

Service provision through buyer driven value chain development initiatives



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SME within international value chains

When it comes to global markets and value chains, international buyers often dictate the rules. They set the parameters for requirements that local producers must fulfil in order to be part of the supply chain of the lead company or the sector in general.

Only a few years ago, requirements of buyers were focusing mainly on quality aspects and time of delivery. While this is still of high significance and many local companies are struggling to meet the demand, new topics are rapidly gaining in importance. They include, amongst others, environmental and social standards.

Looking into the best practises described in the literature on value chains, the role of multinationals seems to be predominant. This is justifiable, since it is the large international retailers, supermarkets, traders and industry firms that are leading, if not to say dominating, the majority of global value chains. Becoming part of these production and service networks is an important strategy for many small and medium enterprises (SME) in developing countries. It is because of this that international organizations - in their effort to support SME in developing countries - try to build up partnerships with the lead companies of the different value chains. Within its Public Private Partnership (PPP) program, GTZ has engaged in many successful partnerships with lead companies, getting their contributions – sometimes in cash, sometimes in kind - to help upgrade local suppliers and trading partners.

However, there are also countless niche markets in which smaller international or bigger local companies are building up their production and trading networks, i.e. “governing their value chains”, and helping local SME to become part of or improve their position within the specific value chain. These niche markets provide local SME with business opportunities that are as attractive as those which multinational companies can offer. For this reason, from a development point of view, it is worthwhile to look deeper into these niche market value chains, the players involved and how local SME can gain from taking part.

Embedded services from the lead firms and the attempt to strengthen local BDS providers

However dominant international buyers are and how desperate local producers struggle to fulfil their requirements, both sides depend on each other. In the two case studies that are mentioned in this report, the international buyers are “forced” to assist their local suppliers with services that focus on training and capacity building to set up management systems that meet the requirements.

The first case is that of German retailers who form part of the Foreign Trade Association of the German Retail Trade (AVE). Like their competitors throughout the developed countries, they are under pressure from NGO and consumers to improve the working conditions at the factories that form part of their worldwide supply chains. The AVE members have decided on a common set of social and environmental

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standards to be implemented at their local suppliers. But setting up the standards is not enough, since local suppliers need assistance in order to comply with them. Many of the German retailers therefore use their own in-house consulting companies that directly assist and provide training and consulting services to their suppliers. Others are joining forces with international development projects in order to improve the capacity of local BDS providers so that they are able to do the job in the long run, bringing down the costs of the services provided and better customizing them to the local needs.

The second case is that of a German importer of aquaculture products. As part of the product innovation strategy that the German importer is undertaking to meet the demand in a growing niche market, it is assisting a group of Vietnamese fish farmers and processors to change production methods from conventional to organic. In this product development (the first organic cat fish ever produced), a lot of know-how transfer and training is required so that the local producers meet the requirements and are able to implement corresponding management and traceability systems. As in the first example, efforts are being undertaken jointly with a German technical assistance project implemented by GTZ in order to strengthen local service providers to do the job once the pilot phase has finished and the production is to be expanded to a larger number of producers and processors.

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ANNEX

Satisfying buyer standards: A gateway to improve the competitiveness of SME

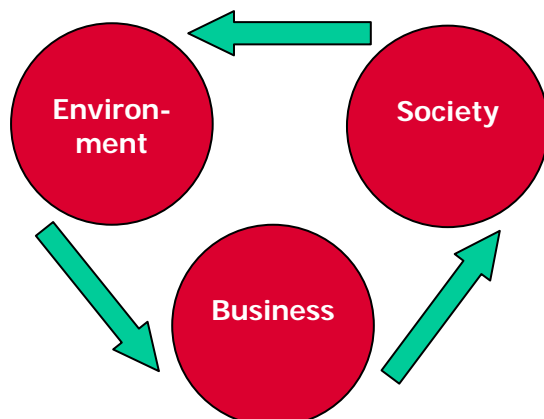
As Vietnam is integrating with high speed into the world economy, satisfying buyer standards especially in the export markets is becoming ever more important. Only a few years ago, requirements of buyers were focusing mainly on quality aspects and time of delivery. While this is still of high significance and many local companies are struggling to fulfill these requirements, new topics are rapidly gaining in importance. They include, amongst others, environmental and social standards.

Mainly two circumstances are pushing the market players to work on these issues:

On the one hand, consumers are getting more and more concerned about the way in which the products they buy are being produced. In their consumption habits they are being influenced by the media and Non Governmental Organizations and pressure groups that detect and point out issues of concern like unfavorable working conditions in factories or environmental damages caused due inadequate management of production facilities.



On the other hand, companies are becoming increasingly aware of their Corporate Social Responsibility. Companies play a crucial role in providing jobs and income, but they also have responsibilities when it comes to taking care of their workers and the environment. Additionally, more and more business leaders are realizing that there business is only sustainable, i.e. that they will be able to make profit in the long run, only if they take good care of labor and environmental issues.



Within the scope of German development cooperation, GTZ is helping local companies to fulfill these new requirements on social and environmental standards by building up new business development services. In order to obtain best results, we join forces directly with the international business partners of the local suppliers. As mentioned above, it is within the interest of the international buyers to help their local suppliers improve performance on these issues. Within our Public Private Partnership (PPP)

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Program we jointly plan and co-finance projects with international companies working on social and environmental standards in their supply chain and that need to provide services to their local suppliers.

The following two examples of successful PPP clearly show that by joining forces and working closely with the international partner companies, local producers are in a much better position to satisfy buyer standards. They get access to important and cutting edge business development services and are thus able to improve their competitiveness in comparison to other producers in the mainstream market, or are able to open up niche markets by certifying their products and management systems.

Case 1: PPP on Social Responsibility with the German Retailer Association AVE

Together with the Foreign Trade Association of the German Retail Trade (AVE), GTZ is helping local suppliers of garments, shoes and toys to improve working conditions in their production facilities.

The AVE Sector model on social responsibility is based on the 'AVE Declaration concerning a Code of Conduct for the Procurement of Goods to ensure the protection of Social Standards'. In this declaration, the member firms of the AVE committed themselves to make the observance of the core working standards of the International Labour Organisation (ILO) integral part of their terms of trade in contracts with their suppliers. This shall ensure socially compatible working conditions in the production plants of the suppliers, especially in developing and newly industrialised countries. In order to achieve this, they assist the suppliers in implementing corrective action plans and training and coaching to implement social and environmental management systems.

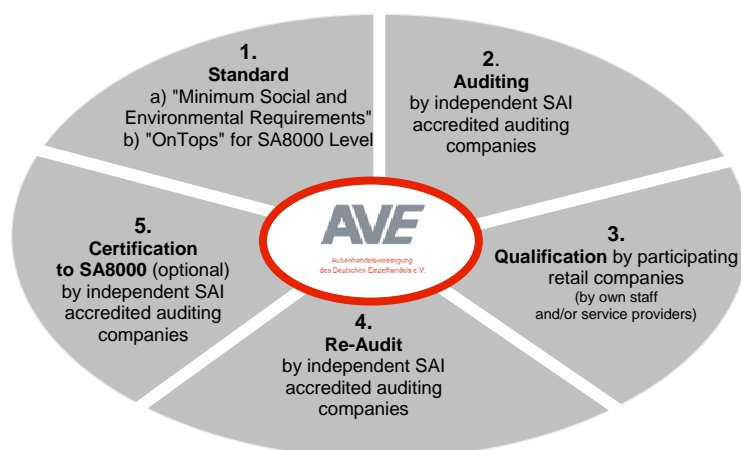


An independent and transparent control of the working conditions based on certain instruments which are provided by the AVE will be achieved with the auditing of the production facilities by external auditing companies. These auditing companies are without exception accredited by the New York-based non-governmental organization Social Accountability International (SAI), which developed the worldwide recognized Social Standard SA 8000. The AVE Sector Model follows the SA 8000 Standard by interpreting and applying it from the point of view of development policy. Within the scope of correction plans which are recorded by the auditing company and the supplier, possible divergences shall be removed.

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This is done with the assistance of AVE member firms and service providers. Wherever available, local service providers are being used. Thus, the social performance of the suppliers is consequently developed and improved. The observance of agreements recorded in correction plans will be monitored within the

framework of re-audits. If a supplier complies with the criteria of the AVE Sector Model Social Responsibility, this is confirmed by the AVE. The supplier himself decides if on top of this he wishes to be certified according to SA 8000 which - in case of certification ripeness – is also recommended to him by the trading enterprises participating in the AVE Sector Model. In no case, the certification according to SA 8000 is a prerequisite for the taking up and/or maintenance of the business relations with the AVE member firms.

Parallel to this work on the company level mostly done by the AVE members, local service providers and the suppliers, GTZ is using the Vietnamese Business Links Initiative under VCCI to establish round tables on social standards. Participating in these round tables are core stakeholders from governmental bodies, the Confederation of Labor, NGO and business associations. The main objectives of these round tables are to:

- Strengthen the **communication and networking** among the stakeholders and develop constructive and long term relationships between them
- Establish a continued **dialogue and exchange of positions** on social standards topics between the different interest groups and
- Jointly develop **more efficient and constructive solutions** for the implementation of social standards

One special focus of the round tables is to identify weaknesses in the local BDS market and find solutions on how to overcome them.

Case 2:

PPP on organic aquaculture with Binca Seafood and Naturland

Buyer standards within niche markets

Looking into the best practices described in the literature on value chains, the role of multinationals seems to be predominant. This is justifiable, since it is the large

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international retailers, supermarkets, traders and industry firms that are leading, if not to say dominating, the majority of global value chains. Becoming part of these production and service networks is an important strategy for many small and medium enterprises (SME) in developing countries. It is because of this that international organizations - in their efforts to support SME in developing countries - try to build up partnerships with the lead companies of the different value chains. As in the above mentioned case, GTZ is engaging in many successful partnerships with lead companies, getting their contributions – sometimes in cash, sometimes in kind - to help upgrade local suppliers and trading partners.

However, there are also countless niche markets in which smaller international companies are building up their production and trading networks, i.e. “governing their value chains”, and helping local SME to become part of or improve their position within the specific value chain. These niche markets provide local SME with business opportunities that are as attractive as those which multinational companies can offer.

The partners of the project and their motives

Binca Seafood GmbH is a German importer of seafood. Being a relatively small company, it imports primarily deep-frozen seafood specialties from Asia to market them in Europe. For the company, fish from organic aquaculture is a growing high-end niche market worth developing.



Naturland e.V. is a German non-profit organization which was set up in 1982 to promote certified organic food production. Its key activity is the development of standards and the certification of eligible products. It has a strong interest in developing value chains and providing services for new organic products.

The local partners are small breeders and processors of catfish. Under the umbrella of the An Giang Fisheries Association in the Mekong Delta, they are eager to open up new export markets. For them, organic catfish production that fulfills strong environmental standards represents a unique opportunity in times when their traditional markets are endangered by protectionism as well as scandals which are caused by food safety problems.

GTZ works on behalf of the German Ministry for Economic Cooperation and Development (BMZ). Supporting Vietnamese SME and at the same time preserving the environment through the introduction of environmentally friendly production methods is of key interest to the organization.

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The know-how transfer to fulfill buyer standards

The overall objective of the project is to develop and establish organic catfish production with a small pilot group of Vietnamese producers and processors. The local companies are all SME, since it is easier for Binca and Naturland to work with them in order to develop the value chain of this niche market and build up sound and stable trading relations. As a first step of the project, guidelines for organic catfish production and certification had to be developed and agreed upon with relevant Vietnamese institutions. Consulting for that part of the project mainly came from Naturland, based on its experience with similar value chains. Afterwards, a pilot project was introduced for changing the production method of the local companies from conventional to organic practices. In order to help the local SME applying the organic standards, both Binca Seafood and Naturland are strongly supporting them through the help of a Vietnamese consulting firm and local institutions. By involving these local partners, a know-how transfer from Binca and Naturland is taking place, not only to the companies involved, but also to important business development service providers. Therefore, the basis for an expansion of the organic production to further local producers and processors is being laid.



The work on certification is carried out by an auditing company from Thailand, strongly reducing certification costs and building up the regional know-how on organic certification.



Since organic production of agricultural products still exists on an extremely small scale in Vietnam, the partners had to look hard for suppliers of organic feed. This very first step within the value chain of organic aquaculture represents the weakest point at the moment, since feed must be partly imported from neighboring countries, increasing production costs. In the future, it will be crucial for the partners to further upgrade local feed suppliers and help them fulfill the strict technical standards for organic production.

Once the organic fish has been produced, local processors will receive training and capacity building from Binca in order to increase local processing steps and improve packaging techniques. By doing this, more value is being added to the product inside of Vietnam, increasing the profit of local processors and at the same time keeping the end price of the final product competitive.

At the end of the day, all companies involved in the project will depend on the success of the marketing efforts of the German seafood importer. For this reason, at this early stage of the project, efforts are already being undertaken on the

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commercial end of the value chain. The project and the prospective new product are presented at trade fairs and through other marketing channels.

Altogether, the approach tackles all the steps within the value chain and the specific requirements each has, from the feed supplier to the final consumer. Most importantly from a development point of view, it helps local SME upgrade within the value chain through providing embedded services from the international buyer and by slowly building up local BDS providers. This upgrading takes place in the form of applying organic standards, increasing processing steps and improving packaging. This will all result in a better price for their product, as well as it will open up new market opportunities.

Conclusions

In resume, satisfying increasing and diversifying buyer standards is putting pressure on both international companies and their local suppliers. In their ambition to maintain or even increase their competitiveness, local suppliers should, amongst other aspects:

- Establish close and lasting trading relations with the buyers
- Work together on issues concerning quality, environmental and social requirements
- Develop common codes for their sector, reducing long term costs and increasing transparency
- Make use of quality, eco-friendly and social labels to outperform suppliers from competing exporting countries
- Join initiatives like the ones mentioned to make use of international expertise and funds

Supportive institutions like governmental bodies and business associations should work on improving the enabling environment that facilitates the application of social and environmental standards. Local accreditation and certification capacities should be set up and fostered, and business service providers should develop training and consulting products that are adapted to and satisfy the needs of the local suppliers.

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