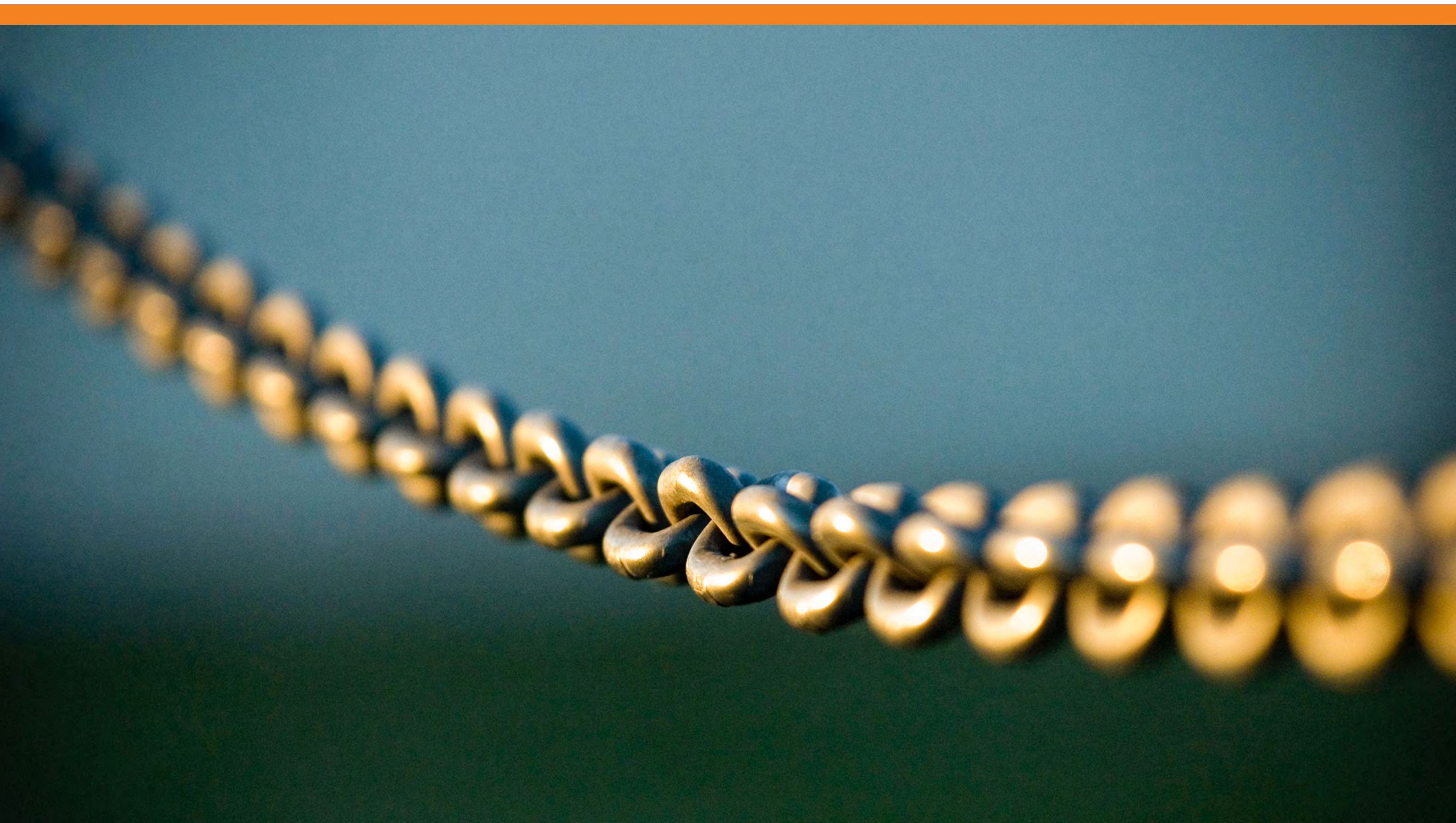
GEGAFRICA
GLOBAL ECONOMIC GOVERNANCE

DISCUSSION PAPER | SEPTEMBER 2017

ARE PRIVATE SUSTAINABILITY STANDARDS OBSTACLES TO, OR ENABLERS OF, SME PARTICIPATION IN VALUE CHAINS?

INSIGHTS FROM SOUTH AFRICA AND KENYA

Anna Ngarachu, Peter Draper & Kwame Owino



GEGAFRICA
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ABOUT GEGAFRICA

The Global Economic Governance (GEG) Africa programme is a policy research and stakeholder engagement programme aimed at strengthening the influence of African coalitions at global economic governance forums such as the G20, BRICS, World Trade Organization and World Bank, among others, in order to bring about pro-poor policy outcomes.

The second phase of the programme started in March 2016 and will be implemented over a period of three years until March 2019.

The programme is expected to help create an international system of global economic governance that works better for the poor in Africa through:

- undertaking substantial research into critical policy areas and helping South African policymakers to prepare policy papers for the South African government to present at global economic governance platforms;
- ensuring that African views are considered, knowledge is shared and a shared perspective is developed through systematic engagement with African governments, regional organisations, think tanks, academic institutions, business organisations and civil society forums; and
- disseminating and communicating research and policy briefs to a wider audience via mass media and digital channels in order to create an informed and active policy community on the continent.

For the next three years the work of the programme will be focused on three thematic areas: development finance for infrastructure; trade and regional integration; and tax and transparency.

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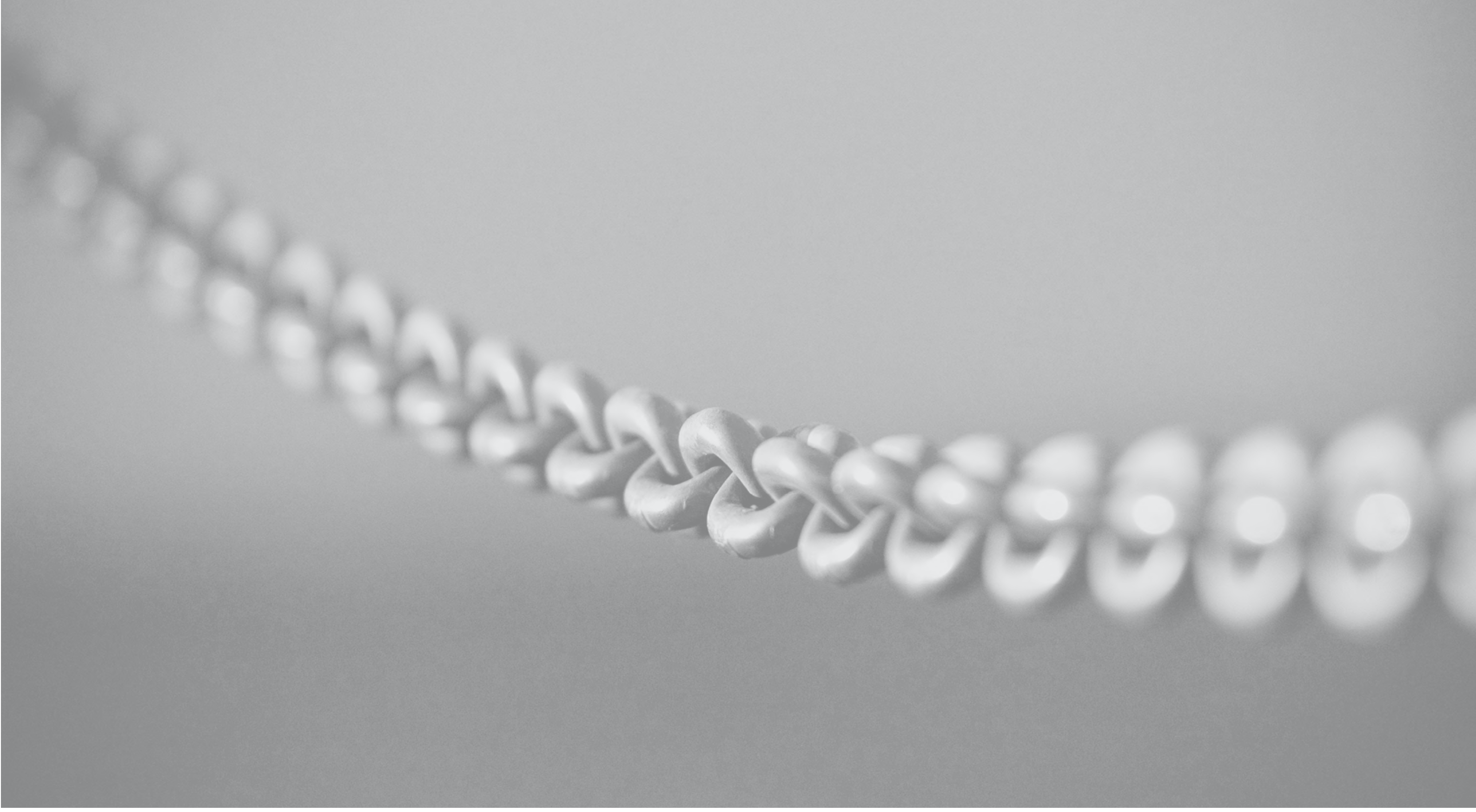

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ABSTRACT

This discussion paper examines the roles of South Africa and Kenya as regional gateways for global value chains (GVCs) coordinated by multinational corporations (MNCs), and the obstacles small and medium enterprises (SMEs) face in entering those value chains, owing to the voluntary sustainability standards (VSS) enacted by MNCs. As SMEs play a significant role in the formal and informal sector, both of which are crucial to the two countries', and their neighbours', economies, integrating them successfully holds developmental gains. However, standards can be a barrier to such integration, raising developmental challenges. Accordingly, the paper reviews the standards framework in each country, building on case studies to discern patterns of MNC incorporation of SMEs into their value chains and the constraints SMEs face in this regard. The paper focuses on sustainability standards, particularly in relation to environmental and social standards, and how these have developed into requirements for participating in cross-border value chains. Participation in these value chains is already stringent for SMEs, hence the legitimacy of these sustainability standards is examined to assess whether they are ultimately beneficial to SMEs or act as barriers to entry. The obstacles SMEs face in relation to sustainability standards are examined, particularly those regarding: lack of awareness, limited technical assistance and training, costly implementation and certification, lack of adequate financing, and changing VSS and the market structure that constitute the SME landscape. The support institutions available to assist SMEs to overcome the specified challenges are similarly reviewed. Insights from two case studies highlight the role MNCs can play to nurture sustainable supply chains and contribute to the development of both regional value chains and GVCs. The paper concludes with recommendations for the G20 to assist SMEs' ability to participate in GVC development and advance South Africa and Kenya as regional gateways.

ACKNOWLEDGEMENT

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AUTHORS

Anna Ngarachu is a Researcher at Tutwa Consulting Group. She holds an Honours degree in Economic Science from the University of the Witwatersrand (Wits), and a Core Credentials of Readiness Certificate from the Harvard Business School.

Dr Peter Draper is the Managing Director of Tutwa Consulting Group. He is a Senior Research Fellow in the Economic Diplomacy programme at the South African Institute of International Affairs and a lecturer at Wits Business School.

Kwame Owino is Chief Executive Officer of the Institute of Economic Affairs (IEA-Kenya), a Nairobi-based think tank. Prior to this he worked as the research officer for its economic regulation programme and wrote policy briefs and participated in policy dialogue in competition policy, employment economics and regulation policy.

ACRONYMS AND ABBREVIATIONS

AGPO	Access to Government Procurement Opportunities
B20	Business 20
B-BBEE	broad-based black economic empowerment
BRC	British Retail Consortium
CFTA	Continental Free Trade Area
CSI	corporate social investment
CSR	corporate social responsibility
DSBD	Department of Small Business Development
dti	Department of Trade and Industry
EAC	East African Community
EME	exempt micro enterprise
FDI	foreign direct investment
GDP	gross domestic product
GVC	global value chain
HACCP	hazard analysis and critical control point
IEC	International Electrotechnical Commission
IEEE	Institute of Electrical and Electronics Engineers
IFS	International Featured Standards
ILO	International Labour Organization
ISEAL	International Social and Environmental Accreditation and Labelling Alliance
ISO	International Organization for Standardization
IT	information technology
ITC	International Trade Centre
KEBS	Kenya Bureau of Standards
MNC	multinational corporation
MSEs	micro and small enterprises
MSEA	Micro and Small Enterprise Authority
NMISA	National Metrology Institute of South Africa
NRCS	National Regulator for Compulsory Specifications
NTB	non-tariff barrier
PBK	Pyrethrum Board of Kenya
PWD	people with disability
QSE	qualifying small enterprise
RVC	regional value chain
SABS	South African Bureau of Standards
SANAS	South African National Accreditation System
SANS	South African National Standards
SEFA	Small Enterprise Finance Agency
SMEs	small and medium enterprises
SMMEs	small, medium and micro enterprises
SPS	sanitary and phytosanitary
STMC	Standards Technical Management Committee
TBT	technical barriers to trade
VSS	voluntary sustainability standards

INTRODUCTION

Production within global value chains (GVCs) enables the use of intermediate products from abroad, where countries/companies take over part of the production process where a comparative advantage exists, instead of participating in an entire industry.[1] Groups of people only need to master one part of the production process, and not its entirety, signifying the relevance of GVCs. This holds several developmental advantages, as having access to and participating within these value chains can lead to mastery, industrial competency, and increased development. This is particularly significant for emerging economies that are still in the process of driving industrialisation policies and aim for certain developmental outcomes,[2] including reduced unemployment among youth and women and other marginalised groups such as people with disability (PWD), promotion of upskilled labour,

1 The terms GVCs and cross-border value chains are used interchangeably throughout this paper.

2 Draper P *et al.*, ' Is a "Factory Southern Africa" Feasible? Harnessing flying geese to the South African Gateway', Working Paper. Washington, D.C.: World Bank Group, 2016, http://www.tutwaconsulting.com/wp-content/uploads/2016/01/Is-a-Factory-Southern-Africa-Feasible.pdf, accessed 28 May 2017.

sustainable production practices and enhanced livelihoods. Participation in GVCs is thought to lead to an average 10% increase in gross domestic product (GDP).[3]

Multinational corporations (MNCs) are at the heart of GVC distribution in the African region and are mainly concentrated in more favourable financial and investment locations or regional 'gateways' such as South Africa and Kenya – our focus countries. Both are recognised lead economies and nodal points through which African and non-African MNCs' regional investments are directed, enabling development of regional value chains (RVCs) or cross-border value chains (both GVCs and RVCs). In our view, for regional integration purposes, promoting GVC development and developing RVCs are not mutually exclusive.

South Africa and Kenya have well-established standards bodies when compared with other African countries, which is a key factor to service a GVC hub. The ability of these standards bodies to share their experiences could foster better understanding of the importance of standards in their respective regions. Most countries in Africa have weak standards bureaus, or none at all, and less capacity to support those wishing to enter value chains, especially small and medium enterprises (SMEs), which are the focus of the study. Technical capacity that may lag in areas of Southern Africa or the East African Community (EAC) may be partially remedied by Kenya's and South Africa's standards bodies.

Multinational corporations (MNCs) are at the heart of GVC distribution in the African region and are mainly concentrated in more favourable financial and investment locations

However, access to cross-border value chains via MNCs is difficult for the smaller enterprises that supply various products into those production processes. This is partly owing to the stringent requirements and standards MNCs impose on upstream suppliers, often referred to as private voluntary standards or voluntary sustainability standards (VSS).[4] These private standards are intended to promote sustainability concerns within value chains.

Standards are a form of best practice and form part of the reference criteria in WTO agreements on technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures. Four areas emerge, namely compulsory requirements, TBT, conformity assessment procedures, and standards. These are elaborated upon in Annexure 9. Sustainability standards fall within the standards category and have become increasingly topical in developing countries, together with the need to conform to these multi-stakeholder standards.

3 WTO, 'GVCs and Trade in Value Added (TiVA)', WTO workshop, NWU Potchefstroom, 2017.

4 Private voluntary standards are analogous to VSS, as elaborated upon in the upcoming section, 'Overview of Standards Governance in South Africa and Kenya'.

According to the International Social and Environmental Accreditation and Labelling Alliance (ISEAL), sustainability standards are a 'set of criteria defining good social and environmental practices in an industry or production process'.[5] These are adopted by producers, companies, governments, financial institutions and consumers. The G20 Insights report suggests that sustainability standards enhance the social and environmental sustainability of GVCs.[6] This is because

Efforts to establish sustainability will lead not only to beneficial outcomes such as increased productivity within an SME but also to developmental outcomes such as improved livelihoods, especially for SMEs in the informal sector, where poverty reduction is a concern

they foster consumer awareness of which products are safe to purchase while informing the consumer that the product was made in a socially acceptable way, incorporating environmental, labour, and human rights concerns. Therefore, sustainability standards promote sustainable production processes and could result in the creation of business opportunities, giving access to new markets where SMEs require sustainability standards to participate in.[7] Without sustainable value chains exports will not be sustainable, meaning that there will be subdued employment and growth prospects created within SMEs.[8] Efforts to establish sustainability will lead not only to beneficial outcomes such as increased productivity within an SME but also to developmental outcomes such as improved livelihoods, especially for SMEs in the informal sector, where poverty reduction is a concern.

Sustainability in relation to GVCs has thus been an area of intense international interest, having been initiated by the G20 report Promoting Standards for Responsible Investment in Value Chains[9] and being a focus of Agenda 2030, addressing social and environmental sustainability. The German government, in its G20 presidency in 2017, has accordingly given priority to the issue, examining, inter alia, how SMEs are incentivised to adhere to sustainability standards, the factors preventing them

5 ISEAL (International Social and Environmental Accreditation and Labelling Alliance), 'Learn about sustainability standards', http://www.isealalliance.org/multimedia/learn-about-sustainability-standards, accessed 4 April 2017.

6 G20, *Promoting Standards for Responsible Investment in Value Chains*, Report to the High-Level Development Working Group, September 2011, http://unctad.org/sections/dite_dir/docs/diae_G20_CSR_Standards_Report_en.pdf, accessed 3 April 2017.

7 Blumenschein F *et al.*, 'Fostering the Sustainability of Global Value Chains (GVCs)', G20 Insights, 28 March 2017, http://www.g20-insights.org/wp-content/uploads/2017/03/Trade_Fostering-the-Sustainability.pdf, accessed 4 April 2017.

8 ITC (International Trade Centre), *The State of Sustainable Markets: Statistics and Emerging Trends 2015*. Geneva: ITC, 2016, http://www.intracen.org/publication/The-State-of-Sustainable-Markets, accessed 11 April 2017.

9 G20, *op. cit.*

from effectively entering RVCs or GVCs, and what financing is needed to adhere to sustainability standards and to access RVCs or GVCs.

However, critics argue that sustainability standards have transitioned into a form of non-tariff barriers (NTBs) and, as such, are a major determinant of access to markets. While it is true that participation in them should develop producers' capabilities, which may lead to enhanced productivity and efficiency, often this is a costly practice that requires organised actions between upstream and downstream players in the value chain.[10] Consequently, standards can act as a barrier for upstream SMEs to access GVCs or RVCs. Addressing the issue of legitimacy of standards is important as some VSS, due to their complexity, may negatively influence the participation of SMEs in GVCs owing to overly burdensome requirements that exceed technical regulations. It is therefore important to address the balance between VSS that enhance sustainability and those that inhibit GVC development. Our focus is on SMEs,[11] excluding micro enterprises, as they constitute the majority of upstream contributors to value chains and are largely vulnerable to MNC requirements but have the greatest potential to provide innovative localised development, especially in terms of increased employment. This matters greatly to both South Africa and Kenya, owing to their serious need for business and employment creation. In order to capitalise on GVCs, one needs to address the informality issue. Many SMEs in Africa form part of the informal sector and are therefore excluded, creating additional costs for their integration. SMEs in this sector may want to remain in the informal sphere, despite their growth prospects, owing to the costs of entering the formal sector. These SMEs require more support to reduce trade and production costs. Informal SMEs make up the majority of SMEs in both lead economies, and even more so in their neighbours'.

The South African market is an interesting case in terms of sustainability standards. The uptake of standards, in general, is low within industry in South Africa and functions mainly within the domain of large corporations. For many SMEs in value chains, complying with sustainability standards is an arduous process, and may significantly affect their profits if not they do not receive proper guidance on the value these sustainability standards can yield. This does not take away from their importance within the changing environment of value chains, as SMEs continue to partner with corporations and consumers whose growing interest in these standards

10 Kaplinsky R, *The Role of Standards in Global Value Chains and Their Impact on Economic and Social Upgrading*. World Bank, 2010, http://oro.open.ac.uk/22235/2/Kaplinsky_WB_report.pdf, accessed 16 May 2017.

11 There are various definitions of SMEs. With reference to South Africa, the dti (Department of Trade and Industry) definition is used, as shown in Annexure 3. With reference to Kenya, a small enterprise is a firm that has an annual turnover of KES 0.5–5 million ($0.0048–$0.05 million), with the number of employees ranging from 10–50 people. In the manufacturing sector, investment in plant and machinery should be KES 10–50 million ($0.1–$0.48 million), and registered capital of the enterprise KES 5–25 million ($0.05–$0.24 million) in the service and farming sector. (KES is the currency code for the Kenyan shilling.)

forces SMEs to reconsider how they do business. Initially there are large fixed costs in meeting standards, but there are beneficial results that can accrue and are visible in supplier development programmes, for example. However, raising awareness of these benefits remains a challenge. Supplier development programmes are part of a process where a lead company works with certain suppliers on a one-to-one basis to improve their performance for the buying organisation. This results in improvements in the total added value from the supplier in question in terms of its broad-based black economic empowerment (B-BBEE) rating, product or service offering, business processes and performance, and better lead times and delivery. Benefits accrue to the suppliers in the form of financial support, human resource guidance and preferential procurement, among others.[12]

Similarly, the Kenyan case reveals the importance of standards. The EAC must adhere to these standards to benefit from trade incentives such as the EU–EAC economic partnership agreement. These largely relate to safety awareness in food industries and consumers' increased demand for better social and environmental practices. Lobbying by media groups has also brought created awareness in Kenya that compliance is important. EAC partner states have been slow to adopt these standards, which has led to 'costly and time-consuming re-testing processes or denial of market access in the bloc'.[13]

This discussion paper builds upon existing literature and informant interviews. It starts by giving an overview of the roles of South Africa and Kenya as the lead countries in their respective regions, acting as gateways for MNC cross-border value chain development. It then investigates the standards in the South African and Kenyan markets, identifying voluntary, international, national and mandatory standards in operation and contrasting these to the VSS available. The obstacles preventing SMEs from accessing these value chains are assessed, with a focus on the constraints on adopting sustainability standards. The paper considers the support structure available to SMEs for promoting access to cross-border value chains and compliance with sustainability standards. It expands on a case study of Siemens and SC Johnson, in Annexure 1.1 and Annexure 1.2, to investigate their supplier development programmes, how they support their SME suppliers and their reasoning for doing so. It analyses the role of sustainability standards in RVC development between South Africa and Kenya and other African states, and whether South Africa and Kenya should be the lead countries to perpetuate this growth. Lastly, the paper provides practical recommendations, for the G20's consideration, on how to focus its efforts in Africa to promote private sustainability standards and access to cross-border value chains, for purposes of generating dynamic inclusive growth.

12 ESD (Enterprise Supplier Development), 'What is ESD', http://www.enterprisesupplierdevelopment.co.za/what-is-esd, accessed 13 July 2017.

13 Owino K, 'Kenya Case Study – Value Chains Private Sustainability Standards and SMEs', GEG Africa Study Group Event, Pretoria, 2017.

SOUTH AFRICA AND KENYA AS REGIONAL ECONOMIC GATEWAYS

MNCs will usually cluster in a region that is most conducive for their business endeavours, and then within a specific country. South Africa is the most likely lead country in Southern Africa, with Cape Town and Johannesburg being attractive business hubs for MNCs to establish their regional operations in comparison with neighbouring states. Durban is the largest container port in Africa through which goods flow both to and from the broader region (along with other South African deep-water ports through which commodities are exported).[14] Thus, South Africa acts as a services, infrastructure and goods node connecting the region to the world, and the world to the region. In essence, an economic gateway refers to a hub that opens a market to the world and the world to that market, attracting external influences such as trade in goods and services, movement of people and ideas. In addition, South Africa is the largest foreign investor in all Southern African states by a large margin, while other Southern African states are primarily focused on the infrastructure capacity of their extractive industries.[15]

Similarly, Kenya is the acknowledged regional economic gateway to East Africa, with MNCs clustering in Nairobi, using it as a regional base to service those markets. They also use the port of Mombasa to shift goods to and from Uganda, Rwanda, South Sudan, eastern Democratic Republic of Congo and Burundi. In particular, Kenya's long-term growth plan is predicated on strong industrial growth driven by local and foreign investment to generate an overall structural transition from agricultural dependence to an industry-led value-addition economy. Specifically, Kenya aims to facilitate a comprehensive network of interconnections within the country and the region through roads, railways, ports, other waterways, telecommunications and airports. It hopes to become a business process outsourcing hub, with one of the most notable projects being the Lamu Port, and incorporate South Sudan and the Ethiopia Transport Corridor Project.[16]

The Flying Geese Model contextualises a lead country as an attractive investment ground for foreign direct investment (FDI), which in turn drives regional economic integration due to the formation of cross-border value chains, as evident in the East Asia growth story. This resulted in GVC integration, with Western MNCs incorporating and aligning with the expanding production network.[17] As this lead country would be the centre of regional production networks, spurring cross-border value chain development, it is referred to as the lead goose. In this context, a lead goose acts as a disseminator of cross-border value chain development and may not refer solely to a country; a lead company or MNC could play the role of a lead goose. A gateway, however, is a market and refers to a country in this context.

14 Draper P *et al.*, *op. cit.*, p. 19.

15 *Ibid.*, p. 14.

16 Owino K, *op. cit.*

17 Draper P *et al.*, *op. cit.*, p. 6.

A similar approach could be applied to Southern Africa, for a similar desired outcome, establishing South Africa as the lead goose and gateway, and as the disseminator of value chain integration via MNCs that choose to establish part of their production and coordination channels within South Africa owing to its favourable investment opportunities. This is less true of Kenya, given its relatively small economic weight. Nevertheless, in the East African region – characterised by structurally high economic growth rates – Kenya is playing this role of gateway economy.

Certain factors seem to negate the likelihood of South Africa playing the lead goose, however, and relate to the fact that lead international firms that locate in South Africa have more capacity and can attract more capital to act as lead geese. South Africa is already at the forefront of driving regional investment, but it lacks the capacity to 'propel the region into sustained growth and global integration'.[18] The country's demographic structure, lack of skilled human resources fuelled by a poor education system, and limited technological capacity to mimic Japan's flying geese strategy, among other drawbacks, suggest that the proposed cross-border strategy may evolve otherwise.[19]

The structure of regional economies, compared with East Asia, offers different comparative and competitive advantages, suggesting that another model would serve as a more suitable framework to identify South Africa as a regional gateway; hence, the gateway model – harnessing MNC geese to the South African gateway – becomes relevant.[20] This implies that the flying geese and the gateway models can be complementary in understanding how Southern African regional economic integration and value chain development can most probably take effect.[21] This is with South Africa, the gateway economy, as the driver of regional economic development and the lead international firms (MNCs) that choose to locate in its hubs, as drivers of cross-border value chain development and acting as lead geese.

Kenya's most likely integration of SMEs into RVCs and GVCs is linked to China's policy for global economic cooperation and trade expansion, evident in the One Belt, One Road Initiative. Kenya has a head start as the regional gateway owing to its geographical advantages, an industrial policy whose elements include vast investment in infrastructure that addresses both the northern and southern regions, establishment of special economic zones, energy investment, partnership with China and regional trade arrangements. However, there are risks to Kenya's achievement of a gateway status because of growing competition from ambitious infrastructure investment by Ethiopia and Tanzania.[22]

18 *Ibid.*, p. 5.

19 *Ibid.*, p. 14.

20 *Ibid.*

21 *Ibid.*, p. 35.

22 Owino K, *op. cit.*

Given its relatively smaller economic weight, lack of diversification and smaller private sector, Kenya is even less well placed to play the lead goose role in East Africa. Therefore, its gateway function becomes even more relevant and in need of attention, if it is to maximise its potential to drive regional economic development. This highlights the importance of the Kenyan government's policy frameworks for attracting FDI, as well as of deepening regional economic integration within the EAC to facilitate the development of cross-border value chains. In both cases, however, SMEs face formidable challenges in general, and in integrating into MNC value chains specifically. In the South African case, there are 2 251 821 documented SMEs, with 667 433 in the formal sector and 1 497 860 in the informal sector.[23] These play a major role in employment and economic growth prospects.[24] They reportedly make up 60% of formal employment and 91% of formalised business, and contribute 50% to GDP.[25] The SMEs engaged in exports do so largely indirectly through cross-border value chains, usually to regional partners. These are usually manufacturing intensive, with 91% of total exports of SMEs going to sub-Saharan Africa. The share of SMEs contributing directly to South Africa's total external trade is accordingly small, as large firms accounted for over 90% of export sales between 2010 and 2014.[26] Exploring this further, small firms accounted for only 1.1% export sales, medium-sized firms for 5.6%, and large firms 93.3%.[27] Data on the share of export earnings is difficult to establish; however, '80% of SMEs derive less than 20% of their revenue from exporting'.[28]

In the Kenyan case, small, medium and micro enterprises (SMMEs) currently contribute approximately 25% of GDP and employ 6.4 million individuals, accounting for 82.7% of the total informal workforce in 2014, with the majority of employees being in the informal sector.[29]

Clearly, if both South African and Kenyan SMEs generally struggle to engage in exporting, their less advanced and diversified neighbours will battle even more. In this light, VSS, with their high thresholds for compliance, loom large as potential

23 Roughly 8% of these are women-owned SMEs – World Wide Worx, 'Women key to SME success', 3 July 2014, http://www.worldwideworx.com/women, accessed 14 June 2017.

24 Bureau of Economic Research, *The Small, Medium and Micro Enterprise Sector of South Africa*, University of Stellenbosch, 2016, http://www.seda.org.za/Publications/Publications/The%20Small,%20Medium%20and%20Micro%20Enterprise%20Sector%20of%20South%20Africa%20Commissioned%20by%20Seda.pdf, accessed 8 April 2017.

25 Grater S, 'The role of small firms in R/GVCs', WTO-Chair SAIIA Workshop, NWU (North-West University, Potchefstroom, 22 September 2016.

26 Perrelli R, Anand R & B Zhang, '*South Africa's Exports Performance: Any Role for Structural Factors?*', IMF (International Monetary Fund) Working Paper, WP16/24. Washington, DC: IMF, 2016, https://www.imf.org/external/pubs/ft/wp/2016/wp1624.pdf, accessed 16 May 2017.

27 *Ibid*.

28 SBP (Business Environment Specialists), 'Developing a New Path for SMEs in South Africa: Reassessing for Growth', Occasional Paper, 1. Johannesburg: SBP, 2013.

29 Owino K, *op. cit*.

obstacles (see below). This propagates inequality, leading to a growing sustainability gap among compliant SMEs that are 'locked in' and benefit, and those that are 'locked out' of GVC integration. Those SMEs able to marshal the resources and meet the requirements also stand to benefit substantially, owing to relatively low competition from their peers.

Next we turn to the architecture of standards governance in South Africa and Kenya, in order to locate the place of private sustainability standards within them.

OVERVIEW OF STANDARDS GOVERNANCE IN SOUTH AFRICA AND KENYA

This section reviews the different standards operating in the South African and Kenyan markets and relevant in industry while contrasting them with the role that VSS play in the market. VSS are created by lead MNCs[30] and multi-stakeholder groups such as ISEAL.

Importance of standards

Standards are important as they address several beneficial factors for consumers, notably protection from hazards through health and safety measures, thereby promoting consumers' ability to confidently choose which goods and services they purchase and ensuring their interests are protected, including through redress. They also allow consumers to profit from competition among producers. Within industries, widely accepted standards can prevent the erection of arbitrary trade barriers and yield access to markets. Businesses can also use them for energy and environmental management and potentially decrease business costs while promoting reliability of products, owing to the uptake of, inter alia, improved management systems and time-saving mechanisms. In addition, the added trust in the business, competitiveness of the product or service, and the attraction of new customers are recognised benefits.[31]

These benefits also extend into government, as standards complement regulations that could promote international trade, regulate industry to prevent hostile business practices, and indicate an economical procurement process.[32] With our focus on SMEs, the presence of standards allows compliant SMEs to compete on an equal level with larger organisations, with institutions such as the South African Bureau

30 Lead MNCs refer to those companies at the apex of the value chain in question, which drive decision-making within the value chain.

31 SABS (South African Bureau of Standards), 'Standards – Overview', https://www.sabs.co.za/Standardss/index.asp, accessed 9 April 2017.

32 *Ibid*.

of Standards (SABS) advocating for standards, stating that 'compliance with an accepted standard can replace the power of a big brand'.[33]

Structure of standards

Standards can be categorised into four principal areas, according to the G20.[34] These are:

- intergovernmental standards, governed by international agreements and declarations;
- private standards, normally referenced as multi-stakeholder initiatives or VSS;
- industry codes; and
- individual company codes, also relating to corporate social responsibly (CSR) initiatives.

These four groups of standards can either be mandatory or voluntary, with most starting out as voluntary. Thereafter, if there is legislation attached to them, they become mandatory. Within these groups, VSS can emerge. These can also reference either international or local sustainability standards.

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Institutions involved in standards management

Government institutions

South Africa has a well-established standards governance structure, covering both mandatory and voluntary standards. Historically, standards in South Africa became prominent with the rapid development of the mining industry. The Transvaal Chamber of Mines founded a board to consider how machinery and other materials used were fit for industry use. More branches were formed to look into standardisation of various sectors, which thereafter were integrated to form the

33 SABS, *Invest in Standardisation*. Pretoria: SABS, 2017.

34 G20, *op. cit.*, p. 4.

SABS, now the sole standard-setting institution in the country. It is also a founding member of the International Organization for Standardization (ISO).[35]

Today the SABS is a government agency reporting to the national Department of Trade and Industry (dti), and forms part of a network of government agencies mandated with standards development, as shown in Annexure 2.

In Kenya, the statutory body is the Kenya Bureau of Standards (KEBS), which was established under the Standards Act CAP 496 and has been in operation since 1974. KEBS is mandated to provide standardised solutions that promote sustainable development guided by three policy pillars: quality, environmental and occupational safety.[36]

With over 60 years of experience, the SABS's main role is to develop national standards and aid in the implementation of international standards, to increase South Africa's global competitiveness and international trading capabilities. These standards focus mainly on consumer protection, health, and environmental and safety issues.[37] National standards are developed by the SABS and are known as the South African National Standards (SANS), which cover a number of industries, as shown in Annexure 3. Within the South African context, all standards developed by the SABS are voluntary.

The dti has established a broader set of technical infrastructure institutions that seek to maintain and improve compulsory standards. The National Regulator for Compulsory Specifications (NRCS) applies legislation to some SANS and these become mandatory. The South African National Accreditation System (SANAS) and the National Metrology Institute of South Africa (NMISA) are part of the technical regulatory institutions.

There are currently 1 139 mandatory national standards and 7 402 voluntary national standards in operation in South Africa, across different industries and sectors, as confirmed by the SABS database. There are also other industry-specific regulators relating mainly to health, safety or environmental protection requirements that are prevalent in the automotive, consumer, electrotechnical and food and associated industries.[38]

In Kenya standards are categorised into public standards and private standards, determined by their function or origin (market or the government). Public standards are government initiatives that are mandatory by law and for which compliance is monitored. In contrast, private standards are voluntary with no legal action for

35 *Ibid.*

36 Owino K, *op. cit.*

37 SABS, 2017, *op. cit.*

38 NRCS (National Regulator for Compulsory Specifications), 'Compulsory Specifications – About Compulsory Specifications', http://www.nrcs.org.za/content.asp?subID=4140, accessed 10 April 2017.

failure to comply. As such, KEBS standards are mandatory and voluntary, the latter being complemented by international benchmarks.[39]

Intergovernmental standards

Sustainability standards in the intergovernmental framework refer to normative instruments and international initiatives. Normative instruments look to amplify the positive economic and social contributions of MNCs and reduce the negative impact of their operations. These focus on promoting skills development, work–life balance, and industrial relations. Examples are the International Labour Organization (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (ILO MNE Declaration) and the OECD's Guidelines for Multinational Enterprises.[40]

International initiatives such as the UN Global Compact[41] focus on the following areas: human rights, the environment, labour standards and anti-corruption measures. Originally written with states in mind, they have become policy documents for business to apply corporate responsibility and can be applied within value chains. Within South Africa there are roughly 77 corporates using the UN Global Compact with 19 that are SMEs,[42] while in Kenya these extend to 83 SMEs out of 136 participating companies.[43]

There is a strong business case for the sustainable supply chains highlighted, as well as for corporate purchasing practices that extend beyond short-term financial considerations. Since these practices influence the ability of suppliers to improve their conduct, managers today must look to build relationships with their suppliers in order to perpetuate long-term value addition to the entire supply chain. This consists of integrating sustainability concerns into a company's procurement practices.[44]

International standards

The SABS collaborates with international standards-setting bodies such as the ISO and the International Electrotechnical Commission (IEC) and advises its wide community on which standards are relevant in their value chain or tender processes.

39 Owino K, *op. cit.*

40 G20, *op. cit.*, p. 5.

41 The UN Global Compact is currently the largest voluntary corporate responsibility initiative globally.

42 UN Global Compact, 'Our participants', https://www.unglobalcompact.org/what-is-gc/participants, accessed 18 April 2017.

43 SMEs with fewer than 10 direct employees cannot be participants but can learn about UN Global Compact's initiatives.

44 UN Global Compact, 'Supply chain sustainability', https://www.unglobalcompact.org/docs/networks_around_world_doc/resources/engagement_framework/business_case/supplychain_businesscase.pdf, accessed 18 April 2017.

South Africa also has associations with regional standards-setting bodies, especially in Europe. The different international and regional standards present in the South African market are shown in Table 1. The prevalence of international standards in the country arises from these international collaborations. These are largely voluntary standards but can be referenced in legislation. It should be noted that the ISO is also referenced as a multi-stakeholder standard[45] and the Institute of Electrical and Electronics Engineers (IEEE) as an industry standard. We classify it as an international standard owing to its global scope.

In Kenya, present standards are the International Plant Protection Convention, ISO, World Organisation for Animal Health, and Codex Alimentarius, which is a collection of internationally recognised standards, codes of practice, guidelines and other recommendations relating to foods, food production and food safety as pioneered by the Food and Agriculture Organization and World Health Organization.[46]

TABLE 1 INTERNATIONAL AND REGIONAL STANDARDS ASSOCIATIONS PRESENT IN THE SOUTH AFRICAN MARKET

INTERNATIONAL ASSOCIATIONS	
IEC	International Electrotechnical Commission
IEEE	Institute of Electrical and Electronics Engineers
ISO	International Organization for Standardization
ITU	International Telecommunication Union
ASTM	Originally known as the American Society for Testing and Materials
REGIONAL ASSOCIATIONS	
EBU	European Broadcasting Union
ETSI	European Telecommunications Standards Institute
CEN	European Committee for Standardization
CENELEC	European Committee for Electrotechnical Standardization
UN/ECE	UN Economic Commission for Europe
SADCSTAN	Southern African Development Community Cooperation in Standardization

Source: SABS, 'Standards – Associations', https://www.sabs.co.za/Standardss/standards_assoc.asp, accessed 10 April 2017

Industry standards

Industry standards are developed by leading companies within the industry to serve some social or environmental concerns within the supply chain or for export markets. The IEEE and IEC, for the electrotechnical and engineering industries,

45 G20, *op. cit.*, p. 7.

46 Owino K, op. cit.

respectively, would serve as examples. Their standards are usually voluntary and would cover national or international commercial activity; ie, the IEEE is an international industry standard.[47]

In Kenya there are industry (private coalition) standards, for example EUREPGAP, which transformed into GLOBALG.A.P; safe quality food (SQF 1000/2000) codes, which is a hazard analysis and critical control point or HACCP-based food quality; and safety certification code for primary producers. Nature's Choice, which is compliant with the International Featured Standards (IFS), promotes organic production and bio-friendly wholesome natural foods free of preservatives and chemicals, while British Retail Consortium (BRC) was developed with the main objective of protecting consumers' health and to enable British retailers to comply with the UK Food Safety Act. This standard works on the principles of HACCP standards and hence requires certification by a third party.

Individual company codes

Company codes are standards set by individual companies regarding best practices that they prefer to implement in addition to participating in other international, national and industry standards. South African examples include the Woolworths and Massmart company codes that govern their own supply-chain mandates.[48] These are usually stated in a supplier code of conduct manual, which makes reference to a number of international and local standards regarding ILO labour practices, business integrity, environmental sustainability, and health and safety, as highlighted in the SAB Miller supplier code of conduct.[49] These may also include CSR initiatives, which are prevalent in MNCs and have a growing influence on SMEs. Due to a lack of data, the scale and type of sustainability standards applied by companies in the form of CSR or company codes cannot be properly examined here.

CSR is defined differently within different country contexts. In South Africa, the preferred term is corporate social investment (CSI). CSI was initially voluntary, but the application of B-BBEE,[50] various industry charters, the King II and King III reports on corporate governance, and the ISO 26 000 Guidance on Social

47 G20, *op. cit.*, p. 7.

48 Personal interview, Dumisani Mngadi, SMME Manager, SABS, Pretoria, 10 April 2017.

49 SABMiller, 'SABMiller Supplier Code of Conduct', 2014, http://www.sab.co.za/wp-content/uploads/2016/04/4.-sabmiller-supplier-code-of-conduct-september-2014-final.pdf, accessed 3 April 2017.

50 B-BBEE (broad-based black economic empowerment) is an initiative launched by the South African government to address the restrictions that exist within the country for black individuals to participate fairly in the economy. The B-BBEE Act allows for the existence of the B-BBEE Codes of Good Practice, which provide the structures for the B-BBEE Scorecard and certain rules associated with claiming B-BBEE points. B-BBEE seeks to promote equality, increase broad-based participation of previously disadvantaged people in the economy, and promote employment, higher growth and more equitable income distributions.

Responsibility all oblige large South African companies to adopt CSI; and the ISO 26 000:2010 has become a nationally accepted standard.[51]

In the Kenyan case the extent of company standards cannot be examined extensively. However, company codes such as Unilever's 'Know Your Business Partner' (KYBP), shown in Annexure 7, are company standards used to identify potential suppliers and form the basis for many supplier codes of conduct.

VSS in industry

This paper refers to VSS and sustainability standards interchangeably, on the assumption that all standards are initially voluntary. However, it is important to note that voluntary standards do not imply sustainability standards and vice versa. VSS refer, for example, to 'environmental standards such as safer waste management, non-toxic production materials, reduced use of pesticides, energy efficiency measures or others; and social standards such as health and safety measures, exclusion of child labour, better working conditions or others'.[52]

VSS are also referred to as private sustainability standards and are usually set by multi-stakeholder groups. Traditionally, standards related to the health, safety and quality assurance of products were usually covered in state legislation with increasing focus on the characteristic of the products. Recently, the focus has changed to the process of the production of products and services, with the intention of ensuring that these processes are sustainable, particularly from labour and environmental viewpoints. This was spearheaded by voluntary private initiatives. However, safety and quality assurance are now increasingly being linked to sustainability, meaning that sustainability standards can also be publicly regulated.[53]

According to the International Trade Centre (ITC) Standards Map,[54] 81 VSS relevant to sustainability in value chains are in operation in the South African market. It is important to note that, by definition of VSS, there might be a gap between what is reported and what is actually implemented.[55] For example, national (SANS) standards such as SANS 14001 on environmental management systems or the ISO

51 Kloppers EM & LM Fourie, 'Defining corporate social responsibility in the South African agricultural sector', *African Journal of Agricultural Research*, 9, 46, 2014, pp. 3 418–26, http://www.academicjournals.org/article/article1415636734_Kloppers%20and%20Fourie.pdf , accessed 18 April 2017.

52 DIE (German Development Institute / Deutsches Institut für Entwicklungspolitik), 'Terms of Refernce for Country Case Studies'. Bonn: DIE, 2017.

53 Gotoh Y, 'Bottom-up approaches to private voluntary standards for sustainability in South African agriculture: Improving environmental governance using social learning', Master Thesis, Utrecht University, Utrecht, 2015, https://dspace.library.uu.nl/handle/1874/318164, accessed 12 April 2017.

54 ITC, 'Standards Map', http://www.standardsmap.org/identify, accessed 18 April 2017.

55 Personal interview, Rene Heydenrych, Researcher for Economic Impact Department, SABS, Pretoria, 10 April 2017.

26 000 are not on this list, implying the number could be higher. In addition, there is no data detailing which sustainability standards are operational through company codes. Nonetheless, we will refer to the Standards Map from the ITC as the framework for VSS, as these are particular to sustainability standard hotspots within GVCs.

From analysing the Standards Map, and bearing in mind that one standard can cut across any of the four categories listed in this paper's sub-section 'Structure of standards', 13 VSS relate to the services industry, 55 to processing and manufacturing, 55 to production and extraction, and 31 to trading and retailing practices. A detailed listing of all sustainability standards and their respective industries in operation in the South African market is provided in Annexure 4.1. Sustainability standards featured largely in the agricultural sector, organic content specification, supply-chain practices, sustainable trading practices and relating to labour issues.[56]

Turning to Kenya, there are about 74 VSS as highlighted by the ITC Standards Map, with 45 referring to processing and manufacturing, 50 in production and extraction, 13 in services, and 22 in trading and retailing practices. There is also a variety of niche/specialist market standards such as organic standards, fair-trade standards, rainforest alliance standards, carbon standards, and social accountability standards (SA 8000), which can be classified under VSS. Furthermore, KEBS standards are used in addition to ISO recognised sustainability standards. KEBS had adopted two sustainability standards: – KS ISO 26000: 2010 Guidance on Social Responsibility, and KS ISO 14001: 2015 Environmental Management Systems Requirements with Guidance for Use. A third standard is currently being discussed and will be updated in due course once the process kicks off.

OBSTACLES SMEs FACE IN ACCESSING MNC VALUE CHAINS

From the literature review it is evident that the universe of standards is extensive, and substantially in operation in South Africa and Kenya. How SMEs access information regarding which standards are required to supply into MNC value chains requires awareness and capacity in the form of understanding the standards requirement, an approach to implementing them and the ability to get certification, which can be financially costly. In Kenya, these standards are not in a consolidated database so easy reference and comparison is not possible, which is a major constraint for SMEs.

This section details the barriers faced by SMEs in South Africa and Kenya wishing to access MNC cross-border value chains, with reference to sustainability standards. As cross-border value chains are coordinated by large lead corporations, their requirements for supplying into these value chains are often stringent, making it difficult for SMEs to access them. It is important to note that SMEs owned by women, youth and PWD face disproportionately more severe challenges. Accommodations

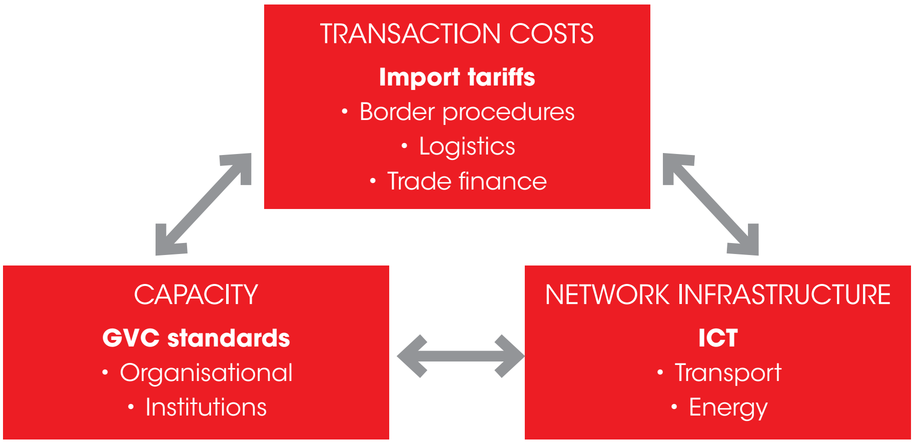
56 This is from in-house industry analysis on processes or areas impacted by the VSS, as shown in Annexure 4.1.

for this are seen in the Siemens case study (Annexure 1.1) where preferential policies are applied to women-owned SMEs, although catering for PWD is difficult as special tools are needed to access and read these standards.

Entry into value chains is not the only concern, as the GVC narrative shows that new entrants struggle to upgrade within value chains, particularly in non-resource industries such as manufacturing, where MNCs control the value chains, holding their suppliers in 'subordinate positions'.[57] This highlights the political economy of value chain integration and how MNCs, through their supplier development programmes, assist their suppliers to upgrade within value chains; an issue further examined in Annexure 1.1 and Annexure 1.2, within the case studies. This section draws on existing literature supplemented by interviews.

SME inclusion is hindered by a variety of factors, as outlined in Figure 1. It is beyond the scope of this paper to investigate all aspects, but constraints on capacity, from the perspective of access to GVC standards, are examined.

FIGURE 1: KEY CONSTRAINTS ON SME PARTICIPATION IN GVCs AND EXPORTS



Source: Draper P & C Pswarayi, 'SMEs and GVCs in the G20: Implications for Africa and Developing Countries', Discussion Paper. Pretoria: GEG Africa, 2016, p. 27

Assisting with compliance to standards and improving SMEs' access to information, technical assistance programmes and capacity-building initiatives resolve some capacity issues that SMEs face. Partaking in value chain additive activities would

57 Draper P & C Pswarayi, 'SMEs and GVCs in the G20: Implications for Africa and Developing Countries', Discussion Paper. Pretoria: GEG Africa, 2016.

require the SMEs to obtain new or improved technology, improve their product quality, expand their business and hire workers. SMEs often lack the capacity to mobilise additional labour or material and face several NTBs and issues with cross-border regulatory constraints. These can often be resolved by financing, where access to adequate financing appropriate for SMEs is available.[58]

Lack of awareness of standards

This a major factor hindering the uptake of sustainability standards by SMEs, and centres on their not understanding the value that adopting these standards could bring to their businesses. The value proposition centres on the fact that sustainability standards are dominant within larger corporates, and for many SMEs the next phase of growth often requires accessing those MNC value chains, which means adhering to the standards the MNC applies.

In South Africa, the SABS plays a key role in the promotion of all standards. However, reaching out to SMEs is challenging, especially informal SMEs, when they do not belong to value chains within which advice on standards is available, meaning it

A major factor hindering the uptake of sustainability standards by SMEs centres on their not understanding the value that adopting these standards could bring to their businesses

is left to a one-on-one interaction between the standards body and the SME. This problem is common owing to the dispersed nature of SMEs.[59] Their geographical location serves as an additional disadvantage, especially in rural settings, which are mostly characterised by women-owned SMEs,[60] even if the standards body has established satellite offices.[61] The SABS conducts outreach programmes for SMEs, in rural areas especially, but these are often unsuccessful. There are opportunity costs for SMEs to participate in these outreach programmes, including travel costs, the operational costs of leaving the business managed by junior staff, the financial costs of closing the business altogether, and time constraints from juggling business

58 ADB (Asian Development Bank), *Integrating SMEs into Global Value Chains Challenges and Policy Actions in Asia*. Philippines: ADB, 2015, https://www.adb.org/sites/default/files/publication/175295/smes-global-value-chains.pdf, accessed 12 April 2017.

59 Personal interview, Babalwa Ntlangula, Standards Developer: Systems and Services, SABS, Pretoria, 10 April 2017.

60 Wills G, *South Africa's Informal Economy: A Statistical Profile*, Urban Policies Research Report, 7. Cambridge, MC & Manchester: WIEGO (Women in Informal Employment: Globalizing and Organizing), 2009.

61 Skype interview, Geoffrey Chapman, PhD Student/Former SABS official, SABS, England, 30 March 2017.

and domestic responsibilities.[62] Similar challenges are encountered in the Kenyan case. In particular, KEBS has a publication on standards, which is available for sale at $150–250 per volume, and this could be a barrier for the smallest entrants into a market. Interviews with some SMEs revealed that they were either not aware of the existence of these publications or considered them rather costly, especially since they would refer to only a few sections within the publication.

Lack of technical assistance and training

SMEs often lack the technical capacity to understand the requirements of these sustainability standards and how to adhere to them on a consistent basis.[63] They require capacity-building initiatives to guide them through the adoption of, and

Capacity building can be challenging where SMEs are widely dispersed and lack access to information on assistance programmes

compliance with, these standards. Capacity building can be challenging where SMEs are widely dispersed and lack access to information on assistance programmes. In addition to the SABS programmes, various MNCs, such as Siemens, participate in capacity-building initiatives to boost the competitiveness of the SMEs in their supply chains.[64] However, in the South African context, there is also a language barrier preventing many SMEs from understanding these standards, thus necessitating the use of translators, an effort over and above capacity building. An additional obstacle is inadequate literacy, which affects many SMEs. Furthermore, limited or no access to the Internet, which is required for accessing additional information and ongoing maintenance, is another barrier.[65]

In Kenya, most MNCs have centralised procurement systems managed through information technology (IT). For them to incorporate SMEs into their supply systems Internet access is required; otherwise, SMEs' supply practices may become less conducive to changing technologies. The MNCs have good reason to judge overall management competence through this means, but that leads to lock-in while keeping others at a disadvantage.

Stakeholders that support these initiatives have a vested interest in the SMEs. Assistance of this nature is less common for remote and less-established SMEs

62 Personal interview, Dumisani Mngadi, *op. cit.*

63 G20, *op. cit.*

64 SABS, 'Massmart quality audits', https://www.sabs.co.za/Sectors-and-Services/Services/SMME/smme_massmart.asp, accessed 11 April 2017.

65 Skype interview, Joseph Wozniak, Head of the Trade for Sustainable Development Programme, ITC, Geneva, 4 April 2017.

that are part of these value chains, highlighting the importance of assistance programmes. For example, in South Africa mining houses that contract to various SMEs, or retail companies such as Woolworths, cater for training costs for the SMEs in their value chains to assist them to uphold their company codes.[66] However, these are the exception and not the rule, as many corporates leave it to government agencies to promote or ensure capacity building for local SMEs.[67]

Costly implementation and certification

The cost of attaining certification and implementing sustainability standards is a well-known barrier. These costs are often independent of the value of the SMEs' operations, obliging them to incur fixed costs that limit profit margins. It is argued that the costs can be recouped with the resulting productivity gains and economies of scale once the SME has accessed markets and value chains. However, the first step is to cater for these costs. Producers are known to bear most of these certification costs with little or no assistance from standards bodies or other value chain agents.[68] The larger share of these costs is borne in the short term, whereas the benefits from participating in GVCs are only realised in the medium term. Short-term costs for compliance should be reconciled with medium-term benefits, highlighting the role of support institutions for SMEs in terms of technical capacity-building initiatives and financial support. Compliance mechanisms are time consuming and costly, with the degree of hindrance dependent on the support from the direct business community, national institutions and legislature.

In South Africa the SABS contends that, within its capacity-building initiative and the stakeholders with whom it participates, such as mining houses, there are cost-sharing initiatives to support these SMEs. These would include an 80%, 5% and 15% split between corporates in the value chain, the SME and the SABS, respectively. There are other initiatives developed by the Department of Economic Development that can assist with certain costs; however, these costs are usually not fully compensated as the SME does not take ownership.[69]

In Kenya, it is acknowledged that certification services are mainly provided by foreign-invested consultancies and are highly priced, with testing facilities mostly confined to the national standards organisations, which usually do not provide advisory services required to deepen SMEs' understanding of product and process standards.[70]

66 Personal interview, Dumisani Mngadi, *op. cit*.

67 Skype interview, Joseph Wozniak, *op. cit*.

68 ITC, *Social and Environmental Standards: Contributing to More Sustainable Value Chains*. Geneva: ITC, 2016, http://www.intracen.org/publication/Social-and-Environmental-Standards-Contributing-to-More-Sustainable-Value-Chains, accessed 11 April 2017.

69 Personal interview, Dumisani Mngadi, *op. cit*.

70 Owino K, *op. cit*.

Adopting VSS is just one stage of the process. There are maintenance costs that recur year-on-year, such as membership costs that start roughly at $200, as shown in the UN Global Compact.[71] There are also guidelines in place to retrain employees on

Standards act as 'moving targets' and may change over time with changing technologies and demands of MNCs

certain procedures, which can be costly in terms of time and effort. Internal audits are thereafter necessary to ensure these sustainability systems become part of the company culture. It is important to note that standards act as 'moving targets'[72] and may change over time with changing technologies and demands of MNCs.

Notably, not all sustainability standards bear testing and certification costs. Some require a best-practice system to be followed, which is futile without the necessary awareness and training.[73]

Lack of adequate financing

Financing options are relevant not only for funding the growth and operations of SMEs but also for the upskilling costs incurred to enter value chains and the maintenance costs to adhere to sustainability standards, ie, various certification costs. However, many SMEs are not considered credit-worthy.

Financing options are relevant not only for funding the growth and operations of SMEs but also for the upskilling costs incurred to enter value chains and the maintenance costs to adhere to sustainability standards

Financing beyond bank financing should be available, since banks are often not prepared to finance SMEs that have no business record, as SMEs are naturally riskier ventures for the banks and/or are unable to understand the loan process owing to lack of financial acumen. In South Africa, according to the National Credit Regulator, about 75% of bank credit requests by SMEs are rejected. The issue is not the lack of financing per se, but rather the low success rate. Furthermore, bank

71 UN Global Compact, 'Our participants', *op. cit*.

72 Conference proceedings, Kwame Owino, Managing Director, IEA Kenya, GEG Africa Study Group Event, Pretoria, 8 June 2017.

73 Personal interview, Babalwa Ntlangula, *op. cit*.

loans are not as cost effective to cater for small quantities of finance.[74] Banks only lend to businesses that are contractually ready, implying a demand for certified offtake agreements. SMEs in value chains would have higher success rates if the supporting MNC or contractor supplied guarantees for the project using offtake agreements. However, MNCs generally do not supply offtake agreements, as they are unaware of what their consumers require in the next business cycle, and so they only supply 'letters of interest', which banks do not consider in their approval processes.[75] This identifies a gap in bank loan finances, as SMEs have low bargaining power. Extraneous factors bring further complications. For example, in Kenya the recent adoption of the law on interest rate capping led to banks' raising requirements for loans, requiring additional collateral for SMEs to access financing, and thus widening the finance gap.[76] Indeed, the disclosures since that law was passed show that the already limited credit to SMEs has been constrained further.

More innovative financing options should be explored, such as crowdfunding, private equity financing, supply-chain financing and lease agreements. Angel financing options are also viable as they afford an advisory perspective, with financiers assisting SMEs with their financing structures and business operations.[77]

Market structure and contractual agreements

In South Africa, some SMEs are realising that several value chains offer no viable growth trajectory, creating a disparity where SMEs suffer from insufficient upgrading within supply chains owing to a lack of support from lead firms.[78] By contrast, some MNCs adopt upstream SMEs or suppliers of their choosing and foster their growth and development. However, MNCs assimilate these SMEs into their value chains on a long-term basis and that can lead to these SMEs losing their intellectual property rights.[79]

The lack of support is illustrated in the case of the Mopani Farmers Association, where a number of commercial suppliers form part of the retail chain of lead firms. Acquiring the right equipment for farming is critical. Often, farmers with established practices can access the necessary funding. However, this may be to their detriment when unforeseen expenses in replacing their equipment occur frequently. This happens, for instance, when irrigation systems disintegrate because of heat damage,

74 Personal interview, Lebo Matlou, Entrepreneur, Bora Mining, Pretoria, 7 April 2017.

75 Skype interview, Duane Newman, Managing Director, Cova Advisory, Pretoria, 12 April 2017.

76 Owino K, *op. cit*.

77 Personal interview, Lebo Matlou, *op. cit*.

78 Draper P & C Pswarayi, *op. cit*.

79 Personal interview, Dumisani Mngadi, *op. cit*.

a negative effect of climate change.[80] MNCs should offer financial support to SMEs that are providing essential inputs into their final products, as highlighted in the case of Siemens in Annexure 1.1 and that of chicory and dairy farmers in Nestlé's value chain. In the case of Nestlé, small farmers are fully supported and trained to adhere to certain quality and hygiene standards. For purposes of inclusion, preferential treatment is given to black farmers, the majority of whom are women, where an incentive payment is given for any additional yields provided. Interest-free loans on energy saving and water equipment are offered by Nestlé. It is rare for these farmers to incur additional variable costs that involve transport or restoring equipment, as Nestlé bears those on their behalf.[81]

Lack of support may also be due to the structure of the relationship between SMEs and their respective MNCs. The reasons for the contrasting picture between the case of the commercial farmers supplying into large retailers and the case of the chicory and dairy farmers supplying to Nestlé are explained next.

An interesting perspective emerges when comparing the support structure offered by MNCs to their suppliers, depending on the nature of their contractual arrangements, and the business strategy of the MNC. Generally, contractual agreements do not prevent access to value chains, but they may limit the ability of SMEs to sustainably secure contracts and generate sustainable income.

The business strategy of larger retailers such as Pick n Pay is to sell shelf space. This creates competition between suppliers to Pick n Pay, many of which are SMEs that have little to no support available.[82] Furthermore, large retailers increasingly replace suppliers' brands with their own in-house labels, further reducing available shelf space and increasing competition among independently branded products. Often such lead retailers will place restrictive contractual terms on their suppliers, topping up with unregulated fee structures such as incentive fees for the retailer to stock one's product. Governments could accordingly consider the retail companies' buyer's incentives, and manage their bargaining powers through regulated contractual agreements.[83] However, manufacturing companies such as Siemens and Nestlé do not create competition among their suppliers as they ultimately sell a brand, with a vested interest to protect that brand and hence cater extensively for their SMEs.[84] This offers the SME additional support and easier access into GVCs.

80 Telephonic interview, Adam Mabunda, Programme Relations Officer, Mopani Farmers Association, Pretoria, 24 May 2017.

81 Telephonic interview, T Hooven, Nestlé, Pretoria, 24 May 2017.

82 While this is a localised example, it highlights that the above can occur even at a cross-border level.

83 Von Broembsen M, 'You Can't Bite the Hand that Feeds You: The Commercial and Contractual relations between the Four Large South African Food Retailers and their SME Suppliers', Working Paper 22, REDI3x3. Cape Town, 2016.

84 Personal interview, Marlese Von Broembsen, Legal Researcher, Harvard Law School, Pretoria, 25 May 2017.

Fragmented VSS landscape

VSS are constantly being developed, meaning that it is difficult for SMEs to know which standards to comply with and what testing is necessary for their specific product. There have been instances of duplicate testing and compliance with standards that are duplicates of each other. Due to the global nature of GVCs,

VSS are constantly being developed, meaning that it is difficult for SMEs to know which standards to comply with and what testing is necessary for their specific product

when products cross different borders different requirements are imposed. This leads to additional unnecessary costs for SMEs that may be avoided by looking at harmonisation initiatives for VSS specifically. The WTO's TBT and SPS agreements address this in reference to technical or mandatory standards. The vast landscape of VSS mandated by private multi-stakeholders should be regulated on this front to see how local VSS and international VSS can be better coordinated.

In the EAC, The Standards Technical Management Committee (STMC) is responsible for harmonising East African standards. The STMC is mandated to harmonise standards to:[85]

> Eliminate (TBTs); Encourage a freer flow of goods and services within the Community; Boost trade among Partner States; Protect the health and safety of the consumers, animals, plants and the environment in general; Prevent deceptive practices in business transactions; Increase competitiveness and productivity.

The EAC seeks to prioritise 20 of the most traded goods and deepen harmonisation of standards; the backdrop to this is that many standards are not harmonised. For instance, Rwanda has adopted 70% of harmonised standards, while 30% include old standards that are not in line with the current industry technology but are with their equivalent at the national level.

SME INSTITUTIONAL SUPPORT ENVIRONMENTS

It is clear from the limitations highlighted that certain support environments need to emerge as enabling bodies. While there is some institutional support for SMEs in gaining access to private sustainability standards and cross-border value chains from the perspective of standards bodies, assisting SMEs with capacity building can include government programmes that target local supply-chain development.

85 STMC (Standards Technical Management Committee), 'Quality infrastructure in the East African Community', http://www.eac-quality.net/the-sqmt-community/standardization.html, accessed 20 May 2017.

In South Africa the SABS is a clear proponent of not only promoting the national standards available but also aiding SMEs in their implementation process. However, this is limited to SMEs in the SABS network. This support is also available from private standards organisations such as GLOBALG.A.P. It assists farmers to access localg.a.p., a localised version of the GLOBALG.A.P. certificate, and includes assistance with implementation. Once these farmers have mastered a local standard, adopting a global standard is more manageable.[86] Support is also available from private consultancies, such as Sandra Kruger and Associates, which drives such initiatives in the Stellenbosch area.[87]

In Kenya the Micro and Small Enterprises Act 2012 was launched, establishing the Micro and Small Enterprise Authority (MSEA), to address the major challenges micro and small enterprises (MSEs) face and support them to integrate into sustainable and competitive markets. Additional info is considered in Annexure 8. MESA's mandate is to:

- develop and administer certified demand-driven capacity-building and entrepreneurship programmes;
- promote the technological modernisation and development of micro and small enterprises; and
- promote and provide business development services for micro and small enterprises.

It is notable that there is a combined effort for SME inclusion into cross-border value chains from the standpoint of supporting women-led SMEs and entrepreneurs. This is supported by the ITC, which states that women are deemed more likely to invest in their families and communities, thereby driving more localised developmental factors such as promoting employment for other women.[88]

Financing is central to the discussion of accessing value chains and sustainability standards. In South Africa many government initiatives support SMEs' access to finance, notably:

- the dti, which operates many incentive schemes to support various types of industrial development projects;
- the Industrial Development Corporation, which provides many incentive schemes, loans, and grants; and
- the Small Enterprise Finance Agency (SEFA), which provides funding to SMEs and reports to the Department of Small Business Development (DSBD), which has a mandate to develop SMEs nationally.

86 Telephonic interview, Adam Mabunda, *op. cit.*

87 Telephonic interview, Sandra Kruger, Managing Director, Sandra Kruger & Associates, Pretoria, 11 May 2017.

88 Draper P & C Pswarayi, *op. cit.*, p. 25.

The DSBD acknowledges the importance of GVCs in developing countries. In an effort to ensure the advancement of this subject, it is meant to advocate for a regulatory environment that promotes access to finance, investment, equitable trade and access to markets for SMEs, and implement initiatives that matter to GVCs and foster supplier development programmes.[89] There are also notable supplier development programmes catering for women-owned suppliers housed in the Small Enterprise Development Agency of South Africa.

However, awareness of these programmes is low, especially in the South African case, among SMEs not connected to cooperatives[90] or MNCs in their value chains.[91] SMEs supplying into lead firms have the advantage that the MNC can source the funding required for the SMEs' upskilling needs.[92] Furthermore, some MNCs partner with enterprise development agencies, thus sourcing government funding more easily.[93] Providing zero-rated Internet service (no data costs) and disseminating information using radio/media services can be used to inform SMEs not under the wing of MNCs. This may be possible in Kenya, where the relatively high level of IT development in the market could facilitate this. SMEs also use the most basic IT systems that may not be optimised yet to ensure business development.

With respect to government incentives, in South Africa most schemes will cover 50% of the cost of funding requested, leaving SMEs to use other means of financing such as bank financing to fill the gap. Historically these initiatives have not always been successful, but they do provide 'free government money' and are supported by government agencies. Grants have several conditionalities, such as the recipient being B-BBEE accredited, with some offering 90 days to access the grant money if the rest of the funds are raised. These grants have recently moved into open window policies with the funding only accessible within a certain time frame, implying that SMEs need to keep up to date regarding new policy and funding opportunities to take advantage of them.[94] SEFA's bridging loans, for example, to meet immediate cash flow needs, can also be granted based on the SME having firm contractual orders from buyers.

In Kenya, in an effort to tap the full potential of SMEs, the government announced that the Draft National Trade Policy seeks to increase SMEs' competitiveness in

89 DSBD (Department of Small Business Development), 'Input on keynote address', Study Group Event Private Sustainability Standards and the Integration of SMEs in GVCs of MNCs, 8 June 2017.

90 Co-operatives are independent associations of persons/businesses who join forces to meet their economic, social and cultural needs and aspirations. Co-operatives provide services and products to their members and have profit-sharing mechanisms to support each other. The South African government has prioritised support of cooperatives as part of its broader empowerment initiatives.

91 NRCS, *op. cit*.

92 This is also highlighted in the Siemens case study.

93 Skype interview, Duane Newman, *op. cit*.

94 *Ibid*.

the region by reducing the cost of cross-border trade through reducing NTBs, reducing regulatory requirements and eliminating price controls. The policy brings together agencies such as the Export Promotion Council, Kenya Association of Manufacturers, Kenya Investment Authority and the MSEA, among others.[95]

In the last five years, the government has initiated the Access to Government Procurement Opportunities (AGPO) to ensure that the public sector department allocates at least 30% of procurement opportunities to firms owned by the youth and women in Kenya. While it is sensibly argued that these firms are predominantly SMEs, the programme has had mixed results owing to the manipulation of the procurement procedures, outright fraud and even displacement of the MSEs by firms owned by Kenya's most influential business families. So far, there is little evidence that this policy has expanded the ability of SMEs in Kenya to access private-sector opportunities by using AGPO as a platform. Private-sector firms report that they have been unable to use the success of AGPO to signal to SMEs that they could integrate into their value chains.

SUSTAINABILITY STANDARDS, RVC DEVELOPMENT, AND GATEWAYS

Sustainability standards play a vital role in MNC cross-border value-chain access in that they inhibit non-compliant SMEs but allow compliant SMEs to attain sustainable outcomes. The latter should lead to market access, higher product yields, access to funding due to better management systems and longer-term contracts, among others, creating sustainable income and contributing to localised efforts for job creation possibilities, which in turn address inequality.

Compliance should lead to market access, higher product yields, access to funding due to better management systems and longer-term contracts, creating sustainable income and contributing to localised efforts for job creation possibilities

South Africa's integration into GVCs is limited regardless of a well-established standards system and a well-developed private sector. This observation is even more true of Kenya. However, as noted in this paper's section on 'South Africa and Kenya as Regional Economic Gateways', it is even more difficult for countries that are not lead economies to participate in GVCs. Firstly, their labour skills may focus mainly on resource beneficiation, and they have less skilled workforces. Secondly, their economies are not industrialised, and so supplier bases are not well developed. Thirdly, they have certain connectivity challenges, such as less developed

95 Owino K, *op. cit.*

telecommunications networks to properly tap into the services segment of value chains. Fourthly, they are generally not well suited to plug into GVCs by hosting the appropriate MNCs, in addition to which they compete with their gateway neighbours for such investments.

GVCs are thus really a regional concern and, for effective absorption, require participating countries to commit to the development and maintenance of efficient infrastructure, especially transport networks, logistics, electricity and water supply, and an established telecommunications industry.[96] Smaller African economies may have capacity limitations in this regard, and so external support is often necessary. There is an added responsibility for governments to steer resources into these areas, and accommodate this into their fiscal budgets.

Development of RVCs is equally important, as RVCs and GVCs are not mutually exclusive. Intra-African and intra-EAC trade is more industrialised and diversified than trade outside these groupings.[97] Strong RVC development is needed, and efforts to ensure growth in regional development are emphasised for regional integration. Efforts to foster regional integration will as a result attract foreign investment in the form of MNCs willing to locate in the region, hence driving both RVC and GVC development.

Imports are equally important for GVC development since, from the perspective of developing countries, the potential to move upstream and downstream is vital for GVC upgrading. Backward linkages and not only forward linkages should be promoted. Approximately 40% of South Africa's imported intermediate goods are processed into exports. This comes with added benefits such as technology transfer, specifically necessary for developing countries, leading to advanced skilled labour. Trade policy should therefore be steered to encourage more participation in GVCs.

Furthermore, the gateway economies, in this case South Africa and Kenya, bear responsibility for ensuring that they take their neighbours' interests into account when setting domestic trade and industrial policies. In particular, they should adopt approaches to trade and industrial policies that facilitate inward investments by MNCs, with an eye on accessing regional markets and establishing RVCs, as in the EAC and SADC industrialisation policies. They should particularly avoid policies that inhibit inward investment aiming to access neighbours, and trade policies that penalise regional exporters. In short, they need to be gateways, and not gatekeepers. In this light, the Continental Free Trade Area (CFTA) agreement currently under negotiation is an attempt to establish a single market that will foster the attraction of new investment opportunities, attracting MNCs into various African regions and thus accelerating development, through its common rules, supported by other

96 Vivier W & PDF Strydom, *Global Value Chains: A New Era for South Africa's Foreign Trade*. Cape Town: Africagrowth Institute, 2015.

97 For example, in 2014, manufactured goods accounted for 41.9% of intra-African exports compared with only 14.8% of Africa's exports outside the continent. GEG Africa Study Group Event, Lily Sommers, ATPC, Pretoria, 8 June 2017.

continental initiatives such as the Pan African Investment Code. Figure 1 provides a useful reference point in this regard.

Broadening our focus, we ask, finally, what the role of the G20 should be in addressing the issues raised in this paper.

PRACTICAL CONSIDERATIONS AND RECOMMENDATIONS FOR THE G20

Commit to maintaining, and extending, open international markets

For countries in Southern and East Africa to participate in international markets via exports, they require international markets to remain open. Unfortunately, there are signs that key countries in the international trading system may move towards more inward-looking, less rules-based approaches to trade governance. This poses substantial risk to the open international economy. Recently the G7 nations did affirm their commitment to 'fair trade', but this lukewarm commitment, while better than none, does not necessarily point in the direction of sustaining and deepening the most powerful players' commitment to open markets.

In this light, the G20 should affirm its commitment to maintaining, and extending, open international markets and to assisting the poorest countries, in particular in sub-Saharan Africa, to integrate into GVCs.

Support enhanced investigation of financing options to support SMEs

Resolving gaps to finance is essential, as there is a shortage of funding capabilities. The demand for government finance is still present, but it should be more accessible, timeous and hold fewer conditionalities for SMEs to take advantage of it. Financing, as indicated above, is in the form of either debt or equity. According to our literature review and interviewees, financing provided to SMEs was mainly in the form of bank loans and government initiatives. There was little information on how the private sector contributes to this. While there are specific SME lending firms, nothing conclusive can be affirmed at this stage. Therefore, more study in this area is required, with special focus on preferential and guarantee financing mechanisms for SMEs owned by women, youth and PWD, that could be provided through facilities set up by institutions such as the World Bank.

Accordingly, the G20 should support enhanced investigation of financing options to support SMEs' uptake of VSS, in relation to the role that the international financial institutions over which the G20 has influence, could and should be playing. This agenda should continue beyond the remit of the current German G20 presidency, since it forms part of the sustainable development goals (SDG 9.3).

Work with the Business 20 to enhance awareness of standards

Awareness of the value of standards and their developmental capabilities should be increased. This should be the focus of local standards bodies, the African Organisation for Standardisation, cooperatives and the MNCs linked in value chains with respective SMEs. Business organisations, such as the South African Chamber of Commerce and the Kenyan Association of Manufacturers, could be mobilised to bring more SMEs into the equation, since such associations are networks containing MNCs and SMEs. Ensuring there is transparency in the standards implementation process, costs associated, assessment methodology and dispute resolution process (the latter two often lacking) will allow SMEs to make more informed decisions.[98]

The G20, working with the Business 20 (B20), could do more to support and facilitate such business-to-business discussions, particularly at regional level and working with regional business associations.

Mobilise financial and institutional support for SMEs to engage in standards adoption

More institutional support mechanisms to adopt and adhere to sustainability standards are essential. These would include extending the geographical presence of standards bodies for SMEs to make use of testing facilities, documentation support, and support for implementation of the standards process. Corporations with a stake in their SMEs could aid in these costs by including them in CSR or enterprise development programmes, thereby creating tax-deductible advantages and, in the South African case, potentially enhancing their B-BBEE points to access government contracts. This would be beneficial for both parties.[99] SMEs not yet supplying to MNCs should take advantage of government support initiatives as detailed previously, towards which end greater awareness-raising efforts (see previous recommendation on G20 should work with the B20 to enhance awareness of standards) are essential.

Engagement of buyers and SMEs in the standard-setting process, if multi-stakeholders set standards, could enhance cost-sharing models. Since SMEs bear most of the costs of certification and implementation, cost-sharing mechanisms between SMEs, standards bodies and value-chain players should be promoted as an incentive for the adoption of standards. Capacity-building initiatives to support SMEs should not come at an additional cost to the SME. These should also be adapted to the local context and consider the language and educational barriers, including the size of the SME in question.[100]

98 ITC, *op. cit*.

99 Personal interview, Mark Taylor, Business Developer, DesSoft, Centurion, 7 April 2017.

100 *Ibid*.

The G20 could mobilise financial and institutional support for SMEs to engage in standards adoption, for example, by supporting national standards bodies to establish multi-stakeholder dialogue forums and awareness campaigns, as has been done in India and Brazil. For their part, South Africa and Kenya should also consider establishing such multi-stakeholder dialogue platforms.

Examine the legitimacy of standards

The array of and interplay between public and private standards have often been examined. VSS, due to their complexity, may act as NTBs, owing to the sometimes overly stringent requirements imposed on small firms, over and above mandatory/technical requirements. This may act as a barrier to SME participation in GVCs.

VSS, due to their complexity, may act as NTBs, owing to the sometimes overly stringent requirements imposed on small firms, over and above mandatory/technical requirement

Efforts to harmonise existing VSS and/or their implementation, within an industry-specific setting, and coordinate the testing of products, would ensure less duplication of standards and reduced costs. This is required in order to ensure a balance between the uptake of VSS for sustainability purposes versus the use of VSS as a barrier to entry for SMEs that are 'locked out' of participation within GVCs.

The G20 could ensure that such efforts are considered, including regulation of VSS to be accommodative to small entities, and create an oversight mechanism of groups that establish these VSS. This would be in conjunction with the approach taken by the WTO TBT and SPS agreements.[101]

Assist with initiatives to uncover SME data

The lack of data on the performance of SMEs, including those in the informal sector, has been noted in several publications, and so the challenges SMEs face have not been fully understood.[102] Where possible, cooperation mechanisms between companies that can drive low-cost and high-uptake IT tools enabling the creation

101 UN FAO (UN Food and Agriculture Organization), 'Annex 5: Introducing the WTO SPS and TBT Agreements', http://www.fao.org/docrep/006/y8705e/y8705e0b.htm, accessed 15 May 2017.

102 NCR (National Credit Regulator), 'Literature Review on Small and Medium Enterprises' Access to Credit and Support in South Africa', Pretoria, 2011, http://www.ncr.org.za/pdfs/Literature%20Review%20on%20SME%20Access%20to%20Credit%20in%20South%20Africa_Final%20Report_NCR_Dec%202011.pdf, accessed 15 May 2017.

of digital self-assessment questionnaires for producers should be developed. This will allow standards bodies to collect data and understand how these producers are performing in order to gauge the sustainability gaps better, ie, to target funding to, or intervention of, these sectors. There would be a need to keep the data anonymous for protection reasons and to yield an unbiased approach to the analysis.[103] This would help to reduce the geographical gap, if producers can access the Internet, communicate and get training from appropriate standards bodies or direct buyers. Standards bodies should also look to integrate these digital communication channels in various ways, such as catering for different South African and Kenyan languages and providing options for illiterate people.

The G20 could support these ICT-driven initiatives through better-focused development assistance initiatives and tasking of international financial institutions.

Facilitate the gateway economies of Africa

Policies such as the Pan African Investment Code and the ongoing CFTA agreements should be considered. The former creates a favourable regulatory environment for MNCs to locate and expand their opportunities, providing regulatory convergence on investment issues. The CFTA will create a common market, enabling economies of scale to emerge within the continent; and liberalise trade in goods, allowing gateway economies such as South Africa and Kenya to source from countries across the continent as opposed to mainly within their RECs, and creating an opportunity for wider RVC development and a greater role as a gateway economy.

The G20 should continue to foster the development of policies that support regional integration, and contribute to ease of doing business in Africa. This will help to develop constructive RVCs and attract foreign players into the market, enhancing opportunities for African countries to act as gateways.

103 Skype interview, Joseph Wozniak, *op. cit*.

ANNEXURES

Annexure 1.1: Case Study[104] – Siemens South Africa

We met with Rita Nkuhlu, an executive director of the company, whose role forms part of the company's business excellence strategic area. Her role spans areas such as business development, quality management and occupational health and safety, within the sub-Saharan area. She also oversees corporate communications, diversity (triple B-BBEE scorecard) and the CSR arm. The purpose of this case study is to examine how Siemens works with its SMEs via a variety of business development programmes.

A Company history and information

> Siemens is a global technology powerhouse that has stood for engineering excellence, innovation, quality and reliability for more than 155 years in South Africa. Siemens forms part of the country's social fabric – as an employer, an investor, and as a supplier of ingenious technology. Siemens will continue to play a constructive role in South Africa's successes by creating local value and being a regional partner to the country's socio-economic development goals.[105]

It is evident that Siemens has an ongoing strategy with its suppliers. Siemens has shown its recommitment to the African continent by producing the *Business to Society Report* (B2S) (Figure 2) and the *African Digitalisation Maturity Report*, which works to align how Siemens contributes to South Africa with the National Development Plan and affirms its commitment to Africa. The B2S report focuses on driving the economy, developing local jobs and skills, value-adding innovations, sustaining the environment, improving quality of life, and supporting transformation.[106]

B Siemens' value chain and market entry

The majority of its operations are to provide solutions locally; however, it uses its SMEs[107] to produce certain parts necessary for its clients and to hence enter its

104 This case study is mostly based on information provided by the interviewee (Personal interview, Rita Nkuhlu, Executive Director, Business Excellence, Siemens, Midrand, 22 May 2017).

105 South African Electrotechnical Export Council, *Siemens Southern Africa*, http://www.saeec.org.za/members/siemens-southern-africa, accessed 25 May 2017.

106 *Business Day*, 'No company is an island: Siemens affirms its commitment to Africa', 3 May 2017, https://www.businesslive.co.za/bd/business-and-economy/2017-05-03-no-company-is-an-island-siemens-affirms-its-commitment-to-africa, accessed 25 May 2017.

107 These are referred to as EMEs (exempt micro enterprises) and QSEs (qualifying small enterprises) in the Siemens context, separated in terms of compliance to B-BBEE requirements. For the purposes of this paper SMEs is used as an envelope term.

value chains. This would span across its variety of industries[108] with some cross-border supply chains, including the export-oriented automotive industry, Namibian mining projects, sugar mill operations in Tanzania and Mauritius, and infrastructure development projects in Mozambique. Siemens participates in cross-border value chains through various backward and forward linkages.

C Siemens' business development programme

Business development incorporates supplier development, as this refers to supporting companies already in Siemens' supply chain. Those about to participate in Siemens' supply chain would undergo enterprise development. Siemens supports two types of SMEs, known as exempt micro enterprises (EMEs) that turn over less than ZAR 10 million ($0.78 million) and qualifying small enterprises (QSEs) that turn over ZAR 10–50 million ($0.78–$3.88 million); these are grouped according to their B-BBEE criteria. To contribute to their local content, their procurement practices entail sourcing from black women-owned and EMEs. Siemens sources 30–40% of its material from EMEs/QSEs, with 20% of these being black women-owned. These are usually preferred suppliers that are upskilled, but Siemens is also growing suppliers and hence there are preferential procurement policies in place.[109]

A maturity gap analysis is done on each supplier, in line with Siemens' procurement process, to assess the best supplier to source from, as there is a local-to-site policy, in line with its local content development.

Regarding finance, Siemens provides advance payments to its preferred suppliers, especially those in supplier development, up to 30% of the order, and ensures early settlement of payments, with no settlement charges. This may extend to a needs-based case where, if specific machinery, capital or transport is required, Siemens would acquire the necessary material. These SMEs would traditionally have to borrow equipment from other companies to deliver on work, but this created an opportunity where Siemens could step in and contribute to supplier development.

As EMEs and QSEs may not be able to absorb large enough orders, this is an example of an MNC supporting its suppliers to keep them responsive to the supply chain, as future orders can stem from the supplier. Preferential procurement contracts as opposed to 'ever-green' contracts are also under way to enable the suppliers to gauge the duration of their contracts, which is an added benefit.

Supplier development is also undertaken in business management, where training on human resources-related topics, supervisory skills and financing skills is provided. It also trains them in 'lean management', which seeks to increase customer value and decrease waste,[110] and consists of 'first in, first out' principles, among others.

108 Automation, building technologies, drive technology, energy, healthcare, mobility, financial solutions, consumer products and services.

109 Personal interview, Rita Nkuhlu, *op. cit.*

110 Lean Enterprise Institute, 'What is lean?' https://www.lean.org/WhatsLean, accessed 25 May 2017.

The cost of this training is met by the business excellence team brought in from Germany.

Within this, the compliance aspect – where Siemens assists suppliers with standards certification, particularly ISO certification – is important. These include the ISO 9000, a quality management standard; ISO 140000, an environmental management standard; and OHS 1000, an occupational health and safety standard. Siemens has its own individual environmental, health and safety measures.

Its preferential recruitment policies are in line with its B-BBEE codes, which speak to supplier development. It is a Level 2 company, with 39/40 points in the procurement sector. It has a 20% out of 12% target for black women-owned suppliers; this also extends to procuring suppliers, ie Siemens' suppliers also empowering their own suppliers. With QSEs it has a 23% out of 15% target. The difficulty is with EMEs, where it scores 7.5% out of a 15% target, as it is difficult to farm out engineering activities to smaller enterprises.

PWDs, among SME suppliers, are still a challenge, as the nature of the work is project/site related, although general administration is a department that is well suited to disabled individuals. Siemens is working on outsourcing to a specific capabilities unit, which provides services in this direction that would be suitable to fit into Siemens' suppliers' requirements.

D Siemens' standards experience

In 2015 Siemens launched a programme to aide SME suppliers to attain their certification, which was enacted in the form of a graduation process with the aim being to ensure suppliers become independent. This would consist of a medal-based system of, firstly, getting the supplier's fundamental systems in place, then the supplier earning 'bronze' all the way up to 'gold', where the ISO certificate is awarded. This system highlights the small steps in improvement that an SME undergoes before receiving the complete standard. TÜV Rhineland,[111] a German standards body, is outsourced to aide with the certification and implementation of the standards. All certification costs are covered by Siemens.

There are currently 10 small suppliers that have graduated with ISO certification, 38 black-owned EMEs in the process of attaining ISO certification, 24 within management training and 18 within lean management, with some that have already graduated.

E Concluding comments

Compliance continues to be an issue for these small suppliers, and a recommendation to generate an online presence in the Shanduka Blackpages, for example, may be beneficial as association here offers guarantees to the procuring company that the supplier is approved and compliant. Access to information for small business should

111 TÜV Rheinland, https://www.tuv.com/south-africa/en/index.html, accessed 25 May 2017.

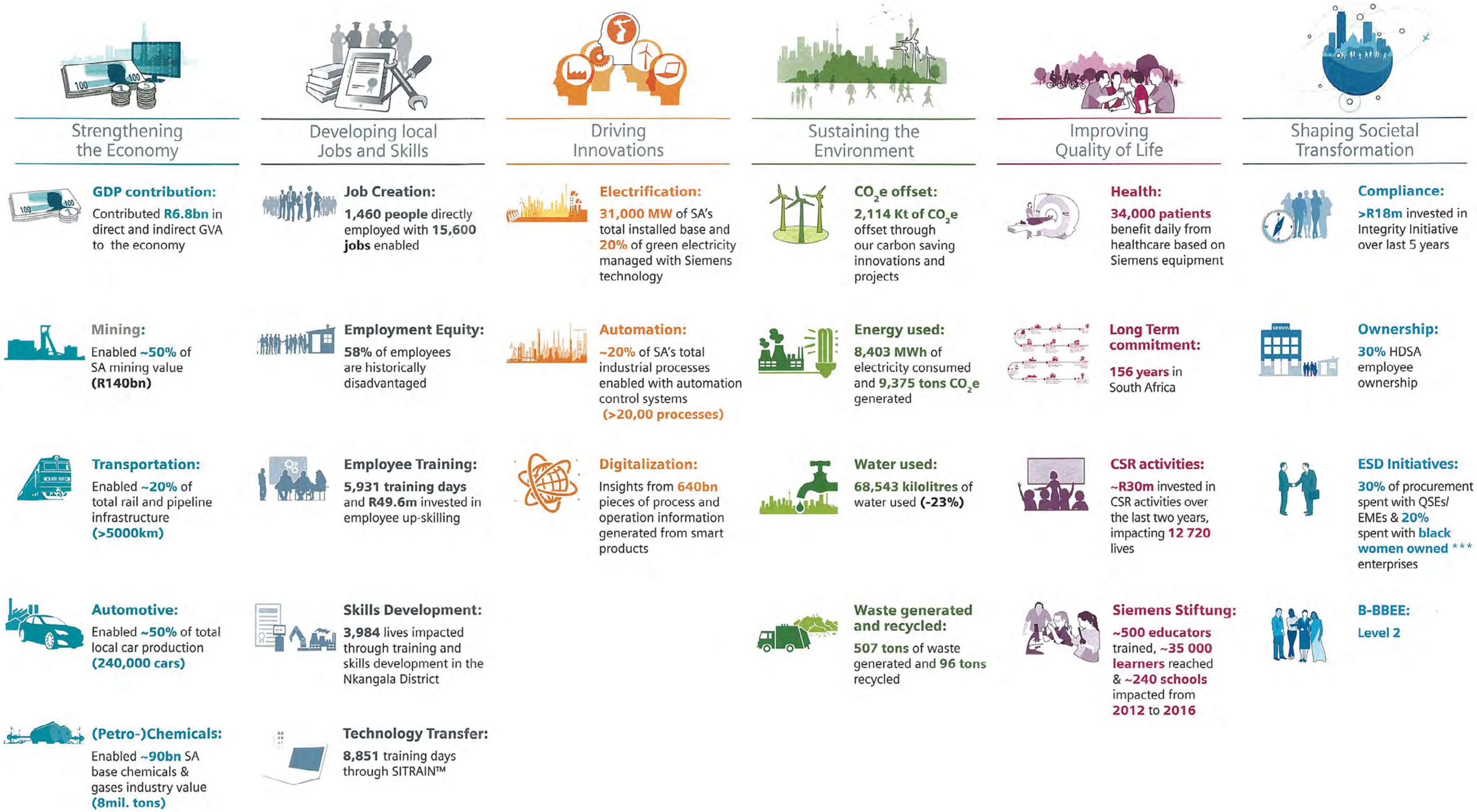
be 'zero rated' to enable these suppliers to attain the necessary information, for example, from the dti pages, without unnecessary data costs.

Currently, Siemens is trying to reconcile how the B-BBEE recognition incentive continues when a supplier grows to the level of a substantial company. This is an interesting challenge that was posed, by Rita, on the disincentive created for corporates to continually invest in their supplier development programmes. This is because, after nurturing these QSEs into substantial companies, from a business perspective, the B-BBEE codes and points on procurement only recognise the QSE and do not speak to the promotion of larger companies. Siemens is working on this alongside the dti.

Rita's concluding comments circled back to the idea that sustainability is important for the survival of SMEs, and corporates should move to support their suppliers as much as possible. Giving these company references in online context and going as far to pay for their licensing increases their credibility and access to markets.

Siemens is making every effort to contribute to South Africa's developmental goals and social inclusion. Its supplier development programme is a snippet of its dedication and commitment to its broader objectives and a model example of how companies should consider supporting their suppliers. Through a variety of business development programmes, Siemens fosters participation in value chains and allows these EMEs and QSEs to develop and become more marketable not only to Siemens but also to other companies, including state-owned enterprises, as this allows them to make a sustainable income.

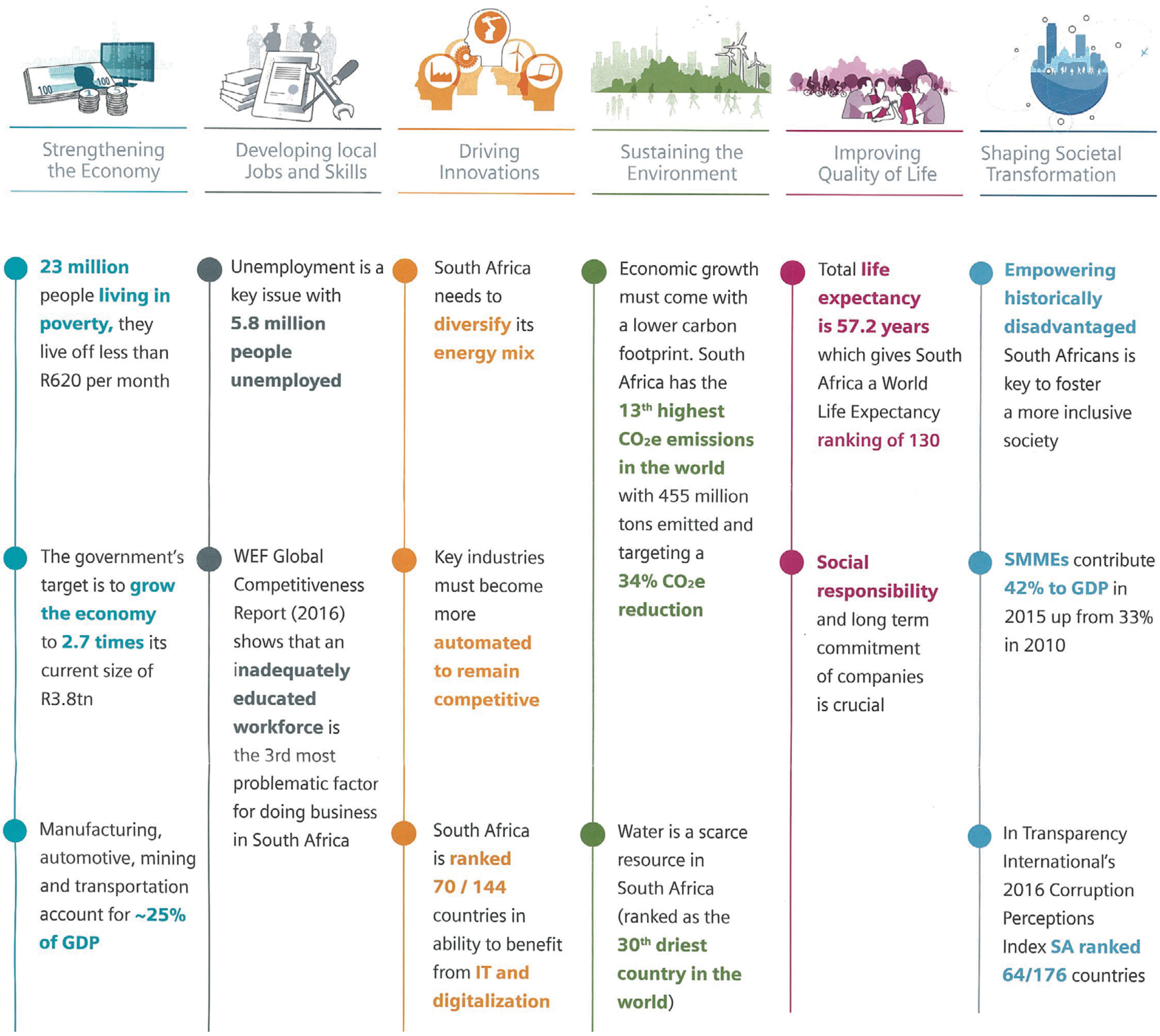
FIGURE 1 SIEMENS' BUSINESS TO SOCIETY, WHAT MATTERS TO SOUTH AFRICA?



Note: KPIs related to strengthening the economy, job creation, driving innovations, health and compliance relate to FY14 (Oct–Sep); FY: fiscal year; GDP: gross domestic product; PLM: product lifecycle management; IoT: Internet of things; STEM: science, technology, engineering, mathematics.

a All figures relate to Siemens FY16 (Oct–Sep) unless stated differently.
b FY15 (Oct–Sep).
c Refers to 30% black women-owned enterprises.

FIGURE 2 SIEMENS' BUSINESS TO SOCIETY, WHAT MATTERS TO SOUTH AFRICA?



Source: Accessed from Siemens, brochure, Midrand, 22 May 2017

Annexure 1.2: Case Study – SC Johnson Kenya

Supporting SMEs in MNC supply chains reduces cost for both parties, increases local supply, minimises negative effects on the environment, improves quality control, improves branding benefits, and develops an environment for the SME sector to inject innovation into the corporate world. According to the World Bank, the agricultural 'sector directly accounts for more than one-quarter of

the GDP in Kenya, 70% of rural jobs, 65% of exports, and 60% of foreign exchange earnings'.[112] We therefore look into the agribusiness incubation of SMEs in MNCs' supply chains. This entails directly working with early-stage enterprises and facilitation of their growth through a number of services such as shared facilities and equipment, business development, technology, finance, mentoring and networking.

SC Johnson: Capacity building for pyrethrum small-scale farms

Being a local MNC, SC Johnson partnered with the Pyrethrum Board of Kenya (PBK) and small-scale farms producing pyrethrum to provide technical assistance to the PBK, its key supplier of raw material, so that it may process and sell greater quantities and higher quality pyrethrum on behalf of small-scale daisy farmers in Kenya.[113]

SC Johnson then would buy pyrethrum from the PBK, a critical supplier to SC Johnson, for its production of insecticides.

In order for the PBK to provide a reliable, consistent supply of pyrethrum, SC Johnson assisted its supplier in the following ways:

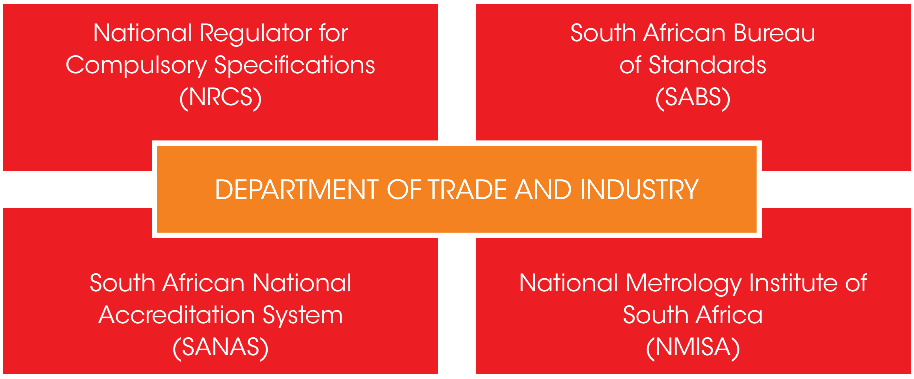
- Development of planning and forecasting abilities through sharing of best-practice examples and ongoing advice regarding the establishment and maintenance of a safety stock to help offset harvest shortages.
- Bio-efficacy testing protocols and tools to allow for a better comparison of results between products tested at PBK in Kenya and at SC Johnson in the US.
- Development of up-to-date analytical chemistry methods that have aided in the identification of new and different pyrethrum extracts.

The supply-chain capacity building involved the use of high-level technology, human resources and knowledge exchange to ensure continuous supply of pyrethrum inputs required for insecticide production. The capacity building by SC Johnson saw the PBK's product quality improve and its supply stabilise, thereby conforming to higher production.

112 D'Alessandro S *et al.*, 'Kenya Agricultural Risk Assessment', Policy note, Word Bank Group, 2015, http://documents.worldbank.org/curated/en/380271467998177940/pdf/100299-BRI-P148139-PUBLIC-Box393227B-Kenya-Policy-Note-web.pdf, accessed 6 September 2017.

113 Owino K, *op. cit.*

Annexure 2: Standardisation, Quality Assurance, Accreditation and Metrology Institutions Linked to the dti



Source: South Africa, the dti, 'Agencies', http://www.thedti.gov.za/agencies/ssa_agencies.jsp, accessed 4 April 2017

Annexure 3: Industry Span of SABS Voluntary Standards in the South

Accessibility & disability	Accoustics	Adhesive & packaging	Agro-chemicals	Automotive	Building & construction
Chemicals	Chromato-graphy	Civil engineering	Clothing & protective wear	Electronics appliances	Energy efficiency
Engineering	Environmental management services	Explosion prevention	Fibre & polymers	Food & beverages	Industrial chemistry
Lighting technology	Mark scheme	Mechanical & fluids	Medical & health	Metrology	Mining & minerals
Paints & sealants	Petro-chemical	Pharma-ceutical	Radiation protection	Rotating machinery	Rubber & plastics
Safety & security	SMMEs & quality audits	Solar water heating	Textiles & leather	Timber	Transport-ation

Source: SABS, 'Sectors and services', https://www.sabs.co.za/Sectors-and-Services/index.asp, accessed 4 April 2017

Annexure 4.1: ITC List of VSS in the South African Market

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
Heritage Certification – Hotels and Tourist Accommodation	Tourism	Services
Wine and Agricultural Ethical Trading Association	Wine	Production & extraction, processing & manufacturing.
Fair Trade Tourism Product Certification Standard	Tourism	Services
Milieukeur Standard for Citrus Production – South Africa	Agriculture	Production & extraction
Clean Clothes Campaign – Code of Labour Practices Logo	Labour	Production & extraction, processing & manufacturing, trading & retailing
Codex Alimentarius Food Hygiene	Food safety	Production & extraction
Ethical Tea Partnership (ETP)	Agriculture	Production & extraction
UN/ECE Standard FFV-50 Apples	Agriculture	Production & extraction
IFFO Global Standard for Responsible Supply (IFFO RS)	Fishing	Production & extraction, processing & manufacturing.
European Feed Ingredients Safety Certification (EFISC)	Feeds	Processing & manufacturing
TÜV Rheinland – Green Product Mark – Furniture	Furniture	
Roundtable on Sustainable Biomaterials (RSB)		Production & extraction, processing & manufacturing, trading & retailing
International Council on Mining and Metals	Mining and metals	Production & extraction, processing & manufacturing, trading & retailing
Bonsucro	Agriculture	Production & extraction, processing & manufacturing
FAMI-QS	Feeds	Processing & manufacturing
Friend of the Sea – Master	Marine	Production & extraction
Roundtable on Sustainable Palm Oil – Supply Chain Certification	Supply chain	Supply chain
Sustainability Initiative of South Africa (SIZA)	Agriculture	Production & extraction
Fairtrade International – Gold Standard	Sustainable trading practices	Production & extraction, processing & manufacturing
Global Sustainable Tourism Criteria for Destinations	Tourism	Services

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
Pharmaceutical Supply Chain Initiative	Supply chain	Production & extraction, processing & manufacturing
Together for Sustainability	Chemical industry supply chains	Production & extraction, processing & manufacturing
UTZ	Agriculture	Production & extraction, processing & manufacturing
Worldwide Responsible Accredited Production (WRAP)	Manufacturing	Processing & manufacturing
Global Sustainable Tourism Criteria for Hotel and Tour Operators	Tourism	Services
Fairtrade Textile Standard	Textile	Production & extraction, processing & manufacturing
Made in Green by OEKO-TEX®	Textile	Processing & manufacturing, trading & retailing
OEKO-TEX® Standard 100	Textile	Production & extraction, processing & manufacturing, trading & retailing
Initiative Clause Sociale (ICS)	Retail	Processing & manufacturing
FOS – Wild – Generic Sustainable Fishing Requirements	Fishing	
Electronic Industry Citizenship Coalition (EICC)	ICT	Production & extraction, processing & manufacturing, trading & retailing
Global Organic Textile Standard (GOTS)	Textile	Production & extraction, processing & manufacturing, trading & retailing, Services
Textile Exchange Organic Content Standard 2013	Organic content	Processing & manufacturing, trading & retailing
Workplace Condition Assessment (WCA)	Labour	Production & extraction, processing & manufacturing, trading & retailing
Responsible Jewellery Council (RJC)	Jewellery supply chain	Production & extraction, processing & manufacturing, trading & retailing
Forest Stewardship Council® – FSC® – Forest Management	Forestry	Production & extraction trading & retailing, services
Forest Stewardship Council® – FSC® – Chain of Custody	Forestry	Processing & manufacturing
GLOBALG.A.P. Floriculture	Agriculture	Production & extraction
Food Safety System Certification 22000	Food safety	Processing & manufacturing
Global Social Compliance Programme – Environment Level 2	Environmental management	

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
Global Social Compliance Programme – Environment Level 3	Environmental management	
GLOBALG.A.P. Crops	Agriculture	
Fair Trade USA	Labour	Production & extraction, processing & manufacturing, trading & retailing
USDA National Organic Program (NOP)	Organic content	Production & extraction, processing & manufacturing, trading & retailing
IFS Food	Food safety	Processing & manufacturing
MPS–ABC	Environmental management	Production & extraction
IFC Performance Standards on Environmental & Social Sustainability	Performance standard and funding	Production & extraction
Sustainable Agriculture Network – Rainforest Alliance – 2010	Agriculture	Production & extraction, processing & manufacturing
Marine Stewardship Council (MSC)	Fishing	Production & extraction, processing & manufacturing, trading & retailing
Fairtrade International Trader	Sustainable trading practices	Trading & retailing
Bio Suisse Standards for Imports	Organic content	Production & extraction, processing & manufacturing
Unilever Sustainable Agriculture Code	Agriculture	Production & extraction
ISCC EU	Supply chain	Production & extraction, processing & manufacturing, trading & retailing
ISCC PLUS	Supply chain	Production & extraction, processing & manufacturing, trading & retailing
Fairtrade International – Hired Labour	Labour	Production & extraction, processing & manufacturing, trading & retailing
Naturland Standards on Production	Organic content	Production & extraction, processing & manufacturing, trading & retailing
SAI Platform – Farm Sustainability Assessment	Agriculture	
Sustainability Assessment of Food and Agriculture Systems (SAFA)	Agriculture	
Alliance for Water Stewardship	Water	Production & extraction, processing & manufacturing, trading & retailing, services

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
Carbon Trust Product Footprint Certification	Greenhouse gas verification	Production & extraction, processing & manufacturing, trading & retailing, services
EU Organic Farming	Organic content	Production & extraction, processing & manufacturing, trading & retailing
Soil Association Organic Standards	Consumer products	Production & extraction, processing & manufacturing, trading & retailing
Global Reporting Initiative (GRI)	Reporting framework	Production & extraction, processing & manufacturing, trading & retailing,
IFOAM Standard	Organic content	Production & extraction, processing & manufacturing, trading & retailing
Guide on Social Responsibility for Chinese Int. Contractors	Construction	Processing & manufacturing
International Labour Organization – Labour Standards	Labour	Production & extraction, processing & manufacturing, trading & retailing, services
UN Global Compact	Sustainable development goals	Production & extraction, processing & manufacturing, trading & retailing, services
GLOBALG.A.P. Risk Assessment on Social Practice (GRASP)	Agriculture	
Sedex Members Ethical Trade Audit – SMETA Best Practice Guidance	Reporting framework	Production & extraction, processing & manufacturing, trading & retailing, services
Sedex Global (Supplier Ethical Data Exchange)	Supply chain	Production & extraction, processing & manufacturing
Verified Carbon Standard – VCS	Carbon credits	Production & extraction, processing & manufacturing
Global Social Compliance Programme	Social and environmental conditions	Production & extraction, processing & manufacturing
Global Social Compliance Programme – Environment Level 1	Social and environmental conditions	Production & extraction, processing & manufacturing
Ethical Trading Initiative (ETI)	Labour	Production & extraction
WFTO Guarantee System	Sustainable trading practices	Production & extraction, processing & manufacturing, trading & retailing
LEAF Marque	Agriculture	Production & extraction, processing & manufacturing, trading & retailing

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
EcoVadis	Supply chain	Production & extraction, processing & manufacturing, trading & retailing, services
Fair for Life	Sustainable trading practices	Production & extraction, processing & manufacturing
Fairtrade International – Small Producers Organizations	Sustainable trading practices	Production & extraction, processing & manufacturing, trading & retailing
Business Social Compliance Initiative Code of Conduct (BSCI)	Working conditions	Production & extraction, processing & manufacturing
BRC Global Standard for Food Safety Issue 7	Food safety and quality management	Processing & manufacturing

Source: ITC, *Social and Environmental Standards: Contributing to More Sustainable Value Chains*. Geneva: ITC, 2016

Annexure 4.2: ITC List of VSS in the Kenyan Market

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
4C – GCP	Coffee	Production & extraction, processing & manufacturing
Bio Suisse Standards for Imports	Organic content	Production & extraction, processing & manufacturing
BOPP Standard – Grower Standard	Agriculture	Production & extraction
BRC Global Standard for Food Safety Issue 7	Food safety	Processing & manufacturing
Codex Alimentarius Food Hygiene	Food safety	
Business Social Compliance Initiative Code of Conduct (BSCI)	Supply chain	Production & extraction, processing & manufacturing
Clean Clothes Campaign – Code of Labour Practices	Labour	Production & extraction, processing & manufacturing, trading & retailing
Climate, Community & Biodiversity Standards (CCB Standards)	Social and environmental conditions	Production & extraction, processing & manufacturing
BOPP Standard – Packhouse Standard		
East African Organic Products Standard (EAOPS)	Organic content	Production & extraction, processing & manufacturing
Ecotourism Kenya Eco-Rating	Tourism	Services
EcoVadis	Supply chain	Production & extraction, processing & manufacturing, trading & retailing, services
TÜV Rheinland – Green Product Mark – Furniture	Furniture	
Electronic Industry Citizenship Coalition (EICC)	Supply chain	Production & extraction, processing & manufacturing, trading & retailing
Ethical Tea Partnership (ETP)	Agriculture	Production & extraction
Ethical Trading Initiative (ETI)	Sustainable trading practices	Production & extraction
EU Organic Farming	Organic content	Production & extraction, processing & manufacturing, trading & retailing
European Feed ingredients Safety Certification (EFISC)	Feeds	Processing & manufacturing
Fair Flowers Fair Plants (FFP)	Agriculture	Production & extraction, processing & manufacturing, trading & retailing
Fair for Life	Sustainable trading practices	Production & extraction, processing & manufacturing
Fair Trade USA	Labour	Production & extraction, processing & manufacturing, trading & retailing

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
Fairtrade International – Gold Standard	Sustainable trading practices	Production & extraction, processing & manufacturing
Fairtrade International – Hired Labour	Labour	Production & extraction, processing & manufacturing, trading & retailing
Fairtrade International – Small Producers Organizations	Sustainable trading practices	Production & extraction, processing & manufacturing, trading & retailing
Fairtrade International Trader	Sustainable trading practices	Trading & retailing
Fairtrade Textile Standard	Textile	Production & extraction, processing & manufacturing
FairWild	Agriculture	Production & extraction, processing & manufacturing, trading & retailing
Flowers and Ornamentals Sustainability Standard – Silver Level	Agriculture	Production & extraction
Food Safety System Certification 22000	Food safety	Processing & manufacturing
Global Organic Textile Standard (GOTS)	Textile	Production & extraction, processing & manufacturing, trading & retailing, services
Global Reporting Initiative (GRI)	Reporting framework	Production & extraction, processing & manufacturing, trading & retailing, services
Global Social Compliance Programme	Social and environmental conditions	Production & extraction
Global Social Compliance Programme – Environment Level 1	Social and environmental conditions	Production & extraction, processing & manufacturing
Global Sustainable Tourism Criteria for Destinations	Tourism	Services
Global Social Compliance Programme – Environment Level 2	Social and environmental conditions	
Global Social Compliance Programme – Environment Level 3	Social and environmental conditions	
GLOBALG.A.P. Crops	Agriculture	
Global Sustainable Tourism Criteria for Hotel and Tour Operators	Tourism	Services
GLOBALG.A.P. Floriculture	Agriculture	Production & extraction

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
GLOBALG.A.P. Risk Assessment on Social Practice (GRASP)	Social and environmental conditions	Production & extraction
Guide on Social Responsibility for Chinese Int. Contractors	Social and environmental conditions	Processing & manufacturing
Heritage Certification – Hotels and Tourist Accommodation	Tourism	Services
IFC Performance Standards on Environmental & Social Sustainability	Reporting framework	Production & extraction
IFOAM Standard	Organic content	Production & extraction, processing & manufacturing, trading & retailing
Initiative Clause Sociale (ICS)	Retail	Processing & manufacturing
International Labour Organization Labour – Standards	Labour	Production & extraction, processing & manufacturing, trading & retailing, services
SAI Platform – Farm Sustainability Assessment		
Sustainability Assessment of Food and Agriculture Systems (SAFA)		
LEAF Marque	Agriculture	Production & extraction, processing & manufacturing, trading & retailing
MPS–ABC	Environmental management	Production & extraction
MPS–GAP	Agriculture	Production & extraction, processing & manufacturing
MPS–Socially Qualified (SQ)	Agriculture	Production & extraction
Pharmaceutical Supply Chain Initiative	Supply chain	Production & extraction, processing & manufacturing
Sedex Global (Supplier Ethical Data Exchange)	Supply chain	Production & extraction, processing & manufacturing
Sedex Members Ethical Trade Audit – SMETA Best Practice Guidance	Reporting framework	Production & extraction, processing & manufacturing, trading & retailing, services
Social Accountability International – SA8000	Social conditions	Production & extraction, processing & manufacturing
Soil Association Organic Standards	Organic content	Production & extraction, processing & manufacturing, trading & retailing, services
Sustainable Agriculture Network – Rainforest Alliance – 2010	Agriculture	Production & extraction, processing & manufacturing
Sustainably Grown	Social and environmental conditions	Production & extraction, processing & manufacturing, trading & retailing

STANDARD	RELATED SECTOR OR PROCESS IMPACTED	INDUSTRY OR PROCESS IMPACTED (ITC CLASSIFICATION)
Together for Sustainability	Supply chain	Production & extraction, processing & manufacturing
Travelife Award of Excellence	Tourism	Services
Travelife Gold Award for large hotels/ groups	Tourism	Services
Travelife Gold Award for small/medium-sized hotels	Tourism	Services
UN Global Compact	Sustainable development goals	Production & extraction, processing & manufacturing, trading & retailing, services
UN/ECE Standard FFV-50 Apples	Agriculture	Production & extraction
Unilever Sustainable Agriculture Code	Agriculture	Production & extraction
USDA National Organic Program (NOP)	Organic content	Production & extraction, processing & manufacturing, trading & retailing
UTZ	Coffee	Production & extraction, processing & manufacturing
Verified Carbon Standard (VCS)	Carbon credits	Production & extraction, processing & manufacturing
WFTO Guarantee System	Sustainable trading practices	Production & extraction, processing & manufacturing, trading & retailing
Workplace Condition Assessment (WCA)	Labour	Production & extraction, processing & manufacturing, trading & retailing
Worldwide Responsible Accredited Production (WRAP)	Manufacturing	Processing & manufacturing

Source: ITC, Social and Environmental Standards: Contributing to More Sustainable Value Chains. Geneva: ITC, 2016

Annexure 5: DTI's Lower-boundaries on Enterprise Sizes (adjusted by StatsSA)

INDUSTRY ANNUAL TURNOVER		LARGE > ZAR M	MEDIUM > ZAR M	SMALL > ZAR M	VERY SMALL > ZAR M
SIC2	Mining and quarrying	370.5	95.0	38.0	2.0
SIC3	Manufacturing	456.3	123.5	47.5	2.0
SIC4	Electricity, gas & water	456.3	123.5	48.5	2.0
SIC5	Construction	247.0	57.0	28.5	2.0
SIC61	Wholesale trade	608.0	304.0	57.0	2.0
SIC62	Retail trade	370.5	180.5	42.5	2.0
SIC63	Motor trade	370.5	180.5	42.5	2.0
SIC64	Accommodation & catering	123.5	57.0	48.5	2.0

Source: Bureau of Economic Research, *The Small, Medium and Micro Enterprise Sector of South Africa*. Stellenbosch: University of Stellenbosch

Annexure 6: List of Interviewees

NAME	COMPANY	DATE	LOCATION
Geoffrey Chapman	(former SABS official)	2017/03/31	Skype – England
Joseph Wozniak	ITC	2017/04/04	Skype – Geneva
Mark Taylor	DesSoft	2017/04/07	Centurion, South Africa
Lebo Matlou	Borwa Mining	2017/04/07	Pretoria, South Africa
Dumisani Mngadi	SABS	2017/04/10	Pretoria, South Africa
Babalwa Ntlangula	SABS	2017/04/10	Pretoria, South Africa
Rene Heydenrych	SABS	2017/04/10	Pretoria, South Africa
Duane Newman	Cova Advisory	2017/04/12	Skype – Pretoria, South Africa
Sandra Kruger	Sandra Kruger & Associates	2017/05/11	Skype – Pretoria, South Africa
Lesley Wentworth	NEPAD Business Foundation	2017/05/11	Skype – Pretoria, South Africa
Brendon Darroll	Small Business Partners	2017/05/19	Skype – Pretoria, South Africa
Rita Nkuhlu	Siemens Africa	2017/05/22	Midrand, South Africa
Benjamin	Nestlé	2017/05/23	Telephonic – South Africa
T Hooven	Nestlé	2017/05/24	Telephonic – South Africa
Adam Mabunda	Mopani Farmers Association	2017/05/24	Telephonic – South Africa
Marlese von Broembsen	Harvard Law School Researcher	2017/05/25	Pretoria, South Africa

Annexure 7: Unilever Company Code

UNILEVER EAST AFRICA CASE STUDY

'Know Your Business Partner' (KYBP) is a standard, primary and critical evaluative tool used by Unilever to identify potential suppliers known as third-party partners or 3Ps. The 3Ps are required to be in your supply chain of either goods or services. As a standards measure, KYBP must be able to volunteer detailed information of who they are, their size of operations, legal incorporation, ie, whether legally registered or not, and physical verifiable location.

Verifying the above threshold will go a long way in ensuring that health, environmental, social, company and quality standards are met. This will discourage third-party 'briefcase' suppliers, who have no physical location for their operations. In the value chain liability thus does not lie with the manufacturer but rather from where sourcing of products or material is done.

Suppliers must prove that there is policy in place to address the above standards. However, these requirements are not only at the entry level but will eventually also affect whether you are shortlisted into the system. The challenge remains that the probability of being left out as a potential supplier is high. In this case, it is important to identify or investigate the reasons why the suppliers are not compliant with the set standards.

For instance, Kenya Breweries renovated the Kenya National Theatre and required a service provider to run the bar on the premises. Unilever used the KYBP model to assess the applicants. Out of the top five that were shortlisted, three had issues and the final two still had a problem; none of them was completely compliant with the standards. In this case, Unilever requested financial statements, not as standards but to assess their commercial sustainability.

The Unilever procurement team found that the KYBP tool was still a challenge for most suppliers. The likelihood of having suppliers that do not have the required qualifications is thus high.

Source: Interview, Joseph Sunday, Director of Corporate Affairs, Unilever East Africa, 18 May 2017, Nairobi; Owino K, 'Kenya Case Study – Value Chains, Private Sustainability Standards and SMEs', Nairobi, 2017

Annexure 8: SME Support Institutions in Kenya

THE MICRO AND SMALL ENTERPRISE AUTHORITY (MSEA) AS A SUPPORT INSTITUTION

The MSEA was established by the government of Kenya under the Micro and Small Enterprise Act No. 55 of 2012. Its mandate is to formulate and coordinate policies that integrate MSEs into competitive and sustainable markets. It also coordinates sectorial associations in the following categories: manufacturing, traders, services, and agri-business.

The MSEA has a mandate to build the capacity of MSEs in partnership with relevant government bodies, agencies, and public and private training institutions. Its mandate includes:

- develop and administer certified demand-driven capacity building and entrepreneurship programmes;
- promote the technological modernisation and development of MSEs; and
- promote and provide business development services for MSEs.

Under the social pillar of the economic blueprint Vision 2030, the government committed to develop eight micro and small enterprise centres of excellence. So far, there is one pilot MSE centre of excellence at the national Jua Kali Demonstration and Training Centre in Kariobangi, Nairobi.

The MSEA facilitates cross-border trade between EAC member states. In 2016 it helped 250 registered MSEs to attend a regional exhibition in Uganda dubbed the 'East Africa Jua Kazi Nguvu Kazi Exhibition'. The programme seeks to promote the informal sector in the regional economy. Since 1999 the EAC has organised annual exhibitions comprising Uganda, Kenya, Tanzania, Rwanda, Burundi and South Sudan. During the exhibition, the exhibitors are also trained about opportunities in East Africa under the common market protocol, public procurement requirements, and market access through retail outlets.

Source: Micro and Small Enterprise Authority; Owino K, 'Kenya Case Study – Value Chains Private Sustainability Standards and SMEs', Nairobi, 2017

Annexure 9: Overview of Standards in Broader Context of WTO Agreements

Compulsory requirements/ Technical requirements	(Also referred to as technical regulations): Document that lays down product characteristics or their related processes and production methods, including the applicable administrative provisions with which compliance is mandatory. It may also include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method.
Standards	Document approved by a recognised body that provides for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods with which compliance is not mandatory. It may also include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method.
Conformity assessment procedures	Any procedure used, directly or indirectly, to determine that relevant requirements in technical regulations or standards are fulfilled.
TBT	Technical regulations that act as a barrier to trade.

Source: Wood C, *Regional Technical Regulations and Institutions: The Role of Standards Institutions in Unlocking Value Chains*, African Industrial Development and Integration: Research Programme, TIPS, 2016

GEGAFRICA

GLOBAL ECONOMIC GOVERNANCE