

# Strategic Market Management & Planning

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***Statement by Raul Calvet, President Calvet & Associates to:  
The United Nations Business Hearing on Financing for Development  
October 11, 2007***

- **Why am I here today?**
- I believe we have an historic opportunity but we are failing to succeed in many areas. The Monterrey Consensus recognizes that the private sector is critical to economic growth, job creation, and poverty reduction. However, to succeed, governments need to revolutionize the way they deal with the private sector not from a position of independent supreme entities but as integral part of our society, empowered by the common citizen to fulfill the obligations of administering our countries de best possible way.
- Much has been discussed why Latin America is so much behind Canada and the United States even though we are in the same continent and we all started at the same time in history. With out elaborating in the answers it intrigues me why the same immigrant (legal or illegal), that in their countries of origin avoids taxes, do not pay much attention to the law and is not a productive person, just by entering to north America he actively participates in the economy, abides by the law and contributes with his taxes. Every single day millions of immigrants prove that it is not our culture or the people that prevent development and growth in our countries. It is the system that is not working. Economic policies and development can not prosper freely because they are trapped by permanent political struggle. Constituents do not have influence and democratic control over their representatives because they do not elect them directly. This creates a permanent confusion about which are the important objectives as well as it distorts the concepts of which should be the best practices to improve the economy.
- Developing country governments need to focus on existing investors, medium size private sector companies, domestic and international, and not polarizing the efforts in practical terms by just attracting large investors or giving micro-loans to the poor, now the new synonymous of SMEs.
- Governments need to improve the communications and methods they use for working with existing investors, so they can be more effective across governmental agencies in reducing bureaucratic red tape and improving basic services, such as water, electricity, and roads and facilitating investment.
- Nicaragua has been a Monterrey Consensus pilot country funded by the Swiss government to develop such a communication system: an intranet-based communication platform that is managed by the government to collaborate with existing private sector companies in identifying investment impediments and resolving them. Called the Government-Investor Network (GIN), such management tool need to be used by governments to "contribute with the creation of business-enabling environments" critical to economic growth.

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Business people will work with governments to implement the Monterrey Consensus, but we need you as governments to demonstrate political will and adopt real and practical management systems.

- In short, we need to move from "words to action" as the speed of investment and development could not wait for completion of bureaucratic procedures when business opportunities are identified. As a businessman, I recognize the fact that great organizations are most of the time the result of trial and error and not only the outcome of great strategies, so we need to take the past experiences and move forward with improvements that will adjust to the growing and enthusiastic business and investment community in Nicaragua and other developing countries.

- **What is the Opportunity?**

- National governments today recognize the imperative for economic growth and the critical role of the private sector. In short, governments worldwide recognize that they cannot create the jobs and higher standards of living alone. Governments in countries such as Nicaragua – regardless of party – know they need an effective, growing private sector to deliver on their electoral promises. There is the historical significance of the UN Monterrey Consensus that explicitly recognizes "...public/private initiatives could include the development of policy consultation mechanisms between international and regional financial organizations and national governments with the private sector ... as a means to create business-enabling environments." This is an historic opportunity – still fully unrealized almost 6 years after agreement by all UN Member countries!

- **What is the Nature of the Problem?**

- So what is keeping us from progress? We have commitments of the Monterrey Consensus but insufficient progress. Why?

Problem 1: Governments excel at initial enthusiasm and commitments but usually fail in execution. Institutions, processes and resources are lacking.

Problem 2: The rate of creation of new SME's each year is very high, but unfortunately most of them do not pass the 5 year threshold. Our SME's enter into the market with out proper preparation and resources, more out of despair because unemployment. Governments have to improve their classification and selection of SME's for joint programs and stop replacing entrepreneurship fostering with humanitarian sympathy.

Problem 3: Governments tend to focus on attracting either large foreign companies and more recently, micro loans to individuals and very small firms. The well advertised fact that out economies are populated by a huge majority of micro and small business is the reflection of our failure to develop a strong market structure with strong players that contribute with know-how, bring technology and develop markets based on sufficient internal capacities.

Not even 3% of SME's in Nicaragua employs more than 6 people. Actually 96% have less than 5 employees. Of the non-agricultural SME's almost 60% are in retail and general commerce and services. It is very hard to understand the dynamics of progress with this appalling numbers. It is irresponsible to place in the shoulders of these small and micro businesses the burden of developing our economies and building the future of millions of other citizens, especially after seeing the slow growth per capita in the last decades and the poor performance in competitiveness indicators. Years and years of these programs have wasted the contributions of donor countries. There are economic activities like agriculture in which micro enterprises are bringing excellent results, but you should look for better qualified medium size companies to develop other areas that demand more sophistication. SME's as conceived under the Latin American lower standards, should be a part of the economic development efforts, but for sure we need to look to other higher levels of entrepreneurship if we want to catch up with the rest of the world. In Nicaragua less than 43% of our SME's have enjoyed one bank loan, compared to 87% in Thailand or Malaysia. We agree totally with Tilman Altenburg comments in 2004,... "SME's in Latin America seem to flourish during economic crisis periods, as a desperate result of not finding decent jobs in larger businesses"....

Governments neglect the basic engine of development – national and foreign small and medium-sized firms that create jobs and linkages to larger companies. Governments tend to focus on investment promotion rather than investment aftercare. Sixty percent of investment is reported as re-investment by existing firms, not investment by new companies. The cost of inhospitable business environments is illustrated by tourism investment "leakage" in Nicaragua: over 40% of new investors leave after a few months due to frustrations with the local business regulatory environment. Promotion agencies and programs little by little veer to concentrate only in attracting large investments.

- **So what is the solution?**
- Governments need to have "systems" and tools that enable them to be effective in their outreach to existing private sector companies. They need to use these "communication and management systems" to create business-enabling environments stated in the Monterrey Consensus. These communication systems can increase government capacity to:
  1. Identify investment impediments - such as bureaucratic red tape, permits and licenses and problems with infrastructure such as energy, water, waste water, roads, etc.
  2. Improve intra-governmental coordination on resolving these problems
  3. Integrate donors into this process, so aid effectiveness can be enhanced
  4. Track success stories to strengthen the ability to attract investment, both domestic and international.

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5. But, implementation of this systems have to have the support and understanding of all levels of Government, as well as the highest level of supervision and monitoring in order to guarantee performance.

- **The “System” Exists:**

- In Nicaragua, we have such a “systematic tool” – an intranet based “Government-Investor Network” that has been developed with Swiss government funding as a tool to implement the Monterrey Consensus objective of “governments using consultative mechanisms...to create business-enabling environments.”

In over 2 years of operation, we have had over 50 success stories:

1. Enhanced government coordination (for example, the *Majagaul-El Naranjo Road Project*, was able to proceed because government entities at the local and national government were able to work together on the Network to find the necessary funds to make it a reality).
2. Enhanced business cohesiveness (for example, the three rival Tourism Chambers that previously did not work together have come together on the Network in defining issues and possible remedies).
3. Government actions to improve infrastructure (for example, improvements were made to the *Poneloya-León Road* after investor Network Members identified this as a need).
4. Government actions to reduce red tape (for example, asking the private sector for their feedback on ways to improve the Tourism Incentive Law and the Coastal Law).
5. Government actions to improve security (for example, the government was able to address private sector security concerns on Corn Island by working with the US Embassy to construct a police station on the island).
6. Improved Services (for example, Ometepe island Ferry Owner required to make nine Improvements in Safety & Operational Efficiency; new Tour Bus Parking Space at International Airport and correcting of English-language Signs; Clean-up of a tourism location, such as the moving of the Nandaime garbage site).

As a member of this Network, I am hoping the new government will use it to increase its focus on the critical needs of the private sector, especially those of us investing in countries that need effective government actions to solve problems. We are committed to helping our countries realize their potential, but cannot do it without effective partnership with government. We think that we even have an opportunity to improve and evolve from the original communications network and go one step beyond and create intranets for different and specific stages and levels of investment, in other words, specialize and focus in the ultimate goal which should be attracting new investment, securing their expeditious development and guaranteeing the proper environment for success.

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- So, in closing, let me repeat:
- There is no future without a proper “systematic tools” that enable governments to implement their commitments and obligations. I challenge you as government officials to continue moving from “words to action” and to work in an organized systemic way together with committed people from the private sector to create jobs and economic growth, improving the living conditions of the poor people by jointly contributing in the creation of wealth and transparent fiscal administration for a just distribution of this wealth.

Thank you very much,

Raul F. Calvet