



# ***UNIDO SERVICE PORTFOLIO***

***CLUSTERS & BUSINESS LINKAGES DEVELOPMENT***

***EXPORT CONSORTIA***

***BUSINESS ETHICS & CSR***

***BUSINESS PARTNERSHIPS***



# OVERVIEW

Private sector development is key for poverty reduction and economic growth. Both in developed and developing countries, the private sector is the driving force behind industrial development.

Recent development research and practice, however, have shown that a significant proportion of poor people are marginalized in the growth process and are not able to escape poverty.

Thus, how to make sure that growth is pro-poor?

To address this challenge and promote broad based industrialization, the UNIDO Cluster and Business Linkages Unit has developed a portfolio of services that fosters the development of a competitive private sector, particularly of its SME segment, while enabling the poor to secure benefits from emerging opportunities.

## The approach

Economic globalization is a source of both concern and optimism for private sector growth in developing countries. While trade and information flows raise the availability of know how and generate business opportunities, heightening global competition and increasing concentration in production and retail pose serious challenges to the private sector, particularly its SME segment.

Against this scenario, individual firms have little leverage on the market and face the risk to be swept away by more powerful competitors.

To help developing countries overcome the challenge, UNIDO has developed a private sector development strategy based on fostering **linkages among firms and their key business partners as well as support institutions**, public and private. Working together, firms can complement their capabilities, achieve economies of scale, and increase their access to resources and markets within a conducive institutional environment.

**Competitive linkages** can be fostered between firms sharing strategic business interests, as within networks and export consortia. **Networks** are horizontal and vertical alliances of firms that work together towards a shared economic goal. It is the case, for instance, of a buyer assisting its suppliers to meet market requirements, or of a group of firms jointly selling to a retail shop for a higher mark up. **Export consortia** are a specific type of network, whose members are explicitly oriented towards the export market.

Overall, networking allows firms to achieve collective efficiency gains such as greater bargaining power in the purchase of inputs and equipment, higher volumes of production, inter-firm learning and alike.

**Collective efficiency** is boosted within **clusters** where joint endeavors can be most fruitfully triggered, economies of scale and scope fully exploited and outreach maximized. Clusters are geographical concentrations of related firms and support institutions. A few renowned examples include the Italian eye-wear district of Belluno, the German automotive clusters but also the high tech industry of Bangalore, India, the Chilean wine clusters and the Sialkot surgical instruments cluster in Pakistan.

Within clusters, geographical proximity and shared interests facilitate collaboration. Thus, linkages can be forged among firms and with public and private institutions that provide services, training or credit. Also, the involvement of local government, NGOs and socially minded partners can be leveraged to enhance the effects of cluster development on the local community and ensure that growth follows a balanced and inclusive path.

Within clusters, networks and consortia can be effective catalyst sparks of business growth, as they can turn into competitive hubs of dynamic firms that connect forward to higher-end clients and buyers, and backwards to local, smaller scale suppliers. In this sense, they generate a **pull effect** that promotes the development of the business community at large.

In spite of the linkages with business partners and other actors of the local economic system, small firms lack often the knowledge and resources to face global competition. Tapping into external know-how and expertise becomes thus crucial to boost SME competitiveness, by helping them comply with quality requirements, introduce new technology or switch to higher value added production processes. To this end, UNIDO promotes **business partnerships** between the assisted firms, networks or clusters and larger companies.

**Engaging the private sector as a development partner** can enhance the performance of the local business community in that it facilitates the integration of SMEs into global production and distribution networks, while also promoting the transfer of skills and know how to the entire economic systems.

Small-scale firms, however, are likely to require initial support to enter far-reaching business networks. Among others, the availability of **ICT** turns into a crucial asset to grant information access and facilitate coordination with global buyers. Thus bringing affordable ICT solutions to SMEs will expand their economic opportunities. Not only, proving access to ICT and related technical services has also a wider development potential in that it generates learning opportunities for the community at large.

A PSD strategy that aims to forge linkages and partnerships cannot neglect the increasing concerns of consumers and buyers for the respect of legal, ethical, social and environmental standards. Firms that fail to meet these requirements are cut out of profitable markets. In response to this challenge, the Cluster and Business Linkages programme reckons that adherence to **CSR** practices is a powerful **enabler of business linkages**. Corporate Social Responsibility refers to the integration of social and environmental concerns into business operations. Respect of labour standards and working conditions, anti-corruption measures or eco-efficient production processes are a few examples of CSR practices.

Promoting the uptake of CSR amongst SMEs can open new business opportunities and enhance firms' productivity. Also, investments in CSR are eased when firms operate in close proximity, such as within cluster, for this stimulates demonstration effects and facilitates the provision of support and advisory services by intermediary institutions.

### **Securing pro-poor impact and sustainability**

The pro-poor growth agenda implies that forging linkages to promote private sector development will not automatically lead to income generation for the poor.

This is because poverty cannot be equated to material deprivation rather it has multiple and interlinked dimensions that are economic but also human, political, socio-cultural and protective. Good health, education, dignity and status, security and access to infrastructure are a few examples of non-economic capabilities that affect the ability of the poor to access and make use of their productive resources. It follows that a pro-poor approach will not only look at the generation of income opportunities but also tackle the lack of capabilities that hinder the poor from participating in, and benefiting from economic activities.

In this spirit, the UNIDO cluster and business linkages approach also understands private sector growth as going hand in hand with the **development of a territory and its community**. Infrastructure and skills availability, good local governance, support services are all elements that affect the capacity of the business community to attract investments and cater markets. In a two-way relationship, leveraging private sector investments in, for instance, job quality, environmental protection, or skills development can significantly enhance the competitive advantage of the territory, while producing benefits for the local community.

The UNIDO experience shows that a pro-poor growth impact can only be secured when an explicit focus on the poor is taken. Thus, the Cluster and Business Linkages approach leverages **CSR** as an effective tool **to anchor business growth to development of the local community**, since this fosters investments in the welfare of workforce, responsiveness to environmental concerns, engagement for social equity and human rights. The private sector is, thus, encouraged to commit to a wider set of objectives, which increases the embeddedness and outreach of growth.

This is, however, not sufficient to cover all the aspects of the pro-poor agenda. Thus, in its cluster and business linkages initiatives, UNIDO seeks partnerships with other development

agencies that have a specific mandate to address complementary issues of **human development** such as women empowerment, investments in health, access to basic services and infrastructure, skills upgrading etc.

Underlying all UNIDO services is the concern for **sustainability** of the process of industrialization. Once a development initiative is phased out, the approach and its achievements can only be sustained if adequately skilled human resources are able to take ownership of the processes and ensure their continuation.

This is why, throughout its initiatives, UNIDO invests in enhancing local **skills for industrial development**.

At the micro level, UNIDO promotes the acquisition of technical and managerial skills by entrepreneurs and workers, while working with a larger set of beneficiaries in order to strengthen governance, namely their capacity to autonomously manage and sustain the process of development.

Such efforts are only meaningful when the skills can be maintained, improved and replicated in time. Thus assistance is provided to meso-level institutions such as training system, business associations, NGOs and alike that have a mandate to nurture entrepreneurial skills as well as make brokering functions available.

At the macro level, policy makers are supported to learn how to foster private sector development without losing sight of poverty reduction objectives.

Lessons learned from implementing the cluster and business linkages approach show that improving skills for industrial development and **empowering** people to make effective use of them can make the poor better off beyond generating economic opportunities.

UNIDO's Cluster and Business Linkages services include:

- Cluster and network development
- Export consortia development
- Business ethics, good governance and Corporate Social Responsibility (CSR)
- Business Partnership Programme (ICT, supplier upgrading, UN Global Compact)

Below they are introduced in detail.

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# CLUSTERS & NETWORK DEVELOPMENT PROGRAMME



## TECHNICAL ASSISTANCE TO CLUSTER AND NETWORK DEVELOPMENT

Clusters, i.e. “geographical concentrations of interconnected enterprises and associated institutions”, are fertile environments for the development of inter-firm linkages, as spatial proximity and shared business interest facilitate collaboration.

In the UNIDO approach twofold assistance is provided to facilitate cluster development. On the one hand, UNIDO provides training and handholding to local brokers, or Cluster Development Agents, that work in selected clusters. On the other hand, it promotes initiatives oriented at sensitizing and building the capacities of local, regional and national actors for the establishment of a policy environment conducive to cluster development. Below the services provided by UNIDO are described in greater detail.

### **1. Induction seminar**

The success of a cluster development programme hinges upon the commitment and support of the institutions involved in the initiative. Prior to launching the project, representatives of institutions at all levels, i.e. national (e.g. Ministry of Industry, university deans etc.), regional (e.g. regional development agency, chamber of commerce) and local (e.g. municipalities) need to acquire a shared understanding of concepts and methodology related to cluster development. This facilitates future interaction in that it endows them with a “common jargon”. It also helps create consensus on the objectives of the initiative, make resources available and identify synergies among actors.

In this framework UNIDO organizes and leads an introduction course for institutions and actors involved in cluster development. Seminars are held prior to the beginning of the initiative or during the process of selection of the targeted clusters. The sessions will be partly overlapping the induction course for the CDA presented below. Normally the course for the CDAs is longer.

#### *Example: Induction seminar in La Paz, Bolivia.*

*The first step undertaken by UNIDO in the promotion of a cluster development initiative in Bolivia was the organization of a one-week induction seminar addressing national, regional and local institutions, e.g. decision-makers, university deans, staff of Business Membership Organizations as well as development agencies, NGOs and international organizations involved in private sector development. During the seminar, the organization of group activities to simulate cluster selection and diagnostic facilitated interaction and the identification of complementarities in the mandate of a number of institutions. The seminar also served the purpose to strengthen the commitment of policy makers to the initiative.*

### **2. Training of CDAs**

The so-called Cluster Development Agent (CDA) is a professional or development practitioner who is in charge of the implementation of cluster development initiatives within one or a number of clusters. His/her tasks entail promoting trust-based relationships among cluster firms and institutions and assisting them to coalesce around a shared development strategy.

S/he plays a key role in, first, raising awareness among the cluster actors and involving them actively in the initiative. Secondly, s/he supports the participatory planning of activities and their implementation, by providing guidance and support to the cluster. The CDA also advises on the identification of external actors (buyers, institutions etc.) for the establishment of strategic partnerships. S/he is in charge of performing or supervising the regular monitoring of activity progress. Finally, a competent CDA is able to strengthen local institutions and progressively hand over responsibility to the cluster actors, before retreating.

UNIDO provides training to the CDAs according to the following principles:

- In-class teaching is combined with field implementation. This allows for the analysis of real-life case studies and promotes interaction among participants (trainees and external experts) fostering the exchange of opinions, viewpoints, competences and skills.
- Secondly, the course is based on the UNIDO training methodology, which will be adapted to the local context and complemented according to the demands and know-how of the participants.
- Finally the actual content of the training is not predetermined: it is influenced and adapted based on the actual dynamics of the selected cluster.

A typical training programme is constructed as follows:

Characteristics	Main inputs
<p><b>METHODOLOGY</b></p> <p>The training /learning process is structured in three stages:</p> <ol style="list-style-type: none"> <li>1. <u>Introduction course</u> for CDAs</li> <li>2. <u>Technical assistance</u> (TA) for CDAs from UNIDO experts. UNIDO experts participate actively in the implementation of activities in a number of selected clusters, and they support the technical staff of the implementing agency in the diagnosis, formulation and implementation of cluster development strategies.</li> <li>3. Based on experience, the training concepts are revisited. <u>New training sessions</u> will consist of: <ul style="list-style-type: none"> <li>• Interactive workshops: CDAs exchange experiences about the activities implemented in the field with the support of UNIDO staff.</li> <li>• Adaptation of the methodology: UNIDO experts guide the CDA the revision of the methodology for cluster development on the basis of the acquired field experience.</li> <li>• Analysis of case studies: trainees and UNIDO experts analyze other cluster development processes on the basis of the testimony of CDAs and cluster actors who participated in the development of successful clusters in other countries/regions,</li> <li>• Fieldwork of trainees and monitoring by the UNIDO team</li> </ul> </li> <li>4. Periodic <u>monitoring and evaluation</u> of the work by UNIDO and / or independent consultants.</li> </ol> <p>This methodology can be supported by <u>sector experts</u> (textile, food products, handicraft, etc.), who contribute to the formulation or adjustment of associative strategies by sharing their vision and experience with the trainees.</p>	<ol style="list-style-type: none"> <li>1. <u>Introduction course</u>: <ul style="list-style-type: none"> <li>• 2 cluster experts and 3 to 5 testimonies from other cluster initiatives</li> <li>• Typical duration: 1 or 2 weeks depending on the number of clusters</li> </ul> </li> <li>2. <u>Technical Assistance</u>: Cluster experts: <ul style="list-style-type: none"> <li>• 4 weeks fieldwork and</li> <li>• 2 weeks of distance monitoring</li> </ul> per selected cluster per year </li> <li>3. <u>New training sessions</u>: (it strongly depends on outcome of technical assistance) Typically: 2 weeks twice per year with the same inputs as in intro course (2 cluster experts and 3 to 5 testimonies)</li> <li>4. <u>Periodic evaluations</u>: Normally once per year (1 week of work per cluster or 2 weeks if by external consultant. Depending on cluster complexity it can be longer – to be assessed)</li> </ol>
<p><u>Expected results</u></p> <ol style="list-style-type: none"> <li>1. Trainees have acquired solid knowledge of the UNIDO cluster development methodology and had the opportunity to apply the methodology under the supervision of UNIDO experts.</li> <li>2. Actors from the selected clusters know about the UNIDO methodology and experience of other regions.</li> <li>3. Clusters have improved their competitiveness strategy, and progressed in the implementation of their action plans.</li> </ol> <p><u>Field work organization</u>: For each week of field work, the following activities are scheduled:</p> <ul style="list-style-type: none"> <li>• 3 days of field work in each cluster</li> <li>• 2 days of workshops and meetings with representatives from performing clusters. These will be attended by the CDAs as well as representatives from the selected clusters.</li> </ul>	

This service covers all phases of the cluster development process:

- Selection
- Diagnosis
- Participatory planning
- Implementation of action plans
- Monitoring and evaluation

At the onset of a cluster initiative, training is mostly provided by UNIDO consultants to local professionals in charge of implementing pilot projects. Once these are ongoing, additional training can be provided to local public or private sector institutions in order to create the institutional memory and expertise necessary to replicate the initiative.

### **3. Technical assistance**

This is provided to cluster actors in order to strengthen firms' production capacities as well as the skills and competences of support institutions.

Technical assistance includes:

- Capacity building in, for instance, marketing, product development, technological upgrading, skills development. Typically this cover issues that are specific to the sector to which the cluster belongs (e.g. garment, agro-processing, automotive) and for which local competences are missing. Assistance is not provided directly by to the beneficiary firms rather to local institutions (e.g. BDS or training institutions), which ensures the sustainability of the service in time.
- Establishment of linkages with external experts and knowledge institutions that can provide training or information;
- Capacity building on local economic development issues for policy makers and representatives of universities, local development agencies and other public sector institutions (e.g. conferences or integration of LED issues into teaching curricula).

#### Example: purchase of a CAD CAM system in Atuntaqui, Ecuador

In the garment cluster of Atuntaqui, Ecuador, UNIDO provided technical assistance to the local Chamber of Commerce in the establishment of a digital design center for joint use by cluster firms. UNIDO supported the Chamber in the identification, purchase and installation of an appropriate CAD-CAM system. As the use of this technology was new to the cluster, UNIDO helped the Chamber identify an expert who could provide training in the use of the CAD CAM technology. To this end, UNIDO facilitated the establishment of a linkage between the Atuntaqui Chamber of Commerce and the textile service centre VESTEX in Guatemala. A CAD specialist from Guatemala offered weekly training to technical staff of local enterprises. The attendance of staff members from the Chamber of Commerce was also ensured so as to create a pool of local trainers that could follow up on the programme and respond to future training requests.

### **4. Network development**

Networks are alliances of firms that engage in joint business projects (e.g. specialization in complementary stages of the production process or joint purchase/sale, joint use of machinery etc.). Often provided in the framework of cluster development initiatives, assistance to network development is key to allow firms achieve scale economies and to reduce production and marketing costs. This service entails:

- Identification and sensitization of potential member firms;
- Identification and/or training of local network brokers;
- Monitoring of the network's performance.

## 5. Supplier development

Entering into supply relationships with larger enterprises means a more stable, formal and demanding market for SMEs. It also helps SME acquire know-how and resources that enhance their competitiveness. Moreover, within cluster the promotion of supplier relationships has the potential to generate greater spillover effects in terms of diffusion of information and improved production practices. To this end, UNIDO provides training to local brokers that are in charge of facilitating the establishment and improvement of supply relationships between SMEs and larger companies.

This service entails:

- Identification of the target firms (SMEs and large scale partners) and awareness raising initiatives;
- Training and handholding of local brokers to enhance the linkages between SMEs and larger companies;
- Identification of experts and provision of technical assistance for the upgrading of suppliers to facilitate their entry into value chains as suppliers of larger companies;
- Capacity building of BDS to ensure the provision of services that support SME development;
- Development of a quantitative and comprehensive assessment and monitoring system for target SMEs.

### CLUSTER-TO-CLUSTER INITIATIVES

The idea underlying C2C initiatives is that external linkages play a strategic role in supporting cluster upgrading, as they facilitate access to information, knowledge, technology and markets that are not available locally. C2C can result in *ad hoc* linkages or long-term partnerships and can involve different sets of actors, according to the characteristics of the initiative and its strategic focus.

UNIDO offers three modalities of cluster-to-cluster initiatives by:

- Twinning clusters from different countries to facilitate benchmarking, knowledge sharing and commercial contacts. This modality is the richest and most far-reaching form of interaction between clusters. It is not a one-off activity (such as a study tour, although it includes the latter), rather a soft partnership extended in time. In a nutshell, it is an association of 2 clusters with some similarities over a period of time, which stimulates mutual learning at different levels. Usually, cluster teams participating in this initiative include: representatives of support institutions (including CDAs), business associations, and business development providers, local governments, entrepreneurial leaders i.e. all major actors involved in the cluster development initiative. These actors are brought together (through mutual visits, joint workshops, video conferencing) with their homologous in the twin cluster in order to compare experiences and exchange expertise / share activities. Exchange of staff within institutions is also possible.

#### Example: Cluster twinning Nicaragua-Italy

A twinning initiative is currently underway between the dairy cluster of Chontales (Nicaragua) and the cluster of Parma (Italy), renowned for its high quality dairy production. Cluster to cluster cooperation started with a study tour to Parma for benchmarking purposes. Thereafter it has evolved into a compound partnership, under which the twin clusters cooperate in: the training of specialized personnel and the formulation of training curricula for dairy technicians; exchange of good practices in product quality and branding; the organization of product cooperatives and consortia, the training of local government representatives.

- Organizing joint learning workshops between representatives of several related clusters to foster the exchange of experience and expertise on their initiatives. This may also include commercial exchanges like buyer – suppliers meetings.

Example: Workshop on “Furniture clusters and enterprise networks” in Nicaragua

In May 2007, UNIDO promoted an international workshop on “Furniture clusters and enterprise networks”, which took place in Managua, Nicaragua. 176 public and private sector representatives from Nicaragua, Costa Rica, El Salvador, Venezuela and Ecuador, among others, participated in the event with the objective of exchanging information, experiences and lessons learned on collective marketing strategies, production and innovation. The workshops also kick-started a series of long-term inter-cluster collaborations ranging from information exchange on technology and production processes to export and sale through the marketing channels established in the partner countries.

- Organizing cluster study tours. The idea is to provide the actors of the target cluster(s) with exposure to the organizational forms, policies, institutional arrangements and technologies adopted by one or more well-performing clusters.

Example: Study tour for garment cluster in Ecuador

In 2006, a group of leading representatives of the garment cluster of Atuntaqui, Ecuador, participated in a study tour to EU. The group included representatives of the municipality, Chamber of Commerce and Ministry of Economics, as well as Business Service Providers. The tour included exposure to the technological base of clusters in EU and visits to business associations, which strengthened the commitment of the participants towards strengthening local clusters.

The study tour is shaped along the following principles:

- It exposes participants to the experience of a successful cluster by visiting the cluster/firms’ premises/association and facilitating discussion on issues relevant to cluster development;
- It facilitates dialogue and trust building among the cluster actors participating in the event (representatives of enterprises and institutions);
- The choice of the visited cluster is made according to the characteristics and needs of the cluster at stake.

A typical C2C initiative is constructed as follows:

Characteristics	Main inputs
<p><i>METHODOLOGY</i></p> <p>The methodology is designed to emphasize commonalities between the clusters, so to identify areas of improvement in the cluster at stake. It leverages the practical experiences and tools of the visited cluster. It is highly interactive to facilitate contact building and the (eventual) development of collaborative ventures between the clusters.</p> <p>Unlike traditional study tours of exchange seminars, C2C activities are about comparing systems for holistic learning and multilevel exchanges (for groups of actors)</p> <p>The topics normally touched upon in C2C are:</p> <ol style="list-style-type: none"> <li>1. The organization of production and marketing within the partner cluster;</li> <li>2. The provision of business development services (technical assistance, training, support mechanisms etc.);</li> <li>3. Cluster upgrading and innovation;</li> <li>4. The role of the local and national public sector in the development of the cluster;</li> <li>5. The role and functions of producers’ associations.</li> </ol>	<p><u>Duration and organization:</u></p> <p>The duration of C2C initiatives strongly depend on needs and demands. The cluster twinning modality can involve an articulated work plans with several partners involved and with a duration of 1 or more years.</p>

#### Expected results

- The participants have been sensitized on the relevance of cluster development strategy based on inter-enterprise division of labor.
- The participants have gained an understanding of the factors underlying the success of the visited cluster
- Collective projects are identified that could be implemented in the cluster at stake
- The participants have improved their understanding of the value chain
- Technical assistance and services are identified which could be developed in the cluster at stake
- Contacts are built between representatives of the two clusters and projects are identified on which these could collaborate.

### **AWARENESS BUILDING AND TRAINING WORKSHOPS FOR POLICY MAKERS, MANAGERS OF SUPPORT INSTITUTIONS, LOCAL GOVERNMENTS**

This initiative usually combines workshops and study tour(s). Workshops are conducted with local actors and, possibly, with the participation of policy makers and managers of support institutions from other countries for experience sharing. Study tours imply the exposure to other countries' experiences. It differs from C2C in that, usually, only representatives of national leading institutions are involved.

#### Example: Study tour for policy makers and key actors from Nicaragua

In 2006 UNIDO organized and facilitated a study tour in Italy for the representatives of Nicaraguan policy makers, managers and support institutions. Among the participants there were mayors from three cities in Nicaragua, representatives of small and medium enterprise (SME), universities and business associations. The participants were exposed to the experience of Italian industrial districts via seminars and study tours to the clusters of Ferrara, Parma and Prato. The programme also created further opportunities for cooperation, among which student and staff exchange between Universities in Italy and Nicaragua; the development of training curricula for cluster practitioners and for personnel from local governments, and cluster-to-cluster cooperation.

#### Example: Series of workshops for local policy makers from Ecuador

In Ecuador, UNIDO, in collaboration with ILPES and CEPAL, promoted a training workshop for representatives of the municipalities of the province. The training aimed at strengthening the strategic planning capacities of the participants, while also creating a platform of dialogue for the identification of common development priorities and synergies in their respective activities. As a result, 350 representatives of 150 institutions, among which the beneficiaries of the training, formulated a Strategic Local Development Plan covering the entire province. The plan was structured around 5 strategic development axes: 1) economic; 2) environmental; 3) policy and transparency; 4) social, and 5) cultural. The economic axe incorporated the UNIDO cluster methodology as a strategy to promote garment production.

### **POLICY ADVICE**

This service aims to build the capacities within national/regional institutions to autonomously replicate cluster initiatives on a larger scale beyond the lifetime of UNIDO assistance. Policy advice is often accompanied by the direct delivery of assistance to clusters on a pilot basis, which serves as training ground for technical staff, managers and policy makers but also a benchmark to assess progress. Support for the establishment of a policy framework conducive to cluster development entails:

## 1. Capacity building of partner institutions

The initiative relies on the appointment of one or a team of project coordinators who are to provide training and day-to-day assistance to the counterpart institutions and supervise field staff working in the clusters.

This services is grounded on the following principles:

- It combines theoretical training with exposure to directly assisted cluster and/or successful clusters;
- It targets different levels of management: high level official, middle level managers and field staff;
- Policy advice and handholding are customized to the context of implementation.

The duration of the programme is highly dependent on the institutional capacities for cluster development existing at the onset of the initiative. Given that the duration of a cluster development project ranges between 3 to 5 years, capacity building and handholding activities can cover the same time span.

Characteristics	Main inputs
<p><b>METHODOLOGY</b></p> <p><u>Assistance mainly covers the following areas:</u></p> <ol style="list-style-type: none"> <li>1. Establishment and strengthening of an institutional framework. This refers to the creation of a focal point within the relevant counterpart institution(s) and its networking with other public and private sector organizations involved in cluster development initiatives.</li> <li>2. Capacity building and handholding in implementation within selected clusters. In class and field training as well as exposure visits are organized for all level of staff involved in the formulation, implementation and monitoring of cluster initiatives.</li> <li>3. Development of a training system. This refers to the formulation of customized training material, its dissemination to local training providers and capacity building through Training of Trainers.</li> <li>4. Policy formulation and review of existing schemes. Technical support is provided to incorporate the core elements of the cluster development approach into existing policy schemes as well to draft new policy resolutions.</li> <li>5. Funds allocation. The counterpart institutions are supported in identifying and mobilizing available funds or advocating new funds and in the development of a budget appropriate to the financial needs of cluster initiatives.</li> <li>6. Institutionalization of tools and procedures for the implementation and monitoring of cluster development initiatives. This entails assistance for the formulation of Job Descriptions, Terms of Reference, and a monitoring system, as well as the introduction of tools used in project implementation such as network development methodologies.</li> </ol> <p>Assistance in the above areas is delivered simultaneously, as per the need of beneficiary institutions, and does not follow a chronological sequence.</p>	<p>The inputs provided by UNIDO include:</p> <ul style="list-style-type: none"> <li>- Training of CDAs, project coordinators and policy makers</li> <li>- Organization of exposure visits</li> <li>- Technical assistance in implementation</li> <li>- Policy advice</li> <li>- Periodic evaluation of cluster initiatives</li> <li>- Formulation of tools and training material</li> </ul>

#### Expected results

- All level of trained personnel has acquired solid knowledge of the UNIDO cluster development methodology. Field staff is able to implement the approach in selected clusters and higher-level officials monitor results under the supervision of UNIDO experts.
- An institutional framework for coordination and implementation of cluster initiatives is in place and is networked with relevant counterparts.
- A supportive policy framework is in place, which incorporates reference to the principles of cluster development.
- Funds for cluster development are drawn from a dedicated budget.
- Monitoring is conducted regularly and specific tools are deployed to ensure accountability.
- Training programmes on cluster development are available for all level of staff involved in policymaking, project formulation and implementation.
- Cluster development initiatives are replicated by the assisted institutions.

#### Example: Policy advice in the state of Orissa, India

From 2005 to 2008, UNIDO has provided assistance to the Directorate of Handlooms of the Government of Orissa to establish a policy framework for cluster initiatives. A two-pronged approach was adopted: on the hand, the handloom cluster of Barpali was selected for direct assistance by UNIDO. This pilot project allowed to showcase the impact of the approach and offered a training ground for the staff of the Directorate. On the other hand, a UNIDO project coordinator was appointed to build capacity and provide policy advice to the Directorate. In this framework, a large cadre of functionaries has been trained, existing policy schemes have been revised to include reference to main features of the cluster approach and JDs have been formulated for the recruitment and monitoring of staff of the Directorate at all levels. To facilitate implementation, 50 CDAs have been trained and handholding was provided for the replication of the initiatives within 16 other clusters.

## **2. Creation of an autonomous body to support the Cluster Development programme**

This initiative is often needed in countries where several institutions have a mandate and/or engagement in the field of cluster and may therefore benefit from an institutional platform to share their achievements but also to source technical expertise in the field of cluster development. Normally established in the shape of a non-profit institution with both public and private ownership (e.g. a trust or a foundation), this body may discharge the following responsibilities:

- Act as a platform to share experiences (e.g. organize technical workshops and conferences on cluster development, issue guidelines and technical reports, organize joint learning events, invite experts)
- Provide technical advice to its shareholders or to the wider public (in the form of consultancy services, possibly on a purely commercial basis)
- Advocate for cluster development in the country (organize media campaigns, participate in public hearings, liaise with Universities and research institutions)
- Disseminate internationally the lessons learned on cluster development (participate in international conferences, liaise with international organizations working in the field of cluster development)

UNIDO can provide technical advice on how to set up this institution, waive copyrights with respect to its methodologies and training materials, grant access to its network of international experts and offer timely alerts on upcoming global events.

#### Example: Establishment of the MSME Foundation in India

In India, UNIDO has supported the establishment of the MSME Foundation ([www.msme.foundation.org](http://www.msme.foundation.org)) a non-government, non-profit registered trust that was conceived and founded in 2005. The Foundation is steered by a Board of Trustees at the apex level chaired a former Minister of State of Science and Technology. In order to draw upon the rich national and international expertise, the Foundation has constituted an expanded

Governing Council that helps Foundation in developing its strategies and where a UNIDO representative sits. The foundation offers a variety of technical services (e.g. design of cluster based MSME development initiatives, mapping clusters in regions and countries, implementation of CDA training programmes, monitoring, evaluation and impact assessment of cluster initiatives, capacity building for industrial associations and non-government organizations) and it has been active both in India and abroad (e.g. Iran, Bangladesh).

## **MONITORING AND EVALUATION OF THE CLUSTER DEVELOPMENT PROGRAMME**

This can have different levels of intensity including one or a combination of the following modalities:

- The appointment of a full time cluster development advisor to the implementing agency (i.e. the local agency leading the cluster initiative) trained and monitored by UNIDO
- Training of staff of the implementing agency on UNIDO M&E methodology for cluster development initiatives and setting up of a monitoring system fitting local needs
- Regular monitoring missions by UNIDO staff or core consultants to advise on strategic issues

## **SOCIAL AND ENVIRONMENTAL UPGRADING OF CLUSTERS**

In recent years, there has been a growing trend for Multinational Corporations (MNCs) at the top of the value chain to require that their suppliers meet environmental and social standards, or at the very least they give preference to the ones that do. Given the trends in the geographic distribution of value chains, these pressures often translate into companies in the developed countries putting these demands onto export-oriented companies in the developing countries. The latter are therefore now being challenged to reconsider their environmental and social commitments. On the one hand, entrepreneurs fear that if they respond to social and environmental requirements the costs they incur doing this will lead to them losing their competitive edge in international markets. On the other hand, they are aware that if they do not meet these requirements, they will not be in a position to maintain their access to foreign markets or to gain new clients. In addition, there is a new international standard on social responsibility (ISO 26000) forthcoming, which will exert additional pressure on smaller businesses.

In general, there is little ability in developing countries to face these growing pressures for CSR and to respond to them adequately. On the one hand, there is a lack of technical and managerial expertise in this field, and on the other hand there is a dearth of practical experience in companies with implementing the changes necessary to meet emerging environmental and social standards being requested by their customers. SMEs are in most cases 'standards takers', responding to their customers' demands to comply with certain requirements. Since many of them cannot respond to these demands individually, they need to work together to develop local capacity to improve social and environmental performance and to meet the standards of the global marketplace. By enhancing business practices based on Corporate Social Responsibility, UNIDO has a unique role in advancing sustainable competitiveness and ultimately sustainable industrial development.

In this context, UNIDO offers technical assistance in the following domains:

### **1. Awareness building and introductory workshops for cluster members**

In the SME sector, there is a general lack of understanding about what CSR means and entails. Often the term Corporate Social Responsibility is linked to philanthropic investments, charity or sponsorships, which is not very appealing for many smaller businesses situated in developing countries that are struggling to survive in the market place. There is a need to show to these companies that the CSR concept equally works for them and that it can

constitute an excellent business case as well. While there is no universally agreed definition of CSR, many see it as the private sector's way of integrating the economic, social and environmental imperatives of their business activities – and this can be perfectly in line with a firm's quest for facilitated market access, enhanced productivity and competitiveness or decreasing operational costs. In the awareness-building phase, cluster members get familiar with the concept "CSR" as such and develop an understanding of how it can be implemented in their individual business operations. Workshops for cluster members are usually organized by UNIDO in cooperation with local CSR institutions (NGOs, public bodies, universities, National Cleaner Production Centers, etc.) and focus on topics that are pertinent in the respective sectors.

## **2. Needs analysis and development of a "CSR Action Plan" for the cluster**

UNIDO further supports clusters in the identification of priority issues from both business and compliance perspectives and the development of a "CSR Action Plan" that fits the needs and capacities of individual cluster members and helps them to implement activities on a step-to-step basis. Each cluster is specific – so are the advantages that can be drawn from CSR. Depending on the industry sector, certain clusters may feel a stronger pressure to show clients that they are environmentally responsible; while for others the need to introduce business ethics standards or health and safety measures is more pressing.

A CSR action plan ideally includes, inter alia, following elements:

- Identification of objectives/targets of the cluster as a whole and each individual participating member:
- Activities to be implemented jointly and individually: Apart from company specific goals, the implementation of CSR through a cluster network offered the possibility to embrace activities that firms could not carry out effectively on a stand alone basis (e.g. in case of close proximity of the cluster members – joint waste collection and separation systems, accommodation or other facilities -sanitary, cafeteria, etc. - for workers)
- Implementation schedule
- Support requirements and institutions to be involved in the activities

## **3. CSR implementation support offered to cluster members**

In order to support SMEs in the uptake of CSR, UNIDO developed the Responsible Entrepreneurs Achievement Programme (REAP) - a CSR-based management and reporting tool that helps smaller companies to implement CSR concepts, thereby aligning economic, social and environmental aspects of business (also referred to as "Triple Bottom Line Approach"). Based on the Ten Principles of the UN Global Compact, as well as international standards in the social and environmental domains, such as ISO 14001, SA 8000, or OHSAS 18001 (upcoming ISO 26000), it provides a structured framework in combination with an analytical software, which can be used to gather, process, evaluate and report data to track progress in implementing CSR in SMEs.

REAP allows for:

- Effective assessment of the cluster members' CSR performance (tracking of measurable performance indicators)
- Implementation of CSR principles using a concept that is in line with a company's core business strategy, productivity considerations, operational costs savings and enhanced market access
- Marketing & positioning of cluster members in global value chains (reporting tool)
- Benchmarking of cluster members and development of incentive schemes
- Standardized reporting for global benchmarking and assessment of SME suppliers and partners worldwide
- Implementation of Responsible Supply Chain Management on local supplier level

REAP is offered to clusters:

- i. On a test basis, where UNIDO experts support pilot companies in implementing CSR through that methodology for demonstration purposes and case building
- ii. Through a network of qualified local business advisors that are trained by UNIDO on the methodology and supported initially in their work with individual cluster members (site visits)

Implementation support is offered in the following CSR domains: environmental management and cleaner production (water, waste and energy management), green purchasing (raw materials), ISO 14001, workplace and process enhancement (5S), employee satisfaction, working hours, wages, disciplinary measures, health and safety, child labour, forced or bonded labour, freedom of association, discrimination, harassment and abuse, corruption and business ethics, and community engagement.

#### **4. Benchmarking CSR performance of participating cluster companies**

The above mentioned REAP software allows for a benchmarking of the CSR performance of participating cluster companies in the environmental, social and productivity domains against external as well as defined internal benchmarks (targets). In this context, UNIDO works with business support institutions, universities and government bodies to analyze the collected data, identify needs for further improvement action (training needs, technology upgrading, etc.), collect case studies for promotion and learning purposes, and develop incentive schemes for best performers.

#### **5. Promotion of business ethics and cluster-directed codes of conduct**

As a neutral broker, UNIDO provides support for the elaboration of a cluster-wide code of conduct indicating the commitment of the individual members to fair and ethical business practices. This service is offered to groups of companies and support institutions that have already quite advanced in the trust building amongst them. In the course of a series of joint workshops and seminars, SMEs become aware of the business environment in their region and jointly identify the elements and values that will form the basis for their business conduct.

Particularly in the field of bribery or favoritism it is a challenge to bring companies together to the table and seek a commitment for a zero-tolerance policy for this type of behavior. More commonly, SMEs are convinced that corruption forms part of daily business and that it is not possible to survive without it. One possible explanation for this attitude could be the fact that in a region where corruption is endemic, SMEs that refuse to provide unofficial payments, while most of their competitors do pay, will sooner or later face difficulties. For example, they will not get necessary permits and licenses on time or even at all, they will not win public contracts, or they will not pass inspections or tests. As a result, the companies' competitive position in the market will seriously decline. In order to overcome these obstacles any kind of action in this context needs to be implemented jointly so that no cluster member faces a competitive disadvantage and the potential of joint bargaining power towards corrupt agents or officials is fully exploited.

Through a close cooperation with Global Programme against Corruption of the United Nations Office on Drugs and Crime (UNODC), UNIDO offers following services to cluster members:

- Awareness and trust building exercises
- Seminars on local, national and international laws and regulations
- Facilitating the elaboration of a cluster-wide code of conduct/ethics
- Technical support in the establishment of a reporting system accessible to all cluster members
- Technical support in the establishment of a cluster-internal arbitration mechanism

- Developing avenues for cooperation with local NGOs and the national anti-corruption bodies
- Seminars on proper accounting procedures to avoid fraud and bribery in business transactions

## **6. Capacity building of business support institutions**

In order to foster a wide uptake of CSR amongst cluster members, UNIDO qualifies experts of selected public and private business support institutions that belong to the cluster to provide CSR based services to SMEs on a sustainable basis. These experts usually undergo a 1-week training course on how to render CSR implementation support to businesses and organize cluster directed trainings.

## **7. Awareness building for policy makers (incl. local governments)**

Since public policies have a strong influence on the initiatives for social and environmental upgrading of clusters, UNIDO also offers support to public bodies to properly integrate CSR concepts and achievements in their policies (particularly competitiveness and development plans) and incentive schemes for SMEs. The data gathered and lessons learned in the course of the social and environmental upgrading activities of the clusters are fed back into the policy making process to create an enabling business environment. In this context, UNIDO organizes a series of joint focus group meetings hosting managers and selected experts of cluster members and public officials to discuss actual policy frameworks and provide suggestions for improvement in CSR related fields. Based on the experiences from the CSR activities in the clusters of a certain region or country, a policy recommendation paper will be prepared and shared with government officials.



# EXPORT CONSORTIA PROGRAMME



## TECHNICAL ASSISTANCE FOR EXPORT CONSORTIA DEVELOPMENT

A common problem faced by small and medium scale enterprises relates to their limited capacity to access to high-end markets and export. SMEs may lack the necessary knowledge and financing, may not meet foreign regulatory requirements, or may produce goods and services in quantities or quality that are not adequate for foreign buyers. However, by combining knowledge, financial resources and contacts, SMEs can significantly improve their export potential and reduce the costs and risks involved in penetrating foreign markets. A consolidated formula that facilitates collaboration among SMEs for market access is the establishment of an export consortium.

Export consortia are voluntary alliances of firms with the objective of promoting the export of goods and services of its members through joint actions. Most consortia are non-profit entities, and members retain their financial, legal, managerial, and commercial autonomy. So, despite their participation in the export consortia, member firms do not give up control over their business to third parties. UNIDO' experience shows export consortia are desirable alliances in the framework of a cluster development initiative. They generate tangible gains for member firms, thus increasing their commitment toward the initiative and stimulating replication. However, the applicability of this formula is not limited to clusters. Export consortia are flexible tools that can be adapted to different contexts, provided that firms share common business interests and a vocation to export.

UNIDO technical assistance combines the lessons learned from UNIDO's experience in SME cluster and network development, with other UNIDO areas of expertise such as investment promotion, quality management, industrial upgrading, and agro-industry development. UNIDO is currently implementing export consortia projects in North Africa (Tunisia and Morocco), Latin America (Peru and Uruguay), Middle East (Jordan) and West Africa (Senegal).

UNIDO has also forged a strategic knowledge partnership with FEDEREXPORT, the Italian Federation of Export Consortia, which has a worldwide lead in the promotion of export consortia.

Technical assistance is provided in the following areas:

### **1. Supporting the creation of export consortia in different sectors**

Groups of SMEs are identified and coached during the entire process of export consortia development (identification of common objectives and services to be provided by the consortium, choice of legal form, development of the business plan, implementation of the first pilot promotional activities).

*Support to export consortia development has been provided in a number of sectors such as processed food, ICT, car components, leather products, furniture, textile-garments, engineering, building materials, tourism, cosmetics, machinery, jewelry, etc.*

### **2. Training national promoters of export consortia, in the public and private sectors**

Representatives of ministries of trade and industry, export promotion agencies, business associations, chambers of commerce, and other public and private organizations are trained every year in the field to support local SMEs in the development of their export consortia projects.

### **3. Promoting a favorable institutional & incentive framework for the development of export consortia**

National partners are advised on the most appropriate incentive schemes and regulatory framework: e.g. the Moroccan Ministry of Foreign Trade has made available a specific fund for the promotional activities of export consortia. Other countries provide a preferential treatment to export consortia within existing export promotion funding schemes.

### **4. Organization of Global Trainings and benchmarking**

A one-week annual training is organized in Turin, Italy by UNIDO, in cooperation with ILO International training centre and FEDEREXPORT ([www.itcilo.org/consortia](http://www.itcilo.org/consortia)). Three editions have already been organized. These training have been attended by representatives of public and private sector institutions dealing with SME network development and export promotion. Study tours and Expert Group Meetings are also organized in developed and developing countries with a consolidated experience on export consortia.

### **5. Providing methodologies and learning tools**

UNIDO has developed a package of tools that is available for export consortia promoters and SME practitioners. Most of these tools are available on the [UNIDO export consortia web pages \(www.unido.org/exportconsortia\)](http://www.unido.org/exportconsortia), such as the [Guide to Export Consortia](#), that contains information on the concept of export consortium, the steps to be followed for the establishment of a consortium, the services, organizational structure, funding, legal form of export consortia, case studies, templates of Statutes, questionnaires for the selection of member firms, business plan, etc. An Online Help Desk is also available.



# CORPORATE SOCIAL RESPONSIBILITY PROGRAMME



## CSR FOR MARKET INTEGRATION

In recent years, increasing attention was given to the concept of Corporate Social Responsibility (CSR), defined in terms of the **responsiveness of businesses to stakeholders' legal, ethical, social and environmental expectations**. CSR has generally been a pragmatic response to consumer and civil society pressures. These have mainly been focused on Trans-National Corporations (TNCs) serving Northern markets, but often operating in Southern countries. Accusations by governments and civil society alike of environmental pollution, human rights abuses, and exploitation of labour in supply chains, have pressured companies to become more environmentally and socially responsible. However, the business community has quickly recognized the strategic value of being more responsible and is beginning to align products and business relationships, in particular through their supply chains, accordingly.

Ensuring that CSR supports, and does not undermine, the development of **small and medium sized enterprises (SMEs)** in developing countries is crucial to meeting the goal of improving the impact of business on society. SMEs make up for more than 90% of all businesses worldwide and are essential to the 'path out of poverty' for many developing countries. If CSR demands are protectionist, culturally inappropriate or unreasonably bureaucratic the net effect will be to undermine livelihoods in the South. On the other hand, the SME sector must not be allowed to become a loophole in which polluting, exploitative industries flourish.

Support for SME development can be an important part of the CSR commitment of large companies in the context of **responsible supply chain management**, and improvements in social and environmental impacts can go hand in hand with better quality and management. In its CSR Programme UNIDO addresses the need to establish a framework for small and medium enterprises that helps translate Corporate Social Responsibility principles into a **relevant SME perspective**, thereby enhancing their competitiveness and market access.

Promoting the uptake of CSR amongst SMEs requires approaches that fit the respective needs and capacities of these businesses, and do not adversely affect their economic viability. **UNIDO based its CSR programme on the Triple Bottom Line (TBL) Approach**, which has proven to be a successful tool for SMEs in the developing countries to assist them in meeting social and environmental standards without compromising their competitiveness. The perspective taken is that for an organization to be sustainable, it must be financially secure, minimize (or ideally eliminate) its negative environmental impacts and act in conformity with societal expectations.

In its CSR Projects, UNIDO usually targets one or more of the following levels:

- **Micro-level:** Assistance on the micro-level involves direct support to a group of companies belonging to the same sector, region, cluster, supply chain, etc. Due to limited outreach and up-scaling effects, this level is targeted only on a pilot basis for demonstration and CSR case building purposes.
- **Meso-level:** Support on this level focuses on business support and advisory institutions (public or private) that aim at expanding their service portfolio and strengthening their institutional capacity. In this context, UNIDO provides assistance to these intermediary institutions to foster the uptake CSR concepts in their sphere of influence.
- **Macro-level:** On the macro level, UNIDO involves in the field of CSR related policy work with a view to support government institutions in determining what public policies best support a country's private sector in its efforts to apply socially and environmentally responsible business practices.

## **1. Establishment of CSR Platforms**

UNIDO supports governments to establish multi-stakeholder platforms (PPP), bringing together dedicated national authorities, local government offices, private sector representatives (including chambers of commerce and business associations) and other local institutions (e.g. NGOs, vocational training institutions, or universities), with the objective to:

- Discuss CSR related issues, allowing businesses, in particular SMEs, to articulate support requirements, and target areas that impede their growth;
- Discuss general public policy goals (in the field of poverty reduction, employment creation, good governance, gender issues, or natural resource management) to explore to what extent the private sector, and in particular SMEs, could make a contribution to the achievement of the goals envisaged in those strategies; and
- Explore areas of potential private-public sector cooperation (PPPs) to promote CSR across industrial sectors.

## **2. Promotion of Ethical Business Principles**

UNIDO provides assistance to business associations and chambers of commerce to promote the uptake of CSR across their member companies. In particular, we provide support in:

- Developing and piloting the implementation of **sector specific standards** for promoting ethics and transparency amongst SMEs (members of the association), based on available international standards (e.g. upcoming ISO 26000, Universal Declaration of Human Rights, UN Convention against Corruption);
- Designing an **incentive structure** within the business associations or chambers of commerce to promote compliance with the standards in the business community and to encourage the reporting on CSR activities;
- Based on the above mentioned standards, developing **sector specific training modules** and **implementation guidelines** for SMEs on CSR issues and create a framework to coordinate the delivery of training amongst vocational training institutions, universities, NGOs, business associations and public sector bodies in a country; and
- Providing ad-hoc **technical assistance** to business associations and chambers of commerce on how to promote integrity among their members and support them in the uptake of CSR based business principles.

## **3. Capacity Building**

UNIDO carries out a wide range of capacity building initiatives targeting **public and private business support and advisory institutions** working with SMEs.

We organize **courses** as well as **on-the-job training** for local experts enabling them to support companies in the implementation of socially and environmentally responsible business practices. Thereby, they will gain the skills they need in order to be able to offer CSR-related services after the completion of a project to SMEs and respective support institutions on a sustainable basis. During the trainings UNIDO's approach to CSR – the Triple Bottom Line approach (TBL) – will be illustrated and all the relevant aspects of it (economic, environmental and social domains) covered. Parts of the **UNIDO CSR training material** (including REAP) are translated into the local languages and adapted to country-specific situations and sector-specific particularities, as deemed appropriate.

In addition, UNIDO qualifies local experts to become so-called “**CSR mentors**” who will be able to provide training to other experts in a country or region on the basis of a train-the-

trainers concept. Since this is a longer process, these future CSR mentors will attend several trainings as well as all other relevant seminars and conferences and actively participate in a CSR project carried out by UNIDO.

Example: Responsible Entrepreneurs Achievement Programme

It is a CSR-based management and reporting tool that can be used to support SMEs in implementing CSR concepts, thereby aligning economic, social and environmental aspects of business (also referred to as “Triple Bottom Line Approach”). Based on the Ten Principles of the UN Global Compact, as well as international standards in the social and environmental domains, such as ISO 14001, SA 8000, or OHSAS 18001, it provides a structured framework in combination with an analytical software, which can be used to gather, process, evaluate and report data to track progress in implementing CSR in SMEs.

Against the background of the philosophy “Enhancing Responsible Competitiveness through 1-to-1 Assistance” REAP is being disseminated to SMEs worldwide, via a network of trained and qualified local UNIDO CSR experts. These certified experts come from various types of public or private business support and advisory institutions with a strong background in environmental, social or productivity upgrading issue, and have undergone a one-week training on the REAP methodology carried out by UNIDO.

For more information, see: <http://www.unido.org/reap>

#### **4. Pilot CSR Interventions in SMEs**

In order to demonstrate the beneficial impact of CSR on businesses as well as local communities, UNIDO carries out pilot interventions in selected companies.

During a first phase (preparatory phase) all the relevant economic, social and environmental data of the pilot firms will be collected and a **first assessment** performed, comparing the data to previously established **benchmarks** (based on best performers in the selected supply chains). The second phase will be the application phase, in which the enterprises jointly with national and international experts will **identify possible alternatives** to reduce their environmental and social impacts as well as reduce their costs and evaluate them. In a final phase, they will **implement** those alternatives that are most feasible and practicable with the support of the experts and based on the UNIDO REAP methodology.

Those pilot interventions usually form an **integral part of the training of local experts** who will be the ones advising the firms on CSR related issues. They will be accompanied occasionally by UNIDO experts during their visits to the pilot firms to be able to combine theoretical knowledge obtained during the classroom trainings with practical on-the-job expertise.

Finally, those activities aim at **developing success stories** to be presented to other stakeholders, demonstrating the improvements in social and environmental domains that have been achieved in the pilot companies, and the positive impact on the well being of local communities.

#### **5. Integration of CSR in Government Strategies**

The need to deliver sustainable and equitable development underscores the importance of gaining a better understanding of the role of public policy with regard to Corporate Social Responsibility and its potential to contribute to the development agenda.

The contemporary CSR agenda is relatively immature, and the term “CSR” has not yet taken hold within many public sector institutions, in both industrial and developing countries. The challenge is for government bodies to identify priorities and incentives that are meaningful in the local and national contexts and to build on existing initiatives and capacities. There is now an excellent opportunity for governments to harness current enthusiasm for **CSR alongside key public policy goals** and priorities to encourage delivery of promising results.

A great number of the intergovernmental agencies with an interest in CSR have tackled either

the CSR/SME interface (e.g. UN Global Compact, UNIDO), the public policy/SME interface (e.g. World Bank, UNIDO, OECD) or the public policy/CSR interface (e.g. World Bank Group). Explored the crossroads between public policy, SMEs and CSR is still a relatively untouched area.

In this context, UNIDO takes an **inclusive** approach in which wider objectives such as education, community development, poverty reduction and human security are explicitly understood as potentially relevant outcomes of public sector engagement in CSR.

One of the first steps in the technical assistance process focuses on assessing more in depth general strategies of governments (in the fields of poverty reduction, employment creation, community engagement, good governance, gender issues, natural resource management, environmental protection, youth employment, corruption, etc.) and to explore to what extent the encouragement of socially and environmentally responsible business practices in the private sector could make a contribution to the achievement of the goals envisaged in those strategies.

The view is that there is huge potential for **building cross linkages** through the elaboration of a national CSR policy that would have valuable spill over effects on the economy and contribute to the achievement of national poverty reduction (and related) strategies through the active involvement of the business community.

## **6. Integrating Ethics in the Curricula of Business Schools**

With a view to sensitizing upcoming generations of future entrepreneurs on business ethics, responsible competitiveness and the sustainability idea, UNIDO supports governments in integrating business ethics issues into the curricula of **business schools** and **vocational training institutions**.

UNIDO assists in developing a concept that enables students to see how the normative issues span the relevant levels of analysis – macro environment, stakeholder groups, industrial forces and corporate cultures, down to individual decision makers. An understanding will be built that there is a social contract between business and society.

## **7. Establishment of CSR Centres and Networks**

Spreading the core values of CSR across local business communities and **reaching a critical mass** of enterprises requires a **coordinated approach**. In this context UNIDO assists governments in the establishment of CSR Centres and Networks at national and regional level.

By doing so, UNIDO offers possibilities for local stakeholders to learn from best practice examples and experiences of companies or institutions with similar cultural, social and economic contexts. Since Corporate Social Responsibility should not be 'imposed' on a business community but rather be '**home-grown**', there is a need to develop an approach to CSR that addresses particular common problems of firms in one locality, country or region (e.g. improving health and safety measures for workers, tackling corruption, enhancing the competitiveness, productivity and market access of local businesses, or creating opportunities for the young generation by promoting responsible entrepreneurship in emerging growth sectors). This can only be achieved on a basis of **cooperation and coordination** among different institutions, which can be achieved most efficiently through the establishment of a network coordinated by a central focal point institution or a centre for CSR excellence.

## **8. Preventing corruption to foster SME development**

While corruption is detrimental to business for all types of company – large and small, multinational and local – it poses particular problems for smaller firms. Corruption itself is perceived as one of the major business obstacles SMEs are facing in their business environments. They are usually the first to suffer in a marketplace where corruption exists. Those firms are more vulnerable to corruption and, as a result, their profit margins and very survival are at stake when corruption takes hold. Since SMEs are often the motor for development in societies vulnerable to poverty, the effects of corruption can be devastating. It is clear that if SMEs were better able to cope with the corruption that they encounter, they would be in a much better position to fulfil their role with regard to the creation of economic and social welfare, and poverty reduction.

In accordance with the United Nations Convention against Corruption, which provides a framework for governments and the private sector to tackle the problem of corruption at various levels, and the UN Global Compact, which offers guidelines for companies in that respect, UNIDO has entered into a cooperation with UNODC with the aim to improve the situation of local businesses in developing countries. In that context, following core target interventions are pursued:

- (1) Building capacity of business support and advisory institutions, including universities, chambers of commerce, vocational institutions, local government offices and business development services providers to deal with corruption-related issues in the local private sector.
- (2) Supporting selected associations to establish a system of internal measures that prevent acts of corruption within their member companies, including accounting standards, auditing controls, codes of conduct and implementation guides, effective enforcement measures (sanctions), and training.
- (3) Facilitating the reporting of corrupt practices by local businesses (SMEs), including measures focusing on whistle-blower and witness protection.
- (4) Promoting the building of business partnerships among local enterprises to facilitate joint action against corruption (e.g. developing a common code of conduct), with the government, and with larger multinational corporations to fight corrupt practices in the supply chain, including business standards and systems of incentives and sanctions.

## **9. CSR Research**

In order to identify the impact and relevance of CSR in SMEs UNIDO is carrying out research on country, regional and global level. Apart from evaluating the implications of CSR in general on small business development, UNIDO also singles out specific CSR issues such as corruption or public policy.

Such research is carried out by UNIDO either as integral part of specific CSR projects or on a stand-alone basis upon request.

### Example: CSR Research Partnerships

*Building Linkages for Competitive and Responsible Entrepreneurship (UNIDO-Harvard publication):* Partnerships are essential in helping SMEs to upgrade and integrate into broader production networks and value chains and to improve their labour and environmental practices. This publication provides a framework for categorizing six of these different models of multi-sector partnership and collective corporate action.

*Corruption Prevention to Foster SME Development (UNIDO-UNODC publication):* Corruption within and between public and private sectors has become one of the leading problems for businesses all over the world. The recent inclusion of an anti-corruption principle in the United Nations Global Compact, further emphasizes the ever-growing importance of the private sector in the global fight against corruption. This publication focuses on the particular problems smaller businesses face in a corrupt environment



# BUSINESS PARTNERSHIP PROGRAMME



## ALIGNING BUSINESS INTERESTS WITH THE VISIONS AND OBJECTIVES OF UNIDO

Sustainable growth of small and medium-scale industries in developing countries and countries in transition requires new approaches to know-how transfer. There is an opportunity for each and every private sector entity to engage with the international community in supporting the **United Nations Millennium Development Goals**. For achieving this, there is a need to go beyond the scope of individual actors and to push forward forms of cooperation between public and private sectors and civil society, and thereby complementing each other's development resources and competences.

Linking its own limited resources to those of other actors, in particular private businesses, has become a matter of priority for the entire UN system. The **UNIDO Business Partnership Programme** draws on the expertise, know-how and resources of major business players and brings their experience to bear on the aspirations of SMEs to become competitive players as well as attractive partners for large firms. It therefore seeks to exploit the synergies between the objectives and activities of the business community and UNIDO, for the benefit of industries in developing countries and economies in transition.

When UNIDO launched the Partnership Programme with private business, there was no doubt that the business community, in its own enlightened interest, would like to play an active role in supporting the mandate of multilateral institutions as we moved into the new millennium.

### **1. Enhancing the competitiveness of supplier industries**

UNIDO enters into partnerships with larger companies, industry associations and governments to support and strengthen institutional frameworks that provide practical services to SMEs in the manufacturing industries. Those partnerships are generally designed to achieve three inter-related objectives:

- **Enhance the performance of SMEs** in supplier industries and improve their international competitiveness. This is done through direct shop floor interventions in the participating firms that target productivity and quality issues.
- **Facilitate SMEs' access to international markets** through building up adequate support services as well as strategic partnerships that enable their integration into global supply chains.
- **Strengthen the institutional setup** (referring to industry specific business support and advisory services) and build-up a pool of well-trained national engineers and market experts able to support and coach suppliers in the fields of productivity, quality, and marketing.

#### Example: UNIDO-FIAT Partnership

In 1998, UNIDO as a neutral broker initiated an intensive partnership building process involving the Government of India, Fiat S.p.A. through Magneti Marelli, INSEAD (Institute for Management), the International Business Leaders Forum (IBLF), the Automotive Component Manufacturers Association of India (ACMA) and the Automotive Research Association of India. The partners aimed to strengthen the small and medium scale component supplier industry to meet the stringent quality requirements of the automotive industry and to facilitate their inclusion in global supply chains. This was being achieved through focusing on productivity and quality improvement skills and techniques, and further enhancing SMEs' performance and competitiveness. Some of the activities included in the programme were class room training sessions on quality management, cost efficiency and delivery, visits from industry experts to analyze the production process and provide recommendations based on international best practices. The Programme achieved impressive results in terms of increases in turnover and productivity, safer production methods, better use of existing machinery and equipment, and an enhanced awareness of the need for continuous improvement in the targeted companies. For more information, see: <http://www.unido.org/index.php?id=6151>

## **2. Granting SMEs Access to ICT**

ICT is seen as an important tool, to make up-to-date information and knowledge more widely available across industries in the developing world. As the UN specialized agency for industrial development, UNIDO enters into partnerships with global players with the objective to **build and strengthen local capacities through the use of ICT applications**.

Encouraging the use of innovative ICT solutions among small and medium enterprises is regarded as one way of creating a dynamic bottom-up process of economic development. Another is to engage global business players to form effective linkages and broader partnerships for development.

In this context, UNIDO promotes opportunities for local economies in computer refurbishment, e-waste recycling, software development and renewable energy. And we have a particular focus on ICT for youth and women entrepreneurship development.

#### Example: UNIDO-Microsoft Partnership

In July 2006, on the occasion of the first Microsoft Government Leaders Forum Africa in Cape Town, South Africa, UNIDO and Microsoft signed a strategic partnership, pooling expertise to support SMEs and foster greater innovation and competitiveness. This highly dynamic partnership recognizes the importance of harnessing the use of Information and Communication Technologies (ICT) to promote sustainable industrialization as a means of improving livelihoods in developing countries, particularly in sub-Saharan Africa. Areas of ongoing cooperation include: *UNIDO* Business Information Centre (BIC) Network, Entrepreneurship Curriculum Programme, Electronic Waste Initiative, Local Software initiative, and the African Investment Promotion Agency Network. For more information, see: <http://www.unido.org/index.php?id=o83086>

## **3. Partnerships within the framework of the UN Global Compact**

With **globalization of production networks**, corporations are expected to extend the reach of their CSR policies not only to their overseas subsidiaries but also to suppliers. CSR compliance is usually monitored up to first tier suppliers, but stakeholders are increasingly demanding assurances that CSR codes are being respected further down the supply chain. For supplier companies in developing countries, the challenge is how to use **CSR as a competitive advantage**, avoiding the risk that weak CSR practices exclude them from global value chains.

In this context UNIDO enters into partnerships with transnational corporations (TNCs) to promote the uptake of **socially and environmentally sustainable business practices across supply chains**. UNIDO has developed the Responsible Entrepreneurs Achievement Programme (REAP) for this purpose - a tool that can be used to provide training to suppliers based on a methodology that fits the needs and requirements of smaller firms. At the same

time, a special software allows for tracking achievements in the social, environmental and productivity domains over time.

UNIDO also forms partnerships with global players to **support responsible and sustainable business development** independent of supply chain considerations. One example constitutes the UNIDO-UNEP-BASF partnership.

Example: UNIDO-UNEP-BASF Partnership

UNIDO, UNEP and BASF, a member of the UN Global Compact, have conducted a pilot Eco-Efficiency Programme for SMEs in the Moroccan dyeing industry. The objective of this collaboration was to help small and medium-sized textile dye companies in the country to remain competitive in the international market by means of economically and ecologically sustainable operations. A comprehensive yet easy to apply eco-efficiency analysis tool was established that makes production safer for both the environment and workers. This methodology was made available for the first time through this partnership to SMEs in a developing country (Morocco). The next step was to prepare an updated English version of the Eco-efficiency Tool by giving it a trial run in Egypt, beginning with a training session for UNIDO staff at BASF in Germany in April 2003. This training was the first part of a training of trainers programme to introduce the Tool to the 30-member network of UNIDO-UNEP National Cleaner Production Centers and Programmes (NCPCs and NCPPs) enabling them to augment their client-industries' competitiveness and environmental sustainability. In collaboration with staff from the NCPCs, companies can use this tool to calculate and compare the costs and environmental impact of their processes. In 2006, the project received the BDI Environment Award in the category "Partnerships for Sustainable Development", the most prestigious national business award for the environment of the Federation of German Industries (BDI).

For more information, see: <http://www.unido.org/index.php?id=6163>