

Social and Economic Upgrading of SMEs: Building a Sustainable and Inclusive Value Chain Network in the Andean Camelid Textile Sector

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INTRODUCTION

The environmental and social unsustainability of the current fashion industry motivates many stakeholders to advocate for its change. This paper will examine how an alternative approach can transform the industry into a source of development for previously disenfranchised rural communities by integrating SMEs into the global economy in a sustainable way. We begin by tracing the development of global value chains (GVCs) in the fashion industry, and outlining the potentials and challenges for development they present through social and economic upgrading. We then switch to GVCs of SMEs that make garments in rural South America to identify why the current models there do not produce equitable outcomes. We argue that in a traditional linear supply chain local producers, especially those in rural areas, are disconnected from the global market, leaving them vulnerable to exploitation, commercial disconnect, and underdevelopment. This is exacerbated by lack of working market institutions.

Following this analysis, we propose a holistic global value chain network approach that would lead to the development of strategies entailing close collaboration and synergy of all the parties involved, leading to a fair and transparent market. In this paper, we present a case of sustainability in the Andean camelids textile sector through *Animaná*, a B-Corporation, and *Hecho por Nosotros*, an NGO. Their integrated approach works at every step so that artisans not only having access to market prices and best practices, but can also easily adapting to changing demands in the (luxury) market. Value is added and retained at the local level. We thus argue that academic expertise as well as financial, governmental, and institutional support and integrations are crucial to cultivate a self-reinforcing cycle. The experience of HxN and *Animaná* can be applied to other textile industries and can help formulate recommendations for policy-makers, businesses and the civil society on how to overcome the challenges that tag along the sustainable fashion industry.

PART I. Global Value Chains and Development: Asian Fast Fashion

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For many industrialised and newly industrialized economies the textile industry was an important part of industrialization. Low entry barriers with low fixed costs and relatively simple technology, combined with the labour intensity, gave the chance of employing a rapidly growing population, and a growing share of women in the labour force⁴. Similarly in the past decades, for many Asian countries, as well as in Latin America to a lesser degree, the industry has proven to be a main driver of economic development⁵.

Most garments in the fashion industry today are the end-product of a non-integrated buyer-driven global value chains (Global Value Chains). Buyer-driven chains in fashion are characterized by “decentralized, globally dispersed production networks and [are] coordinated by lead firms that control activities that add value to apparel products. They often outsource all or most of the manufacturing process to a global network of suppliers”⁶. The 90s and 2000s saw an explosion of firms offshoring their production and services to contractors in low-wage countries. The advent of digital technology enabled responding to ever faster changing consumer demand and preferences⁷. This evolution has had important implications for equity in the global economy.

Seeing the world through the GVC lense

GVC literature has seen a fast rise since the mid-90s to become a dominant perspective on analysing economic development. As the theory has matured it has consolidated a five-fold typology, of which all types have different implications for power relations throughout the chain (see the schematic below). Which in turn has corresponding outcomes on development and sharing of profits.

⁴ Stacey Frederick and Cornelia Staritz, “Developments in the Global Apparel Industry after the MFA Phaseout”, in *Sewing Success? Employment, Wages, and Poverty following the End of the Multi-fibre Arrangement*, ed. Gladys Lopez-Acevedo and Raymond Robertson (Washington D.C.: The World Bank, 2012), 42.

⁵ Carlo Pietrobelli and Roberta Rabellotti, ed., *Upgrading to Compete: Global Value Chains, Clusters and SMEs in Latin America* (Washington, D.C.: Inter-American Development Bank, 2006).

⁶ Frederick and Staritz, *Developments in the Global Apparel Industry after the MFA Phaseout*, 47. based on Gereffi 1994, 1999, Gereffi and Memedovic 2003.

⁷ Gereffi, 2014, 10-11.

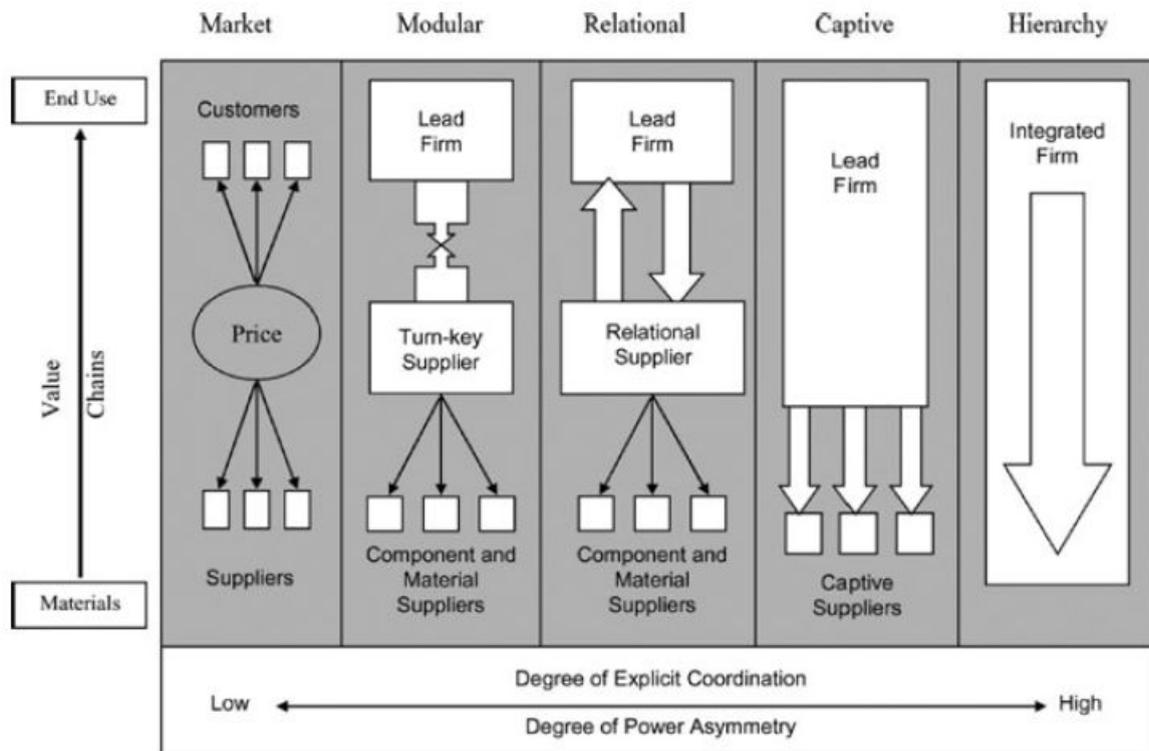


Figure 1 Five types of global value chain governance.
 Source: Gereffi, Humphrey and Sturgeon (2005: 89).

In a *market model* coordination is nearly absent, and power relations are equal when supply and demand match. The costs of switching between buyers and suppliers is very low as products are simple and can be made without input from the buyer. On the other end of the spectrum, in the *hierarchy model*, lead firms perform a strong coordinating function, dictating specifications, prices and delivery times to their suppliers who are more likely than not subsidiaries. This happens when product specifications are too complex to codify (i.e. they cannot be sent over to a supplier for them to easily interpret them) and/or intellectual property is at risk when shared outside of the firm. One step towards the center, within *captive supply chains* products are still complex, but specifications can be codified. However capabilities of suppliers are low. This means that suppliers, who execute relatively simple tasks, are guided by buyers or lead firms. Traditionally, buyers would even bring all the inputs to the supplier for them to construct. The cost to switch is high for the supplier as he will lose his ability to participate in profiting from producing a more complex product. In the absence of choice, suppliers have little options but to submit. *Modular value chains* combine the ease of codification of products with the abundance of suppliers who can make them in the *market model*. Switching to new suppliers is very easy, as technical files on designs and specifications are easily shared with new suppliers. In the middle ground *relation models* are found, where close dialogue between more or less equal partners, due to a mutual dependency on each other's competencies, characterizes the prevalence of close coordination⁸.

These different types can coexist across a value chain, within the same sector, or even within the same node⁹.

⁸ Gereffi, Humphrey, Sturgeon, 2005; 83-91.

⁹ Gereffi, 2014; 13.

The Global Fashion Value Chain: Opportunities and Costs for Development

Global Value Chains, and the fashion industry more specifically, can provide populations with opportunities for social and economic upgrading (i.e. development). In the literature economic upgrading can take the form of a). process upgrading: making operations more efficient, e.g. through reorganisation of the workflow or automatization; b). product upgrading: the introduction of more advanced products, often requiring more skilled workers; c). functional upgrading: including more complex tasks in producing the end product. In the garment industry this can be finishing, packaging and take care of logistics and transports; d). chain upgrading: moving towards more technologically advanced production chains, i.e. moving into new industries or product markets with different marketing channels and manufacturing¹⁰. This has all successfully occurred in many Asian countries that followed the Export Orientalization Industry strategy.

Gereffi, Humphrey and Sturgeon describe the experience of the Asian Tigers (Hong Kong, Taiwan, Singapore and Korea) as countries moving away from a captive GVC, i.e. assembling imported inputs in export-processing zones supplied by lead firms, to more complex and independent domestic production destined for export, characterized by a relation model. This required higher skill levels and coordination, “to interpret designs, make samples, source inputs, monitor product quality, meet the buyer’s price and guarantee on-time delivery”. Lead firms only needed to place orders and send designs, and the supplier take care of the rest. They argue that this teaches business to compete internationally and generate backward linkages to the domestic economy¹¹. And in fact, these countries have had great success moving from simple products such as clothes, to more advanced technical products, with China following the same path. And it should be noted that this success in economic upgrading has not been solely the result of market outcomes, but just as crucially strong institutional support as well as planning by the state agencies of the Asian Tigers and China¹².

Social upgrading includes the adoption of higher skill sets, but also higher incomes, better working conditions, and the protection of labour rights¹³. We might add to that respect to the environment. Barrientos and Gereffi argue that special care should be paid to ensure that social upgrading occurs, as economic upgrading does not automatically mean improved lives for people. Again the poor working conditions in the garment and electronic industries of Asia are a prime example¹⁴.

As said, the GVC for textile products is typically seen as buyer-driven. The textile value chain can be divided in five stages; 1) design; 2) raw material supply; 3) yarn and fabric production and finishing; 4) garment production; 5) distribution and sales¹⁵. Generally garment production involves low-skilled task (cutting, sewing and finishing) and is very labour-intensive. Yarn and fabric production is characterised as more capital and labour-intensive, where higher skills are needed¹⁶. Design is typically high-skilled labour.

¹⁰ Barrientos and Gereffi, 2011. 323-324.

¹¹ Gereffi, humphrey, Sturgeon, 2005; 92.

¹² Wade, 1990; Ellison and Gereffi, 1990; Castells, 1992.

¹³ Barrientos and Gereffi, 2011. 324.

¹⁴ Barrientos, and Gereffi, 2011. 325.

¹⁵ Staritz and Frederick, 2012: 44; Clean Clothes Campaign, 2015.

¹⁶ Staritz and Frederick, 2012; 44.

The schematic below illustrates the complexity of the garment value chain¹⁷. It is important to note for our argument of adopting an holistic approach to value chain development, that even for a simple product such as clothing, many actors, working on many different aspects at different nodes, all influence each other, and can impede or bolster other actors throughout the chain.

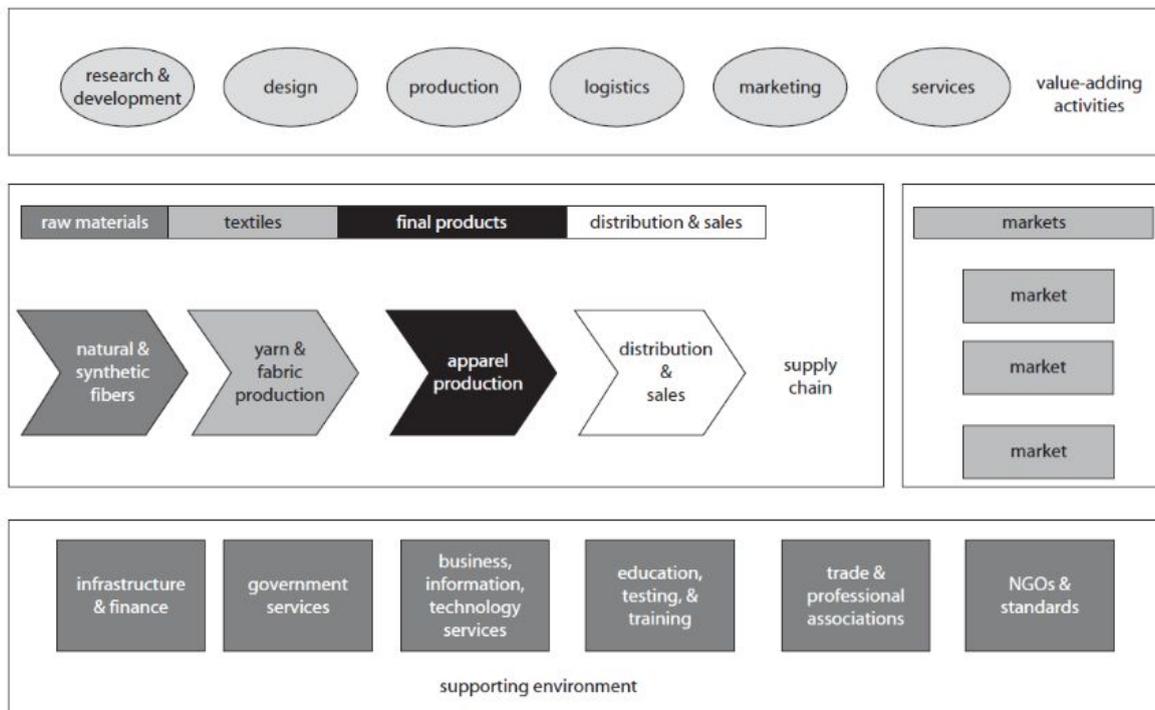


Figure 2. Apparel Value Chain. Source: Frederick, 2010.

In addition, the distribution of value added activities throughout the chain is important in determining the potential for social upgrading. Within the fashion GVC intangible assets such as copyrights, brand names and designs started to constitute more and more value added, while the costs of materials and labour fell. As such, the biggest share of profits remains with (Western) lead firms.

The fashion GVC can be characterised as *modular* due to the ease of sharing product specifications with suppliers who source their own inputs. Lead firms can easily switch between suppliers as the work is low-skilled and not too complex. Especially as the advent of information technology means that coordination functioning and monitoring of product quality can be done at arm's length. However, this has not meant more equal bargaining opportunities due to an over abundance of suppliers. Due to the low complexity, barrier to new entrants are low. As such, any bargaining power that suppliers have, because lead firms actually can't make anything themselves anymore, is non-existent. Many countries have joined the 'race to the bottom' and can produce clothes at will, of which east-African countries are only the latest set of those who have joined the fray. Even though there are many fashion brands, there are seemingly even more suppliers who are eager to work with them.

An unequal chain

¹⁷ Frederick, 2010

Due to these factors the gains and costs shared by actors throughout the chain is incredibly unequal¹⁸. For instance, in 2011 it was calculated that a shirt sold in Canada for \$14, earned a factory owner 58 cents, and a worker 12 cents. A retailer made a 60% markup¹⁹. Nowadays, consumer-facing brands work with (freelance precarious) designers to jump on the latest trends, demanding rapid delivery times from the garment manufacturers who they work with. Who themselves have often subcontracted their work. Certain new industry-wide initiatives notwithstanding, this has led to an incredibly rapid pace of production and consumption. Brands have moved from 2 cycles a year to 50²⁰. In 2017 107 billion pieces of clothing were made. This has come at a price.

We will not exhaustively list the costs here, they are easily found in the many reports on the subject and are well-known. Suffice to say is that 35 to 40% of the workers do not receive a wage that gives them the bare minimum. 181 million work in vulnerable, unprotected and insecure conditions in a sector where child labour is prevalent. The industry uses the amount of water that can be used to quench the thirst of 110 million people for a year. 65% of the fiber used was synthetic. Microfibers that get into the water amount to between 4 and 7 million plastic bags per day. The industry is responsible for 3% of carbon emissions world wide²¹.

PART 2. Artisanal SMEs and the potential for sustainable development

As we have now traced the dynamics of the fashion GVC, and its risks and opportunities, it is now time to turn our attention to the dynamics specific to those of SMEs, and more specifically those of South American artisanal textile industry in the Andes. We shall see that they face their own challenges, and require a non-traditional approach to develop them and avoid the negative impact that has occurred in developing the Asian fashion industry.

In 2006 it was estimated that over 95% of 17 million businesses in Latin America and the Caribbean were small, and medium-sized enterprises. Employing more than 50% of the population, they are very important sources for job creation. The ILO warns that job creation by SMEs does not automatically entail decent jobs as much work revolves around the household, is informal, and unprotected²². And SMEs are typically are not nearly as competitive and productive as bigger companies²³.

Challenges to development for SMEs

The following challenges to economic upgrading for SMEs are identified in the literature²⁴;

- inefficient management;
- use of inadequate technologies;
- high level of informal business limiting access to markets;
- low level of cooperation among other enterprises (limiting collective skill sharing,

¹⁸ Gereffi, 2014, 11.

¹⁹ Macleans / O'Rourke Group, 2013.

²⁰ Drew and Yehounme, 2017.

²¹ Common Objective, 2018.

²² ILO, 2015, v.

²³ Pietrobelli and Rabellotti, 2006, xiii

²⁴ ILO, 2015, vi.; Pietrobelli and Rabellotti, 2006, xiii

- bargaining, marketing, etc.);
- weak institutional support;
- a regulatory environment biased against SMEs;
- weak access to finance;
- weak access to electricity;
- competition from informal companies;
- lack of market information and export readiness.
- poor marketing skills and ability to track market trends;
- difficulty identifying potential buyers;
- engaging directly with international buyers

The camelids textile chain in the Andes

The textile camelid chain in the Andes produces garments and accessories made from fibers of camelids (i.e. alpacas, llamas, vicunas and guanacos), and exclusively exists of SMEs. The fibers from these animals have a very high quality. Camelid fleece is lighter, warmer and feels softer than wool. Those of alpaca, vicunas and guanacos can compete with the finest cashmere fibers. And the fiber of vicuna is seen as the finest in the world. As cashmere has become a favorite in the luxury fashion segment, the potential for the camelids chain of the Andes is enormous. More so because the chain is seen as a potential source of sustainable development in several ways:

- Increased incomes for the artisans and producers directly help reduce poverty levels;
- Decent job creation can help retain younger generations in rural areas, preventing flooding of overpopulated cities;
- Camelids are the natural species of the Andes. Herding them helps preserve the biodiversity. They graze in their natural surroundings and are more efficient with nutrients and water than sheep. As such they have very low carbon footprints;
- Unlike plant-based fibers, they do not need chemicals to mitigate diseases or pests; their hooves are soft-padded, and therefore do not destroy the environment, unlike cows, sheep and goats. For example, the herding of Kashmir goats has notoriously boosted desertification in Mongolia;
- The shearing and herding of the camelids is done through traditional animal-friendly ways;
- The artisanal methods help preserve local culture and identity; Finally, the material is long-lasting and easily reusable, preventing the need to replace them quickly.

A potential not reached

It is estimated that South America is home to roughly 8.2 million camelids. 48% of which are lama's, 40% alpaca, 8% guanaco and 4% vicuana. 56% live in Peru, 31% in Bolivia, 11% Argentina and 2% in Chile²⁵. Prices for alpaca and guanaco fibers are typically much lower than cashmere, ranging around \$5 to \$13 depending on the source in the literature and the quality. Cashmere prices, the main competitor, can range from \$75 to \$170 depending on the quality. Vicuana, a non-domesticated species, has a much higher price of \$500 per kilo, as it is the lightest fiber available, but is much harder to harvest due to it being a wild animal. Other information puts guanaco at \$80 or \$228 per kilo, and lama at \$2 per kilo²⁶. These different numbers point to the lack of a functional transparent market.

²⁵ Based on statistics from various national agencies, collected by HxN/animaná.

²⁶ Numbers by Hecho por Nosotros and animaná. Based on: INTA, SENASA. Ministerio de Agroindustria / Subsecretaria de ganaderia 2008; Invisible World <https://invisibleworld.com/pages/wool>.

The potential of the herds are not reached. For example, only 30% of llama's in Argentina's north are sheared. For Guanaco and Vicuna this is only 1.3% and 3% respectively²⁷. Like most employment in the SME-sector, it is insecure and unprotected²⁸. In small-scale households and home-based work, typical for the Andean communities, work is often characterised by paid and unpaid family labour. Workers commonly own their own means of production²⁹. In the Andes, artisans usually also have other means of income, as their artisan work is insufficient. Most Artisans in the chain live in impoverished circumstances in rural areas, who live of their work and subsistence farming. Families depend on less than two dollars a day. In Peru the areas with the highest prevalence of camelids are also the poorest³⁰. There are high rates of child mortality, malnutrition, illiteracy and little access to clean water, hygiene and electricity. There is a high inequality between men and women. Today, at least a million people directly depend on the herding of alpacas and llamas in the high planes of the andes.

The typical chain can be summarized as follows when inspired by the work of Frederick, 2010. Some of the main challenges at each point of the chain are listed as well. Note specifically the low rate of value-adding activities and the poor supporting environment, as well as the inefficient execution of the raw material phase.

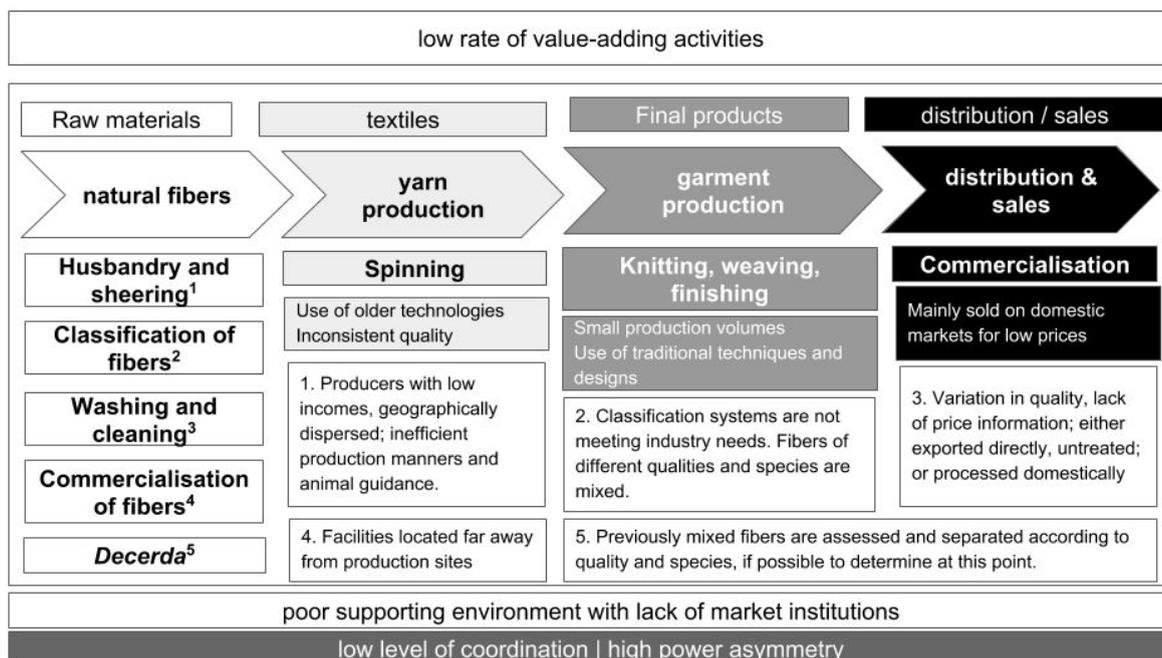


Figure 3. The Andean Camelids Value Chain. Source: Animaná and Hecho por Nosotros

²⁷ Numbers by Hecho por Nosotros and animaná. Based on: Guanaco: Mueller et. al. 2010, Subsecretaría de Ganadería 2008, Amaya, J., von Thüngen y D. De Lamo 2001 y del Primer Censo Nacional de camélidos silvestres al norte del río Colorado, 2009; CONICET, 2013.

²⁸ Barrientos, 2011, 320.

²⁹ Barrientos, 2011, 326.

³⁰ Information Hecho por Nosotros/animaná based on Instituto Nacional de Estadística e Informática Peruano (INEI)

In addition due to the typical challenges for SMEs listed above and those specific to the Andean chain listed in figure 3., some more specific challenges for the Andean artisans exist:

- Little knowledge about the qualities of the material on a global level;
- Few linkages between the artisanal and the industrial textile sector;
- Little knowledge on design: typically no modern designs are incorporated in artisanal works to make them commercially more viable; and there are not connections between international designers and artisans;
- No communication on the sustainability of the sector;
- A strong need for technical assistance to upgrade fibre collection and processing skills to ensure the quality of the products matches the needs of clients and satisfies the expectations of the consumers of apparel abroad.
- With the shift towards responsible sourcing strategies, requiring increasingly the adoption of more responsible/sustainable production methods throughout their supply chains, lack of capacity can lead to marginalization of low-skilled producers;
- There is no transparent open market for producers of fibers and products. Few trading companies buy fibre without any value added through a network of local intermediaries, thus determining the final price paid to producers. Fibers are mixed and sold under different names (hence the need to sort them again). Llama and alpaca is sold as cashmere, and guanaco as vicuana. Fibers from different animals are mixed to increase the weight and thereby receive a higher price.

Typifying the chain

In sum, all value added-activities listed at the stages in figure 2. are of a poor level (R&D, design, production, logistics, etc.). In addition the supporting environment is very poor as well, with governments and business organizations unable to sustainably develop and professionalize the chain (perhaps Bolivia is an exception due to the strong commitment of the government to promote the sector internationally). Overall, the Andean GVC is hard to place within the framework of the five fold-typology prominent in GVC literature. Due to the prevalence of intermediaries and a few select traders, power asymmetry is high and producers of fibers and products are thus *captive*. However coordination throughout the chain is nearly absent and producers are quite capable to craft their own goods without much input, pointing to a market model. Albeit a market without working institutions and non-viable designs for a global market. However, to commercialise their products for the global market, both in terms of quality and getting the physical product sold and reap their potential, a large degree of coordination and capacity is needed that is not there. As a result artisans remain locked in a poverty cycle and no bargaining power.

PART 3. Ways of Upgrading the Chain. Luxury Garments from the Andes.

Global Value Chains in the Development Field

Nowadays, the GVC approach has become almost become mainstream as all major institutions and NGOs have embraced the GVC approach³¹. Humphrey and Navas-Alemán identify four different ways NGOs attempt to employ the GVC approach to integrate actors in the chain: 1). strengthening the weakest link to address potential bottlenecks; 2). improving flows of knowledge and resources to make all firms in the chain more productive; 3). working on specific links between firms to improve efficiency and 4). creating new or alternate links in

³¹ Gereffi, 2014, 11-12; 23.

the chain to promote diversified outcomes³². The NGO and social enterprise in our case study engages in all these activities.

Hecho por Nosotros and animaná: Luxury garments from the Andes

Hecho por Nosotros (HxN) is an Argentine NGO aiming to make the fashion industry fair and more sustainable. Its mission is to aid local development of artisan communities in the Andes and Patagonia. Founded in 2008, they assist in developing the camelids textile sector at every point of the chain by working together with industry, governments and civil society; and they engage with global civil society and international institutions to realise a paradigm shift in the world of fashion. animaná works together with HxN and is a B-Corp working with communities and natural fibres of Patagonia and the Andes, combining ancestral techniques with contemporary design to create sustainable luxury products. They offer clothing, accessories, and home deco products. It was founded specifically to commercialise the work of Andean artisans. The objective of the two joint-organisations is to create an open market that is fully integrated with the global economy in a sustainable way. Business and producer associations should be able to classify and commercialise fibers accurately, which will increase their bargaining power and value added. A transparent and open market mechanism needs to be created and access to finance has to be increased. Producers need to be trained. An international reputation or mark of origin needs to be implemented to be build to showcase the quality of the material, and give buyers reassurance about its origin. The global fashion market and local producers need to be linked to create products with more value added.

To reach these outcomes animaná and Hecho por Nosotros have been working on four different fields:

1). ***Developing entrepreneurs and local communities:*** animaná and HxN work closely together with entrepreneurs and local communities in strengthening their capacity to produce goods that have a perfect market fit. In doing so they bring internationally renowned designers to the Andes to exchange ideas on sustainable designs and train artisans on producing for the luxury market. They always try to collaborate with local institutions for a better targeting of projects and diffusion of knowledge. Together with the training, equipment and working capital, they try to make an impact that is inclusive and long lasting. They have increased the capacity of 3021 artisans and 500 companies in the past ten years. 51% of the entrepreneurs with whom the NGO/Company worked were aged between 15 and 35, aiding the retention of youth in rural populations. Roughly 60% was female, increasing their independence in a male-dominated society. To give an example of the work that is being done with respect to commercialisation: in 2018 the NGO has been working with a regional business organisation in the north of Argentina to capacitate 300 artisans for the luxury market. The resulting collection will be showcased in New York.

2). ***Developing the camelids textile chain in the Andes:*** The second key activity is assisting in the development of the camelids textile chain in South America. They map the challenges that small producers face and the economic dynamics of the sector; identify best practices and opportunities for growth; and conduct investigations about the quality of the fibers. They set up public-private partnerships to develop the chain in an inclusive and sustainable way and actively spread their knowledge through interviews, publications, and activities in numerous international forums and industry events. They have trained 1500 fashion students on sustainable fashion; collaborated with 21 universities and 200+ organisations on the sustainable development of the industry; organized 30 workshops with

³² Humphrey and Navas-Alemán, 2010.

international designers and artisans in five countries; the animaná brand has been featured in international press, such as the Financial times and Vogue.

3). **Promoting the development of a Sustainable Fashion Industry:** They engage with global civil society and international institutions to advocate for a paradigm shift to a more sustainable world of fashion. They have established an online network of organisations, consultants, companies and people in academia to boost collaboration across the chain. They generally attend UN events as the NGO holds a consultative status, to inform policy makers on the sector and to make recommendations.

4). **Commercialising and linkage with the global economy:** through the animaná brand, producers have been integrated with the global economy. Artisans shops are sold in boutiques in Buenos Aires and Paris, through online shops in Argentina and France, and wholesale in the United States, Europe and South America. In 2017, under Fair Trade practices, animaná spent \$100,000 in Andean communities, buying roughly 4,000 products made from 800 kg of fiber. Giving artisans per product an average price of \$25. Having noted earlier that Andean artisan families typically depend on an income of \$300 a year, one product bought by animaná is one month's worth of income for a family. After empowering small communities they start supplying to animaná and receive a fair price and a bigger demand, which translates into considerably higher incomes. They developed a fluid business network of roughly 7500 artisans who can meet the market demand in terms of volume and animaná's quality standards, thereby integrating a previously disenfranchised group with the global market.

Analysis of the case

The work of animaná and HxN has thus led to social and economic upgrading for artisanal SMEs. Socially because their culture is being preserved and their incomes have increased. In 2017 animaná sourced \$100,000 worth of luxury products from the artisans, with each product constituting a month's income for a family. Economically upgrading occurred through process and product upgrading: using more modern production and management techniques, production has become more efficient and the products have more value added to more sustainable and modern designs. The importance of the latter cannot be understated. Due to the high quality of the fiber, the potential for success on the luxury market is enormous. As such it is vital that the most value is added at the artisanal stage. Which is exactly what animaná and HxN have been doing. Functional upgrading has occurred as well: producers have taken up the responsibility to send finished goods to their buyer, animaná. As such, the value-added activities mentioned in figure 2, which are typically only limited to production, has been improved on the areas of logistics, design and marketing as well.

Whereas the general camelids market has been characterised as modular, with lacking market and supporting institutions and a high power asymmetry, the value chain of animaná has become relational, as production is based on a dialogue between the brand and its artisanal producers with the intent of creating sustainable profitable operations. All parties benefit from the collaboration. Power is more equal because artisans can not find a buyer for their luxury goods easily, and are dependent on animaná and HxN for capitication. Similarly animaná can not engage in spot market buying due to significant training, investment and relationship building needed to ensure as table well-functioning supply chain. Coordination levels as such are higher than typical in the chain (see figure 3.).

The approach is multi-nodal as the NGO hecho por nosotros acts as a network hub for all

actors throughout the chain, enabling them to work together and collectively tackle challenges that require cross-nodal solutions. See figure 4. below for a summary presentation. Note that the activities target the chain directly through upgrading of the value-added activities, as well as the surrounding supporting environment.

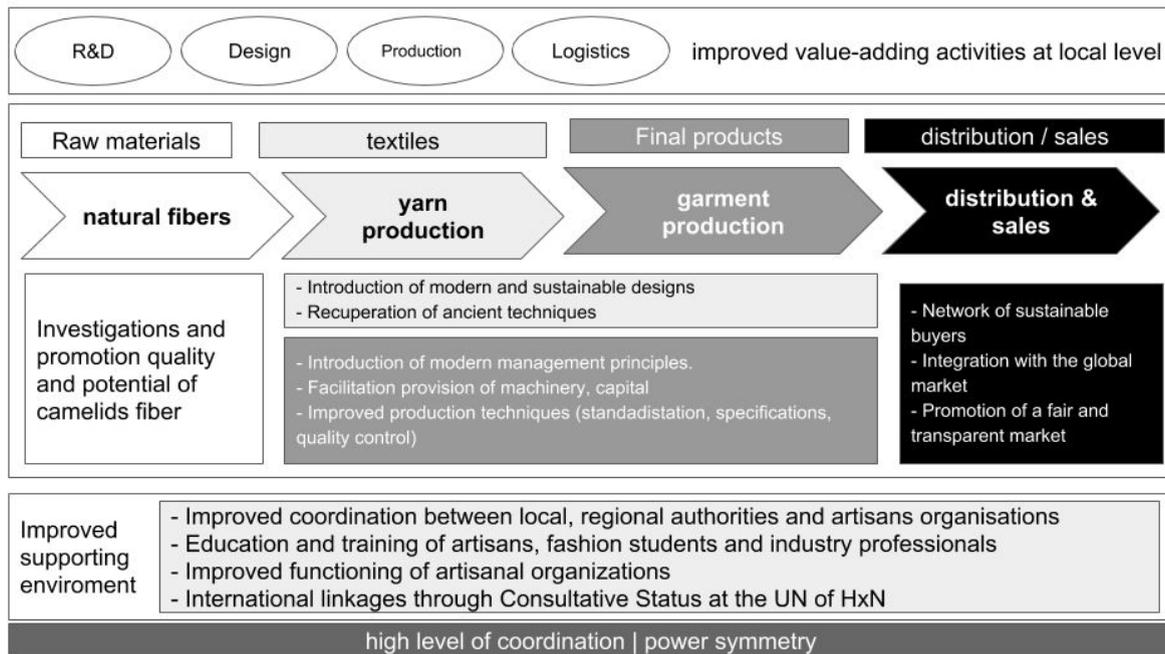


Figure 4. The Value Chain of animaná and Hecho por Nosotros.

Remaining challenges

Unfortunately challenges remain: no open and transparent market is created yet and no international mark of excellence of the quality of camelid fibers is being promoted by producer organizations and governments jointly. In addition, many of the camelids remain unshered, pointing to the untapped potential of the sector, and it is hard for animaná alone to establish a reputation of the fiber as high quality and consequently increases sales and incomes . These factors severely impede the ability of SMEs to change the industry, and demonstrate the need for solid institutional backing of the development of a sector. Social enterprises and NGOs can not go at it alone. To that extent, animaná and HxN have also been exploring collaborations with major luxury brands, to increase the market share in a sustainable fashion. And to improve regional cross-sectoral collaboration, since 2016 HxN and animaná have been coorganizing with local and regional authorities the annual forum for camelids and textiles.

PART 4. Conclusions and Recommendations

The rise of fast fashion has given developing countries many opportunities to integrate themselves more firmly with the global economy. Several countries have been able to develop their economies through the opportunities for social and economic upgrading the advent of buyer-driven fashion chains has provided. This has seen them moving from captive models of collaboration with western lead firms to more independent and mature methods of production. However, the social and environmental cost has been high, and the over abundance of cheap labour in other nations has ensured that profits remain unequally distributed.

We have taken the lessons from this analysis and contrasted them with the Andean textile chain. The chain is still very informally organized, with no transparent and formal market institutions, nor is there sufficient institutional support to reap the benefits the high quality of the camelid fibers provide. Global Value Chain analysis should take into account these aspects of an informal economy and could elaborate the standard five-fold typology. Economic and social upgrading does not occur automatically. Especially as there are no strong lead firms present in the sector to coordinate efforts of economic upgrading to make the camelids fiber and garments commercially more viable.

This also means there is plenty of opportunity to develop the chain in a sustainable and equitable way. To avoid the costs paid in the fast fashion chain, we argue an integrated multi-nodal approach to value chain development should be taken. The case of animaná and Hecho por Nosotros that we have presented here demonstrate the possibility of using such a sustainable holistic approach as a way to overcome developmental challenges. The success of the brand shows that a business case is to be made for this developmental approach, as long as both the producers are capacitated and sufficient commercialisation is done on the demand side. The link the social enterprise and the NGO have made between international luxury fashion designers and traditional artisans is a striking example of this.

Recommendations

- Public and private actors should join hands in promoting the quality of the products a sector makes. Without demand, well-trained and professional SMEs have no market. This can be in the form of an internationally known mark of origin stating quality of excellence.
- When discussing economic upgrading, the literature has found that this is dependent on both firm-specific actions and the environment in which it operates: mentioning the collective efficiency of the cluster; the pattern of governance of the value chain; and the sector specific patterns of learning and upgrading³³. As such, development interventions should target the supporting environment as well (see the strong East-Asian state as an example for its importance). Local, regional and national authorities should thus invest in their institutional support for well-functioning and transparent markets.
- In addition, this also means that as business also forms clusters locally, through varying degrees of formality, several SMEs working with a foreign lead firm, can have spillover effects to similar SMEs. Well established brands should thus take on an important role in developing and commercialising the chain.
- NGOs in richer nations have an important role to play in coordinating this effort as they are close to both the end-consumer and brands, being able to leverage them through consumer activism. In addition, they can guide brands on working more closely together with their suppliers further down the chain.
- NGOs should coordinate and pool their resources to execute projects that are cross-nodal, and as such have cascading effects and streamline the expectations throughout the supply chain.
- Traceability (most likely through Blockchain technology) needs to be implemented to help identify opportunities for efficient resource management and sustainable production. This in turn gives more credibility to companies branding themselves as sustainable towards consumers, and gives consumers the ability to make fair choices

³⁴

³³ Pietrobelli and Rabolli, 2006; 251;

³⁴ UNECE, 2018.

- International institutions should support all of these activities in which every way they can, providing neutral spaces for dialogue; research and expertise; and political support.

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