

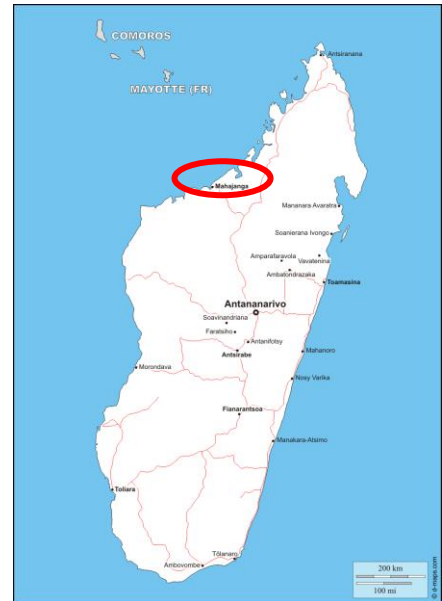
## Case Study - Le Relais – Madagascar

### General Considerations

This is a summary report of an assessment of an organization, based on the criteria of the Social Business Scorecard (SBS) developed by CERISE and its partners. To learn more about this project, you can go to [www.cerise-sb.org](http://www.cerise-sb.org).

### Presentation of Le Relais – Madagascar

- **Date of audit and information presented:** 12/2014
- **Name:** Le Relais – Madagascar (RM)
- **Country:** Madagascar - Fianarantsoa
- **Year operations began:** 2008
- **Vision:** RM's vision is to promote an economy that serves people instead of placing people at the service of the economy.
- **Activities:** Used-clothes sorting and garment manufacturing; building cars; urban waste collection and composting; harvesting, husking and marketing of quality rice; hotels
- **Project initiator:** Le Relais France
- **Workforce:** 356 employees
- **Status and governance:** The overall legal structure is currently as follows:
  - Le Relais-France (worker cooperative union in France) is owner of Relais Madagascar, a limited liability company;
  - Relais Madagascar Ltd takes care of the used clothes, waste sorting and garment manufacturing activities and has created two limited liability companies under Malagasy law for the car building and rice activities;
  - Relais Madagascar Ltd also has two hotels in Tulear and Ranomafana.



### Background history of Relais Madagascar

The current general manager of Le Relais Madagascar (RM) arrived in Madagascar in 2008 with a mandate from Le Relais France to set up the migration of a used-clothes business in the country. The client was a Malagasy retailer of Indian origin (the Miezaka company), based in Fianarantsoa. Up until then, he had been supplied by Le Relais France in bales of sorted used clothes, and wanted to do the sorting in Madagascar at lower cost. He provided a small place and three months' worth of working capital to recruit 15 people from the town's at-risk population and start up a sorting business. Today, the company is installed in a former automotive plant and sorts 4200 metric tons of textiles per year. The profits earned have helped finance the launch of other RM activities, including garment manufacturing (250 articles/month), car building (1.5 cars/month), rice (500 metric tons in 2013), waste treatment (2900 metric tons since 2013) and a hotel business (2 luxury hotels).



Source : <http://www.lerelais.mg/>

## Le Relais seen through the scorecard

### General considerations

RM's reason for participating in the Social Business audit was to get an outside view of the company's practices vis-à-vis its social and economic purpose. The company works on many projects, and there is still not much formalisation. In that respect, the audit will bolster the internal review process. It turns out that it would be useful to conduct regular reviews to observe the effect of management changes on the different criteria and indicators.

### Presentation of Results by Dimension

#### Purpose

**Strengths:** RM's socio-economic vision, mission and goals are shared by the people interviewed (general manager, administrative and financial manager, heads of activities). The purpose is stated in the social goal of the company statutes: "The company's mission is to develop economic activities in Madagascar in the spirit of Le Relais France, designed to finance social-integration and economic development aid actions. Likewise, any industrial, commercial or financial, or household-goods-related or real-estate activity that could be directly or indirectly connected with its social goal." In accordance with the statutes, adherence to the social goal is guaranteed by the unique shareholder, Relais France, the only one entitled to change it.

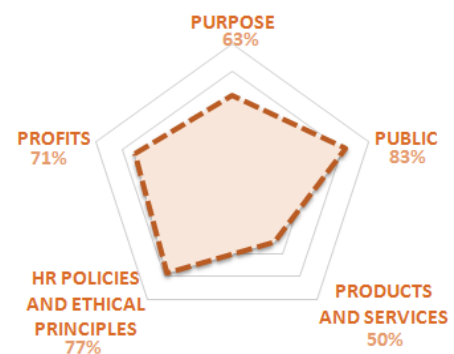
The goal is to create income- and job-generating economic activities in a people-friendly environment (accountability, responsibility, respect, solidarity, sharing). The strategy has had a significant impact in terms of jobs for the most disadvantaged populations, in particular for the activities that do not require training (used-clothes sorting, garment-making, collecting and treating household waste). Other more complex activities, such as car building and the hotel business, do require recruiting trained staff (cooks, engineers, mechanics, etc.).

**Weaknesses:** Practices are not sufficiently formulated in a reference document (e.g. shareholders' agreement between RM, Relais France, and Miezaka, social and economic charter). A quality management system (QMS) currently being drafted will correct this by standardising the strategic framework, practices and the terminology. There is also a lack of a common framework for analysing criteria for social (number of jobs created for at-risk populations) and economic (capital intensity) issues, and for determining employee empowerment potential over time (e.g. the degree of methodological, technological, financial or management complexity) to enable them to seize opportunities for economic activity in which to invest, in accordance with RM goals and guidelines. Therefore, investment decision-making is relatively centralised by the general manager, without the benefit of more extended knowledge on the possibilities for reaching RM's social goals (this is the case for the hotels and the rice mill).

#### Public

**Strengths:** the target public is RM's team of employees, made up primarily of the at-risk populations living in Fianarantsoa or around the business sites, the Moringa Hotel in Tuléar and the Thermes Hotel in Ranomafana). So it is people like waste scavengers, orphans from the refuges, the homeless, and the disabled who make up the bulk of RM's employees. Having some qualified people who are not in a situation of exclusion, however, has a number of advantages over and above assuming the technical, administrative and economic activities required for managing and development the company. This type of staff also serves to supervise the more unskilled employees and ensure they have work. The coexistence of different social groups works to reduce social exclusion and provides life-course benchmarks for the disadvantaged and the excluded.

TOTAL	69%
PURPOSE	63%
PUBLIC	83%
PRODUCTS AND SERVICES	50%
HR POLICIES AND ETHICAL PRINCIPLES	77%
PROFITS	71%



**Weaknesses:** The integration through employment for at-risk populations is poorly documented when it comes to targeting and results. Identifying at-risk people for recruiting purposes relies only on interviews to assess the individual's risk situation, life course, determination and capacity for looking forward, based on the company's current and future needs. There are no guidelines for objective criteria to characterise or target a specific population, for example. The effects of work on people at risk and their families (debt reduction, access to housing, health, food, education, alcoholism, violence, etc.) are not monitored statistically, even though these data are essential for demonstrating the relevance and effectiveness of RM's approach from a socio-economic viewpoint. And although the approach itself is not in question, it is "inequitable" from a conceptual viewpoint, since it can be assumed that once staff members have been employed for a few years, they are no longer at risk. Logically, such an employee can "make it on his own" and give up his position to a new, "relatively" more vulnerable person.

## Products and Services

Strategically speaking, products and services are targeted as a function of the capacity to recruit at-risk populations for a given activity and still generate profits to be reinvested, thereby generating sustainable jobs for these populations. The strengths and weaknesses for the different activities are as follows:

- **Used clothes:** (Strengths) Relocating the used-clothes sorting activities to Madagascar generated strong added value at the local level, enabling reinvestment in new, job-generating activities. The activity provides clothing in a wide range of different qualities, thereby reaching a broad spectrum of the population according to income.
- (Weaknesses) The Miezaka company is RM's only client, however, which leaves the whole enterprise vulnerable if Miezaka were to withdraw for any reason. The large-scale sale of cheap used clothing also could hinder the emergence of a local garment industry.
- Garment manufacturing: (Strengths) The activity makes it possible to upgrade used textiles and materials that otherwise would be thrown away.
- (Weaknesses) The activity has not yet reached the break-even point, which will depend on the ramp-up of a commercial partnership with French company Zazabracadabra, which mainly targets a wealthier clientele with raised awareness of solidarity economy issues.
- **Rice:** (Strengths) The standard rice from the collecting system is sold at fixed price to social organisations (schools, hospitals, health centres, etc.). However, the system will not support paying a better price to the producers, whereas the fair-trade rice, which targets a wealthier population, proposes an expensive, high-end product that allows for paying farmers a higher price compared to the rice sold through the conventional channel (even if only small quantities of the more expensive rice are currently produced).
- (Weaknesses) RM is learning the hard way how to manage an activity that is similar to an agricultural development project. The volumes are still too small to have a positive economical impact on farming households. The profitability of the rice mill is linked to the crop year, which depends on weather variability. A decline in the rice cultivation activity can have a severe impact on RM's total comprehensive income, as was the case in 2012 (consolidated income of -17 million Ariary, or -€5 300).
- **Cars:** (Strengths) The car building activities in Madagascar target an entry-level market segment and uses easily accessible and repairable technologies, allowing more widespread access to reliable, cheaper vehicles that are produced locally.
- (Weaknesses) The activity has not yet reached the break-even point. For that, the RM team is counting on strong domestic demand for its 4WD/4x4 Mazana II (to be launched in 2016). External investments will be needed to set up a production line with an output capability of one car per day by 2020 and create a significant ripple effect.
- **Household waste:** (Strengths) The activity provides a sustainable and innovative model for urban waste collection and treatment in Madagascar. Health-wise, waste treatment compensates for Fianarantsoa's deficient municipal refuse disposal service. At the environmental level, this activity has made it possible to set up a local organic fertiliser industry, suitable for organic farming and environment friendly (environmental impact study conducted, non-degradable waste buried in compliance with pollution control regulations). RM considers the activity to be profitable, and the number of containers currently collected is scheduled to increase from 13 to 104 (60 of which remain to be built).
- (Weaknesses) The main weakness is that the district is bankrupt and does not pay its bills (arrears of 16 M Ar), which negatively impacts the cash-flow situation and extension potential. Extending the model to other districts is also hindered by undermining on the part of powerful players in this sector (there are significant economic and political interests at play), even if their services are substandard and do not cover treatment streams.

- Hotel business: (Strengths) The hotels are considered as an activity that should generate a lot of profits over time, which would make it possible to consolidate the RM group's overall resources and activities, making it less economically dependent on the used-clothes sorting activity.
- (Weaknesses) The hotels represent a sizeable investment. Since they target a wealthy Malagasy and tourist clientele, their profitability depends on the country's sociopolitical and security climate. Also, their social dimension (jobs for disadvantaged people and ripple effects for the local economy) remains to be seen.

## HR Policies

(Strengths) All employees are declared and paid based on a survey of the minimum means of subsistence to enable a family to live decently (higher than minimum wage). The wage scale goes from 1 to 5, excluding the general manager, who is paid in France. While the wage scale is common knowledge, the salaries are not divulged. The employees pay payroll taxes (retirement pensions, health insurance). Under the RM health insurance plan, a physician is available every two weeks to provide free consultations for employees. The insurance covers basic medicines and dental care. In addition, an internal mutual insurance fund covers 70% of exceptional health costs (serious cases) and also provides access to interest-free loans. Employees also have other benefits: daily access to the cafeteria, distribution of school kits at the beginning of the school term, Christmas baskets, a sack of rice per employee during the lean season (each January). Outreach management is based on two formal interviews per year and an informal individual follow-up by the activity managers. The real democracy within the company is apparent at several levels: a survey/vote every two years to enable employees to express their opinion on the general manager and his enterprise plan; an employee committee (Fiaro) to enforce Relais ethical principles within the company; a monthly general information meeting for all employees and weekly meetings for each activity centre and/or team; participation of activity managers in the management department.

(Weaknesses) The training activities for employees appear to be poorly organised (no needs assessment, no specific policy, no pre-allocated budget). Although there has been a workplace health and safety committee since 2010 to address health and safety risks (handling of machine tools, machining dust, waste collection and sorting, etc.), the company's safety policy is still not very operational. The company democracy mainly concerns operational management and corporate life, but not strategic decisions, which are under the sole responsibility of the general manager, in liaison with the parent company.

## Ethical Principles

The company values that are a source of motivation and which give the action meaning are: (i) Emmaus values: work, hospitality and solidarity; (ii) Malagasy society values: Fiavahana and Firaisaikina<sup>1</sup>; and (iii) Relais values: self-financing, democracy within the company, accountability.

## Profits and Sustainability

(Strengths) Profit distribution is governed by the RM Ltd statutes (10% of social capital, 5% for the legal reserve, allocated to the sole member, Relais France). Only Relais France is entitled to distribute profits. In practice, profits are distributed according to a number of options that can be combined: investing in new activities, paid out to employees under the wage policy, transferring resources to a deficit activity or to one that is slow to develop, but highly inclusive.

(Weaknesses) Currently, only the highly profitable used-clothes sorting activity is financing the other activities until they start to show a profit. Furthermore, this activity has always depended on a single client, Miezaka.

## Partnership (optional)

(Strengths) The partnership with Miezaka has underpinned RM's development in Madagascar. It enabled the injection of capital to start RM's activities and a guarantee of economic activities (used-clothes sorting contract) on which to develop RM's business plan. It made it possible to identify opportunities and launch most of the other activities, acquire land (the rice mill and the hotels), activate its networks to gain access to the markets (household waste collection), and promote the activities (the much-publicised tour of the automotive plant by Madagascar's President in late 2014).

(Weaknesses) The director of Miezaka was the majority holder of the real estate capital for the land and some of the hotel buildings until the end of 2013. He does not participate in RM's overall governance, leaving the responsibility for decision-making and management to the general manager. [NB: Miezaka no longer owns the plots of land; an employee association created in late 2014 is now the shareholder of a real estate corporation and can acquire ownership of land]. Two remarks: (i)

<sup>1</sup> Fiavahana: identity; Firaisaikina: union, solidarity

this partner has never requested to be paid dividends on the capital he invested; if he had, RM could not have developed its current activities and implement the RM approach; (ii) the specific features of this partnership regarding trust and dividends on tied-up capital make the RM approach unique, and difficult for other companies to duplicate.

### Additional information: other aspects of Relais Madagascar as a social business

**Focus on car building:** Karenjy cars were developed during the 1980s under the Ratsiraka presidency by the Malagasy Innovation Institute (IMI). About a hundred Karenjy cars were produced between 1985 and 1990. Production stopped in 1993 when the new president Zafy came into power. The factory was placed under legal protection and remained dormant for 15 years (source : <http://fr.wikipedia.org/wiki/Karenjy>). ERM acquired the Karenjy factory in 2009 to install the used-clothes business. The purchase included all existing assets at the time of the shutdown, i.e. 40 finished cars, about sixty partly assembled or unassembled cars, and all of the machine tools. At first, the general manager planned to sell everything in spare parts/knocked down, but it turned out that the cars were in running condition. This led to the idea of reacquiring the manufacturing skills via the disassembly, overhauling and reassembly of the finished cars, and then relaunching the production and sale of the cars using the existing inventory. The prototype for a new 4WD/4x4 model (Mazana II) is currently being tested, and series production for the model is scheduled for January 2016. The goal is to reach an output of one vehicle per day by year's end 2020. The factory also serves to manufacture animal-drawn cultivation equipment.

The assessment of RM practices and results led to some recommendations for improvement:

- Give priority to economic consolidation and social practices through:
  - the improvement of the decision-making framework to boost RM's social performance by:
    - formulating criteria for recruiting from at-risk populations,
    - monitoring these at-risk groups and the effects of work on these households, from the socioeconomic viewpoint,
    - defining decision-making criteria (socioeconomic, technical, methodological) for starting up new economic activities.
  - the development of economic democracy by:
    - progressively building up a middle management consisting of Malagasy supervisory staff (through either in-company or external recruiting),
    - progressively shifting certain operational and strategic functions from the role of general manager to the Malagasy supervisory staff, by formalising procedures and shared management tools,
    - identifying strategic and technical areas for which real co-design and co-decision responsibilities could be given to employees along with the managers (workplace safety, working hours, training and "extrapro" projects, pay, etc.);
    - starting with the QMS project, formalising economic democracy practices (charter, shareholders' agreement, governance, procedural manual, etc.);
  - the design and implementation of training policies that are consistent with beneficiary needs and RM's future.
- Based on the reinforcing and formalising of practices and the results in terms of social, technical and economic performance, it would be of interest to promote RM's social business image, not only to spark the interest of new investors capable of investing without expectation of dividends, but also to defend RM interests (e.g. getting paid the amounts owed by the Fianarantsoa district for household waste collection).
- With respect to human resources, create a job entirely dedicated to the social dimension and give it the adequate means to carry out the above-mentioned projects, making use of an action plan and dynamism much in the same way as the productive activities. The current situation, where making this function operational is a task that is shared among the general manager, the administrative and financial manager and each head of activities in addition to their productive and managerial functions, does not appear to work very well.

These recommendations correspond to the situation that was observed and assessed in December 2014, so it is possible that the situation has changed since then.