

Partnering with the Private Sector, for the Private Sector

Supporting SME Growth and Job Creation





Foreword

The private sector has been at the heart of the International Trade Centre's work since it was established over 50 years ago. Markets can and do drive development. But market pull can often use a helping hand, especially when it comes to small and medium-sized enterprises in developing countries. That is why ITC was set up. Our work with SMEs and trade and investment support institutions is governed by the understanding that fully exploiting new commercial opportunities requires some aid for trade to go to those who actually trade: the business community.

As trade has evolved, we have grown to meet the changing challenges facing would-be exporters in the world's more marginalized economies and communities. This is why we focus increasingly on connecting SMEs to regional markets and international value chains. SMEs account for the bulk of employment, especially for the women and young people for whom better jobs, in more productive firms, yield lasting social dividends.

The private sector has become an increasingly important partner in delivering this work. Companies that do business across borders have the expertise SMEs need. Who better to help smallholder farmers navigate complex sustainability standards than the companies who demand – or set –

them? Only the private sector, together with better domestic resource mobilization, can leverage development financing flows from the billions in traditional donor assistance to the trillions needed to meet the post-2015 development agenda.

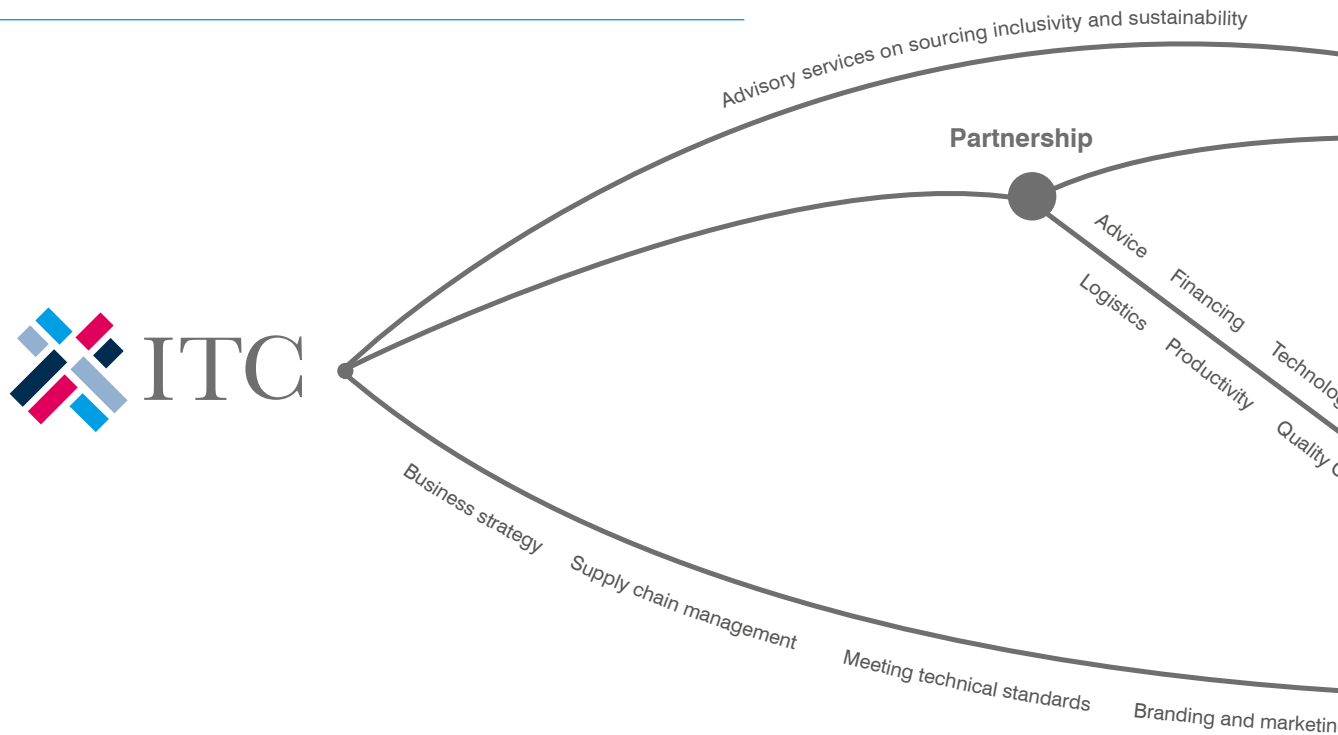
This booklet describes some examples of ITC's work with the private sector, for the private sector. The goal is to create virtuous circles. When a luxury leather goods maker works with ITC to improve the conservation of endangered animal species, it supports sustainable livelihoods in rural communities – and a more secure supply chain for its high-end shoes. When Bosch helps Kenyan SMEs boost their competitiveness, it may well be creating future customers for its household appliances.

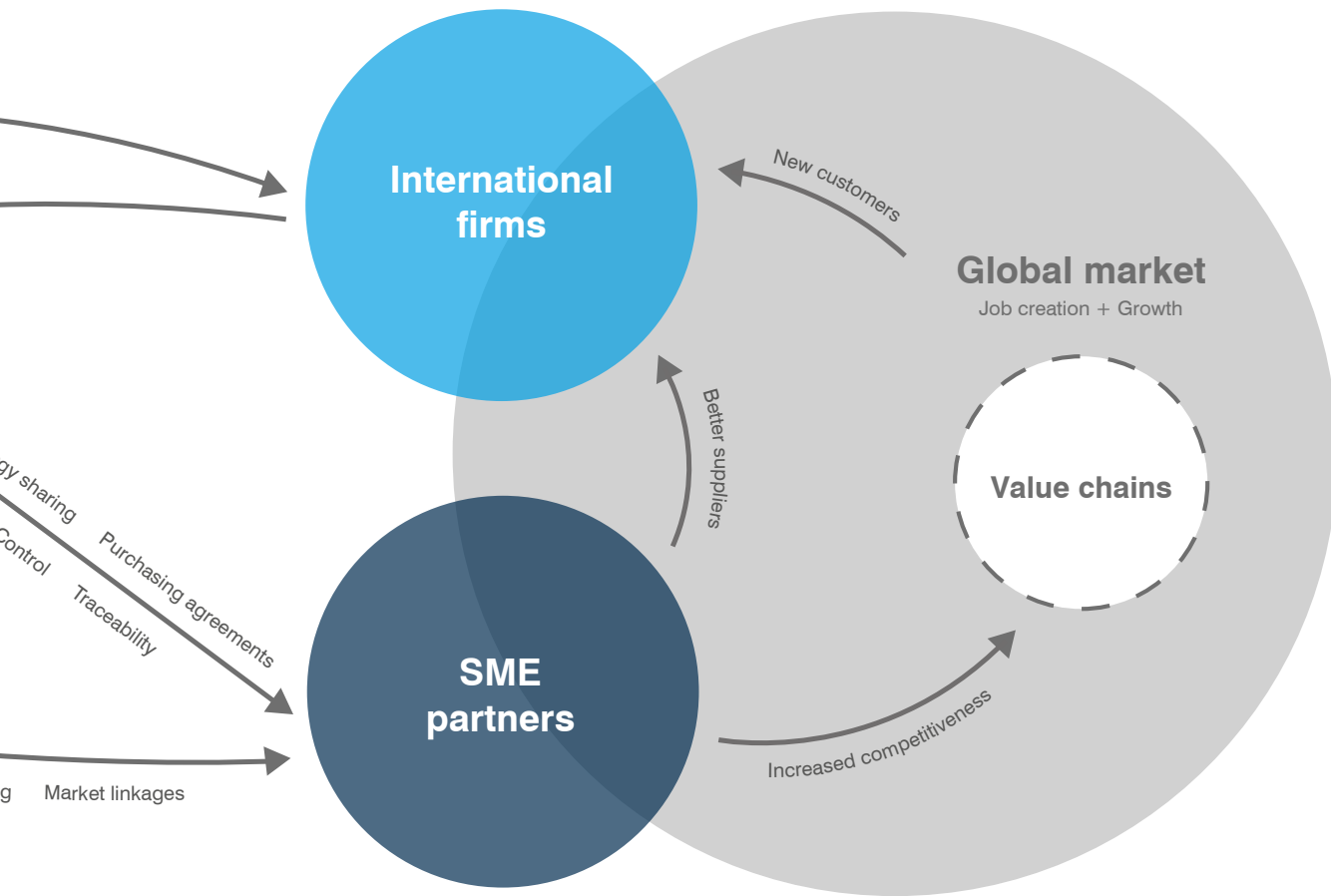
The stories inside provide a snapshot of how our projects seek to yield social and economic benefits that endure long after traditional funder support is withdrawn. Or, as we like to put it, to create trade impact for good.



Ms. Arancha González,
Executive Director

How ITC works with the private sector





Bosch

Boosting productivity at Kenyan SMEs through lean production

The challenge

In developing countries, far more than in developed ones, SMEs are characterised by lower productivity and higher operating costs than their larger competitors.

Boosting productivity can make SMEs more attractive as potential suppliers to international value chains, as well as more competitive exporters in their own right.

The response

ITC partnered with Robert Bosch GmbH, the German multinational engineering and electronics company, to train Kenyan SMEs in 'lean' production methodologies. The Karlsruhe Institute of Technology contributed teaching materials, tools and technical content.

Pioneered by Japanese auto maker Toyota, lean manufacturing refers to the systematic and continuous reform of a firm's manufacturing, internal logistics, and other supply chain processes to strip out wasteful inefficiencies such as unnecessary movements and waiting periods.



'Lean looks at how to improve your processes without investing in huge amounts of machinery or equipment to improve productivity. It's about looking at how to reduce bottlenecks, simplifying processes or even reducing duplication or unnecessary waiting time.'

Hong Siew Lim, programme manager,
ITC Modular Learning System in Supply Chain Management

Between June 2014 and January 2015, staff and management teams from three Kenyan agri-food SMEs—each supplied by hundreds of small-scale producers—attended workshops led by Bosch in partnership with ITC, where they learned to analyse processes, recognize areas for improvement and make appropriate adjustments. Notably, making these adjustments did not require investment in expensive new equipment, in keeping with the lean methodology's ethos of doing more with less.



The results

One of the SMEs, Mace Foods, a small company based in Kenya's western highlands, has nearly doubled the rate at which employees package dried chillies and vegetables for export to Europe.

In July 2014, each operator at Mace Foods was able to pack 24 sachets of produce every hour. Now they pack 46 per hour, a 92% increase. The number of defective products has effectively dropped to zero. Order lead time – measured from when an order is received until a product is dispatched – for dried chillies and vegetables dropped from more than four days to less than a day, while the

'It means we have systems in place. I know if an order comes, there is a checklist that is followed and the procedure is followed and I'm sure the order is delivered.'

Margaret Komen,

CEO, Mace Foods, on what lean methodology means for her company



Delivery partners

Robert Bosch GmbH
Karlsruhe Institute of Technology

Beneficiary partners

Mace Foods
Greenforest Foods
Stawi Foods and Fruits
Kenya Institute of Supplies Management (KISM)

Goal

Boosting SME productivity through training in lean production methodology

Impact

Sharp increases in production speed
Fewer defective products
Faster delivery times

Follow-up

Replicating the approach for SME mango processors in Kenya

Timeframe

June 2014 – December 2015

Location

Kenya

Funder

Finland

'The SMEs take complete ownership of the measures that we define in the workshops. We teach some methods, but then the participants take over and apply them to their own environment. We go together on the shop floor and actually practice these methods, so it helps them to identify potential to improve their processes and reduce waste, as well.'

Georg Nicola, Bosch project leader

number of orders and sales increased.

For Greenforest Foods, which sells honey, packing production improved by 28%. Instead of laboriously scooping honey from buckets into individual jars and then weighing each one to get the quantity right, employees switched to buckets equipped with simple gauges that enabled them to fill jars as if from a tap, while simultaneously weighing them. Both time and physical effort on the part of employees were substantially reduced. Order lead time dropped from 13 hours to 7.3 hours.

Stawi Foods and Fruits, a food-processing company specializing in porridge flours, slashed lead time from seven days to one day after establishing controlled stock levels. The introduction of a standard one-kilo scoop slashed the time to fill a one-kilogram packet of flour from one minute to 30 seconds.

The future

Representatives of the Kenya Institute of Supplies Management (KISM), a national body dedicated to promoting best practices in supply chain management, also participated in the workshops.

They will now train and advise other businesses on improving production and order-fulfilment processes, serving as a multiplier for spreading lean methodology-based improvements among SMEs in Kenya.

In addition, ITC and Bosch will, in 2015, work with KISM to train more SMEs in lean methodology, this time in Kenya's mango processing sector.



Trade for Sustainable Development Principles

Supporting sustainability practices
in global supply chains



The challenge

While the proliferation of sustainability standards related to consumer objectives from labour rights to rainforest conservation has created lucrative niche markets, it has also raised challenges for producers in developing countries. As the number and complexity of sustainability standards increase, so do the costs of compliance with them. This can potentially exacerbate the economic marginalization of the poorest communities, and undermine the stated objectives of the standards themselves.

Accessible, transparent, and credible standards, coupled with technical and financial assistance, benefit consumers and producers alike. Inclusive business needs inclusive standards.

The response

ITC has launched a set of 'Trade for Sustainable Development' (T4SD) principles to help stakeholders from across the supply chain -- standards organizations, multinationals, NGOs, and others -- find common ground

and maximize the promise of standards in making trade contribute to sustainable and inclusive growth.

Sustainability is the first of the four principles. Signatories to the principles are expected to incorporate the full spectrum of social, environmental, economic, quality and ethical issues in production, processing, and trade.

The second principle is transparency. Signatories are encouraged to share good practices and foster trust and inclusiveness at all levels of global supply chains. ITC and the German Ministry for Development Cooperation (BMZ), together with the European Union and Switzerland, have worked together to produce "Standards Map", a neutral, online database of information on almost 200 voluntary sustainability standards and eco-labels. Transparency favours accessibility: ITC and partners use Standards Map and its self-assessment tool to sensitize smallholders to the basic good agricultural practices required to sell on to buyers who prize certain sustainability criteria.

Harmonization is the third principle. Neither producers nor consumers are well served by a multiplicity of standards,



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audits, and assessment methodologies for roughly the same goals. Signatories pledge to build collaboratively on existing resources and methodologies to avoid duplication.

Finally, signatories commit to align their work to the United Nations Post-2015 Development Agenda and the Sustainable Development Goals.

The results

Since the principles were launched in October 2014, the number of signatories has grown steadily, reaching 39 by mid-2015. They include large multinationals such as Nestlé, supply chain traceability enablers such as Global Standard 1 (GS1), regional producers' associations, standard-setting organizations, and business platforms gathering multiple industry players.

Collaboration with one of the signatories, the Global Social Compliance Programme (GSCP), has yielded a unique 'Quick Scan' tool that allows major supply chain actors to easily compare their social and environmental codes



Signatories including

Givaudan International SA
SMK (Milieukeur)
Delhaize Group
AIM-PROGRESS
Association of Colombian
Flower Exporters
Responsible Tourism Tanzania
Wine and Agricultural Ethical
Trade Association
Fair Trade Tourism
Sedex Global
ISEAL Alliance
Control Union
ColeACP
Swisscontact
GIZ

For the full list of signatories, go to <http://www.intracen.org/itc/market-info-tools/voluntary-standards/t4sd-principles-and-signatories>

Goal

To help stakeholders from across the supply chain find common ground on maximizing the contribution of sustainability standards to sustainable development

Impact

Development of new initiatives and tools for sustainable supply chain management in private and public sectors

Timeframe

Launched in October 2014

Location

Global

Funders

European Union
Germany
Switzerland

of conduct against best corporate practice and third party standards. This lays the groundwork for advancing harmonization of approaches.

The future

The next frontier for sustainability in supply chains is about traceability from primary producers all the way through to retailers.

The current absence of digital links between supply chain actors means that neither producers nor consumers adequately understand companies' sustainability and quality management attributes. Yet buyers increasingly demand such information. Consumer demand for full traceability is a powerful tool for advancing sustainable trade practices, but risks leaving out smallholder farmers and small and medium-sized enterprises (SMEs) unless complemented by action to integrate them into supply chains.

ITC's Trade for Sustainable Development programme is working with the UN Global Compact and GS1 to develop a free online system for SMEs to register and obtain a code containing information that would enable actors at every level of the supply chain to identify sustainability issues at different stages in the production process. Buyers or retailers would be able to confidently communicate

their sustainable supply chain commitments to the customers. Primary producers and processors in the developing world would be able to better communicate their sustainability processes to existing or potential buyers. The data embedded in the codes would identify where technical assistance would help small producers and processors meet food safety standards, so that such aid can be more efficiently targeted. Finally, the data would enable companies around the world to benchmark themselves against peers elsewhere.

ITC will cooperate with private sector signatories to the Trade for Sustainable Development principles on the code initiative, which promises to empower small farms and businesses and contribute to more sustainable and traceable trade.



Kering

Bringing together wildlife conservation, rural livelihoods and an international supply chain



The challenge

Pythons and crocodiles are highly valued for their skins in the luxury leather goods industry. This demand, however, can place species under threat if the supply chains are not properly managed.

Poor rural communities and high prices combine to threaten species conservation, particularly when trade is illegal. Successful legal models of trade exist where rural communities can act as gamekeepers and stewards rather than poachers. By giving local people a financial incentive to trade the species sustainably, populations can be maintained and even increased.

But accomplishing this requires innovative models of trade involving clear incentives, monitoring and regulation.

The response

ITC has partnered with Kering, a group of luxury and sport & lifestyle brands including Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Stella McCartney, Boucheron and Puma, as well as the International Union

for the Conservation of Nature's Boa and Python Specialist Group, to improve sustainability and livelihood benefits in the python skin value chain.

In 2013, ITC, Kering and IUCN together set up the Python Conservation Partnership to improve sustainability, transparency, animal welfare and local livelihoods for the python trade. Research on greening the value chain is a critical element of the partnership, with findings informing

'The continued work we are doing in the Python Conservation Partnership to enhance traceable, sustainable sourcing and the conservation of pythons will assist our sector and move the industry towards more informed decisions in python sourcing.'

Marie-Claire Daveu, Chief Sustainability Officer and Head of international institutional affairs of Kering



the work of parties to the intergovernmental Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

ITC and Kering set up a similar partnership to support improved management and monitoring of the trade in Nile crocodile skins from Madagascar, with the support of IUCN's Crocodile Specialist Group.

The results

Under the Madagascar Crocodile Conservation and Sustainable Use Programme, ITC has brought government officials from different ministries together with industry experts to ensure a sound egg collection and captive breeding system while conserving Nile crocodiles.

Artisans in Madagascar have been trained in egg collection, farming, skinning, tanning and processing, enhancing both their skills and the quality of materials supplied to fashion industry buyers. ITC and its partners are planning to impart further training in rural regions of Madagascar.



ITC



K E R I N G

Delivery partners

Kering
IUCN-International Union for the Conservation of Nature

Beneficiary partners

Local collectors, processors and exporters of python and crocodile skins

Goal

Boosting rural incomes while creating incentives for biodiversity conservation and ensuring sustainable supplies for the luxury goods industry

Impact

Sustainable, legal and transparent trade in species, thus conforming with CITES while allowing poor communities to capture greater value for their products

Follow-up

Capacity building for government representatives and supply chain stakeholders

Timeframe

2012 – 2016

Location

Southeast Asia
Madagascar

Funders

Denmark
Germany
Norway
Kering

On the research front, the economic viability of python breeding farms supplying to the high-end leather industry has been comprehensively assessed by the Python Conservation Partnership. The partnership is also examining technical options for improved traceability in the supply chain. Forthcoming research will examine the livelihood benefits of python skin exports from Indonesia, Malaysia, and Viet Nam.

The future

In 2016, ITC and its partners Kering and IUCN will provide capacity building for government representatives and supply chain stakeholders based on the research findings and recommendations.

ITC, Kering and IUCN are helping facilitate industry-wide change and will scale up this approach with other companies to promote sustainable sourcing for raw materials, to ensure that rural communities see tangible benefits from protecting the biodiversity around them.

'This effort is bringing the relevant players together across all sectors to find pragmatic and innovative solutions. The Assessment of Python Breeding Farms Supplying the High-end Leather Industry, delivered under the Python Conservation Partnership, is making a highly valuable contribution towards this collective undertaking.'

John E. Scanlon, Secretary-General, Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).





Improving logistics for SME competitiveness



The challenge

The growing importance of international production networks, in which components are made or processed in multiple countries, makes logistical efficiency critical for businesses' ability to export.

High logistics costs or unpredictable delivery times can make it impossible for SMEs in developing countries to connect to international value chains. Many of the factors affecting transportation and communication within countries – from the quality of physical infrastructure to the competitiveness of the logistics sector – are not within the control of individual companies. However, there is much that SMEs can do to improve their own performance in resolving logistics bottlenecks, from transport and storage to inventory management and demand planning.

All too often, however, SMEs do not adequately understand trade logistics procedures and processes, and struggle to manage risks related to border clearance. At the same time, outdated legislation can often involve time-consuming manual procedures – and government efforts to reform do not automatically include the private sector.

The response

ITC is partnering with DHL to develop a programme of logistics advisory services for SME competitiveness.

The programme will work with companies as well as trade and investment support institutions (TISIs) to improve trade logistics performance, both operationally and in managerial terms. An additional goal is to build an understanding of basic logistics procedures related to exports and imports and broader supply chain management.

Advisory services will range across six core areas: business process management; export and import logistics relating to air, road, and ocean freight; e-commerce logistics and the use of state-of-the-art supply chain information technologies for inventory management and tracking; logistics-related market intelligence; customs clearance processes for regional economic zones; and distribution services.

ITC and DHL will work together to assist clients in reducing transport lead times, contributing to faster export growth. By saving money on capital investment, SMEs will be



able to preserve crucial cash flow. Better supply chain management and process design, backed with cutting-edge information technology systems, will bolster SME competitiveness. Compliance with ISO transport and logistics standards will be promoted. Standardizing procedures for dealing with customs will make risk management simpler and more systematic.

In a nutshell, the ITC-DHL advisory services will seek to enable SMEs to speed up delivery time and responsiveness to customers, to lower logistics costs, and to improve human resource skills related to logistics and trade procedures. TISIs will function as in-country multipliers of this work, as they learn to provide comparable advisory services themselves.

The future

Industries, products, and services differ from each other. So, too, must trade logistics. There is no one-size-fits-all approach to operating procedures and solutions have to be tailored to clients' needs. At the same time, supply chain solutions need to be rapid and cost-effective.



Delivery partners
DHL

Timeframe
2015-2016

Goal
Increasing SME competitiveness by improving their trade logistics performance

Location
Global, with a focus on Africa

Funders
DHL
ITC country project funders

Projected impact
Lower logistics costs and faster customer response and delivery time for SMEs. Greater logistics skills and export-preparedness. Public-private dialogue on improving trade logistics competitiveness.

To deliver this balance between customization and efficiency, ITC advisory services will follow a clear segmentation framework, with standard operating procedures developed for managing segments that can be quickly and easily applied to any new products, reducing the need for repeated system design or redesign,. This will increase efficiency and flexibility while preserving a necessary margin for managing specific complexities.

At the same time, ITC will work to promote public-private dialogue on trade logistics reform. For a policy environment that maximizes competitiveness improvements, governments and companies need to better understand each other's needs and constraints.

'I truly hope that our cooperation will continue and bring concrete results for the benefit of SMEs in least-developed and developing countries.'

Stefano Arganese, CEO

DHL Freight Central Eastern Southern Europe & Americas, Middle East, Africa



Ethical Fashion Artisans EPZ Limited

Moving the ITC Ethical Fashion Initiative in Kenya towards full private ownership – ethically



The challenge

For many aid for trade projects, market discipline provides constant and valuable feedback on effectiveness. Is there demand for the goods and services at the price at which they are being produced?

Yet questions linger about whether such commercial ties can survive once donor support is withdrawn. Or whether other priorities, such as decent labour conditions, would be jettisoned in the absence of donor pressure.

Since its inception in 2009, ITC's Ethical Fashion Initiative (EFI) Project, which connects poor artisans in developing countries to designers at the top end of the global fashion market for mutual benefit, envisioned that its Kenya-based operations would move to full private ownership.

The EFI set up a social enterprise, Ethical Fashion Africa Limited (EFAL), a profit-making, non-dividend distributing entity, alongside a charitable trust, the Ethical Fashion For the Empowerment of Communities Trust (EFFECT), mandated to support skills development for artisan 'micro-producers' in poor communities. ITC provided

capacity building and technical assistance, in addition to facilitating market linkages.

For EFAL, a successful shift to stand-alone sustainability has to mean replacing donor contributions with private investment, without compromising on commercial success or its socially driven mission.

The response

Starting in 2014, an EFAL-appointed independent business advisor and ITC approached a variety of potential investors. Among them was an association of Kenyan impact investors that expressed interest in transforming EFAL into a privately owned social business, while shifting its operations to an export processing zone (EPZ) to facilitate links to global supply chains.

The investor group was Amalgamated Chama Limited (ACL), formed by a range of socially conscious and business-minded individuals and funds seeking to invest in and support new Kenyan companies. Drawing its name from the Kiswahili word for a small investment group, ACL



invests for social impact and the wider development of the African continent.

ACL was attracted to the Ethical Fashion Initiative's business model, which is based on outreach to poor and marginalised micro-producers, a focus on women's economic empowerment and public-private partnership, backed by ITC's market and technical support. This interest, coupled with the group's investment objectives, made it the standout candidate to invest in the Ethical Fashion Initiative's business in Kenya.

Leveraging its critical role in facilitating access to top designers and brands such as Vivienne Westwood and Karen Walker, ITC obtained a commitment from the investors, set out in a formal Memorandum of Understanding, to keep implementing the Fair Labor Association's standards for assessing and improving labour compliance; to maintain existing supply relationships with community groups and cooperatives; to undergo regular impact assessments by ITC; and to maintain full transparency about orders and payments to workers.



Delivery Partners

Amalgamated Chama Limited
Ethical Fashion Artisans EPZ Limited
Ethical Fashion for the
Empowerment of Communities
Trust (EFFECT)

Beneficiary Partners

ITC EFI's network of around 3000
artisans and micro-producers in
Kenya

Results

The Kenyan investors who took
over the EFI's Nairobi hub have
pledged to maintain existing supply
relationships; implement a fair labour
agenda; make orders and payments
transparent; and contribute a share
of the revenue to capacity building
and skills development for artisans
and micro-producers.

Follow-up

ITC will continue capacity support
to the new company through
May 2016, and assist with the
implementation of a comprehensive
system to assess social and
environmental responsibility
and traceability, which includes
impact assessment.

Location

Kenya

Funders

Canada
Denmark
Germany
Ireland
Norway
Sweden



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The results

ACL agreed to create and capitalize the renamed Ethical Fashion Artisans EPZ Ltd (EFA), marking the transition from an ITC-assisted social business to a privately-owned social business. ACL owns 30% of the shares in the new company, with 40% held by EFFECT, the charitable trust charged with capacity building, which also holds the funds from ACL's investment that did not go to transfer-related expenses. The balance of equity is held by the company's management and the business advisor.

ITC has agreed to withdraw from direct technical assistance and management of the company, but will remain closely involved to provide intensive capacity building (for one year), provide access to its market network (for four years), and assist with standards compliance.

The directors of the new company have committed to implement the EFI's Respect, Invest, Sustain and Empower (RISE) framework, an innovative system to ensure social and environmental responsibility and traceability, which includes impact assessment and communications support.

Today, Ethical Fashions Artisans EPZ Ltd. operates out of the Athi River export processing zone on the outskirts of Nairobi. In its first month at the new facility, the company successfully delivered orders to Stella McCartney. It is now producing for Vivienne Westwood and MIMCO, an

Australian accessories brand. Building on the business model successfully incubated by ITC's EFI, the SME and its network of artisans and micro-producers, most of whom are women, are well positioned to become one of Africa's leading fashion accessory producers.

To ensure sustained support to micro-producers, the EFA board has pledged that, beyond the obligation to maintain existing supplier relations, it will, following its first year of operations in the new location, contribute 2% of gross revenues to EFFECT every year. This will ensure that capacity and skills development continues after ITC technical support is withdrawn. Moreover, it will enhance the new business's ability to continue to meet the demands of the international luxury fashion market. The quantified pledge assures ITC and future investors of the company's commitment to ethical business that has a positive and measurable impact on people.

The future

In two years, EFA envisages a call for more impact investors to purchase the shares now held by EFFECT. EFA artisans and its network of micro-producers - several cooperatives representing 1,250 people in Kenyan slums and rural areas - are poised to become the first African network fully integrated into the international high fashion supply chain.

Meanwhile, the Ethical Fashion Initiative is continuing its donor-enabled work in Ethiopia, Ghana, Burkina Faso, Mali, and Haiti, recently expanding to Cambodia, Nepal, Peru and the State of Palestine. In these places, too, the ultimate objective is to move to stand-alone sustainability, ensuring social and economic gains that endure long after donor funding is phased out.

'The opportunity to invest in Ethical Fashion was very exciting because it has a very noble objective of empowering the unemployed and under-employed members of our community - especially women - who carry a very heavy burden all over Africa of bringing up and caring for their families, in many cases single-handedly. I strongly believe that one cannot be rich in a poor country and for a nation to develop it must uplift those at the bottom of the pyramid. The already secured linkage with and support by high end fashion houses and designers was enticing while it was very humbling to imagine poor rural and slum womenfolk in Africa contributing to the designs by the Vivienne Westwoods and Stella McCartneys of this world.'

Mwai Kihui, ACL Chairman, Nairobi, Kenya

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