



CONVERGENCES
SOLIDARITY AND RESPONSIBILITY: **2015**
INVESTING AND WORKING TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

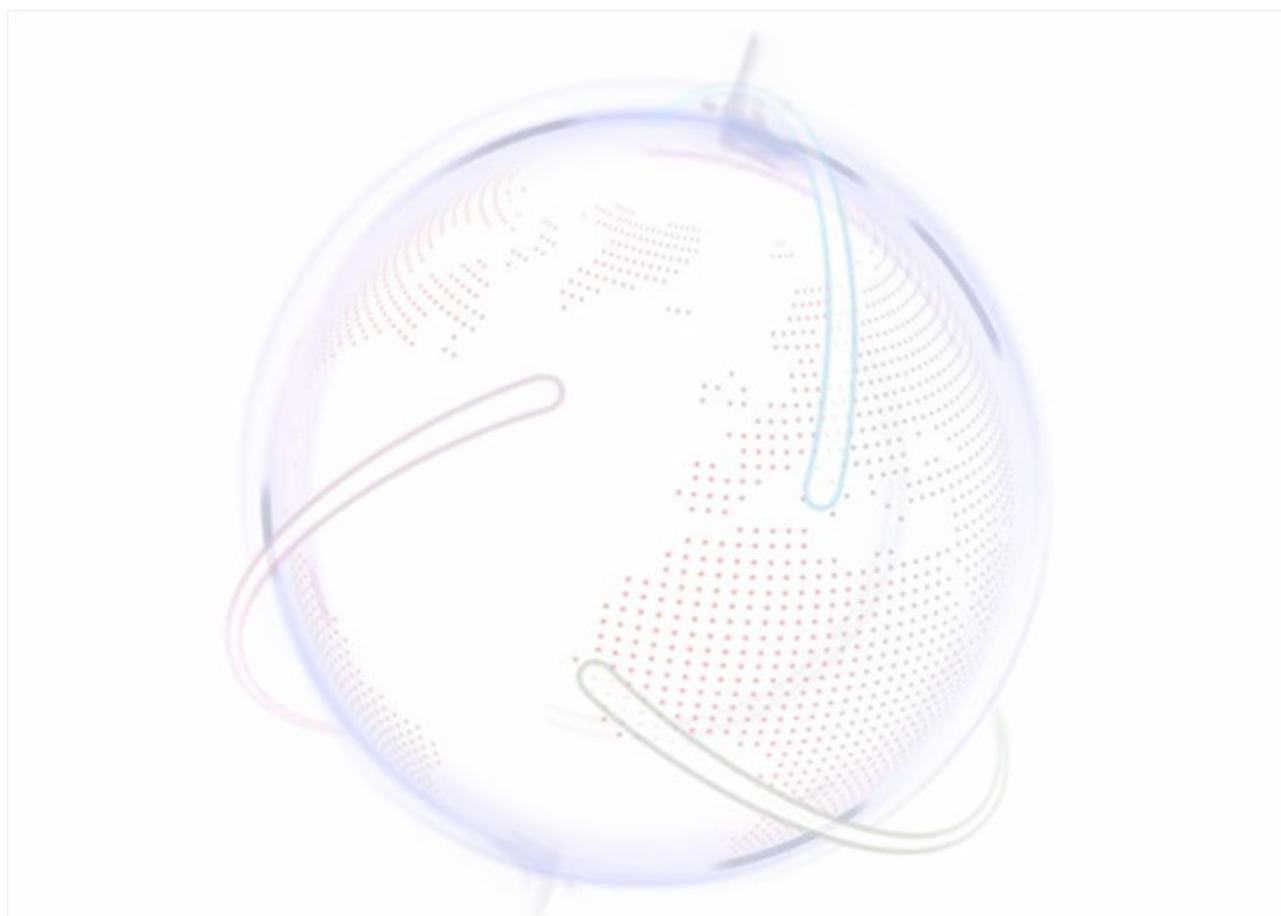
Convergences 2015 4th annual Forum proceedings

Paris City Hall

May, 3, 4 and 5th, 2011

Second part

Improving practices



improving practices improving impact improving investment

Trade and poverty: What is the link?

Round table // International cooperation



Moderator

Adrien de Tricornot

Journalist, Le Monde Economie

Speakers

Romain Benicchio

Advocacy Officer, Oxfam France

Kif Nguyen

Operations Manager, Café Africa

Eugénie Malandain

Impact Evaluation Officer, Plateforme du Commerce Equitable

Ghislaine Psimhis

Deputy General Secretary, GICA RCA

Executive Summary

Globalization and the liberalization of trade provide opportunities for sustainable development in low-income countries when they contribute to sustainable job creation. In order to be achieved, this objective must receive the support of all actors (NGOs, private companies, and the government).

Trade is one means to fight poverty, but only long-lasting agreements between trade partners will sustain the transition. Agreements that go beyond immediate needs allow producers to extend projects into the long term and thus get less affected by price fluctuations.

Can we reasonably say that in the fight against poverty today, trade is an effective solution, at least under its current form?

Synthesis

Ghislaine Psimhis is a member of **GICA RCA**, one of the two employer organizations in Central African Republic, which contributes to 45% of tax revenues but represents only the 20 largest companies in the country. This shows the country's post-conflict vulnerability. **Ghislaine Psimhis** believes that globalization and the liberalization of trade represent opportunities for developing countries, but no development is sustainable unless it creates permanent jobs which help people reclaim their dignity. Everyone must support this goal to guarantee its achievement. NGOs, which came in to address emergency situations and then offered development programs, must be on board along with public authorities and private companies.

Eugénie Malandain represented the **Plateforme du Commerce Equitable**, which is fighting to develop social and economic criteria for international trade and to strengthen regulation bodies and international governance.

Oxfam is a confederation of NGOs involved in emergency situations and development. **Romain Benicchio** said that trade is a means to fight poverty, but that it is not a solution per se. Trade is part of a bigger picture: we must encourage local production and foreign investment, but also work to protect populations from external shocks.

Kif Nguyen represented **Café Africa**, whose objective is to reduce poverty in Africa by breathing life into the coffee production industry on a national scale. African coffee exports represented almost 30% of the global market 30 years ago, but today this figure has fallen to 12%. This drop is all the more puzzling as the coffee market is experiencing a significant growth (a global increase of about 2% per year) driven by strong demand in developing countries. Coffee has always been a key product in rural African areas because it generates direct earnings which can be used for health or education purposes, while traditional food-producing cultures only provide a subsistence-level income. The collapse of the production was disastrous, as no new activity replaced it or compensated for its revenue.

Café Africa is working to use trade as a means to support sustainable development in rural African areas, beyond the assistance provided for emergency or short-term needs. Café Africa's solution is to bring together all the players within the production chain (planters, local buyers, processors, exporters, merchants, and roasters, as well as research and public institutions) to promote cooperation along the entire value chain. Group reflection paves the way for the development of national action plans and strategies for the industry. Agreements between producers and the government help to set these plans in motion.

Beside these plans, this will allow the State and the private sector to develop positive relationships to overcome typical contradictions. The value and the impact of this new mindset are often underestimated. Improvements in production chain governance also means that private

sector players will advise on the development of rules and standards, helping to prevent frequent problems in Southern countries where ill-adapted regulations impede entire swaths of an industry. Finally, the subsequent improvements of the business climate will give the industry itself, including small planters, the possibility to make a claim and fight effectively against the corruption and special levies which often stand as the major cause for economic underdevelopment in these countries.

Innovation in this approach lays in the creation of partnerships between local production chain committees and national committees to give everyone the possibility to deliver their speech and be aware of the coffee industry stimulus plans. Café Africa obviously supports the implementation, because they want to get involved on the practical level. This means working with the governments to raise funds from major backers and providing technical support to implement large-scale projects. They have a wide range of skills at their disposal, encompassing: supporting agronomic programs, strengthening the quality of the product, and improving marketing operations. They want to help national production chains to get the best possible price on exported coffee so that the entire chain sees an increase in revenue.

Adrien de Tricornot asked: What is the difference between Café Africa's activities and free trade? Are they opposed or complementary?

Eugénie Malandain said that free trade relies either on companies' pro bono actions or NGOs that want to form economic and trade partnerships to develop industries that meet social and environmental constraints. Their goal is to set a fair price that covers production costs and social and environmental costs. Other criteria are also taken into account; the most important one is the strength of the trading partner agreements, because it allows producers to extend projects into the long term and hence be less affected by economic fluctuations. Buyers can also offer prefinancing deals to hedge their supplies. Buyers and producers both agree to abide by the 11 fundamental principles of the International Labor Organization (ILO) (the child labor ban, the union rights, etc.).

Historically, there has not been a significant emphasis on environmental criteria, but their significance has risen in the past five years. Today, free trade must address the shipping problem and focuses on restricting the environmental impacts of exportations. A carbon balance of these activities shows that gas emissions largely result from Northern trade shipments between ports and distribution networks. Today, chains like Biocoop are committed to buy fair trade products only if standard products cannot be purchased locally.

Kif Nguyen believes that fair trade and actions like Café Africa's complement each other. There are many organizations in the coffee industry that promote fair trade and certifications in general, but an investigation of all coffee projects in Uganda pointed out that only 10% of the

planters were impacted by supporting projects, whichever they are, and only a tiny fraction of those were affected by «fair trade» certifications.

How can we reach the remaining 90%? We must start with the industry as a whole. Most of the value along the production chain is lost to taxes, unnecessary intermediaries who take advantage of the chain's disorganization and charge insane commissions, high shipping costs spurred by unworkable roads, and of course corruption. This explains why the planter earns so little money. Bringing everyone at the table, we can implement very simple solutions to improve the system so that the planter receives as much of the export price as possible while other players, whose work is useful and necessary, also benefit from it. This would affect 90% of the production chain and make a difference. **Kif Nguyen** believes that fair trade remains a niche market for those who can afford more expensive coffee or obtain grants which cover the cost of expatriates and certifications.

Adrien de Tricornot said that all players agree that there are too many local intermediaries capturing the producers' margins in the producer countries; yet everyone offers different solutions.

Eugénie Malandain pointed out that those intermediaries are the fundamental problem in fair trade but specified that some interme-

diaries are actually necessary and generate true added value. This demonstrates that lessons can be learned from fair trade which will help dig into the branch approach, especially when it comes to labeling.

For **Kif Nguyen**, it is essential that most of the added value goes to the producers. However, producers must deal with what the Congolese identify as «niggles», dozens of taxes and corrupted operators who chip into their profits and turn away potential investors. Improving production chain operations could allow planters to receive an estimated 70% to 80% of the coffee's FOB (free on board, i.e. delivered to the ship) value. This would greatly improve the situation.

Adrien de Tricornot stated that governments are often fragile and frequently uncommitted in these industries. He asks about Western governments' responsibility in these countries' underdevelopment when they demand that they ratify international conventions even though they don't have the required technical capabilities, or that



they open their borders while their markets are not mature. Can we still say that trade is the solution for sustainable development?

Ghislaine Psimhis answered that the biggest obstacle her organization encounters is creating public-private dialogue. In most of the poorest countries, the government is unstable or bankrupt. Its priority should be to guarantee wages to ensure social stability, as riots, social unrest, and the resulting looting cause investors to flee. The government cannot be expected to fulfill its role in regulating the market. The problem is that the public sector charges the private sector (suspicions of fraud, reluctance to contribute to social expenditures, chasing excessive profits) and vice versa (poor communication and management of business matters, lack of support in business development, uneconomical and poor governance).

However, faced with the urgent need for infrastructures, private-public partnerships have developed as these require co-financing. The top priority, according to the private sector, is to improve public-private dialogue to solve taxation and regulation problems and to shift companies from the informal sector into the formal sector. This will stretch the tax base and the State's revenues. Companies are stymied by fiscal controls and back taxes, which encourage the development of the informal sector.

Romain Benicchio said that exporting basic commodities fosters access to healthcare and education and offsets the impact of food prices' volatility. He reiterated that international trade is a means and not an end, liberalization not a one-size-fits-all solution; and that negotiations should consider each country's specificities. The speakers agreed that developing countries have refined their

negotiation techniques over the last ten years. The speeches of representatives from Southern civil societies have improved. Africa seems to be changing very quickly: people are confronted with extreme obstacles but have a desperate thirst for life which drives them towards innovation and ingenuity. Producer organizations now participate in WTO negotiations, which are therefore more relevant.

Kif Nguyen launched an appeal for collective brainstorming on development assistance and the financing of projects that have sometimes a narrower scope but are more feasible and worthwhile.

Eugénie Malandain shared an example of a textile industry bilateral trade agreement between Cambodia and the United States in which trade depends on following social standards: when Cambodian textile companies committed to respect international labor conventions, textile importation quotas increased in the United States. This agreement was funded by the ILO: American development assistance, the Cambodian private sector and American and Cambodian NGOs were deeply involved. After the quota system ended, the industry kept doing well because companies kept purchasing socially-responsible textile products. The international civil society plays a very important role in this regard.

Questions

How did the Cambodian project turn out? Have volumes increased? Has the market share increased?

For **Eugénie Malandain**, it has been a source of inspiration. The system has been effective even though Cambodia was in a post-conflict state between 2001 and 2005, with abundant corruption. The regulatory framework encouraged Cambodia to ratify the set of ILO conventions and apply international standards. However, upon interviewing workers and unions, we found that these systems were not perfect because everything depended on monitoring whether ILO standards were being met, which is still unreliable.

Many say that globalization could reduce poverty through foreign investment. Can foreign investment also reduce poverty at the local level and can it alter the transformation from the informal sector to the formal sector? Also, how much weight does an organization like Café Africa have in changing the economic and governmental environment, in particular the local taxes problem?

Ghislaine Psimhis explained that when an industry develops, it causes population shifts and creates problems (deforestation, food supply issues in the region where the industry has moved, employability, local subcontracting, etc.) which involve the company's social and environmental responsibility. More and more, large companies are paying attention to corporate social responsibility. Their general conditions and the negotiations with governments to be granted operating permits are binding and include building schools and healthcare clinics, repairing roads, or installing electricity in an area, etc. These projects benefit the entire population. Thus foreign direct investments (FDIs) are very important when negotiated beforehand and when social matters are put squarely at the center of priorities.

For **Kif Nguyen**, it is difficult to measure the impact of an organization like Café Africa, but the most noticeable change lays in the mentality: improving public-private relationships, just by bringing everyone around the table for discussion, has a significant impact on the entire industry. In Congo, Café Africa pushed a minister to observe the "niggles", along with the governor. Upon their return, the matter was added to the cabinet's agenda, and a subsequent public discussion resulted in the announcement that taxes would be decreased and controls enforced.

I lived in Congo and was part of a special school that delivered primary education classes for over-aged youth. This school took in 2000 students, free of charge. Education is essential in modern societies. Which proportion of the profits made by large companies goes to education?

Ghislaine Psimhis said that, in the Central African Republic, education is the public sector's responsibility. Funding problems are less a money issue than a methodology one. Despite massive amounts spent on education through Official Development Assistance, nothing has changed and idle citizens turn to violence. Civil society is largely responsible because when money is invested, the ROI can be assessed very quickly.

Consumers understand that fair trade is a Southern means of development but have faith in it because they are not given the tools to better understand how it works. If they buy fair trade products, they do not see it as a fair business purchase. Moreover, to what extent can we allow foreign investment in these countries?

Eugénie Malandain said that ties with the consumers are complicated. Fair trade organizations have tried to get closer to consumer associations, but it has been difficult due to many obstacles and criticisms. Today, fair trade borders are shifting: in the past (in the 1960s) it ran north/south, but now it runs north/north and also south/south following the dynamic of relocation of the economy. Consumers are lost among the many labels that have been developed. That's why the Plateforme du Commerce Equitable is publishing a fair trade labels and corporate social responsibility guide which will be accessible on its website. The purpose of the website is to serve as a resource center for consumers.

Romain Benicchio believes that the regulator's role is to guide investments and to bond with the local economy. The question is whether the government is able to endorse this part.

Kif Nguyen added that there have been many announcements in the press about companies investing in vast land properties. It is true that sometimes they consider such investment, but they quickly come to realize that it is not feasible: the government's weakness makes it impossible to guarantee property ownership.

If coffee production has dropped in Africa, it is likely that a Latin American country is benefiting from it. What is happening with market redistribution?

Kif Nguyen believes that it is not a zero-sum game because the market is growing. Soaring prices are due partly to speculation, but also to the fact that there is a structural discrepancy between supply and demand. Yet it is true that for some products, such as ore, redistribution is inadequate.

Is the price increase passed on to producers?

There is always a lag between the moment when market prices go up and when the producer sees an increase. It is completely wrong to say that producers do not know how to sell their product: the largest groups have employees who scout the countryside to spot good products. The producers' influence is directly linked to the efficiency of the industry.

Official rapporteur:

Antoine Michon, ATD Quart Monde