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**Linking to the buyers: UNIDO work on
commodity-based value chain and cluster
development**

by

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The views expressed are those of the author and do not necessarily reflect the views of
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PRESENTATION OUTLINE

- The issues
- UNIDO's PPP Sustainable supplier development programme
- Successful commodity-based value chains projects
- Conclusions



**commodity-based value chain and cluster
development: The Issues**

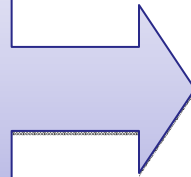
Commodity-based Value Chains in Development

- Business Objectives
 - Market Access and Profitability
 - Linking to Buyers (manufacturers or retailers)
 - Development objective
 - improving income, jobs and food security
 - Diversification
 - Value addition and integration
 - Consumer protection
 - Climate Change...
- 

- **Inclusive**
- **Sustainable**
- **Pro-Poor**
- **Ethical**
- **Gender-balanced**

Commodity-based Value Chains in Development

Value chains are becoming shorter with higher standards and stronger, vertical integration and information flows.



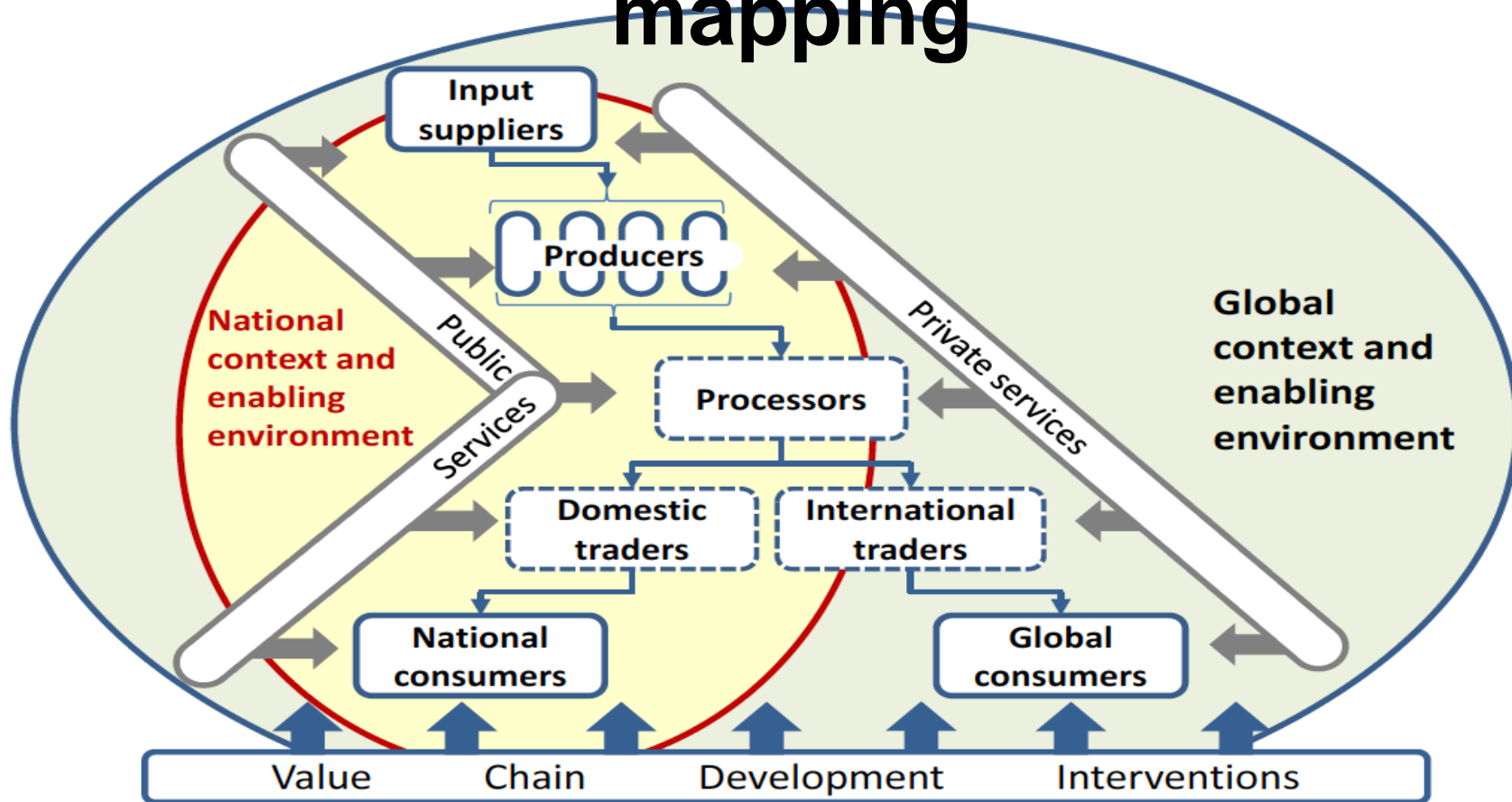
Concerted effort by governments, NGOs, civil society, the private sector and the donor community to create an enabling environment for their development.



Focus on holistic VC analysis and development

- Most value chain development approaches have **specific purpose** (e.g., market access, inclusion of the poor, enterprise development, or compliance with standards) - not holistic in nature;
- **No sufficient analysis** and understanding of systemic challenges
- UNIDO targets 7 dimensions for diagnostics: i) inputs and supplies, ii) production capacity and technology, iii) markets and trade, iv) value chain governance, v) value chain finance, vi) cleaner production and energy, vii) business environment and policies.
- **Goals:**
 - poverty reduction,
 - income and employment creation,
 - economic growth,
 - firm development,
 - cleaner production and environmental sustainability...

Holistic value chain & Cluster mapping

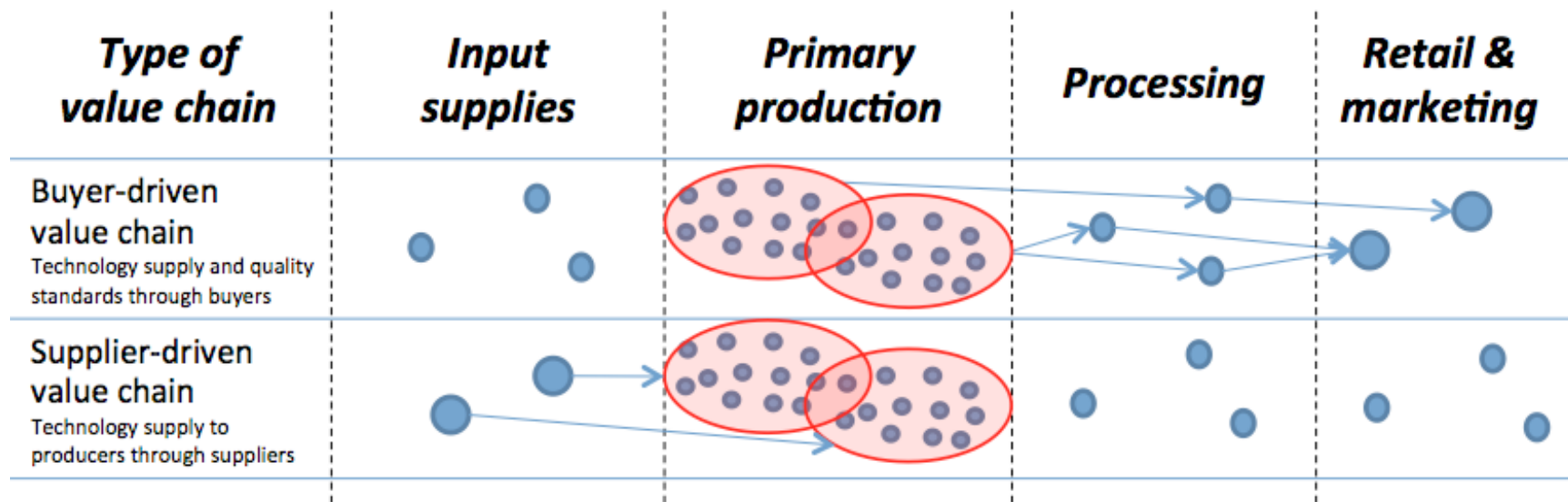


Generic examples of clustering across segments in the value chain

Type of value chain	Input supplies	Source: The authors Primary production	Processing	Retail & marketing
Dollar Bananas Value chain without cluster				
Fruit juices Clustering on the level of primary production				
Furniture making Clustering on the level of wood processing				
Metal production Clustering on the level of metal products retailing (e.g. tools)				

Source: The authors

Global value chain dynamics and the role of clusters



Source: The authors

Quantity matters: Focus on cluster development

Approach

- Work with existing clusters and foster new aggregations of suppliers
- Private-sector-oriented
- Pro-poor growth,
- Collective efficiency through **joint actions**

Measures

- 1) Foster linkages between cluster stakeholders,
- 2) facilitate consensus building,
- 3) build relationships,
- 4) encourage trust building,
- 5) strengthen governance mechanism
- 6) support the cluster's institutional network and
- 7) strengthen cluster governance mechanisms



Focus on export consortia

- In case of lacking export capacity
- Exporting is a complex business involving high risks
- Voluntary alliance of firms with the objective of promoting export of goods and services
- Export via cooperation
- Joint activities such as management training, ISO certification, factory organization, etc.
- Empowerment of weaker economic partners and linking them with dynamic firms. Measures:
 - support to consortia creation,
 - training of promoters of export consortia in the public or private sectors,
 - promoting a favorable institutional and regulatory environment for the development of export consortia;
 - benchmarking of international good/best practice

Focus on firm networking for local capacity development

- Networks are alliances of firms that work together towards an economic goal
- Can exist outside clusters
- Horizontal and vertical networks
- Approach:
 - Building institutional capacities to foster network development
 - Trust building
 - Engaging knowledge network brokers.
 - Fostering learning through collaboration
 - Stimulation of ideas, skills and competencies development

Focus on standards compliance infrastructure development

- Need to develop systems to **comply** with the new management standards,
- Countries are required to operate **laboratories**, which are able to test products and samples for compliance to international standards.
- UNIDO's assistance consists particularly in:
 - Enabling national standards bodies to offer services for industrial compliance with WTO agreements, while taking into account private sector, exporter and consumer needs;
 - Developing local capacities in metrology, calibration and product testing, in order to provide services to local testers, producers and exporters according to international best practices, and also to enhance consumer protection;
 - Enabling national and regional accreditation schemes to assess the performance of local and regional laboratories, inspection units and certification bodies; and
 - Building the capacities of consumer associations to promote consumer rights based on national policies and in line with international best practices.

Focus on business agglomeration within industrial parks

- Insufficient infrastructure and services in developing countries
- Industrial parks provide business-enabling conditions and infrastructure
- Concentration of industries and support services attracts investors
- Industrial parks can become growth and innovation hubs
- UNIDO supports the development of industrial parks:
 - identifying appropriate locations,
 - planning of scope and scale of park operations,
 - marketing and promotion of the park concept, promotion of investments,
 - setting up service providers that are able to provide infrastructure,
 - setting up capacity to manage park development and park operation,
 - linking up firms in the park via cluster and networking approaches,
 - provision of manufacturing and agro-processing knowledge and technology and support to marketing efforts of firms

Focus on regional/supranational integrated value chain development

- Why going global and depending on lead buyers and suppliers?
- Option to develop regional value chains
- Near-shoring and regional products
- Regionalization of value chains makes sense if conditions in the international supplies and markets allow for it.
- South-south collaboration

Focus on supplier development

- Work with farms and firms in developing countries – organized in clusters - that face difficulties complying with market requirements and lack technical and financial means to produce goods with appropriate **quality at required quantity**
 - **Gradual capacity building** among suppliers in developing countries with a continuous improvement focus at heart:
 - Develop **partnerships** for responsible supply chain development and promote appropriate and feasible **cost sharing** among different partners:
 - **Adapt to country or region:**
 - Engage in **harmonization of standards**
 - Promote **networking** among firms
 - Stronger **bargaining power**

UNIDO's Sustainable Supplier Development Programme



Within the categories of UNIDO-Private Sector partnerships

CORE BUSINESS OPERATIONS & VALUE CHAINS

1. Developing or adapting products for rural/low income populations
2. Localizing the business value chain by using local suppliers and service providers or creating local distribution networks
3. Integrating practices that protect and preserve the environment by improving resource management

SOCIAL INVESTMENTS & PHILANTHROPY

1. Investing within the value chain through strategic financial and in-kind investments within the company's supply chain and/or broader operating context
2. Applying technology to enhance reach and access for current and new programs with social goals

ADVOCACY & PUBLIC POLICY ENGAGEMENT

1. Addressing business and development agendas to ensure commercial viability with social impact goals
2. Pushing for mandatory standards and formal regulations rather than only creating voluntary industry standards

- Sustainable development concerns integrated progress on economic development, social advancement and environmental protection
- Triple Bottom Line – organizations assume responsibility for all their impacts, including social, environmental and economic

UNIDO Sustainable Supplier Development Programme

- **Rationale:** new form of Public-Private Partnership, which **integrates Quality, Safety and CSR objectives with business objectives** and operates as an **inclusive and pro-poor** development scheme
- **Objective:** enable clusters of suppliers in developing countries to:
 - gain access to profitable new **market opportunities**
 - establish long-lasting **business linkages** with buyers
 - generate new **jobs and income** opportunities
 - increase availability of **sustainable and safe products**



IMPROVING SUPPLY CHAINS: Impact for Emerging economies

Challenges:

- Continuous **compliance** with standards and market requirements;
- **Reliability** is a key success factor in supply chain management;
 - **Price pressure and cost reductions**
 - Limited **bargaining power unless strong networking/clustering**
- Fast **disappearance of small and informal retail outlets**: reduction of business opportunities for smaller producers
- **Innovation**: design products and supply-chain strategies;
- Strong **demand for capacity building** and the need to invest in it.

Benefits:

- Buyers will further **increase global and local sourcing**;
- Increase **private labels/own brands**
- Buyers will intensify their efforts in building **long-term partnerships** with suppliers and expand suppliers' base;
- Buyers **may pay a higher price than competition** (=efficiency premium) (?)
- Buyers **invest in distribution and storage infrastructure** in emerging economies;
- Buyers address also **CSR** (social, economic and environmental)
- **Export opportunities** through the global buyers
- **Value creation for customers**;
- **Positive impact on products sold on the local market** (quality, quantity, safety, sustainability)

Sustainable Supplier Development Programme

EXPECTED IMPACT

- **Pro-poor and inclusive PPP development scheme**
- Suppliers gain access to profitable new market opportunities and are accepted as **reliable suppliers to establish long-lasting business linkages with potential buyers.**
- Better buyers/supplier relation (price, bargaining power..)
- Retailer up in the **Dow Jones Sustainability index.....**

BENEFITS FOR DEVELOPING COUNTRIES

- **Increase both job and income opportunities** for developing countries' suppliers
- **Increase availability of safe products** to achieve higher **consumers' protection.**
- **Image** improved as supplier of higher quality, safe and sustainable products
- Able to profitably respond to consumers and buyers demand for **ethical, social and environmental sustainability** (through adaptation of UNIDO REAP) and quality and safety requirements

Where it all started: UNIDO-METRO SSD-based partnership

The cooperation between UNIDO and METRO started in 2009 and focused on **joint technical assistance, awareness and competency-building programmes** on supplier upgrading and compliance.

It **responds to the need of farms and SMEs** in developing countries and economies in transition to access profitable new market opportunities by being **accepted as reliable suppliers** and establishing **long-lasting business linkages** with potential buyers such as the METRO Group.

UNIDO-METRO joint activities have been guided by an **“inclusiveness” principle to integrate “less-developed businesses” into “formal” trade**, which in turn can positively impact the livelihood of producers, workers and their families and increase the availability of safer, higher quality and more affordable products for consumers and create new job opportunities.

The programme is to be **expanded to other retailers** and to be implemented in the areas of agribusiness and technology, quality and conformity, supplier development and sustainability;

UNIDO and METRO renewed and expanded the scope of the historical agreement



DÜSSELDORF, 2 September 2011





METRO GROUP



Partnership Example: UNIDO – METRO Group

- **PARTNERSHIP CATEGORY:** Core Business Operations & Value Chains
- **INDUSTRY:** Retail
- **PARTNERSHIP OBJECTIVE:** Enable suppliers to gain access to new market opportunities, making supply lines more efficient, inclusive and sustainable
- **GEOGRAPHIC SCOPE:** Pilot projects in Egypt, India, Russia
- **RESULTS & OUTLOOK:**
 - ✓ Cost-sharing business model developed and implemented
 - ✓ Improvement in compliance with basic food safety standards and individual performances among participating 90 SMEs and 800 farms
 - ✓ Basis to develop a global Sustainable Supplier Development Programme (SSDP)
 - ✓ 34 supply contracts have been signed

Summary

	Egypt	India	Russia
Implementing Party	National Institution (non-profit)	Metro Staff	Individual Consultants
Scope	Basic and Intermediate	Basic	Basic
Number of Suppliers	18 Basic 25 Intermed.	10	22
Duration of Basic	3 Months	5 Months	8 Months
Ups-scaling	90 Suppliers	Ongoing Discussions	Ongoing Discussions

Partnership Example: UNIDO-AEON Group

- **PARTNERSHIP CATEGORY:** Core Business Operations & Value Chains
- **INDUSTRY:** Retail
- **PARTNERSHIP OBJECTIVE:** Facilitating suppliers' access to new markets; Increasing safety and sustainability of products
- **GEOGRAPHIC SCOPE:** Malaysia
- **RESULTS:**
 - ✓ Strengthened compliance with food safety standards and sustainability requirements.
 - ✓ Companies upgraded: 25
 - ✓ Companies with higher productivity rates: 15
 - ✓ Companies improving productivity and sustainability: 5
- **OUTLOOK:**
 - ✓ Planned roll-out to reach 100 food processors, also covering primary production
 - ✓ Malaysia to become a regional hub for sustainable supplier development

New Partnerships in Value Chains

- **Walmart** and **Pick 'n Pay** in SSDP programme in Africa
- **Migros** (Switzerland)
- **Illy Café** (Coffee in Ethiopia)
- **Agrana** (Strawberries in Middle East)
- **Chiquita** (Bananas Sustainability in Central America)
- **Coop Italia** (Green Beans in Burkina Faso)
- **Drefyus Commodities**.....



MIGROS



Walmart 



New Partnerships in Value Chains



New Partnerships in Value Chains



New Partnerships in Value Chains



SMALL FARMS. BIG BUSINESS



Origin and aim of the partnership

As a result of their solid cooperation during the EDD2012 event (Brussels, 16-17 October 2012), the co-organisers Europe-Africa-Caribbean-Pacific Liaison Committee (COLEACP), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (GIZ), SNV Netherlands Development Organisation (SNV), and United Nations Industrial Development Organization (UNIDO) decided to continue their cooperation. A platform structure was set up under the title 'Small Farmers, Big Business Partnership' with the aim to complement their intervention projects and to implement a joint approach that will more effectively tackle the essential obstacles responsible for recurrent hunger crisis in the developing world. The French development bank Agence Française de Développement (AFD) accepted to join the consortium as well. All these partners have a solid track record in rural development and private sector involvement and are well-wired in the EU arena. At the same time, the partners have different institutional backgrounds and approaches which creates useful complementarity.

The consortium partners will be working along the principles as formulated in the background paper for the EDD2012 High Level Panel below:

Small farmers - big business?

Engaging the Private Sector in Sustainable Agricultural Development

Discussions at the 2012 G8 meeting centred around the premise that development involves not only delivering aid, but also generating economic growth, and a pledge was made to encourage investment in agriculture as route to alleviate poverty. This new policy environment promotes development through private sector investment, and agricultural programmes are increasingly envisaged within a context of partnerships between donors, developing countries, and the private sector. However, these new initiatives must remain focused on the target: food security and poverty alleviation, with small-scale farming and sustainability at the forefront.

Rural economies are changing fundamentally. In a process of profound private sector transformation, value chains are becoming shorter with higher standards and stronger, vertical integration and information flows. This is driven by the increasing participation of developing country players in global value chains, as well as domestic private and government investment in the South.

From a development policy perspective, inclusive business models are a promising tool for strengthening rural economic activity by improving income, jobs and food security.

Organisers of this event a



HOW TO MAKE COLLABORATION WORK

- **GOVERNMENTS:** To contribute and be part of it; no conflict between regulations and GFSI nor GSCP
- **BUYERS:** To integrate functions (QA, Purchasing, CSR, and to work as a buying cluster)
- **SUPPLIERS** (commit to continuous improvement, collective actions..)
- **DONORS** and **DEVELOPMENT PARTNERS** (no duplication and joint funding)
- **GFSI/GSCP:** foster integration of tools and competency/capacity building, KPIs. Monitoring and Evaluation...
- **SERVICE PROVIDERS:** take part of the scaling up/expansion

Conclusions

- Embracing versus encountering global buyer dominance
- Strengthening skills and the technology used use in existing production processes
- Developing innovate capacities to venture into new activities downstream in the value chain and in other sectors
- Drawing from in-depth value chain analysis and corresponding industry strategy development based on holistic understanding of the value chain
- Mix of instruments in line with the structure of the chains
- Economic, Social and Environmental Sustainability

A young boy is sitting on a large pile of green leafy plants, likely a harvest, on a red truck. The plants are piled high, reaching up to the boy's head. The background is a clear blue sky. The text "THANK YOU FOR YOUR ATTENTION!" is overlaid in large white letters across the center of the image.

**THANK YOU FOR
YOUR ATTENTION!**



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