

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

GLOBAL COMMODITIES FORUM

7-8 April 2014

Opening Ceremony

**Supporting SMEs to enter and move up the
commodity supply chain through adding value**

by

Ms. Arancha Gonzalez
Executive Director
International Trade Center (ITC)

This statement has been made available in the language and form in which it was received.
The views expressed are those of the author and do not necessarily reflect the views of
UNCTAD.



ITC

TRADE IMPACT
FOR GOOD

50 YEARS

1964-2014

**STATEMENT BY THE EXECUTIVE DIRECTOR OF
THE INTERNATIONAL TRADE CENTRE
“SUPPORTING SMEs TO ENTER AND MOVE UP THE COMMODITY
SUPPLY CHAIN THROUGH ADDING VALUE”**

→ Room 26

Aranca González
Executive Director

Mr. Mukhisa Kituyi, Secretary-General of UNCTAD

Ambassdor Triyono Wibowo, Ambassador of Indonesia, and President of the Trade and Development Board

Mr. Michael Møller, Acting Head, United Nations Office at Geneva

Ladies and Gentlemen

The overarching theme of the 5th Global Commodities Forum is essentially on highlighting how commodity dependent countries can turn, what is too often seen as a developmental constraint, into a development opportunity. We have to collectively change the mind-set that richness of natural resources and dependency on commodities is a curse. We have a responsibility as a development community to identify, share and help operationalise the tools that will assist developing countries and the small and medium sized producers and enterprises within those countries, add value and become sustainable exporters of these commodities.

Commodities are incredibly important to our shared mission of making trade work for development. Cotton and coffee, two commodities ITC has worked on extensively, show the enormous part commodities can play. Millions of people worldwide depend on cotton production with the value of exports reaching \$20 bio per year and this does not account for cotton used domestically in China and India for instance. Green coffee exports alone are worth over \$23 bio a year and directly account for livelihoods of more than 10 million of the rural poor in Africa alone and many times that across the world. With price discounts to exporters of 10% or more due to poor quality, very low value added in exporting countries and the prohibitive

costs of standards compliance, the opportunities to improve the development impact of commodity value chains are vast.

I will argue we can realize this enormous potential in three main ways:

1. Adding value to commodities through improved services
2. Increasing transparency and reducing transaction costs for private voluntary standards
3. Improving how developing countries connect to global value chains through multi-stakeholder strategies

1) Adding value to commodities through improved services

The ITC's work on commodities focuses heavily on increasing returns to small and medium enterprises including small holders, increasing value added and achieving development impact through, amongst other areas, knowledge transfer, skills upgrade and transfer of technology.

Let me take the example of cotton. We do not work on production, as others such as FAO, can do this better. Rather we work with producers and exporters on adding value to cotton in different ways.

- By expanding activities to provide services such as collection and transport
- By Improving the product, i.e. the fibre itself through reduction of contamination
- By certifying under a sustainability scheme (fair trade, organic, Better Cotton)
- By helping producers move up the value chain from fibre into yarn, fabrics and garments

- By promoting high quality artisanal production: handloom fabrics for high value added textiles

There are a number of other examples in the work of ITC where we add value such as in the mango sector where through better packaging, more varieties and improved post-harvest handling Senegalese exporters have significantly increased their revenues. In the area of spices, we are working in Zanzibar with producers to help them move away from traditional low value trading to the concept of branded cloves traded directly from Zanzibar to final consumers. In Uganda we have worked with producers and exporters in the coffee sector leading to a more than doubling of the value of their exports of mainstream coffee by improving quality.

In our experience, improving services around commodities, through packaging, quality standards and supply chain logistics, is therefore a key element to adding value and improving returns for SMEs.

Let me add here a dimension which in my view is crucial for helping commodity focused SMEs enhance value addition and that is the importance of transparency in the functioning of value chains, and in particular in trading activities and in product specifications. Brazilian farmers for example have created their own farmer-owned trading company based here in Geneva. Brazilian farmers and ginners are now much closer to the market, have direct linkages with consumers and can channel feedback directly into the production stage to adopt quality and processes.

Though no one size fits, much of our work is about identifying where this value lies and working with SMEs to find ways-driven by commercial realities-to retain value at home.

2) Increasing transparency and reducing transaction costs in private voluntary standards

A big part of retaining and increasing value for SMEs also involves supporting them to meet private voluntary standards. ITC works to increase transparency and reduce transactions costs related to these standards through the Trade for Sustainable Development (T4SD) programme. The Programme has built Standards Map which is a web-based platform to increase accessibility of private standards to users, conducting research on the impacts of standards and building the capacity of SMEs to comply.

T4SD research maps out the use of voluntary standards clustered around certain sectors, such as coffee, tea, textiles, fruits and vegetables, and forestry. This is because adoption of voluntary sustainability standards is facilitated in contexts:

- (i) where the type of product has high requirements regarding traceability,
- (ii) in extractive businesses,
- (iii) where commodities are identifiable in end products,
- (iv) in shorter supply chains with fewer actors and
- (v) in sectors where consumers are more sensitive about social and environmental issues.

Let me give you a practical example of a private voluntary standard in the tea sector, which the ITC has been helping producers in Kenya meet. International buyers increasingly require their producers to measure and report their emissions and possibly reduce them. However, carbon accounting and climate change mitigation are complex topics and most farmers lack both know-how and resources on climate change mitigation. To combat this- ITC has created a first-of-its-kind training guide to help tea farmers and factories to lower their emissions and reduce energy costs. The manual was piloted in Chinga tea SMEs in Kenya where statistics have shown that in the past year alone- electricity costs have decreased by 25%. A win for the producer and a win for the environment.

Private voluntary standards pose a number of challenges:

- **the first** one is **Rising complexity**. In many commodities, standards have been multiplying. Multiple standards present challenges in terms of transparency. It is difficult for users to understand what standard is appropriate, to manage changes in criteria and to understand overlaps between standards.

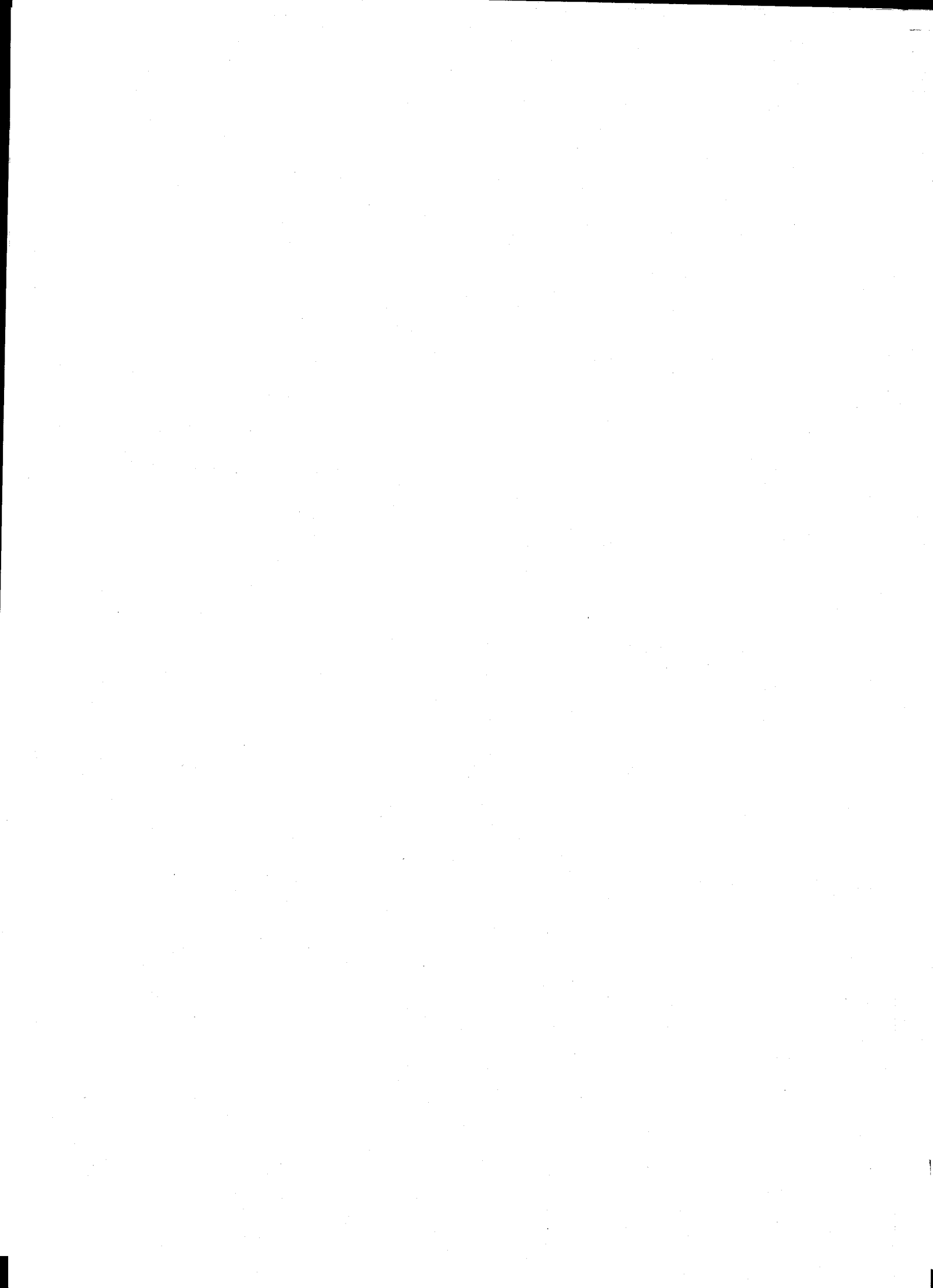
- **the second** one is the **high costs of compliance which are often borne by the producer rather than by the buyer or retailer**.

- **the third** is the **Lack of capacity and knowledge**. Standards often contain hundreds of very technical requirements - environmental, social, quality and safety - that are not easy to implement at the producer level or verify at the buyer level. Next

to the costs of compliance, these prove the biggest challenge for producers, especially unorganized smallholders, to take part in private standards.

•**finally**, there is the likely **Marginality of the poorest**, brought about by limited education, harsh environment and remote locality. It is unfortunately more likely that producer organizations with relatively high skill levels obtain certification in the first place, favoring the “better off” and reducing the net effects of private standards. Another difficulty that smallholder producers are often confronted with is the lack of land tenure rights. For instance, farmers with unstable land tenure are naturally less inclined to make long-term investments like planting shade trees, a key criterion of many standards relating to agricultural commodities.

But despite these challenges, our research says private voluntary standards are often net positive, especially when the right conditions are in place. Generally, positive impacts of voluntary sustainability standards are more likely with higher levels of producer and institutional preparedness. Better supported and prepared SMEs that face lower compliance costs, have more sophisticated skill sets and a better infrastructure to fulfil the requirements, such as strong institutional capacity around laboratories and testing equipment, and extension services. Effects are more likely to be positive when voluntary sustainability standards are recognized as legitimate by their stakeholders in terms of inclusiveness and transparency in standard setting and enforcement. And when clear and visible incentives for their adoption exist, at least in the short term. The work of all of us in this room is to make sure these conditions are in place through increased transparency, inter-operability and ultimately through fostering convergence as well as through building institutional capacity for compliance.



these regional strategies. Other key development partners such as USAID, the African Development Bank, the German GIZ, FAO and others are aligning their current and future cotton projects with the action plans stemming from these new strategies.

Biodiversity as a resource

I wanted to close with a mention of ITC's recent work in biodiversity as a resource. ITC is increasingly active in working with key institutions on improving governance of biodiversity in global value chains. Why Biodiversity? It contributes significantly to the GDP of the poor due to the reliance of the lowest income groups on natural resources for their livelihoods. A report by UNEP "The Economics of Ecosystems and Biodiversity" estimates ecosystem services and other non-marketed goods account for between 50% and 90% of the so-called 'GDP of the poor' (i.e. the effective GDP or total source of livelihoods of rural and forest-dwelling poor households), whereas in national GDP agriculture, forestry and fisheries account for only 6% to 17%. This is a critical resource for the poorest.

The report also showed that businesses increasingly recognize the importance of biodiversity and ecosystem services for their operations, as well as the business opportunities provided by the conservation and sustainable use of biodiversity. The international legal wildlife trade is estimated to be worth 20-35 billion US dollars annually, and includes hundreds of millions of plants and animals. Levels of exploitation of some animal and plant species are high and the trade in

them, together with other factors, such as habitat loss, is capable of heavily depleting their populations and even bringing some species close to extinction.

ITC is very active in this field supporting SMEs in developing countries to sustainably export natural products, eco-tourism and wildlife products. In Peru, for example, ITC works with companies in Cajamarca and San Martin that process and distribute golden berry and sacha inchi. The project has strengthened trade links between SMEs and international buyers of biodiversity based products through supporting participation in trade fairs. At last year's Natural Product Expo West Trade fair alone, projected sales of the 10 Peruvian companies supported by ITC, GIZ and PROMPERU amounted to 6 Million USD for 2013 and around 600,000 USD actual sales on the day as a result of their attendance at the fair.

Furthermore, ITC assists SMEs in addressing barriers to trade. Recently, we have supported Peruvian enterprises in obtaining the Generally Recognized as Safe (GRAS) approval for Sacha Inchi, a plant native to Peru cultivated by smallholders in the Amazon basin. GRAS is a prerequisite by the U.S. Food and Drug Administration and approval will open the doors for many thousands of smallholders looking to export greater volumes of sacha inchi into the North American market to meet the increasing demand.

We have also been working in Zambia to develop a sustainable export industry for Devil's Claw. This indigenous plant found in the semi-arid savannah areas and used primarily for medicinal purposes had been banned by the Zambian government due to reports of unsustainable harvesting and illegal exports. We

developed 'Sustainable Harvesting Guidelines and organised a series of workshops to areas rich in Devil's Claw production. The government's ban on harvesting and exporting Devil's Claw has now been lifted enabling Devil's Claw exporters to trade.

ITC also works closely with international partners like the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the International Union for Conservation of Nature (IUCN) as well as the private sector to ensure that the mechanism in place to ensure effective global management of this resource, such as CITES, are effective. This means putting in place systems that recognize communities who benefit financially from trade in local biodiversity have added incentive, including the financial means, to preserve the environment. Linking local communities to international markets and strengthening local value chains are vital steps towards ensuring the benefits of biodiversity remain in the hands of local communities.

I am optimistic. Our work on the ground shows there are ample opportunities for developing countries to thrive in commodity centered value chains. But it is also clear that for this to happen we must ensure that the necessary assistance, accompanying measures and governance mechanisms are in place.

I look forward to the results of the debates over the next two days and thank again my colleagues at UNCTAD for the invitation.

Aranca González

