



INTEGRATING CORPORATE SOCIAL RESPONSIBILITY INTO PRIVATE SECTOR PROMOTION

THE CASE OF THE SMALL AND
MEDIUM ENTERPRISE DEVELOPMENT
PROGRAMME IN VIETNAM (SMEDP)

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IN VIETNAM (SMEDP)**

DORIS BECKER

Hanoi, April 2009

ABOUT GTZ

As an international cooperation enterprise for sustainable development with worldwide operations, the federally owned Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH supports the German Government in achieving its development-policy objectives. It provides viable, forward looking solutions for political, economic, ecological and social development in a globalised world. Working under difficult conditions, GTZ promotes complex reforms and change processes. Its corporate objective is to improve people's living conditions on a sustainable basis.

The German Federal Ministry for Economic Cooperation and Development (BMZ) is its major client. The company also operates on behalf of other German ministries, the governments of other countries and international clients, such as the European Commission, the United Nations and the World Bank, as well as on behalf of private enterprises. GTZ works on a public-benefit basis. All surpluses generated are channeled back into its own international cooperation projects for sustainable development.

GTZ has been working with its partners in Viet Nam since 1993 and promotes sustainable development in the three priority areas of Sustainable Economic Development, Management of Natural Resources including Water Supply, Wastewater and Solid Waste Management and Health. Additional projects are situated within the cross-cutting sector Poverty Reduction, implemented on behalf of other German ministries or realised by GTZ International Services. The Centre for International Migration and Development (CIM), a joint operation of GTZ and the International Placement Services (ZAV) of the German Federal Employment Agency (BA) currently has 20 integrated experts working as professionals for partner institutions in Viet Nam.

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ABBREVIATIONS

ASMED	Agency for Small and Medium Enterprise Development
CIEM	Central Institute of Economic Management
CSR	Corporate Social Responsibility
DOIT	Department of Industry and Trade
DPI	Department of Planning and Investment (at provincial level)
GHK	Good House Keeping
GlobalGAP	Global Good Agriculture Practice
GTZ	German Technical Cooperation
LED	Local Economic Development
LRED	Local and Regional Economic Development
MPI	Ministry of Planning and Investment (national level)
OSS	One-stop-shop
PACA	Participatory Appraisal of Competitiveness
PCI	Provincial Competitiveness Index
PPC	Provincial People's Committee
PPD	Public Private Dialogue
SME	Small and Medium Enterprises
SMEDP	Small and Medium Enterprise Development Program

FOREWORD

The objective of the Small and Medium Enterprise Development Programme (SMEDP), funded by the German Federal Ministry for Economic Cooperation and Development and implemented by GTZ and the Ministry of Planning and Investment, is to improve the competitiveness of small and medium enterprises in Vietnam.

In order to achieve this objective, SMEDP is working with a multi-stakeholder approach including public and private institutions at national level and in 4 selected provinces: An Giang, Dak Lak, Hung Yen and Quang Nam. The programme consists of 4 closely interrelated components: 1. SME Policy, 2. Local Economic Development, 3. Competitiveness of Selected Sub-Sectors and Value Chains and 4. Advanced Technical Services/ Material Testing.

While the programme was originally designed for a total of 12 years, a decision by the German government to concentrate the technical cooperation in a reduced number of areas resulted in an early phasing out of the programme after only 4 years, thereby posing a considerable challenge for partners and GTZ alike to ensure impacts and sustainability within a limited time frame. In light of this development, SMEDP decided to focus its work during the final year on the most successful products and instruments developed and introduced as far as demand, ownership by partners and potential for sustainability are concerned.

As knowledge management has been an integral part of the programme and was therefore embedded in the programme concept, the idea was born to "systematize" and document the experiences and lessons learned during the intervention process for the most successful instruments and products of SMEDP. These product systematisations include the following instruments and approaches: Regulatory Impact Assessment, Business Portal, LED Process, Local Coordination Board, Public Private Dialogue, the Value Chain approach with a focus on avocado and pangasius and Corporate Social Responsibility as a cross-cutting topic of the programme.

These systematisations were developed by GTZ SMEDP staff and were partially structured by applying the logic of the GTZ management tool Capacity Works, which is based on 5 success factors, namely strategy, cooperation, steering structure, processes and learning and innovation. The documents also drew on inputs from partners and other stakeholders.

While these documents might not be perfect, as they can only partially reflect the complex process of interventions within a technical cooperation project and its outcomes, it is our hope that they will be of help to our partners in the future in pursuing the further development of the products and that it can be a guide for other institutions and donors to replicate them wherever they deem them suitable for application.

This specific systematisation intends to give insight into how SMEDP integrated the topic of Corporate Social Responsibility as a cross-cutting issue in its interventions. It furthermore reflects upon achievements and remaining challenges in an environment in which CSR is a relatively new concept for the government as well as private enterprises.

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BACKGROUND AND CONTEXT

Corporate Social Responsibility (CSR) is generally understood as the private sector's commitment to socially and ecologically responsible business management.

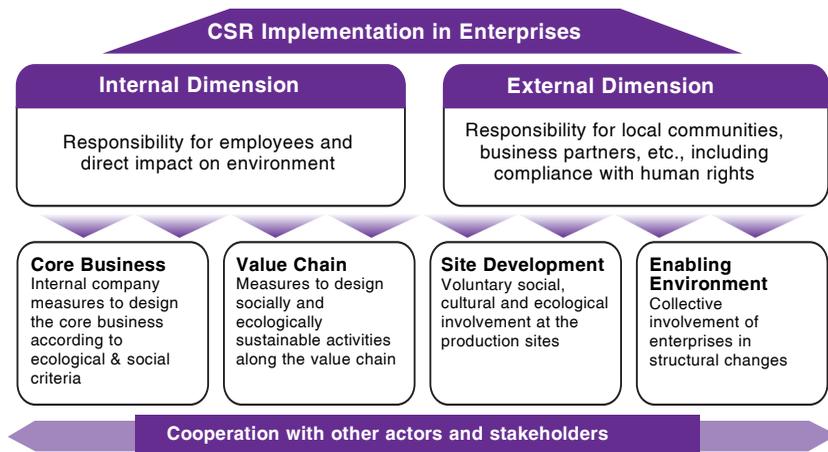
Enterprises commit themselves to observe human rights and environmentally and socially relevant principles when conducting their business and in their relationships with employees, suppliers, shareholders, investors, clients/consumers and the community in general.



The concept of CSR is closely related to the objectives of the key area 'Sustainable Economic Development' of the German Development Cooperation. Sustainable economic development pays attention to partner countries' economic policies; policies are supported which are oriented toward the Millennium Development Goals and which are in accordance with the principles of a "Social and Ecological Market Economy". Sustainable economic development should be understood as a process in which strong economic dynamics are linked to social compensation and a wise use of natural resources through an institutionalised interaction of market forces and politics. CSR is therefore seen as the incorporation of sustainable management

principles into the activities of enterprises. CSR implementation has both an internal dimension (responsibility towards staff) and an external dimension (responsibility towards third parties such as local communities, business partners, etc.) and, as shown in Figure 1, can basically take place in four areas: core business, value chains, site development and enabling environment.

Figure 1: Fields of Action in the Implementation of CSR in Enterprises (source: GTZ 2007)



This concept of CSR extends beyond simple compliance with national or international laws and regulations and is based on voluntary actions of enterprises, which aim to resolve problems of the society as a whole. It is a concept applied mostly in industrialized countries in Europe and North America.

In most developing countries, this comprehensive concept of CSR is not very common, as governments and consequently businesses in the early phases of a country's economic development often concentrate on increased profits and GDP growth. This focus can lead, for example, to increased competition

by using cheap labourers, which are often exposed to working conditions that do not comply with the most basic international human rights. Even if national laws for the protection of worker's rights and environmental protection, etc. are in place, their enforcement capacity is usually low and/or governments opt not to enforce them, because they fear that investors might turn to other countries in search of a more "favourable" investment climate. Another factor to take into consideration is the lack of awareness and power of consumers and consumer organizations in developing countries, which usually do not "sanction" the companies that are non-compliant. This has, however, improved in recent years as information about non-compliance is more readily available through the internet and other sources.

However, sustainable economic growth, and with it the opportunity for more jobs and higher income, can only be achieved if developing countries themselves strive to improve their competitiveness while at the same time expanding their market economy structures and institutions. Without government policies, which establish and enforce the basic principles of a social and ecological market economy - such as taking into consideration the well-being of the labour force and paying attention to the environmental impacts of production - CSR concepts are unlikely to find their way into the business world aside from some philanthropic activities that are personally motivated or some international enterprises, which follow the CSR principles of their headquarters in industrialized countries.

GTZ has tried to promote activities in the field of CSR in Vietnam through interventions in different areas and at different levels. This document describes the CSR-related activities, which have been implemented within the framework of the Small and Medium Enterprise Development Programme (SMEDP) between 2005 and 2008, assesses their impact on sustainable development as described above and outlines lessons learned from these experiences.

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II

INITIAL SITUATION FIRST STEPS TO INTRODUCE CSR ARE TAKEN

1. Competitiveness and the importance of international trade - The public policy rationale for CSR in Vietnam

Since the 1990s, Vietnam has taken important steps to change from a centrally-planned command economy into an export-oriented market economy. This has also led to strong integration into world trade and the international political community. Given the importance of international trade for Vietnam



today, with exports accounting for about 70% of its GDP, the government's policy rationale for CSR is based on the conviction that international competitiveness and the promotion of export oriented businesses are key to fostering future economic growth. This motivation for CSR is also shared by internationally renowned specialists on competitiveness like Michael Porter, who claims: "CSR can be much more than just a cost, constraint, or charitable deed. Approached strategically, it generates opportunity, innovation, and competitive advantage for corporations - while solving pressing social problems."

Additionally, Vietnam's export orientation requires a stronger focus on CSR, since a fair portion of Vietnam's export market is comprised of industrialized countries such as the United States and the European

¹ *The CSR Navigator - Public Policies in Africa, the Americas, Asia and Europe*, Bertelsmann Foundation/GTZ; 2007.

² Michael E. Porter and Mark R. Kramer, "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility".

Union, which require compliance with international standards as well as additional standards imposed by the buyers.

Although there is no explicit public policy on CSR, activities aiming at raising awareness have been taking place since the turn of the century through the creation of forums for dialogue and exchange and partnering with national business associations as well as bilateral and international donor agencies, such as GTZ. Several donors such as the UN Industrial Development Organization (UNIDO), the United Kingdom's Department for International Development (DfID) and the government of Switzerland have supported activities to work on compliance with international labour standards and to create CSR-related partnerships.

While there is no official governmental entity in charge of the topic of CSR as a whole, the points of entry for the previously mentioned activities are the Agenda 21 office at the Vietnam Chamber of Commerce and Industry, created in 1999 and the Ministry of Labour, Invalids and Social Affairs (MOLISA). The Agenda 21 office is, however, still young and its expertise is mainly related to labour issues in the footwear and garment sector.

Furthermore, in the context of accession to the World Trade Organization (WTO), there have been some government initiatives aiming to improve the legal framework on labour and environmental standards. Enforcement is, however, lagging behind due to unclear competencies, low institutional capacities and a lack of coordination between different levels and institutions.

2. The quality of economic growth and its implications for sustainable development and CSR implementation

Vietnam is a country which has made remarkable progress in terms of economic growth and poverty reduction. Gross domestic product

³ GTZ has supported the discussion of retail standards through a Public-Private Partnership between Germany's Foreign Trade Association of the Retail Industry and the Vietnam Business Links Initiative (VBLI) at the Vietnam Chamber of Commerce and Industry (VCCI).

(GDP), has doubled between 2002 and 2007, increasing at an average rate of 7% during the last decade and reaching almost USD 1.000 in 2008, while the poverty rate has been reduced from over 40% to around 13% over the same period. The country aspires to become a middle income country by 2010 and advance to the level of industrialized country by 2020.

This development has, however, led to detrimental effects on the well-being of the labour force and the environment due to a lack of compliance with international labour and environmental standards. In the last years, the number strikes, especially in foreign direct invested enterprises due to low wage labour, and the number of environmental scandals has risen drastically and gained increasing attention from policy makers, the media, and the general public. In 2008 alone, the number of strikes reached a record of 763, representing an increase of over 20% compared to the previous year.

Authorities at the provincial and local level have been mainly responsible for uncovering an increasing number of environmental scandals, which have gained increasing attention from the media and the public, while society has voiced its concern over the long term effects on the health and living conditions of future generations. According to a World Bank report from May 2008, Vietnam loses about USD 1 billion, or 2% of GDP, annually due to soaring environmental pollution.

Bureaucratic barriers and endemic corruption still pose a threat to more dynamic development, especially in the private sector. Despite government declarations that it will pursue a tougher policy on cases of corruption in public office, in practice, little has been achieved and investigators and journalists reporting on cases of corruption often find themselves in the position of the defendant, while the offenders remain free from prosecution and retain their positions.

Based on the aforementioned facts, the discussion about the "quality of growth" is making its way onto the political agenda and has to be addressed promptly in order to ensure sustainable growth in the future.

3. The state of CSR at company level - a topic limited to big enterprises connected to international value chains?

As previously mentioned, CSR activities at the company level are mainly related to multinational enterprises which seek to export to industrialized countries, and require compliance with certain standards for market entry. These multinational companies are often labour intensive and have only limited backward and forward linkages with the local economy. This is also true for the Vietnamese garment and footwear industries, which are the major industries with experience in CSR. Other industries with some knowledge on CSR, due to its export orientation, are the furniture industry and some bigger exporters of aquaculture products.

Focusing on small and medium enterprises at provincial level, SMEDP was confronted from the outset with the situation, that there was almost no knowledge or experience among local government authorities and the companies about CSR issues. The Departments of Planning and Investment (DPI) were the entry point for SMEDP in the provinces and with their primary interest focused on economic development, and above all attracting domestic and foreign direct investments, there was little focus from their side on sustainable development and CSR, while they were competing in a race between provinces to obtain the utmost number of investment projects. Additionally, with the government's policy on CSR not being explicit and not having any official "owner", there was no other government entity to which the task of CSR or sustainable development could have been assigned

As most CSR initiatives have hitherto taken place at the national level and were confined to a small group of multinational enterprises, which are usually located in special industrial zones, the topic had not "trickled down" to SMEs at the provincial level. Due to the weakness of provincial business associations as a possible mediator to raise awareness and transmit knowledge on

this topic and a lack of integration of SMEs into international value chains, CSR did not seem very relevant to SMEs. VCCI is primarily active in the economic hubs of the country and with little outreach at the provincial level through their regional offices, they could not fill this vacuum either.

However, with the increased pressure to open up the economy in the context of WTO accession, SMEs are steadily becoming more exposed to external competition, as their products face the competition of import products and they themselves strive to conquer export markets.

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THE INTERVENTION PROCESS - INTEGRATING SUSTAINABLE DEVELOPMENT AND CSR INTO THE PROGRAMME APPROACH

1. The strategy - from awareness raising to implementation of CSR

The SMEDP approach to corporate social responsibility was not based on the promotion of CSR as a separate topic, but rather integrating its principles of sustainable management and CSR into different interventions following the different classifications of CSR presented in Figure 1. This approach, while



including some awareness raising measures, went far beyond this stage and mostly took the form of concrete activities, which involved both enterprises and public entities and had direct economic, social and environmental impacts.

At the macro level of promotion of SME/private sector policies and strategies, SMEDP based its work on the principles of the social and environmental market economy and the capacity building of institutions responsible for the design, implementation and monitoring of such policies.

At the meso level of strengthening private sector institutions such as business associations, SMEDP promoted their contribution to structural change and intensified interaction with public institutions (for example through public-private dialogue) in order to achieve a more enabling

environment for the enterprise community. Additionally, SMEDP also supported government entities at the provincial level in providing better services to the private sector.

At the micro level and in selected sub-sectors, SMEDP promoted the value chain approach with a built in concept of socially and ecologically sound measures along the whole chain from inputs all the way to sales.

In some cases, SMEDP even promoted CSR as a core business, as in the case of upscaling organic production of pangasius in An Giang Province.

Furthermore, the introduction of Good House Keeping Courses (GHK) at the provincial level and the development of a trainer network on this topic, as well as strengthening CafeControl to become a certification body for GlobalGAP aimed at improving the provision of CSR-related services to enterprises.

At the beginning of the process, a series of roundtable discussions on CSR were organized in close cooperation with the Vietnam Chamber of Commerce and Industry. The roundtables were organized in Hanoi and Ho Chi Minh City. National media was heavily involved in order to strengthen public awareness about CSR.

Cooperation with the University of Social and Labour Affairs was established with the objective of integrating CSR as a module in the training curriculum of the university. The training curriculum was developed and tested. With support from the programme, professors at the university are exposed to international CSR resources and were encouraged to conduct research and studies on the topic. Though CSR has not become a separate subject taught at the university, concepts about CSR have been integrated in many subjects.

The interventions in the different areas are described in more detail below to ensure a better understanding as to how the topics of sustainable development and CSR were integrated. It should be noted, however, that SMEDP interventions did not cover the topic of site development (see Figure 1), as the programme did not work with individual enterprises, but rather decided to concentrate in the other areas instead.

2. Value chain promotion as a core approach to the introduction of sustainable development and corporate social sustainability

The promotion of selected sub-sectors and value chains is one of the 4 components of SMEDP and therefore a focus of the programme. The objective of this component is to strengthen the business and cooperation relationships between different stakeholders of the sub-sectors / value chains (production, processing, trade, services). The intervention follows the GTZ ValueLinks methodology, which has been developed based on experiences in project implementation and input from several different institutions working on this topic.

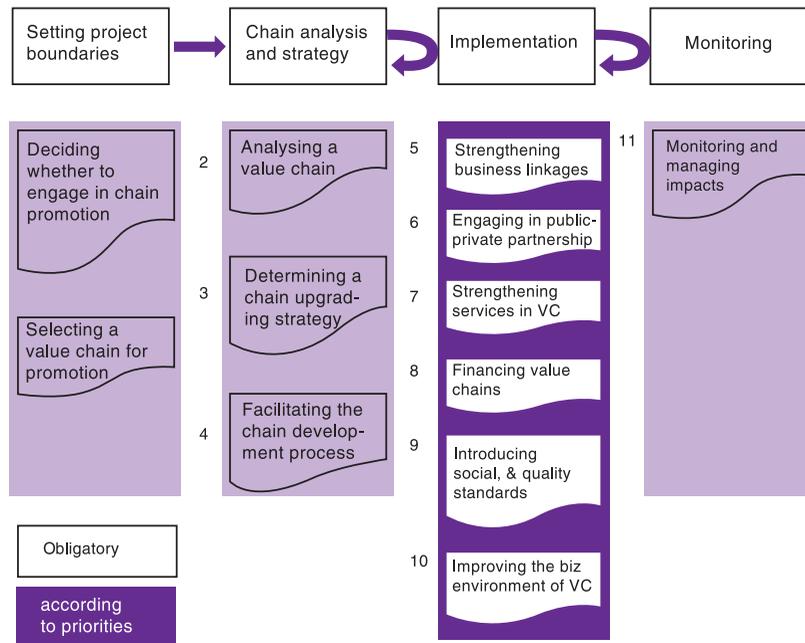
The figure on the next page describes the ValueLinks methodology from setting the boundaries for intervention to monitoring its outcomes. This methodology is applied by all GTZ-supported projects in this field of work across the world and considerable experience has been gained during the years regarding the outcomes of its application.

The programme supported the development of a total of 8, mostly agricultural, value chains in the 4 provinces (pangasius, vegetables (2 provinces), coffee, avocado, longan, litchi and rattan). In all cases, the decision about the intervention was taken based on considerations of economic, social and ecological sustainability.

⁴ For more information on the methodology see: www.value-links.de

In the case of the rattan chain in Quang Nam, for example, where the chain analysis concluded that rattan resources were seriously depleted due to extensive harvesting of wild rattan from forests. This in turn affected the environmental sustainability, so SMEDP made its support contingent on local partners investing in managed plantations and the application of improved rattan harvesting techniques.

Figure 2: The 11 Steps of the GTZ ValueLinks Methodology



In the design of the intervention strategies, social and environmental aspects also played a major role. The introduction of good social and environmental practices were embedded in all chain strategies and in those cases where the export market was the target, such as for pangasius, international quality standards

such as GlobalGAP were introduced and applied. Raising awareness of CSR issues was a priority and CSR topics were integrated into interventions, but never against the will of the stakeholders. The programme chose economic opportunities and favourable framework conditions as a trigger for CSR related activities.

As public-private partnerships (PPP) were one of the targets of this component, these were used to leverage the topic of CSR. One such PPP between GTZ and Metro Cash & Carry Vietnam aimed to develop supply chains in the fresh fruit and vegetable sector with the objective of improving food safety and complying with Metro quality standards and achieving GlobalGAP certification for selected products. The PPP, which covered 12 value chains in three regions, was also a good vehicle for raising awareness among farmers, government entities and the general public in regards to good agricultural practices and food safety beyond the 4 provinces of SMEDP.

In all of the value chains, GTZ assumed the role of a facilitator, while the responsibility for implementation lay with local government entities such as the Department of Agriculture (DARD) or Department of Industry and Trade (DOIT) and the private sector. The strategy was to transfer knowledge on sustainable development and CSR to these stakeholders for future replication.

3. CSR as core business: converting international standards into a business opportunity

3.1 The case of organic pangasius cultivation in the Mekong Delta

In an increasing number of industrialized countries, the demand for organic products is steadily on the rise as consumers are willing to

pay extra for products that are produced while taking the well-being of the workforce and the environment into consideration. This also holds true for aquaculture products like pangasius.

To enhance organic cultivation of pangasius, GTZ joined forces with BincaSeafood in a PPP which aimed to develop and establish a certification system for organic production of high-quality pangasius for export. The project concentrated on environmental protection and conservation of natural resources in Vietnam. The focus was on establishing and implementing social and ecological standards, cooperating with the private sector in developing, introducing and implementing these standards, and fostering strategic partnerships among the private sector, associations of farmers, and development cooperation organisations.

Impacts were primarily achieved in the area of environmental protection and the preservation of natural resources. By creating alternative, ecologically safe aquaculture production methods, the project contributed to counteracting the ecologically damaging impacts of conventional production practices while securing ecologically sustainable production as well as long-term preservation of natural resources.

The project also took social aspects into account. The introduction of social standards in the envisioned organic aquaculture sector assured that working conditions were in accordance with internationally recognized guidelines - that is no child labour and the payment of a legal minimum wage. This also substantially reduced health hazards resulting from conventional aquaculture. From an economic perspective, marketing products from organic aquaculture reduced the danger of losing markets and increased farmer incomes with the price premium for organic products (10-20% at producer level).

3.2 Providing CSR related services as core business

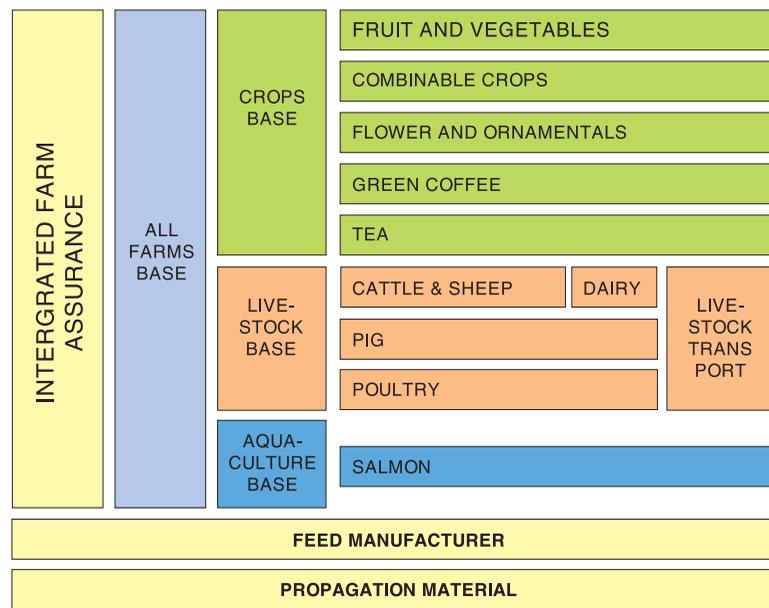
Component 2 of SMEDP, which focuses on Local Economic Development (LED) with the aim of state and private stakeholders in selected provinces implementing essential promotional policies and activities, has identified the improvement of service provision for SMEs as one intervention area.

Since SMEDP did have a pronounced interest on promoting CSR and sustainable development beyond the level of select interventions, it also engaged in identifying and strengthening possible service providers for CSR related services. This step was taken in the belief that CSR will become a profitable business in the medium to long term as demand for such services will rise due to international pressure and increased enforcement of regulations and policies from the national government.

SMEDP therefore entered into cooperation with the Small and Medium Enterprise Development Centre (SMEDC) of the Directorate of Standards in Ho Chi Minh City in order to introduce Good House Keeping (GHK) Courses, developed by GTZ in the 1990s. GHK enables small and medium-sized enterprises to independently identify cases of obviously inefficient and environmentally adverse use of natural resources, increase workplace safety, analyse possible cost reductions, and organise the implementation of adequate measures. These courses were introduced in the 4 provinces of SMEDP, not only in the previously mentioned value chains, but also in other sectors such as tourism. The introduction of these courses went hand-in-hand with training of trainers on the GHK methodology, linking the national trainer network to the international PREMA (profitable resource management) network supported by GTZ, and institutionally strengthening SMEDC to assure that it will be able to provide services on a sustainable basis. Furthermore, the support also included the development and implementation of a marketing

strategy and the necessary materials for promotion of the services. SMEDP also supported CafeControl to become a national certification body for GLOBALGAP standard. GLOBALGAP is a private sector body that sets voluntary standards for the certification of agricultural products around the world. The GLOBALGAP standard is primarily designed to reassure consumers about how food is produced (food safety) on the farm by minimizing the detrimental environmental impacts of farming operations, reducing the use of chemical inputs, and ensuring a responsible approach to worker health and safety while paying attention to animal welfare. As can be seen in the figure below, GLOBALGAP is a comprehensive approach, striving first for integrated farm assurance before permitting the certification of specific products. This assures that the farmers/producers concentrate on improving overall farm management before trying to get certification for specific products.

Figure 3: The Structure of the GLOBALGAP Standard



⁵ For more information on GLOBALGAP, see: www.globalgap.org

With GLOBALGAP becoming increasingly popular, especially for exports to the European market, more and more producers are interested in applying the standard, especially since neighbouring countries such as Thailand have already embarked on a campaign for mass divulgation of the standard by several associations of exporters.

By transforming itself into a national certification body for GLOBALGAP, CafeControl may be able to seize a new business opportunity as certification according to international standards is costly for producers, due to the need of international auditors and there is currently no national entity able to deliver this service. This is especially promising since CafeControl is already an internationally recognized certification body for other standards, mainly in the coffee sector.

In order to complement CafeControl's campaign to become a certification body of GLOBALGAP, a German Certification Body (Gesellschaft für Ressourcenschutz-GfRS) consulted CafeControl to complete all the quality management system documents according to ISO/Guide 65 and conducted an internal audit. An assessment by DAP (Deutsches Akkreditierungssystem Prüfwesen GmbH - German Accreditation Body) for the accreditation of CafeControl to become a national certification body for the GLOBALGAP standard of fruits and vegetables will take place at the end of March 2009, and first certifications can be expected to take place by late 2009. SMEDP joined with the German company FoodPlus to cooperate on the establishment of Training of Trainers courses for GLOBALGAP service providers from different organizations/institutions. These courses are specialized in agricultural certification in order to train consultants who are interested in providing their services to producers aiming to achieve GLOBALGAP certification. These consultants have already started introducing their services to the Vietnamese market.

By linking these interventions to Vietnamese institutions and building up the necessary know-how and expertise within these institutions as well as creating links to international reference networks, the approaches have been "institutionalised" and the institutions are prepared to handle future demands.

4. Enabling environment: collective action for structural change and increasing transparency

The focus of Component 1 of SMEDP is the creation of an enabling environment for private enterprises. This includes, among other things, the involvement of the enterprise community in policy making through public private dialogue (PPD). SMEDP concentrated in this area on the creation of a basis of trust between the public and private sector which would permit the joint development of policies and an adequate regulatory framework. Methods and instruments for this trust building were introduced at the national and provincial level and the corresponding knowledge and experience were built up in the public and private sector. In this context, special emphasis was put on strengthening business associations in their policy advocacy function. The business associations in the pilot provinces of the programme now take an active role in policy making and strategy development at the provincial level.

Furthermore, SMEDP supported the introduction of regulatory impact assessment (RIA) as a tool for lawmaking, to ensure that all laws are carefully examined and do not have any detrimental effects to private enterprises. RIA has now been integrated into the law on lawmaking and has thereby become a mandatory instrument in any lawmaking process. This puts the private sector in a much better position, as proposed laws which have negative effects on the private sector will not be passed.

The creation of one-stop-shops for business registration, joining the forces of three different public institutions and the introduction of an internet supported tool for business registration (BusinessPortal - www.businessportal.vn) are also among the priority intervention areas of SMEDP. Services for enterprises have become more customer-oriented, much faster and more transparent. This has led to a considerable reduction in the possibilities for corruption, thereby improving the business environment.



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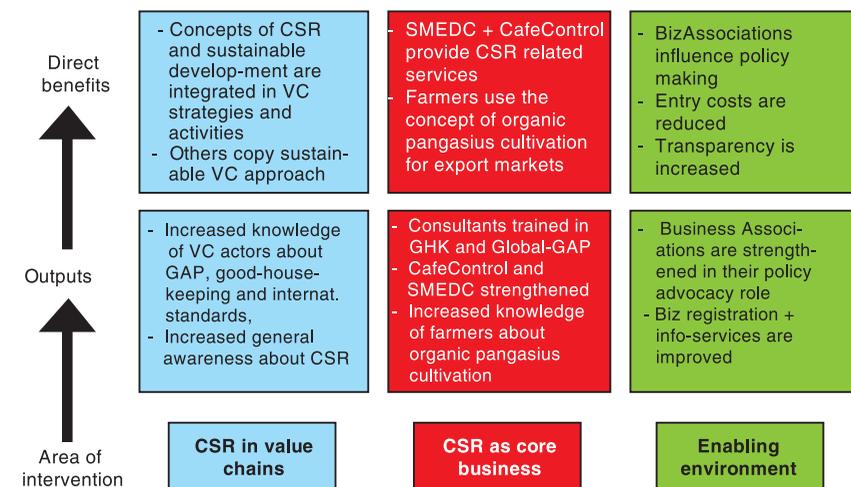
IV

RESULTS ACHIEVED AND CHALLENGES

1. Major Results

As CSR was not explicitly included as a separate area of intervention, but rather managed as a cross-cutting topic, no specific impact chain was developed prior to the intervention process. Intended results were, however, included in the impact chains of the different components (for example in the value chains for the introduction of sustainable cultivation and management methods). In order to gain a better understanding of the interventions, the major results in terms of outputs resulting from project activities and direct benefits originating from the use of outputs achieved in the different intervention areas related to CSR are described in the figure below.

Figure 4: Outputs and Direct Benefits of Different CSR Interventions of SMEDP



The programme's work has contributed considerably to spreading the concept of sustainable development and CSR in the aforementioned areas: CSR in value chains, CSR as core business and CSR as a contribution to a more enabling environment for private enterprises.

The most notable results at the end of the programme are the following:

- Awareness about sustainable development and CSR topics has increased in all of the pilot provinces and beyond.
- The value chain approach focusing on sustainable development (economic, social and environment aspects) has gained high acceptance among all its stakeholders in the programme provinces and has been replicated in other provinces. Other donors, technical cooperation agencies and the international and national private sectors have also become increasingly interested in this comprehensive approach to value chain promotion. Several projects have been set up to replicate the approach of SMEDP, including the integration of CSR aspects.
- SMEDC has institutionalised GHK as a service package and built up a trainer network. This offer of training and consulting services on Good House Keeping has met with increasing demand from enterprises, especially in Hung Yen and An Giang, but also in other provinces such as Nam Dinh. Some provinces have started to allocate financial resources to subsidize these services. Other donors have also shown interest in replicating these courses in the context of other projects.
- CafeControl is in the process of becoming a certification body for GLOBALGAP. Demand for consulting and auditing services for GLOBALGAP is increasing as farmers/enterprises become increasingly aware of the importance of better food safety while retailers and consumers require more quality and traceability of products. This tendency will grow as Vietnam - according to WTO regulations - must open its retail market further, thereby allowing more international retailers to conquer market shares at the expense of the traditional wet markets.
- Business associations are now able to engage in public-private dialogue and influence policy making. They have also gained a

stronger standing in the provinces due to SMEDP interventions and involvement in activities and are thereby able to contribute to structural change. Examples include the assumption of functions that were previously implemented by the public sector and joint efforts on policy issues with the public sector.

- With the introduction of new concepts such as customer-oriented service provision by government entities, one-stop-shops (OSS) and e-government for business registration procedures using the BusinessPortal, entry costs are reduced, transparency is increased and possibilities for corruption are minimized. Data from the Provincial Competitiveness Index (PCI) 2008 indicates that all four SMEDP provinces have improved PCI sub-indices of entry costs and transparency and outperform the national median for these sub-indices.

2. Challenges

In spite of the achieved results, there are still considerable challenges. The main ones follow:

- CSR-related services on the GLOBALGAP standard at CafeControl are not yet fully in place as CafeControl has not yet been accredited as a certification body.
- Although some consultants have been trained on GLOBALGAP, they currently have very limited experience, which must be further built upon in order to meet the increasing demand.
- Institutionalisation of Good House Keeping services at SMEDC is at an early stage and must be subsidized. So far, there are only a limited number of enterprises that are willing to pay for these services as there is also a limited number of provinces allocating funds for this purpose. This jeopardizes the financial sustainability of these services.
- The capacity of business associations to engage in public-private dialogue as a collective activity is still limited, as this engagement of the private sector in public policy development is fairly new to Vietnam. This is especially true for the provincial level.

INTEGRATING CORPORATE SOCIAL RESPONSIBILITY INTO PRIVATE SECTOR PROMOTION

THE CASE OF THE SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROGRAMME IN VIETNAM (SMEDP)



LESSONS LEARNED

During the implementation of SMEDP, a number of lessons learned could be compiled based on the experience gained in the different areas of CSR mentioned above. The following are the most important:

1. Embedding CSR and sustainable development into the programme concept

With a multi-level and multi-stakeholder approach and the concept of sustainable development based on the principles of a social and ecological market economy, the SMEDP provided an excellent basis for the comprehensive integration of CSR-related interventions. While the objectives of Component 1 aligned completely with the CSR area of enabling environment (see Figure 1), Component 3 provided ample grounds for measures designing socially and ecologically sustainable interventions along the value chains, and Component 2 was able to connect all of these topics with other stakeholders at the provincial level.

Additionally, the work at the meso-level allowed the programme to contribute to "institutionalising" the topic of sustainable development and CSR with institutions such as CafeControl and SMEDC, which both provide CSR related services, as well as with partner institutions at the provincial level such as the Department of Agriculture, Department of Industry and Trade and different business associations, universities and technical institutes.

SMEDP interventions have helped to increase and spread awareness about the topic and the implementation structure of the programme. The involvement of several public and private institutions into local coordination boards has facilitated the dissemination of information and even led to the allocation of resources for CSR related activities by Provincial People's Committees.

2. Use customer demand and access to markets to achieve leverage

With the dependence of the Vietnamese economy on exports, which to an increasing extent must comply with international standards and customer demands of food safety, it becomes easier to introduce concepts of sustainable management and CSR. The recent scandal concerning milk products contaminated with melamine and the subsequent reaction of Vietnamese authorities and consumers has shown that awareness about food safety is on the rise. This has strongly benefited larger supermarkets, whose sales went up as a consequence of the scandals, as consumers believe that their products are safer.

It was difficult in some areas - and almost impossible in the Red River Delta - to convince producers to engage in GAP at the beginning of the PPP with Metro & Cash and Carry for development of selected fruit and vegetable supply chains. Nowadays though, there is high demand from the producers and the responsible state agencies such as the Department for Agriculture and Rural Development at the provincial level. The Ministry of Agriculture has also started to develop the VietGAP standard for the national market in response to more food safety requirements.

As the Vietnamese government is placing great emphasis on promoting exports and improving the quality of export products, the need for the application of international standards will continue to

rise. This demand has also been felt by SMEDP and led to increased demand for certification towards the end of the programme.

3. Produce results, don't just talk: focus on savings at company level and value added

While CSR is still a fairly new topic, especially for smaller enterprises, it does not make much sense to base an intervention approach at the company level on addressing CSR as such. One should rather concentrate on how elements of CSR can help an enterprise reduce costs and increase efficiency. It is also possible to sell this "good behaviour" outside the enterprises through marketing efforts, which will be rewarded by more conscious customers in the future and lead - at a later stage - to more socially responsible investment and the subsequent creation of a stock index for socially responsible companies, as is now common in industrialized countries.

This focus on reduction of costs and increasing efficiency, which is at the core of the Good House Keeping method, was very successful. As enterprises, particularly smaller ones, have to undertake analysis themselves regarding aspects such as raw material waste, energy, water and other inputs and the negative effects of production on workers' health and the follow-up costs involved, they are more inclined to take immediate action than in the case of abstract CSR trainings. The integration of GHK courses into value chain promotion has also met with a very positive response from enterprises and sector associations.

It has also proven helpful to develop case studies based on real examples of enterprises which have saved by applying Good House Keeping practices, and use them as examples in GHK trainings. These examples are a lot more credible than any input from a CSR expert.

4. Creating new business opportunities at the meso-level is important

In order to respond to the increasing demand for CSR-related services such as trainings and consulting services, it is crucial to build up institutions at the meso-level, which can respond to this demand.

SMEDP aimed to achieve this by encouraging CafeControl to become a certification body for GLOBALGAP and by training local consultants on GLOBALGAP. Presently, there is already considerable interest from public and private service providers to offer these services. They regard it as a business opportunity,



which is likely to profit from ever higher demands for standards from the export sector and an increasing determination by the government to implement national standards such as VietGAP.

Several institutions and private consultants have invested in the training that SMEDP offered and CafeControl has made important steps towards becoming an internationally recognized certification

body. For them it represents a chance to diversify their services beyond the coffee sector and become a reference institution on this topic. The strategy of combining work at the micro-level with

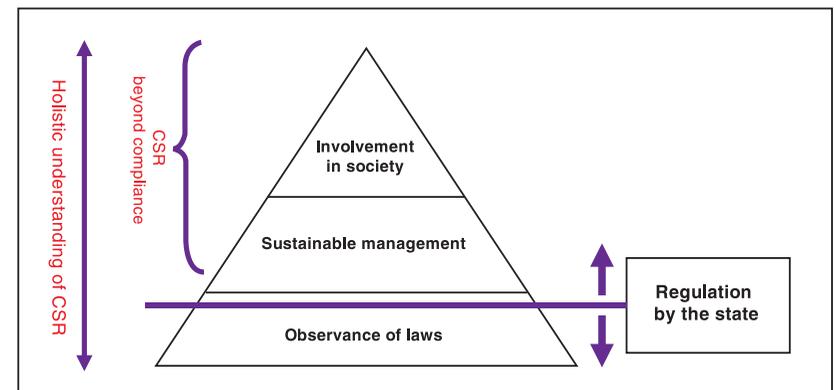
producers/enterprises and the meso-level to build up services for these enterprises has proven very successful.

The same is also true for SMEDC, which is the only institution of its kind in Vietnam and has created a network of trainers as well as a link to an international trainer network.

5. "It takes two to tango" - the importance of the engagement of the public and private sector

Although CSR is seen in many industrialized countries as something originating mainly from the private sector, it is essential that there is government involvement in order to create a minimum level of state regulations and ensure the establishment of regulatory laws and compliance with these laws. The figure below shows the interaction between these two areas and their roles.

Figure 5: Interaction between Voluntary Activities and Regulation by the State in the Debate on CSR



The work of SMEDP at the national and provincial levels therefore not only focused on working with enterprises and their associations, but also included public institutions in their activities, such as the Ministry of Labour, Invalids and Social Affairs, and the Ministry of Industry and Trade including their provincial offices.

For SMEDP it has proven to be of vital importance to include both sides in the implementation of CSR issues, particularly because the topic is new and there has to be a mutual understanding of the concepts and what is desirable and feasible for CSR at a given time. Experiences during programme implementation have shown that the line between "state regulation" and "CSR beyond compliance" is rapidly changing as the general awareness of consumers and the society as a whole is generating more pressure on enterprises to apply socially and environmentally sound business schemes.