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Upgrading: A Path Towards Integration in Value Chains? Evidence from Small and Medium-Sized Producers in Honduras

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Abstract

Analyses of upgrading from a value chain perspective pay particular attention to the ways in which value chain linkages facilitate or obstruct upgrading. Upgrading can be a precondition to get integrated in a value chain or a requirement to secure a position within the chain. Empirical research in a number of developing countries demonstrates that small and medium-sized producers in developing countries can learn and upgrade through the interaction with lead firms in the value chain even though local institutions have facilitated this process in several ways. Through small and medium-sized producers, there is the potential to link the poor to growth opportunities and reduce poverty. These local producers, in their interaction with local processors or exporters and international retailers have the possibility to acquire new skills and knowledge depending on the structure and dynamics of the value chain in which they operate. Focusing on this kind of interactions, the study explains how small and medium-sized producers in Honduras engage in upgrading and whether this had an impact on their profit. For the purpose of this study, three different agricultural value chains were analyzed. These chains were the traditional primary commodity chain (coffee), the plantation product chain (palm oil) and fresh produce chain (horticultural). The results indicate that the majority of the producers in the sample upgraded their products and internal processes. Producers in a high-trust relationship with their buyers were more likely to upgrade. A limited number of producers engaged in functional upgrading. Most of the producers were aware of the important role of standards. They affirmed that in the process of implementing and complying with standards, they have gained new knowledge and were convinced that they succeeded in securing a better position in the value chain. The results indicate that the form of coordination affects the upgrading opportunities of producers and their implementation and compliance with standards. In the coffee chain, coordination is loose and indirect; therefore upgrading was more difficult for producers to achieve. Horticultural and palm oil producers had more incentives to upgrade mainly because of the higher-trust relationship they were embedded in.

Keywords: Coordination, standards, trust, upgrading, value chain