21 USD/qq to 65 USD/qq and at the same time AGEXPORT assisted the members to improve yields by about 20%. Improvements in coffee production, processing and marketing were also obtained, and as a result, family incomes increased from an average of USD 194 per month in 2009 to a range of USD 455 – USD 699 per month in 2011.

In addition to AGEXPORT, Alianza has entered into partnerships with nine other organisations and programmes, e.g. FUNDAP for assistance to community forest management, and INTECAP for education.

With its wide menu of activities, Alianza has faced and is facing management and sustainability challenges. The bottling of spring water collapsed and the facility was leased to three members who seem to make a profit. The eco-hotel has satisfactory occupancy and employs several women but it is not managed as a business. More technical support is required for the organic production of macadamia nuts. Recently, some of the macadamia trees have been attacked by a root disease. Alianza is therefore looking for an alliance with an agricultural research institute to solve the problem.



6 GUIDELINES, TOOLS AND PROTOTYPES

In Honduras, SNV was engaged to facilitate and coordinate knowledge management processes in cooperation with the implementing partners, FIDE and FUNDER, while in Guatemala knowledge management was internalised in AGEXPORT. Meetings between the implementing teams have also contributed to the knowledge management process across the border. In addition, PREMACA has complemented these efforts with lessons-learned exercises/studies⁴ and Danida has fielded regular reviews.

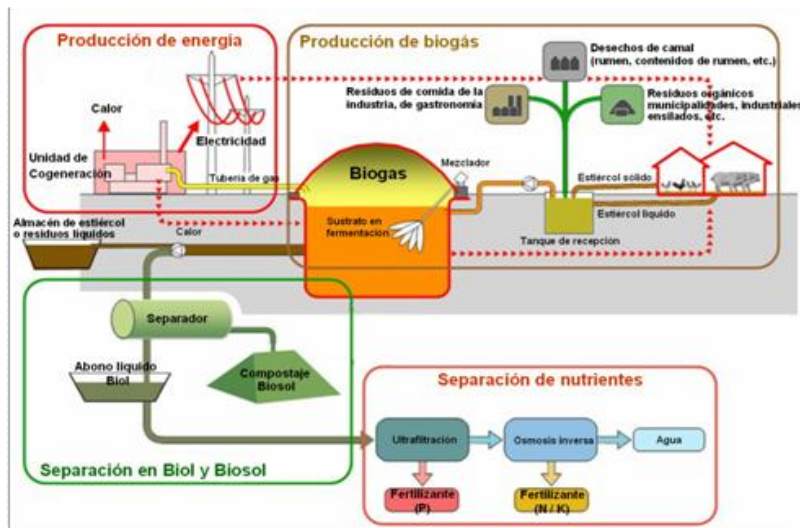
The implementing partners have produced a wealth of guidelines, tools and other informative materials which could be used by African partners and inspire possible Danida eco-enterprise programmes in Africa. Some of the documents may be obtained from the partners' websites but most of the documents are in Spanish which limits their use in an African context. The following provides a review of selected tools, guidelines and experiences which are of immediate or potential relevance to an African context, justifying some further work (including translation) to make them usable.

From Honduras

The *self-diagnostic tool*, developed by SNV/Honduras, allows the enterprise to assess and benchmark its current status on 15 parameters, six economic, four environmental and five social, and on this basis develop its strategy for developing the enterprise towards becoming an eco-enterprise. During implementation, it can be used by the enterprise and the implementing support organisation to assess progress towards the targets. The tool has proven its usefulness in practice and is ready to use in any future eco-enterprise programme in Africa, after translation from Spanish.

The *prototype plant for converting pulp and other waste from coffee washing stations into bio-gas, -ethanol and -fertilizer* has significant potential relevance in Africa's coffee growing regions where the stations often are a source of significant pollution of rivers and streams and the surrounding environment. Converting negative externalities into valuable economic goods is an

attractive proposition and could potentially provide huge economic and environmental benefits but unfortunately work on the prototype is still in process. The validity of the technology and the



⁴ Rodrigo Matarrita Venegas & Jaime Valverde Rojas, November 2009: "Informe de Misión de Aprendizaje del Componente 4 de PREMACA"

Cynthia Loria, February 2010: "Lecciones Aprendidas y Recomendaciones" – (regarding Component 4)

processes has been demonstrated but search for solutions to challenges of achieving economic viability is still on-going. There are issues on the marketing side but in particular on the input side.

The input issue is related to scale and capacity utilisation. Coffee pulp is available once a year and may keep the plant operating for only a few months. Therefore, other biomass would have to be sourced to increase capacity utilisation and achieve financial viability. In typical highland coffee areas, where coffee is grown under shade trees and households may have small plots of maize, beans and banana, alternative biomass sources may not be substantial, and most likely they would be dispersed over a large area, making collection quite costly.

The experience of introducing *a protected denomination of origin* in the Marcala coffee cluster of Honduras is of potential high relevance to regions of Africa growing high quality Arabica coffee and speciality coffee but could also be relevant to other crops, e.g. speciality cocoa and high quality tea. According to one interviewed coffee broker, producers in the Marcala coffee cluster had some years ago a poor reputation and image among international coffee buyers because of a past incidence where they had failed to deliver on contractual obligations. However, since 2005 they have managed a complete turnaround by introducing strict quality management, ensure that they can deliver what they promise, and investing in their image such as the Marcala Coffee Protected Denomination of Origin, registered with the Intellectual Property Institute of Central America and recognised by the EU. This has helped the Marcala coffee producers to get a better price and position in the market, please see abbreviated story overleaf.

While there in some of Danida's African partner countries today is some experience with obtaining and managing various environmental certifications as well as traceability, there is probably no experience with how to obtain and manage a protected and recognised denomination of origin. It could therefore be a worthwhile investment for Danida to organise and finance production of an English version practical step-by-step guide or manual for how to do it, based on the Marcala experience.

In this context, it should be mentioned that SNV has developed a prototype/guideline for design and implementation of a cluster strategy, based on the Marcala experience. In addition, two other SNV publications could be useful to the African context. One is a practical guideline for how small projects may access carbon markets under the Clean Development Mechanism. The other is a guideline for donors and other financiers on how to invest with social impact and environmental responsibility in eco-enterprises.

FUNDER has relevant documents for inspiration. Seven guidelines are under preparation, e.g. one on financial products for eco-enterprises.

Also FIDE has developed guidelines which could be of relevance in an African context; for example a guideline on how to introduce Good Agricultural Practices among small and medium-sized farmers (though probably FAO would have such a guideline for the African context) and a guideline for introduction of Cleaner Production in coffee washing stations.

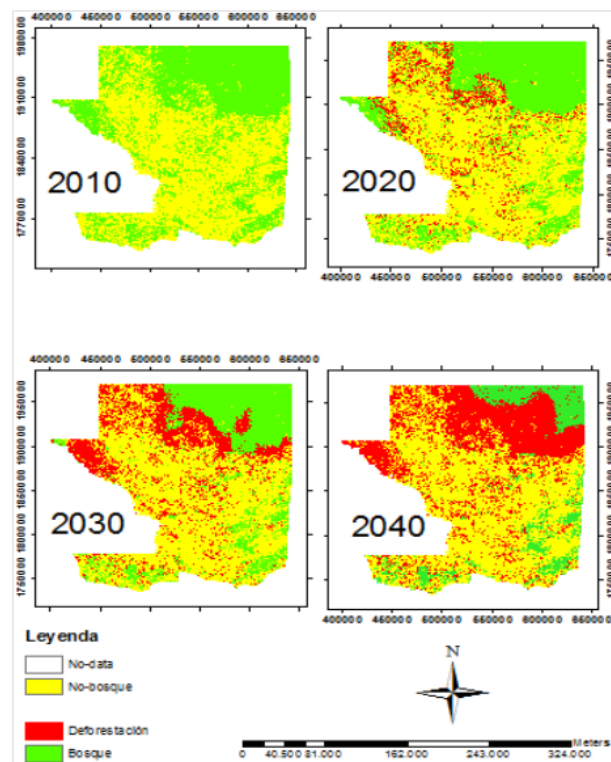
From Guatemala

AGEXPORT provides through its Information Platform (electronically and hard copies) insights about progress and experiences, and has in the media been actively promoting the concept of eco-enterprises in value chains. Many of these insights may provide relevant inspiration for similar programmes in Africa.

The on-going initiative, jointly with FUNDAECO and Althelia Climate Fund, to access carbon credits under the REDD programme is highly relevant to many of Danida's African partner countries with significant but endangered forest resources. If/when the initiative succeeds in accessing carbon credits, the experience could be used for producing a small English-version how-to-do-it manual/guide, including a description of the methodology (and technology) for establishing the baseline situation of the forest and projecting future deforestation (in the absence of proactive action), see below.

Map of Projected Deforestation, 2010 - 2040

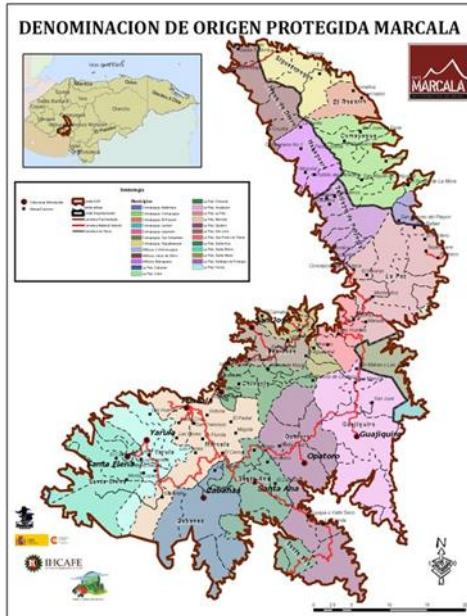
(red areas indicate deforestation)



The Story of the Marcala Coffee Cluster in Honduras

(the brief version)

The Marcala coffee cluster comprises 19 municipalities in the south western part of Honduras which has unique ecological conditions for growing high quality coffee and ancient traditions for producing coffee



under shade trees. Producers operate as individual enterprises or are members of various cooperatives. In 2006, they joined with the coffee industry to legally establish the Association of Denomination of Origin Café Marcala (ADOPCAM) as a Regulatory Council to promote, defend and market the Marcala Coffee Denomination of Origin as well as manage the internal regulations for assuring the quality of the final product to the consumer. The birth and early development of ADOPCAM was facilitated by the Coffee Institute of Honduras (IHCAFE) and Spain's Development Cooperation Agency (AECID).

Membership is growing rapidly. In 2011, ADOPCAM had 1,848 members (1,793 producers, 34 intermediaries, 15 exporters, 5 roasters, and 2 brokers) paying different membership fees. ADOPCAM is governed by the General Assembly of the members, managed by a technical committee and has an administration of four permanent staff. To become a member, a producer has to have a coffee

farm above 1,100 meters within the Marcala zone.

In its first year 1,650 qq were exported with the DO label, in 2011 19,670 qq and for 2012, the expectation is 25,000 qq. On average the use of the DO label increases the price by 15.7 USD/qq. For use of the DO label, ADOPCAM is paid 1.3 USD/qq. Over the last years many of the producers have in addition obtained various certifications such as UTZ, organic, Fair Trade (FLO), and Rain Forest.

In order to obtain the right to use the DO label, the producer has to go through a process, assisted by ADOPCAM, to ensure that he/she uses the right cultivation methods (e.g. use of organic fertilizer), that production takes place under tree cover, and that selective harvesting is applied. A sample of his/her production is then analysed and tasted by an independent "Q graders panel" and if meeting the requirements of the DO Manual, a Taste Certificate is awarded. Another requirement is that de-pulping and washing is done by a certified processing plant. A system of traceability, based on GIS, is used to guarantee the origin and quality.

With funds from PREMACA, FIDE started in 2008 to assist ADOPCAM with development and implementation of a cluster strategy. Interventions were also initiated for some of the coffee processing and/or production enterprises introducing more environmentally friendly processing methods.

Synergies developed with the activities in Marcala of the two other implementing partners. FUNDER had already in 2001 facilitated the establishment of FUNDER Café Orgánico Marcala, later changed to COMSA, where SNV also entered to develop the prototype for production of bio-ethanol, - gas and - fertilizer based on coffee waste. COMSA started with sales of 1,500 qq and has today annual sales of more than 50,000 qq, and more than 700 members. It has FLO certification (Fairtrade Labelling Organisation Int.) which last year provided an additional payment of USD 400,000 which was invested in social activities (e.g. university scholarships) and the processing plant. With PREMACA funds, FUNDER has also started support for other producer groups in Marcala.

7 LESSONS LEARNT – DRIVERS OF SUCCESS

As may be evident from the previous chapters, Danida's support for eco-enterprises in Honduras and Guatemala has generated a wealth of diverse experiences, which may be used to draw lessons or inspire similar programmes in other countries. This is attempted in the following by trying to identify the factors or drivers that contributed to the satisfactory results. Some lessons are relevant to the design and formulation phase while others are relevant to implementation. Some lessons (in particular those related to the design phase) are relevant to Danida and other development partners or financiers while other lessons are relevant to national implementing partners (e.g. those related to the implementation phase). But there are also experiences which rural enterprises in other countries could benefit from. Some of the presented lessons and practices may appear obvious but occasionally the obvious approach is not followed.

This chapter is structured accordingly. In the last section, an attempt is made to assess the applicability of the lessons in an African context (sub-Saharan), but given the extreme diversity of the sub-Saharan African context, it is a very rough assessment.

7.1 Design and Formulation Phase

1) Identification and Selection of National Implementing Partner(s)

Success depends on finding the “right implementing partner”. Once the overall objectives and strategies have been conceptualised, a first crucial step is to identify the implementing partner(s). In past donor-supported value chain programmes there has been a tendency to set up a temporary Project Implementation Unit (PIU) with contracted advisers and consultants because value chain development spans over different sectors and ministries, making it difficult to find one appropriate institutional anchor. This should by all means be avoided, not only because of the absence of sustainability of PIUs but also because advisers and consultants usually do not have the required hands-on business experience or linkages to business networks. The latter also applies to government institutions which generally do not have the required expertise, working procedures, and relations with private enterprises.

Thus, the search has to be made among private sector (civil society) institutions and sufficient time and resources should be allocated for this search, which often is not the case. For example, in Honduras, FUNDER was included as an implementing partner after re-appraisal, which turned out to significantly contribute to the results achieved.

The search should give priority to private (not-for-profit) organisations that have a membership of exporters and buyers or strong networks with buyers and exporters. The general approach in value chain development is to take the starting point in the market, and the market is the buyer. Ideally, it should be an organisation with prior experience and capacity in developing value chains with eco-enterprises or just value chains but such are rare. However, the organisation must provide a clear commitment to the overall goals of eco-enterprise development and to developing the capacity for promoting eco-enterprises in value chains. For example, the export companies of AGEXPORT fully appreciate that they will be unable to meet the requirements of their international buyers without a strong partnership with local producer groups and companies and that nowadays these requirements include food safety and environmental standards. The seriousness of the commitment should be tested by demanding that potential

implementing partner is willing to commit own resources to the implementation and engage its top management in oversight.

2) Ownership of the Implementing Partner

A key success driver in Honduras and Guatemala has been the ownership of the partners, i.e. they have not implemented a “Danida programme” but implemented their programmes with financial support of Danida. While the partners have been committed to the overall goals and strategy of the programme, Danida has not imposed a blueprint for how to achieve the goals. Rather PREMACA has during implementation applied “soft influence” through dialogue, where relevant. For example, PREMACA may have made a contribution to the recognition by the partner that it could be useful to have a strategy for promoting gender equality but has left it to the partner to develop its own strategy. At the end of the day, a better outcome has been achieved; the gender strategy is the partner’s strategy and applied to all of its activities and not only to the activities supported by Danida. In addition, the following approaches will be helpful to promoting ownership:

- a) Avoid placing Danish long-term advisers in the organisation. If additional national staff is required, let the organisation contract them for line positions while providing earmarked or budget support.
- b) Allow the organisation decide the name of the programme.
- c) Ensure that the organisation commits its own resources – whether financial, staff time or facilities.

Ownership was also promoted by allowing the partners to use their own M&E systems. While all partners have used “enterprise sales” as an indicator, it was a challenge to develop consensus on valid employment indicators and it was found difficult and costly to monitor trends in employment indicators. The indicator “enterprise sales” is easier and less costly to monitor (based on accounts and invoices), and can be used (in combination with production models and case studies) to arrive at rough estimates of impact on incomes and employment.

Ownership is also important for sustainability. If it is a “Danida programme” it becomes more difficult to mobilise other funding when the Danida financing ends. FUNDER and AGEXPORT have been able to secure future funding largely because financiers are attracted to support their well institutionalised and successful programmes.

3) Promote Alliances

Development of eco-enterprises in value chains demand many different types of expertise which not one organisation can have. It is therefore important to promote alliances between the implementing partner(s) and specialised technical agencies as well as local leaders on environmental issues, gender, and CSR. Alliances may include public agencies and local governments, private institutions and companies, and civil society organisations. Part of the budget may be set aside to facilitate development of such alliances but it is important to stress that it is not alliances with Danida but between the implementing partner and the allied institution.

While outsourcing to contracted service providers will be a key element, contracted service providers (which are fully paid for all costs of specified activities) should where possible be replaced by “allied partners” which receive some payment but also contribute own resources and may continue the activity after Danida support.

4) Base market development on the market intelligence and networks of the implementing institutions and its members

The design of the support for Guatemala included a significant allocation for market studies and research but it was hardly used and also in Honduras expenditure on this item has been negligible. This is somewhat different from the norm in traditional value chain programmes where significant resources are invested in market studies and research, projecting future market trends and opportunities (sometimes theoretically).

Instead, real and concrete market opportunities have been captured by the market intelligence systems and networks of the implementing institutions and their members who have their well-established business relations with importers and buyers in the markets. This has allowed for rapid implementation and demonstrated the value of engaging associations of exporters and buyers in the implementation.

5) Technical Assistance can be the only instrument but it needs to be substantial and complemented with support to facilitate credit access

The support did not include a credit component and some eco-enterprises have raised the issue that their progress was constrained by lack of access to credit for working capital or investments. In the case of FUNDER in Honduras, the issue has been less significant because of FUNDER’s rare model of providing business development services as well as venture capital and credit. In Guatemala, AGEXPORT has attempted to facilitate credit access, for example short term credit from buyers to producers, but the support has not satisfied all requirements.

The design did include an opportunity in Guatemala for providing matching grants (seed capital for improved technologies in poor producer groups) in exceptional cases but its use has been negligible. Arguments against matching grants include the risks of distorting credit markets, a programme driven by free hand-outs, and unequal treatment of eco-enterprises. Thus, if matching grants are included, it should be for exceptional cases, where their use is perceived as fair and justified by most stakeholders and beneficiaries.

The experiences and results achieved support the argument that credit facilities do not need to be part of the design but where they are not, alliances with financial institutions and/or facilitation of credit access (e.g. through dedicated staff) should be part of the organisational design. If credit facilities are included, their management must be placed with professional financial institutions.

On the other hand, the budget for technical assistance needs to be substantial. What distinguishes the programme in Honduras and Guatemala from many other programmes for rural producer/marketing groups is that a substantial investment is made in specialised technical assistance. It is not uncommon that one eco-enterprise receives USD 60,000 – USD 100,000 in technical assistance, comprising short-term inputs of up to 10 different specialised service

providers as well as longer term managerial assistance. This is often what it takes to ensure that the eco-enterprise can meet international quality and environmental requirements and develop a company image of international standard. However, to justify such an investment there needs to be convincing potential that the sales and incomes generated by the eco-enterprise will reach levels that are several times the amount of technical assistance invested.

The design needs to decide whether to only focus on mature enterprises at a more advanced institutional development stage or also include recently established enterprises, which are institutionally weak. If the latter group is included, the design should allow for longer duration of the technical assistance support (>2 years) and for higher technical assistance investments per enterprise.

6) Flexibility, Gradualism and Realistic Targets

Together with the implementing partners, the design needs to define a frame, including the geographical focus (e.g. poor rural communities in selected regions) as well as the sector or sub-sector focus (e.g. value chains based in natural resources) but within that frame, the implementing partners should be allowed significant flexibility to allow them exploit unforeseen opportunities. Markets are dynamic and the design should avoid “5-year plans”. Even for cluster development, where planning is required, unforeseen developments may suddenly change the outlook, as it was the case for the plan to develop an eco-tourism cluster in Honduras.

For the three dimensions of the eco-enterprise, gradualism should be allowed for the environmental and social dimensions but not for the economic dimension. Commercial and financial viability is the starting point and an absolute condition. Buyers and producers/sellers must obtain quick financial benefits but also be committed to a long-term relationship. Early profits for both will help to ensure this commitment. Therefore, it should be avoided to engage eco-enterprises of poor smallholders in experimenting with new technologies, niche productions and markets. A proven technology and a secured market must be the basis.

Achievement of environmental and social improvements should be considered as a gradual process but the participants should be committed to and see an advantage in entering into the process. Environmental improvements should have high probability of (i) improving the sales price and market access; and/or (ii) reducing production costs. The bar for environmental and social improvements should at the outset not be set too high and be defined in a flexible manner, considering the actual conditions of the value chain and the context. For example, cocoa producers, who have never used pesticides or fertilizers, may move relatively quickly towards an organic certification while horticultural producers, with crops subject to pests, may gradually move towards Global GAP certification.

With respect to “employment and economic growth”, the design should appreciate that substantial costs and risks are involved in creating a solid productive job and a robust growing enterprise, and define realistic/cautious targets. If unrealistic/unachievable targets are defined, the programme will eventually be perceived as a failure, resulting in loss of motivation.

7) Include Knowledge Management in the Design

The intervention included budget for knowledge management, systematising and analysing experiences and results and disseminating information on models, prototypes and achievements. This allowed improvements of approaches and procedures during implementation and the development of prototypes and models for replication. In the case of AGEXPORT, ISO certification of its value chain process and approach was obtained.

In addition, the knowledge dissemination raised awareness and interest among other development partners and financiers. This has no doubt contributed to the success that AGEXPORT and FUNDER have had in securing funding to continue their programmes after termination of Danida's financial support.

7.2 Implementation Phase

1) Identifying the Value Chain

Large, often expensive, general market studies can be replaced by capturing concrete ideas from networks of buyers/exporters, producers and others.

The implementing partners have used a number of different processes and sources to identify ideas for value or supply chain development. FIDE and AGEXPORT have benefitted from concrete ideas and proposals from member exporters, for example an exporter who has a concrete supply request from an importer in Europe or the US. AGEXPORT's national product commissions represent another source but in addition AGEXPORT has used information campaigns targeted at specific areas to raise awareness among producers and exporters about the options for support. FUNDER has received ideas from members of its savings and credit associations who wish to start a productive enterprise; FUNDER then assesses if there is a buyer for the products through its network.

In cases where the value chain already exists, it may be more a matter of improving the profitability and environmental impact of the chain. Cleaner technology, energy savings etc may reduce the cost side and in certain cases also increase the income side. Producer groups and buyers may not always have the capacity to identify such technological options, and therefore it is important to have alliances with organisations that have experiences with such technologies.

Thus, a variety of sources and channels have contributed to generating the ideas, and the more people are engaged in spotting opportunities, the better.

2) Screening Producers/Sellers and Buyers/Exporters

Both sides need to have the capacity and commitment to enter a long-term partnership based on mutual respect and trust. Rural enterprises, whether cooperatives, associations or private shareholder companies, should have a clear vision about where they want to go and the owners need to have some previous experience of working together. By all means, it should be avoided that the existence of support is what drives the establishment of the cooperative, company etc. Producers/sellers must demonstrate a long-term vision and commitment; i.e. they are not willing to destroy a long-term relationship if the middleman offers them a better price in the short-term. They must demonstrate willingness to invest own funds in the value chain project.

Pre-support pilot commercialisation tests (used by FUNDER) can assess their commitment and ability to comply with contractual obligations. Assessment of their historical performance (AGEXPORT) is another way.

The buyer (export enterprise, supermarket, etc.) must also demonstrate a long-term commitment, amongst others by investing own resources in developing the production of the eco-enterprise, e.g. supplying seed and technical assistance. In addition, an assessment of the buyer's financial strength and past ethical and commercial performance is required.

3) Measures to Mitigate the Risks of the Eco-enterprise

As in any value chain development, the eco-enterprise depends on the market and the partnership with the buyer, which involves risks. In addition to the above screening of the buyer, various risk mitigating measures have been applied. One is to help the eco-enterprise enter into partnerships with several buyers. Another is to avoid dependency on only one very small niche production. For example, a group of vegetable producers should be engaged in and have capacity for production of a variety of different vegetables. Third, the value chain development should be based on proven technologies and markets – not experiments with uncertain outcomes.

4) Design of Value Chain Support Interventions

The design of the value chain intervention should be done together with producers and buyers. In many cases it is an absolute must to engage a technician from the buyer-company in defining the detailed quality parameters and the production processes to be applied.

The self-diagnostic tool developed by SNV may provide a good starting point for developing a business strategy and plan. The business plan for the producers should include - on the cost side - the technical assistance and other services that the producers need to buy and pay for after termination of project support, e.g. a specialised agricultural technician, annual audits to maintain an environmental certification as well as the maintenance of the monitoring systems and registries required for the certification. If the projected future revenue is insufficient to pay for these costs, one should not go ahead with the intervention. Assumptions in the business plan regarding markets and prices also need to be highly conservative.

The design should include all types of technical support that is required to take the producer organisation to a level of self-reliance and where the buyers/exporters respect it as a commercial partner on equal terms. This includes provision of business cards, establishment of a website, and design of a logo and packaging materials of international standards. It also includes organisation and financial support for the joint participation of the producers and the buyer in joint events such as workshops and trade fairs. This improves the producers' self-esteem, outlook and understanding of the quality and phyto-sanitary requirements of the markets. But it also promotes confidence between producers/sellers and buyers/exporters and a perception that they are partners on equal terms.

The experiences from Honduras and Guatemala suggest that women adopt new production technologies and improved management practices more rapidly than men and that this

motivates the men to catch up. This is one more reason to prioritise technical assistance for women.

If necessary, e.g. in the case of recently established enterprises, the design should include contracting of company staff, e.g. a manager, an accountant etc, for an initial period. Alternatively, a mentor/advisor for 1-2 years on a permanent basis may be included. In the initial phase, it is often necessary to invest in raising the understanding among members that discipline in management is crucial, that there is difference between their individual benefits (salaries, crop payments) and company profits, and that it is necessary to use company profits for increasing equity during the growth phase.

The necessary investments in technical assistance support may vary depending on country and context but experiences from Honduras and Guatemala suggest a range of USD 50,000 to USD 100,000 per enterprise. If the projected increase in sales and income fail to justify the required technical assistance investment, the project should be dropped.

5) Appraisal and Approval of Interventions

Even if only technical assistance is involved, it should be appraised as if it was a loan or an investment. It needs to provide an appropriate return. While the technical staff members of the implementing partner have been involved in formulation of the proposal, a second opinion or a committee with independent expertise is required. The Selection Committee of AGEXPORT is a good practice example. It comprises large respected entrepreneurs and environmental expertise. A representative of the producer group is invited to defend the proposal and clarify questions from the Committee. This allows the Committee to assess if the producer group has full ownership of the business plan and knows what it wants to achieve (or if the business plan has been drawn up by a consultant without the producers' understanding). The group should perceive the value chain intervention as their project and not as a Danida or AGEXPORT project.

Another good practice model with replication potential is the one applied by FUNDER, which in many cases invests technical assistance and management expertise in the producer group as well as capital, becoming a temporary shareholder. Thus, if the capacity development fails, FUNDER's capital investment will be lost.

6) Selection and Contracting of Service Providers

The ability to identify and select specialised service providers with hands-on experience and the required technical skills has been one of the most important success drivers. Indeed, it may be concluded that this is a killer assumption. Assuming that the required technical expertise is available within the country, there are a number of factors that may contribute to success in this area.

First of all, the eco-enterprise and the buyer should participate in the identification and selection of the expert, and the buyer should as a general principle provide some co-financing for some of the technical experts, e.g. those advising on the buyer's quality requirements. The participation of the buyer ensures that one selects a technician who is familiar with the buyer's quality requirements and knows how to help the producers with satisfying these requirements.

Secondly, formal tender processes should be avoided. Initially, AGEXPORT applied a formal tender process but with disappointing results. Applicants with impressive CVs, which formally satisfied the evaluation criteria, were in some cases selected but could not deliver the technical solutions in the field, while applicants with less impressive CVs but the required technical skills and hands-on experience were rejected. Such unfortunate outcomes, inherent in formal tender processes, will eventually lead to failure of the support programme. Therefore, this type of programme is not suited for financing by development partners, who because of internal regulations are obliged to demand national or international competitive bidding procedures.

After the failure with formal tendering, AGEXPORT started searching and screening the market, using informants such as the buyers, and has in this way gradually built up a roster of technicians and experts who have proven that they can deliver what is required. These experts are then directly contracted, without any competitive bidding, and because of the size and volume of AGEXPORT's value chain programme, they are motivated to provide quality services in order to secure future contracts.

7) Help the Eco-enterprise with Development of a Network of Alliances

The support for the eco-enterprise is temporary and with limited focus. For its long-term growth and sustainability, the eco-enterprise needs to build alliances not only with buyers but also with for example financial institutions, input and equipment suppliers, local governments, research institutions and other government and donor supported programmes.

Development of such alliances should be part of the technical assistance support. This involves not only facilitation of linkages and contacts but also the big word "empowerment". Poor and indigenous rural households are often unaware of their rights and they may be too modest or insecure to demand their rights. They need to be supported to know their rights and to develop the confidence to negotiate with for example local authorities about rehabilitation of a feeder road, a land issue, health and education services etc.

The eco-enterprise should also be assisted to access support from other programmes. Some development partners have a need for visibility and may wish to monopolise the successful eco-enterprise as "their baby". This is not helpful. For its long-term success, the eco-enterprise needs many mothers and fathers, sisters and brothers.

7.3 Applicability in an African Context

As seen in Chapter 1, there are no specific factors in the macro and sector framework of Honduras and Guatemala that have made it particularly easy to achieve the success. On this background and considering the African contexts, it seems reasonable to assume that the overall macro and sector contexts in most of Danida's African partner countries, though highly diverse, would not be prohibitive to the replication of the model and lessons. However, in some African contexts there could be three specific challenges.

The first has to do with **scale**. The model does require a heavy investment of technical assistance, USD 50,000 to USD 100,000, and the lower the institutional development level of the

eco-enterprise the more is required. In order to justify such an investment, there has to be a convincing potential that the eco-enterprise within some years will develop annual sales in the range of at least USD 200,000 to USD 400,000, depending on the investment size. Secondly, scale is required to finance, after termination of support, continued technical assistance services, environmental certifications and the recurrent audits, which are costly (+USD 3,000), as well as the required high quality and costly recording and registry systems. Third, scale is required to mobilise the interest of the large buyers or exporters who have to be convinced that it is profitable to invest in a long-term business partnership with the group. It is costly for them to collect small dispersed amounts in remote areas.

In some sparsely populated areas of Africa, it can be difficult to find producer groups and enterprises with this potential. Groups are relatively small and their production is modest. In the optimistic best case scenario, the group's medium-term sales potential may be in the area of USD 50,000 – USD 100,000.

However, in parts of Africa there are also farmer cooperatives/enterprises with the required scale or potential. They are mainly within Africa's traditional export crops, such as coffee, cocoa, and cotton. They would often have the scale or potential as well as "the environmental demand" in international markets required for applying the eco-enterprise model. The lessons from introducing the protected denomination of origin in the Marcala coffee cluster could be highly relevant to some of them. Subject to successful conclusion of the pilot exercise, the prototype for using waste from coffee washing stations to produce bio-ethanol, -fertilizer and -gas could solve a major environmental problem in Africa while providing economic benefits.

In other traditional export crops, e.g. sugar and tea, there are large private enterprises, national and multinational, sometimes involving small producers by way of out-grower schemes, but they already have their established value chains, and would probably not open much space for donor influence.

Also in the livestock sector, in particular the dairy sub-sector, Africa has producer associations and cooperatives of the required scale (e.g. Kenya and Uganda) but they are mainly producing for the domestic market which yet has limited demand for organic dairy products or similar. The same applies to the producer associations/cooperatives in food staples (maize, cassava, etc).

Within fruits and vegetables, and flowers and ornamental plants, there is often a combination of large private enterprises and associations/cooperatives of small farmers. In some countries, this sub-sector would offer a potential for replication, if the scale issue can be addressed.

The second challenge is related to the **availability of specialised high quality service providers**. As highlighted above, the ability to find and contract highly qualified specialists (with hands-on practical experience) has been one of the key success drivers in Honduras and Guatemala. In most African capitals, there are agronomists and engineers with impressive consultancy CVs but often they would have sufficient work in the capital writing reports for the donor community and would therefore not be attracted to work with a producer group in a remote rural area for longer periods of time. Furthermore, it is not the report writing skill that is required but rather an agro-engineer who has the skills and experience to install a drip irrigation system, or an agronomist who can help the producer group to change its cultivation practices so it can obtain

GAP or organic certification or meet the specific food safety standards of the supermarket. Such experts may in some countries be in very short supply, and demand high fees.

The third challenge is related to finding the right **implementing partners**. Though one is unlikely to find an organisation similar to AGEXPORT, there are federations or associations of trade and industry having exporters, supermarket companies, and the tourism industry as members. They may have no experience with value chain development but their members would have a clear interest in developing reliable, good quality supply chains, and they may also be increasingly conscious about food safety and environmental requirements of their customers and consumers. Thus, there should be potential, through persuasive efforts, to convince a private association of traders and exporters to engage in eco-enterprise development and serve as implementing partner. Most likely it will be a new area of activity for the organisation and therefore special care will be required to ensure that the organisation owns and institutionalises the activity, avoiding that it becomes a donor-driven project.

A somewhat superficial assessment would tend to suggest that in Eastern and Southern Africa, it may be easier to address these three challenges in South Africa (however, no longer a Danida partner country) Kenya, and to some extent Uganda, than in countries such as Tanzania and Mozambique. Kenya, having a relatively advanced and diversified agri-business sector, may offer the best options among Danida's partner countries in this region. In West Africa, Ghana could offer opportunities for replication.



During the 2010/11 season, this women's cooperative *Mujeres 4 Pinos* in Guatemala exported certified vegetables to Europe and the US worth one million US dollars. The cooperative was established in 2005 and legally registered in 2011.