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Assessing the impact of public–private partnerships on trade and development in developing countries

Public–private sector partnerships to promote small and medium-sized enterprise participation in global value chains

Note by the UNCTAD secretariat

Executive summary

Public–private sector partnerships (PPPs) can play an important role in ensuring that participation in global value chains (GVCs) is conducive to sustainable growth and development in developing countries. PPPs can facilitate the building of local supply and value-addition capacity of developing countries' small and medium-sized enterprises (SMEs) in order to engage and scale-up effectively in GVCs. This note aims to identify the particular ways and means in which PPPs involving transnational corporations (TNCs) can help achieve this goal in developing countries, including through infrastructure development and by establishing linkages between local producers and global supply chains, in particular in the agriculture and commodities sectors, with a view to drawing policy lessons. The note also discusses ways in which PPPs may contribute to corporate social responsibility (CSR) and gender-inclusiveness in these chains. It details good practices, in particular from UNCTAD's Business Linkages Programme.

Contents

Introduction

1. The term public–private sector partnership (PPP) may refer to any collaborative arrangement between public, private, and not-for-profit actors or institutions. The pooling of public and private resources in a PPP structure may add value to any given process by drawing on the comparative advantage of each partner.

2. Originally focused primarily on infrastructure projects, recent years have seen a rising interest by developing countries in a much broader notion of public–private sector collaboration, exemplified by high-profile statements such as the Joint Statement on Expanding and Enhancing Public–Private Cooperation, agreed at the 2011 High Level Forum on Aid Effectiveness in Busan.

3. PPP arrangements with local affiliates of TNCs can play an important role in building the local supply and value-addition capacity of developing countries' SMEs, thereby ensuring that foreign direct investment (FDI) contributes to the integration of local firms into GVCs. Typically, developing country SMEs face a dual challenge with regard to their participation in these chains: they have insufficient supply and technological capacity to meet the standards and requirements of TNCs, and they face operational difficulties such as inadequate transport infrastructure and high electricity costs that affect their production costs. Furthermore, SMEs often have limited capacity to engage in effective relationships in an international network. PPPs may help address these challenges as well as improve the governance and CSR standards of GVCs.

4. This issue note highlights the various options and issues that policymakers can consider in partnering with the private sector, not only in the higher technology industries usually associated with GVCs, but across all sectors, including basic industries, agriculture, commodities and infrastructure sectors. Chapter I analyses the impact of GVCs on developing country exports. Chapter II analyses the challenges and opportunities for domestic SME participation. Chapter III highlights various models for utilizing PPPs to improve the capacity of SMEs to participate in these chains. Chapter IV discusses the potential of PPPs to overcome challenges in mainstreaming better gender and CSR policies in GVCs. Chapter V highlights policy implications and issues for further exploration by expert meeting participants.

I. The structure of global value chains and their impact on trade

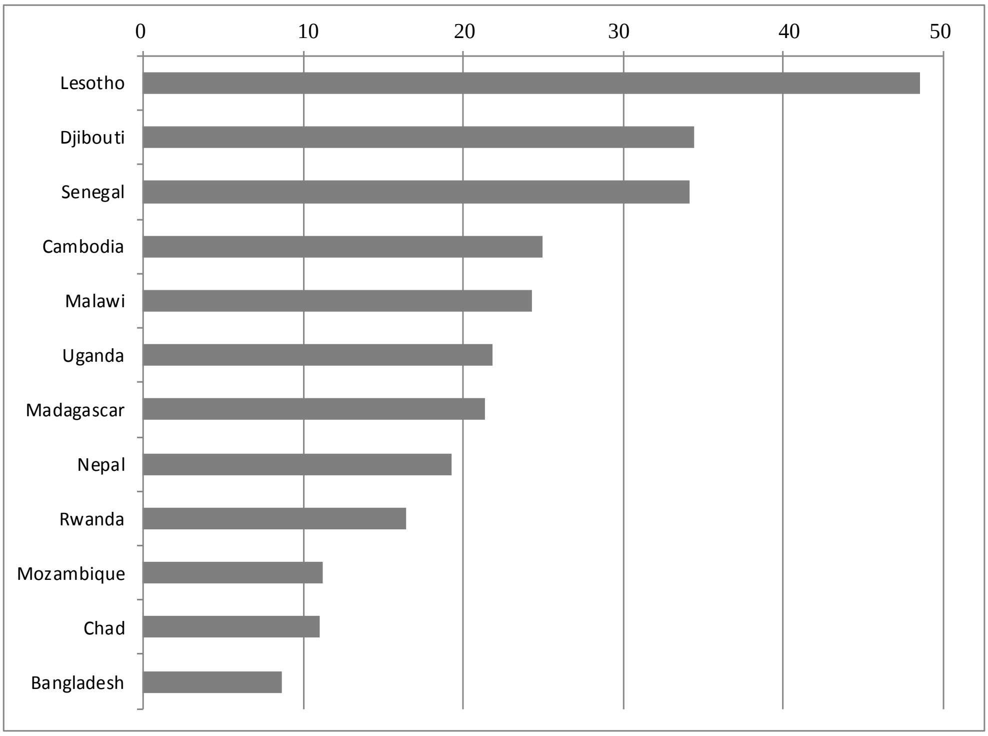
5. GVCs comprise all the internationally dispersed tasks and activities that firms and workers carry out to bring a product or service from conception to end user. GVCs are a useful tool to assess market- and policy-level constraints on countries' integration in the international economy. The analysis of GVCs emerged as an important discipline as firms in a number of industries gradually "fine sliced" their production chains into discrete tasks and activities that could be carried out in separate locations – typical examples include electronics, automotive and machinery. Thus, traditionally the activities along GVCs are analysed as involving concept, design, production, marketing, distribution, retailing and research and development (R&D), all the way to waste management and recycling. The participation of a country in GVCs is measured as the extent to which such activities are carried out in its economy, adding value to previous steps in the chain, and exporting value added to subsequent steps.

6. UNCTAD's recent work on GVCs, and insights from its new GVC database on value added trade and investment, shows that GVCs comprise economic activities across all

sectors, including the primary sector, and all industries, including basic industries often predominant in developing countries. Even the least developed countries process value added produced in third countries and incorporate it into their exports. Such foreign value added may be produced by contingent activities in the chain (for example, fabrics for garments production) or by other industries, including services. For example, Lesotho's exports of garments use value added produced in Taiwan Province of China (fabrics), India (knitting), Malawi and Botswana (textiles), as well as value added produced by the wholesale sector in a number of European countries. Foreign value added in the exports of developing countries can be quite significant, exceeding 40 per cent even in some least developed countries (LDCs) (figure 1), confirming that even the least developed countries are increasingly participating in GVCs.

7. The scope of GVCs, including all industries and economic activities, and the interdependencies between actors in the chain, show how participation in GVCs can provide local firms in developing countries with opportunities to link upstream and downstream in contingent GVC tasks and activities. However, increasing GVC participation and maximizing the development benefits from it requires the development of productive capacities, including infrastructure, technology, skills and know-how. There is a role for the public sector, collaborating with private-sector operators, in facilitating the development of such productive capacity for GVC participation, and in overcoming the market failures that slow down this development.

Figure 1
Foreign value added in exports, selected least developed countries, 2010
(Percentage)



Source: UNCTAD (forthcoming) EORA GVC Database.

II. Promoting supply capacity and small and medium-sized enterprises participation in global value chains

8. Supply-capacity constraints are one of the most persistent problems for development, blocking the participation of local firms and SMEs in GVCs. Local firms are often unable to respond to potential demand, whether coming from an international buyer in the domestic or a foreign market. Examples of the various capacity constraints faced by firms include lack of financial resources, entrepreneurial and managerial skills, competences and trained personnel, and also marketing, product and price barriers (lack of price competitiveness and difficulties in meeting product standards and requirements), and distribution and logistic barriers (including access to information and communication technology).[1]

9. In the past, comparative studies on SME competitiveness focused attention either on individual firms or on clusters, but it is now acknowledged that value chain relationships play a decisive role and that competitiveness does not concern only a single firm's or a single cluster's performance but that of the entire chain. In GVCs, large firms increasingly lead their local business partners upstream and downstream. The dominance of such firms arises from specific capabilities, mostly to innovate, to create brands or to coordinate the whole production and/or distribution process. There is a constant demand from TNCs – typically the lead firms – for SME suppliers to improve cost, quality, delivery and adaptation of production processes. Understanding the characteristics of GVCs and their requirements is thus a crucial element in identifying challenges and opportunities for SMEs to participate and upgrade in GVCs.

10. In the past, host Governments relied on more coercive policies to create linkages, such as local content requirements, restrictions on the number of expatriate managers, and even mandatory technology transfer provisions. The approach has since shifted to working with the private sector, where government policies consist of removing obstacles to greater interaction between foreign and domestic firms. These obstacles include both the "information gap" on the part of both buyers and suppliers about linkage opportunities and the "capability gap" between the requirements of foreign affiliates and the supply capacity of local firms.

11. At present, many countries with different economic development still use local content requirements, despite their restrictions under World Trade Organization law. Many studies have demonstrated that local content requirements do not deliver the expected results if not attached to sound economic policies and empirical analysis. Only under certain conditions may local content requirements be able to facilitate the development of supply capacity and strengthen local SMEs that are able to compete on the international market. These conditions are country-, sector- and technology-specific. Overall, the local content rate cannot be too restrictive, and needs to be coupled to learning programmes (see box 1).

[1] See UNCTAD (2005), Expert Meeting on Enhancing Productive Capacity of Developing Country Firms through Internationalization, 5–7 December 2005 (TD/B/COM.3/EM.26/3).

Box 1. Enhancing foreign direct investment spillovers in domestic infrastructure development: The case of the Zambian construction sector

Zambia, one of the world's largest copper producers, has maintained average annual gross domestic product (GDP) growth of nearly 6 per cent over the past decade. Driven largely by the requirements of its burgeoning mining sector, the country has seen a boom in both public and private infrastructural investment in road and building construction. Contributing nearly 10 per cent of GDP in real terms, the infrastructure construction sector has been Zambia's highest growth industry, attracting foreign direct investors from countries such as China, Malaysia and South Africa.

Yet, whilst these large transnational building contractors are vying with each other for large-scale public tenders to build Zambia's new highways, industrial parks, shopping malls and sports stadiums, the country's domestic microenterprises and small and medium enterprises (MSMEs) building contractors are at risk of being marginalized. Indeed, as estimated by one Zambian expert, the country's MSME contractors account for more than 90 per cent of the total number of companies in the sector, but only for 10 per cent in terms of its contract value. Facing a range of constraints in upgrading their technological and managerial capacities and continuing to rely on outdated building methods, many of them have been locked into low-value added activities, such as small-scale residential housing construction, and have been unable to learn and grow by entering into profitable subcontracting arrangements with the TNCs that capture the lion's share of building construction sector opportunities and tenders in the country.

Wishing to strengthen the productive capacity of its domestic contractors, the Government of Zambia has recently introduced a range of local content quotas for Zambian MSMEs, with preferential treatment and certain minimum participation quotas in public tenders under the country's Citizen Economic Empowerment Act No. 9 of 2006 and the Statutory Instrument No. 36 of 2011 on Preferential Procurement. However, experience shows that local content rules on their own may not be sufficient to promote FDI learning spillovers and backward linkages, unless embedded in a broader targeted industrial development strategy. Where used in a protected setting with few competitive pressures to invest in upgrading of capabilities, they may result in inefficient MSMEs that saddle the economy with high costs, outdated technologies or redundant skills, ultimately doing more harm than good.

As part of a newly launched four-year (2013–2017) United Nations initiative to promote the sustainability and competitiveness of the Zambian infrastructure construction industry, UNCTAD is working with local Zambian institutions, such as the Zambia Development Agency, to complement the country's local-content rules with a targeted business linkages programme to enable Zambian MSME contractors to acquire state-of-the-art building skills through FDI spillovers. The cornerstone of the programme is the promotion of joint ventures and PPPs between TNC building contractors and Zambian public real-estate developers, such as the country's National Housing Authority and National Pension Scheme Authority, in which local MSMEs may participate as subcontractors. MSMEs wishing to participate in the programme will need to adhere to strict performance requirements. In exchange, they will receive targeted support from the Zambia Development Agency and UNCTAD.

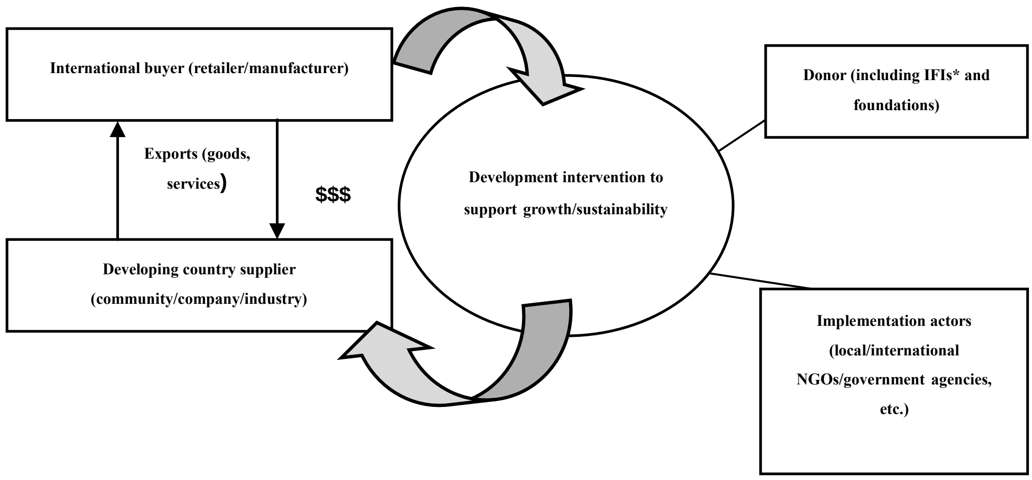
Source: UNCTAD (forthcoming), Creating business linkages in Zambia's green building construction industry.

12. Many developing countries aim to develop agricultural value chains to increase food security and nutrition and are engaging the private sector in supply-chain management and value added food processing for the consumer markets in partnership with local and national government. For example, in Nigeria the Government has started treating agriculture as a business integrating food production, storage, food processing and industrial manufacturing by value chains – from farm to fork. Both domestic and foreign investments are promoted focusing on value chains where Nigeria has a comparative advantage. Thus, harnessing private-sector know-how and resources through partnerships may improve both commercial and development outcomes.

III. Different types of public–private sector partnerships and their role in integrating small and medium-sized enterprises in global value chains

13. As stated in paragraph 3, above, recent years have seen a rising interest by developing countries in a broader notion of public–private sector collaboration, exemplified by the Joint Statement on Expanding and Enhancing Public–Private Cooperation (Fourth High-Level Forum on Aid Effectiveness (2011), Busan, Republic of Korea), various bilateral and multilateral donor initiatives and research by leading universities.[2] PPPs can take place in a wide range of sectors and value chain activities and may sometimes involve complex coalitions of partners, such as donor agencies and NGOs (figure 2).

Figure 2
Public–private sector partnership arrangements to promote small and medium-sized enterprise participation in global value chains



Source: Kindornay and Higgins (2012).
* International financial institutions.

14. As an example, in Peru the Project for Strengthening the Capacities of SMEs in the Province of Sechura is the result of dialogue and coordination between the IPAE (Instituto Peruano de Administración de Empresas), UNCTAD, the Provincial Municipality of

[2] See, for example, Harvard Kennedy School Corporate Social Responsibility Initiative and Business Action for Africa (2011).

Sechura, the Chamber of Commerce of Sechura, the Regional Government and the Miski Mayo Mining Company S.A.C., this latter being an affiliate of the TNC Vale Rio Doce of Brazil (see box 2). Vale promotes, as part of its social responsibility policy, the Inova Programme aimed at developing local content providers and capabilities in local organizations, making alliances to promote sustainable development.

Box 2. Generating public–private sector partnerships to promote sustainable global value chains – the case of a mining investment in Peru

In 2010, the Miski Mayo Mining Company S.R.L, invested in a large non-metallic mining project – Bayóvar – that includes the exploitation of a phosphate deposit as the main input in the production of various types of fertilizers, the processing of concentrates and their exports. Located in the district and province of Sechura, in the department of Piura, the project is now in the exploitation phase after four years spent on the mining infrastructure construction.

This construction phase generated an unprecedented dynamism in the local economy, which increased employment. It fostered the growth of local businesses, creating new businesses and attracting entrepreneurs and businessmen from the region and beyond. Currently, the mining operation directly employs about 750 workers, but at its peak in 2008–2009, Vale employed up to 4,000 workers in the mining construction. However, it is estimated that these direct jobs, which energized local demand, also created additional indirect jobs in the SMEs sector seeking to serve goods and services with higher quality to meet this increased demand.

According to the Chamber of Commerce of Piura, the region has received an investment of over $1,295 million, and 20 per cent of these flows are linked to the concessions granted by Proinversion – the national investment promotion agency – in the Bayóvar project. Besides Vale, other investors include Pacific Phosphate (Cementos Pacasmayo S.A.A.), Juan Paulo Quay S.A.C. (Peru) and Americas Petrogas (Canada).

Linked with this investment, a social fund has been established with the aim of financing social programmes for the implementation of sustainable development projects, and as a first priority to human development basic services to help reduce levels of child malnutrition and increase the quality of education, health and basic sanitation. The second priority is the implementation of productive projects: construction, maintenance and repair of access and rural roads, agricultural infrastructure, basic telecommunication infrastructure and development of value chains, among others. Consequently, there are business and employment opportunities for entrepreneurs and SMEs to enter the mining company's value chain if they develop their competencies and business competitiveness. The Project for Strengthening the Capacities of SMEs in the Province of Sechura – with funding from the Canadian International Development Agency and the lead firm – plans to achieve, as end results in 2017, local job creation and to increase incomes in building the value chain in the Bayóvar phosphate mining through the strengthening of local business units, promotion of new business initiatives, capacity-building of local officials for the promotion of new start-ups and strengthening of existing businesses in the value chain.

Source: IPAE (2013), *Proyecto de fortalecimiento de proveedores locales y PYMES de Sechura*.

15. The case of Peru shows that PPPs are complex realities often characterized by multiple drivers. PPPs may operate in one sector under the flag of government mandates, while activities in another sector may be identified with CSR or donor-funded programmes. Recent research categorizes PPPs according to the originating party which initially brings them about (Kindornay and Higgins, 2012). These analytical categories are particularly

relevant from a policy perspective, when there is a need to identify the objectives, beneficiaries and stakeholders of these kinds of partnerships, and eventually the types of incentives to be introduced to stimulate them.

Public sector-led

16. Many PPPs are launched by public institutions. These are often complex, involving participation by developing country governments, private-sector actors from both developed and developing countries, research institutions and private-sector associations, and are often governed by multi-stakeholder structures such as steering committees. Embrapa, Brazil’s leading public agricultural research institute, for example, represents an interesting case of a public institution which proactively creates PPPs in both developed and developing countries. Embrapa also establishes partnerships with TNCs for joint R&D of new technologies (which are then made available for broader local SME use), licenses proprietary agricultural technologies from firms such as BASF and Monsanto to incorporate them into its own product offerings, and licenses out its own technologies to be validated and commercialized abroad (UNCTAD, 2009).

Donor-led

17. PPPs are typically the result of bilateral donor initiatives aimed specifically at this purpose. In most cases donors have a specific programme or fund, essentially providing co-finance and risk sharing for private-sector initiatives that are perceived as entailing a high level of commercial risk but which could potentially result in substantive positive development outcomes. Examples include Germany’s DeveloPPP,[3] the Danish International Development Ageny’s Business Partnerships Programme,[4] Finland’s Finnpartnership programme,[5] and the United States Aid for International Development’s Global Development Alliance programme.[6] It is worthwhile to note, however, that many of these initiatives are tied to participation by domestic donor country firms.

Company-led

18. In some instances PPPs are also proactively initiated by TNCs themselves, so as to decrease local procurement costs or implement supplier development programmes. For example, Chevron became the first Western oil company to enter into a joint venture – Tengizchevroil (TCO) – with Kazakhstan to develop the Tengiz oil field in the Atyrau region. The Government of Kazakhstan endeavours to build on the country’s rich natural resource base to diversify the economy and it recognizes small business development as a key strategy. TCO’s Small Business Development Group identifies local SMEs with the potential to supply products and services to TCO, prioritizing them for financial support and strengthening the value-addition capacity of the local manufacturing industry. TCO’s local procurement has steadily increased from year to year, with 68 per cent of 2010 total spend directed at local Kazakhstani companies.[7]

NGO-led

19. PPPs to promote local value addition and development may also initially be launched by non-governmental actors, where these have proactively sought out TNCs and public sector institutions to partner on development interventions. For instance, in early

[3] Available at http://www.developpp.de/en/index.html (accessed 6 February 2013).
[4] Available at http://um.dk/en/danida-en/activities/business/partnerships/ (accessed 6 February 2013).
[5] Available at http://www.finnpartnership.fi/www/en/index.php (accessed 6 February 2013).
[6] Available at http://idea.usaid.gov/gp/about-gda-model (accessed 6 February 2013).
[7] Available at http://www.tengizchevroil.com/en/responsibility/kazakhstani_content.asp (accessed 6 February 2013).

2009 the Bill and Melinda Gates Foundation approached the Coca-Cola Company with a market assessment showing a clear business case for developing local supplies of mango and passion fruit in Kenya and Uganda. After 10 months of negotiation the parties entered into a four-year partnership to develop the market. The Foundation is funding TechnoServe, an NGO, to organize farmers, provide them with agricultural extension services and facilitate access to financing. The Coca-Cola Company provides 50 per cent of the total project cost and a market for the fruit produced. In 2010, the firm's Minute Maid Mango Nectar became the first juice product to use locally sourced puree for both exports and the Kenyan market from a processor whose production facilities were upgraded as a result of the project. In total, the project has trained hundreds of government extension workers and reached more than 50,000 small farmers.[8]

20. It is an encouraging sign of the maturing of the field that, regardless of the initial coalition of actors that brings them about, certain replicable models of PPPs are emerging as good practices for specific sectors. SMEs that lack access to GVCs and small farmers who do not meet the requirements of large agricultural buyers have the chance to benefit from public–private investment in training, infrastructure development and changes in corporate procurement policies. Supply-capacity programmes make it easier for small farmers to have their products aggregated with those of other producers and purchased by large buyers, as well as for small business to compete for and win supply-chain contracts.

21. As an example, a recent report by the United Nations Development Programme (UNDP) African Facility for Inclusive Markets (UNDP, 2012) has identified what it terms the "Backward Integration Model" as a best-practice approach for facilitating the integration of SMEs into GVCs in the agricultural sector. Backward integration is widely seen as one of the most effective means of engaging smallholder farmers in the value chain. In large part, the model's appeal stems from its "win–win" dynamic, addressing most of the challenges encountered by the smallholders whilst ameliorating bottlenecks experienced by the agro-processor. The approach has been extensively used by TNCs such as Coca-Cola, Nestlé, SABMiller and Unilever in partnership with development agencies, NGOs and public support institutions. The agro-processing company engages smallholder farmers and assists them to form producer groups, with each group having a lead farmer. Contracts are signed on price, volume and quality of produce to be supplied. Roles and responsibilities of each partner are clearly spelled out. The agro-processing company provides land, an immediate market, input credit and technical support, and extension services to the producers. Often, it also provides market intelligence to the farmers and guides them to produce to meet market requirements. The producers offer land, labour, raw materials and sometimes indigenous knowledge, which may be critical to the success of the overall project. Governments involved in the project provide public goods, extension services, infrastructure and incentives. Development partners sometimes provide guarantee funds to facilitate the process and contract service providers to extend additional technical support to the smallholder farmers. The model works best when parties involved have challenges in their operations and are looking forward to a solution that makes them competitive and productive. Government and donor incentives include income generated by the farmers, tax paid by processors and rural economic development.

22. Having successfully worked with this model for a number of years, UNCTAD's Business Linkages Programme, for example, has reached thousands of barley farmers in Uganda and Mozambique in collaboration with the Uganda Investment Authority and the Centro de Promoção de Investimento – the countries' public investment promotion agencies

[8] OECD (2011), Project Nurture Case Study, available at http://www.oecd.org/aidfortrade/48367101.pdf (accessed 6 February 2013).

– and local affiliates of SABMiller. In Uganda, the Programme recorded a doubling of SME net margins and employment, and in Mozambique participating farmers' annual income more than doubled as a result of the partnership (UNCTAD, 2011b).

23. PPPs can promote SME integration in GVCs through infrastructure development. This is quite evident in the agriculture and commodities sectors. There are many areas of infrastructure that have implications for doing business. For example, some firms are obliged to use relatively expensive generators if electricity supplies are unreliable, and it is difficult to store perishables or to manage inventories effectively if storage facilities are inadequate. Moreover, lack of roads, inadequate port facilities and poor telecommunications networks not only adds to logistical problems but also hampers the ability of firms to follow demand conditions in distant markets for exports of goods and services.

24. While private participation can relieve governments of major capital expenditures, it also places increasing demands on the institutional capacity of governments to regulate the sector, monitor the performance of private partners concerning their contractual commitments, and establish an effective competition authority to ensure against monopolistic behaviour. An appropriate and well-functioning regulatory environment in infrastructure can mobilize local and foreign investment. A major source of competitiveness in agricultural and commodity value chains is the access to affordable physical infrastructure, including on-farm production (irrigation, energy), efficient trading (telecommunications), and moving produce from farm gate to processing facilities and on to wholesalers (transportation and bulk storage). Inadequate infrastructure may become a huge disincentive for developing country SMEs and smallholder farmers to invest in productivity-enhancing and value-adding measures if it is prohibitively expensive to transport their produce to premium markets, or if transport losses are high due to road and storage conditions.

25. There are many opportunities to broaden the role of PPP models in infrastructure development for agricultural and commodity sectors (UNCTAD, 2008). The persistent challenge is to know when and where PPPs are a value-adding proposition and how best to formulate the financial and institutional arrangements for such collaboration (Warner and Kahan, 2008). For example, the Nigeria Incentive-Based Risk Management System for Agricultural Lending is run jointly by the Ministry of Agriculture and the Central Bank. The system aims to improve the agricultural value chain so that banks have more confidence in these investments providing the technical and financial incentives to encourage banks to lend. To avoid costly mistakes policymakers should adopt a GVC development perspective from the outset when evaluating soft and hard infrastructural public–private investment opportunities, so as to ensure that projects are demand driven and linked to unlocking access to global production and distribution networks.

IV. Making global value chains socially inclusive

26. Integration in GVCs brings change. For example, within agricultural value chains it may involve shifting production systems that draw on indigenous or local knowledge to processes that depend on technical knowledge from a lead firm to meet international standards and consumer preferences. Marketing systems often move from spot interactions to more dependent and predictable relationships governed by contractual arrangements. To produce larger quantities that meet the specifications of more demanding buyers (and end consumers), farmers may need more land and credit, as well as knowledge, trust, and networks that can facilitate horizontally and vertically integrated relationships. To meet global certification standards, farmers may require access to land and water, as well as stable and long-term access to credit to pay for inspections and overheads.

A. Gender issues

27. The shifts described above, which can provide small producers with important advantages through increased farm incomes, can also affect gender roles and relations. For example, the introduction of new technology and agricultural practices can have different effects on men and women. Some countries have found that conservation agriculture, or minimum tillage agriculture can, on the one hand, free some women from tasks such as weeding, while displacing work opportunities for landless women who rely on wages they earn as day labourers. Other examples include cases where, as market opportunities improved for crops under women's control, men tended to take over women's activities, limiting their access to land for example. Furthermore, in the process of formalizing market linkages, household dynamics may be affected. For example, participating in contract farming may require using a bank account. Individual farmers may open bank accounts in the registered farmer's name, usually the man's. This shift in family practice can reduce women's access to income by mediating her access to income through her husband.

28. The gender aspects in agricultural value chains are especially complex because market-oriented agriculture among smallholders still relies on farming households and family labour. The risk of marginalization of women involved in this sector may require corrective policy measures, which are best undertaken in close collaboration with corporate partners from the outset. The Diagnostic Integrated Framework for the Gambia provided a recent analysis of the gender dimension of the fisheries value chain. The ongoing development of the country's fisheries export industry may result in the creation of a dual structure in the fisheries sector, with some diversion of investment from the domestic segment (domestic marketing and distribution of fresh fish and traditionally processed products) to the export-oriented segment (particularly fresh and frozen fish products serving the European Union market). This dual structure of the chain is a potential source of disadvantage for small-scale women operators (driers, smokers, retailers), who mainly operate in the domestic segment. It may also be to the overall detriment of local people. Among the recommendations, UNCTAD's Enhanced Diagnostic Trade Integration Study pointed out the need for infrastructure development catering for small-scale operators (including women) who play a critical socioeconomic role (nutritional), specialized credit schemes, and technical training to increase women's capacities in good manufacturing practices, marketing processing, handling, and quality and safety aspects of fishery products.

29. In many cases women still have to overcome serious challenges that hamper their participation in and/or leadership of GVCs, including:

(a) Discriminatory laws, policies and institutions in access to land, property ownership and inheritance;

(b) Limited access to education and necessary business training;

(c) Difficulty in accessing finance and markets for their products;

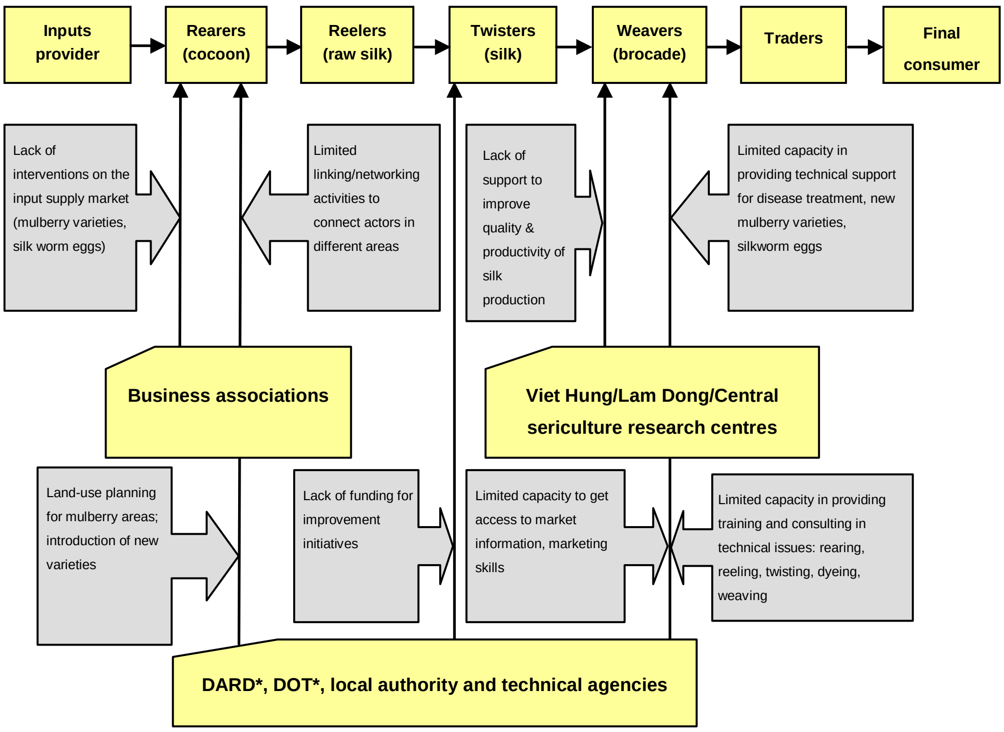
(d) Lack of networks, mentors, and leadership opportunities critical for business success.

30. Several developing countries' governments have taken bold steps to tackle these issues. For example, in 2012 the Ministry of Women's Affairs, Gender and Community Development of Zimbabwe adopted a broad-based women's economic empowerment framework, based on the value-chain analysis of three key sectors – agribusiness, mining and tourism. Recognizing the need to increase income and to promote employment opportunities for the rural poor in Viet Nam, and especially among rural women entrepreneurs in the northern provinces, the Government of Viet Nam and the United

Nations launched a joint Millenium Development Goals programme in 2010 aimed at upgrading producers' skills in five value chains in the handicraft sector (see box 3).

Box 3. Green value chains in Viet Nam

The joint Viet Nam and United Nations Millenium Development Goals programme – the Joint Programme on Green Production and Trade to Increase Income and Employment Opportunities for the Rural Poor – used the value-chain approach to develop better-integrated, pro-poor and environmentally sustainable green value chains, enabling poor growers, collectors and producers to improve their skills and products, and to link these to more profitable markets. Within the handicrafts sector, value chains of particular importance and relevance to poor target groups for upgrading included bamboo/rattan, sericulture, sea grass, lacquer ware and handmade paper. Among the five, the sericulture and brocade value chain in the Nghe An province provides an interesting case study where the programme included successful initiatives to enhance relevant institutions' capacity to promote women cooperatives' empowerment and to improve the income and livelihoods of the cooperatives' members and their families. The value-chain study found that, in general, the sericulture and brocade subsector received very little support from meso-level institutions such as local authorities, business associations, agroforestry institutes or trade promotion agencies, as there was no specific policy from these institutions.



Source: http://www.greentrade.org.vn/mdl/valuechains.

* DARD: Department of Agriculture and Rural Development. DOT: Department of Trade.

Besides targeted interventions aiming at improving products' quality, increasing productivity and linking producers to international markets, specific actions have been taken to strengthen the capacity of cooperative leaders and members, and the capacity of local support institutions. The programme improved the management and organizational skills of the Hoa Tien textile cooperative's leaders, a group of women weavers that belong to the Thai ethnic minority. As a result, cooperative members gained renewed confidence and negotiation power; they were also able to access markets they otherwise would have not serviced given their small volumes of production and achieved economies of scale as to purchasing raw materials and marketing their products. The cooperative received support to participate in the international fair Lifestyle Viet Nam (http://lifestyle-vietnam.com/) in 2011 and 2012, and this not only resulted in direct sales at the fair but, more importantly, provided producers with the opportunity to link up with international customers and importers, such as Ikea.

The work of the Joint Programme has progressed with the improvement of 1,722 farmers' knowledge on planting, cultivation and harvesting through farmer schools. The Joint Programme is increasing the availability of seedlings for 487 farmers through nursery gardens and demonstration areas. Although some crops such as rattan need more time to be ready for harvest, so far work on sericulture is yielding good results in targeted provinces. Farming households report additional income of approximately VND 600,000 per month.

Source: United Nations, Government of Viet Nam (Viet Nam Trade Promotion Agency) (2012), Taking a Value Chain Approach towards Local Economic Development and Women's Economic Empowerment – A Case Study from Hoa Tien Village, Viet Nam. Available at http://www.greentrade.org.vn/.

B. Corporate social responsibility

31. Another element of change is the adoption of CSR in GVCs to secure the traceability of inputs and the respect of global standards and practices. However, for many SMEs in developing countries, complying with CSR codes creates a new set of challenges as these firms attempt to enter into GVCs. SME suppliers in developing countries often lack the capacity, resources and knowledge to comply with the CSR requirements of large buyers and can be excluded from global value chains if they are unable to implement corrective actions. In the absence of greater coordination among companies, SMEs that are suppliers to multiple customers face the burden of a large number of mostly redundant audits, and the challenge of meeting sometimes contradictory policies in the areas of CSR and purchasing.

32. Other challenges may also affect the value chain structure: most codes address suppliers at the first tier level of the supply chain, while leaving aside compliance on social and environmental problems along complex value chains where traceability can be limited. The supply-chain structure and mode of operation in different industry sectors add more challenges when it comes to standardization of codes. Products such as cocoa, coffee, cotton or palm oil are traditionally traded by intermediaries, which inhibits direct interaction between the customer and the supplier. These indirect relationships, combined with the nondescript commodity nature of the product itself, make it difficult or impossible for a customer to track the origins of the merchandise. This is especially so in the case of products such as cocoa or coffee where the supply base consists of a very large number of small-scale farmers.

33. Consumer and civil society concerns are driving CSR, raising the bar for market entry for developing-country suppliers. Meeting these demands often requires an upgrade

of management skills. Countries that equip their SMEs with the capacity to meet international standards will make their domestic enterprises better positioned to access and succeed in GVCs.

34. As an example, the Responsible Ecosystems Sourcing Platform (RESP) of the fashion, cosmetics and jewellery industries is an international initiative that brings together relevant actors that are involved in, influence, regulate or support GVCs in these industries. Through PPPs, RESP actively engages companies at the end of the supply chain and SMEs at the local level, together with other key stakeholders, to promote the creation of shared value across supply chains to improve business and sustainable development processes. One of the most important functions of PPPs for RESP is to provide channels for further development, sharing and transferring of knowledge throughout the value chain, as well as the implementation of respective capacity-building activities at the supplier and producer level.

35. Recent years have seen an increasing role for PPPs in CSR initiatives. Many of these – bringing together governments, the private sector, intergovernmental organizations, civil society and development agencies – not only focus on the micro level, but also support national governments in their effort to implement an overall CSR policy framework that allows them to take ownership of the CSR activities taking place in their country (UNCTAD, 2012).

V. Policy implications and issues for discussion

36. The following policy issues provide a set of discussion points for policymakers interested in promoting PPPs in order to make GVCs effective and instrumental for sustainable development.

37. Cross-cutting issues:

(a) A high-quality institutional and regulatory framework is crucial for fostering the interaction between public and private investment and trade actors, and for achieving the attendant developing goals;

(b) Successful PPPs harness the core strengths of all partners to increase overall outcomes and efficiency. Policymakers need to consider ways and means to foster synergies and provision for the additional costs, time and measures required to build trust and shared understanding between participants (Boland, 2012);

(c) Policymakers need to have a good understanding of the amount of private commercial risk they are willing to subsidize through public intervention, and structure PPPs on this basis, including setting incentive criteria and appropriate monitoring and evaluation mechanisms;

(d) More regional cooperation could foster interaction between private and public sectors across countries. Closer regional integration can help create larger markets and thereby promote investment and trade opportunities. Regional cooperation can also play an important role in promoting market access through regionally integrated infrastructure projects and with respect to the creation of regional research institutions;

(e) Countries could consider PPPs to promote domestic and regional transport efficiency, trade facilitation, and communications infrastructure. This eases the exchanges of goods and services made throughout the value chain, as well as the interaction among all stakeholders in PPPs.

38. SME upgrading: Issues specific to the objective of enabling SMEs to grasp the opportunities created by GVCs through PPP arrangements are outlined in the following points:

(a) Skills development: Technical and managerial skills of prospective local suppliers, as well as the right entrepreneurial attitudes, are essential features for the participation of domestic SMEs in GVCs. Governments might support training programmes and invest in entrepreneurship education through programmes such as UNCTAD's Empretec to provide domestic SMEs with the proper tools to foster their growth and internationalization. Training programmes should be specifically geared towards the requirements of the GVC – and linked to the establishment of enterprise development centres for their efficient delivery and integration of disadvantaged groups, such women and youth;

(b) Technology upgrading: The technological capabilities of local firms are key determinants of their ability to qualify as suppliers to international companies. Besides the provision of targeted training on the effective use of technologies in different business sectors and production processes, policy measures might include strengthening cooperation between suppliers and TNCs in technology-upgrading programmes. Additionally, policymakers may consider establishing logistic technology centres to accelerate the roll-out of GVC management technologies, including the use of electronic tags;

(c) Quality and standards: Compliance with global standards and international certifications on both quality and processes is becoming increasingly important for SMEs that want to enter global players' value chains. Policymakers might consider promoting the awareness of international standards and certifications, and stimulating, in cooperation with global companies, the offer of training that would upgrade the capacity of local SMEs to be "partnership-ready" with them. Similar requirements in terms of compliance may be also extended to national procurement;

(d) SME financing: Inadequate access to finance remains a major obstacle for many aspiring entrepreneurs, particularly in developing countries. Many entrepreneurs in developing countries can benefit from targeted capacity-building in financial literacy and from innovative delivery mechanisms using modern banking technologies. Policymakers should also consider the use of public guarantee funds to enable private financing to SME suppliers in GVCs – including in partnership with TNCs through mechanisms such as factoring. Dedicated schemes for women entrepreneurs are warranted;

(e) TNC–SME linkages: National linkages programmes can be an effective tool to establish long-lasting relations between local suppliers and large firms. Taking into account elements that are country- or market-specific, as well as other influential factors in the economic, cultural and social contexts, governments can play a central role to improve the capabilities of domestic enterprises to supply TNCs and to help move domestic enterprises into export markets. In this context, a constant dialogue and interaction between government agencies and the private sector is essential to make linkages sustainable. Putting in place PPP supporting mechanisms that encourage dialogue and participation of all key public and private stakeholders is a top requirement;

(f) SME clusters: For global buyers, SME clusters are easier to spot than individual producers. Clustered companies may also generate collective efficiencies that make them attractive for global production. Governments might support the establishment of industrial agglomerations by promoting inter-firm networks and inter-institutional links among universities, research institutions, laboratories and technical centres. Mentoring and networking should target women entrepreneurs;

(g) Intellectual property rights protection: The majority of local suppliers in developing countries lack the necessary awareness, ability and finance to fully protect and exploit their intellectual assets and fully benefit from GVCs. Policymakers might consider raising awareness about intellectual property rights among SMEs; helping SMEs to legally acquire intellectual property assets from universities and research centres; facilitating the filing of patents by SMEs; and preparing guidelines for TNCs on the fair treatment of SME intellectual property rights.

39. CSR issues related to encouraging responsible business practices in GVCs: By developing an effective policy framework that encourages responsible business practices, multi-stakeholder PPPs can help domestic companies, particularly SMEs, to meet the CSR demands of global buyers and ensure socially and environmentally responsible corporate behaviour. Policy options for an effective promotion of CSR standards in GVCs through public private sector partnerships may include:

(a) Mainstreaming CSR issues into national enterprise development programmes, with the active engagement of national governments and TNC partners;

(b) Assisting SMEs with operational guidance for international standards, with the support of international organizations and private-sector TNC partners;

(c) Convening multi-stakeholder partnerships to encourage TNCs to harmonize CSR codes at the industry level and to streamline application procedures.

40. Experts at the meeting are further invited to discuss the following issues with respect to the role of PPPs in ensuring that participation in GVCs is conducive to sustainable growth and development:

(a) What are the principal supply-side constraints facing local firms in developing countries? What impact have they had on exports and on FDI? What are best practices to deal with such constraints?

(b) Which areas of enterprise and investment policy could most benefit from technical assistance in terms of providing an incentive for corporations to help local firms to build capacity?

(c) How can building the local supply and value-addition capacity of developing countries' SMEs be measured through relevant and comparable indicators? Which statistical sources can provide evidence-based data on trends and figures of the effectiveness of PPP-supportive policies towards the integration of domestic SMEs into GVCs?

(d) What are the best practices in propagating CSR practices across production steps in GVCs and how can domestic SME suppliers be equipped with the capacity to meet international standards? What role can PPPs play in this context?

(e) How can PPPs mainstream gender issues and empower women's participation in GVCs?

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