Bulletin 385

Development Policy & Practice

Sustainable procurement from developing countries

Practices and challenges for businesses and support agencies

Marije J. Boomsma

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Foreword

When the Royal Tropical Institute (KIT) approached our company to support a project on sustainable ginger production in Sierra Leone, we were immediately enthusiastic. Unifine Sauces & Spices, a leading spice processor in Western Europe, is always looking for new, reliable, high-quality spice suppliers. The spice trade is faced with declining export volumes from ‘traditional’ ginger countries of origin like China and India as local demand (linked to rising meat consumption) in these countries increases. Today Indian spice growers prefer to sell locally for a good price, rather than trying to meet fastidious European Union regulations. Developing new regions for spice production is therefore a need. Revitalizing ginger growing in Sierra Leone, where the crop used to be grown, is an opportunity for us.

Unifine includes ginger in spice mixes, which are ingredients for soups, sauces and meat marinades. Our clients, West European food processors, are primarily interested in continuous, high-quality supplies, at pre-agreed prices. If Unifine prices deviate from world market prices, our clients start to shop around. ‘Sustainable’ Sierra Leone ginger therefore can be an option only if (1) the quality and taste fit, (2) supplies are in line with agreed volume, (3) prices are conform to market norms, and (4) suppliers understand and adhere to European Union regulations.

As a member of Royal Cosun, a cooperative of sugar beet growers, Unifine has learned from over 100 years of experience that respect for farmers’ incomes and full control of the supply chain are required to guarantee full supplies at the right time and of the agreed quality. Historical experience in farm certification, seed selection, farm management advice, price agreements and profit sharing have made the sugar beet supply chain transparent, high quality, reliable and profitable for all parties.

Today’s purchasing managers cannot rely on so-called ‘spot purchases’, where a quality control check is often insufficient to detect hidden deficiencies. Transparency in the supply chain is needed to know who grew the crop, how it was collected and dried, which transport modes were used, and under what hygiene conditions it was selected and packed. Once a supplier is audited and approved, we wish it to supply us for many years to come. Such continuity requires good management, which can be guaranteed only if farmers and processors in the supply chain are trained and are paid sufficiently.

For the purchasing manager, sustainable procurement – where all actors get their fair share – is the only route to high quality and reliable supply. If that means paying slightly more, the premium must be seen as insurance against issues which are bound to happen with spot purchasing. Food processors and end consumers select for constant quality, reliable supply (on time, in full), and confidence in limited risk of such issues. Fair trade principles is a cornerstone in achieving this level of confidence. Everything begins with good production conditions at the origin, but ultimate success is possible only with market-conform pricing.

We hope that more initiatives will follow where processors in the countries of origin understand the needs of the European market and where purchase managers are able to develop efficiencies in the supply chain, so that sustainable products are offered at acceptable prices.

Willem C.J. van Noort
Member of Executive Board, Royal Cosun, the Netherlands
Vice-president, European Spice Association

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Marije Boomsma

1 Connecting people, markets and values

Objective

Globalization has brought unparalleled opportunities for economic growth, but has highlighted widening income gaps between rich and poor. Improved technology and transportation have boosted exports from developing countries to wealthier parts of the world. This has sometimes brought more income for the poor. But in many cases, the rich have got richer, and the poor, poorer. Social and environmental conditions in poor countries lag behind those in the West. Business leaders and public opinion increasingly acknowledge this, and agree that not just public actors, but also private companies need to engage in poverty alleviation. While non-profit organizations promote trade and business between enterprises in the South and in Europe, leading firms are also amending their business practices in line with corporate social responsibility principles.

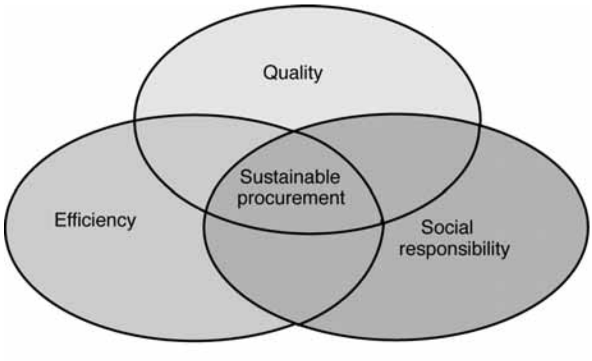
Corporate social responsibility (often referred to as CSR) also affects procurement by Western companies in developing countries. As a result, a third element has joined the traditional strategic procurement elements of costs and quality as an influence on global procurement strategies. The three elements are:

1. The need for companies to become more competitive in an increasingly global market. They are making their buying practices **more efficient** through innovation, and try to cut costs by buying directly from producers.
2. The growing demand of consumers for **quality and traceable products**. That also pushes companies to buy direct from the source and to invest heavily in improving their supply chains and quality control systems.
3. Rising public concern for **social and environmental effects** of global business. This leads companies to adjust their supply chains according to corporate social responsibility principles.

The challenge for companies is to find the right balance between these three elements, leading to sustainable procurement (Figure 1).

Under the influence of their shareholders, suppliers and clients, their own management and the wider public, Dutch businesses are increasingly adapting themselves to these three trends. This is more apparent in some sectors than others. In coffee, for example, many initiatives strive to raise respect for human rights, pay fair wages, etc. Examples are the UTZ and Max Havelaar certifications, both of which monitor the social and economic responsibility of coffee suppliers (Box 1). The European retail sector is another example: together retailers have developed a social auditing system, the Business Social

Figure 1 Elements of procurement trends



Compliance Initiative (BSCI). A BSCI certificate is evidence of suppliers' high social standards.

In many other sectors, however, sustainability, in all aspects of its meaning, is still in its infancy, and only minor improvements have been made in making purchasing practices sustainable.

A multitude of organizations, consultancy firms, businesses, academic institutions and government agencies have begun work on sustainable procurement. As a result, several multi-stakeholder initiatives, covering producer alliances, companies, NGOs, scientists, unions, governments, etc., have been established. One example is the Roundtable for a Sustainable Cocoa Economy, which aims to enhance sustainability in the cocoa sector worldwide. Another is the Roundtable on Sustainable Palm Oil, which promotes cooperation within the palm oil supply chain and open dialogue with its stakeholders.

So there are many initiatives on sustainability in supply chains – but as yet little experience. Many companies, particularly small and medium enterprises, still do not know how to practise it. It is as yet unclear how to best unleash the potential of sustainable development and integrate it into trade.

The Royal Tropical Institute (KIT) believes that sustainable procurement is valuable for both suppliers in developing countries and buyers in Europe. We believe sustainable procurement can profoundly help reduce poverty, if applied in a responsible way. KIT wants to assist in making sustainable procurement easier and more accessible. This book is based on a study that explored how Dutch firms can achieve sustainable procurement from developing countries. The study builds upon previous work, such as a study by Oxfam and Unilever into the link between international business and poverty (Oxfam GB, Novib and Unilever 2005), as well as the MVO-Nederland study into foreign entrepreneurship (Cramer 2005). Both studies suggested a need for good-practice standards or a reference framework for practical implementation and impact measurement.

Box 1 Examples of sustainability certificates

BSCI: The Business Social Compliance Initiative is an association of European retailers that aims to improve labour conditions of members' suppliers in high-risk countries. The BSCI code requires members to monitor child labour, forced labour, working hours, wages, discrimination, occupation health and safety and freedom of association and collective bargaining. BSCI is based on the labour standards of the International Labour Organization. Suppliers can achieve an SA 8000 certification of their social accountability. (www.bsci-eu.org)
EKO: EKO is a certificate for organic products. It is certified and owned by Skal, an inspection body for organic production in the Netherlands. (www.eko-keurmerk.nl, www.skal.nl)
GlobalGAP: Formerly known as **EurepGAP**, this is a system which provides guidelines for good agricultural practices (GAP), including the use of chemicals and other production inputs. All major retailers in Europe use this system to ensure safety and health standards. (www.globalgap.org)
Fairtrade certificates guarantee that a product is produced in a socially responsible manner and that producers get a minimum 'fair' price for their output. On top of this minimum, a premium must be paid that is invested by the producers in programmes to enhance social, economic or environmental development. Payments need to be made partially in advance, if needed, and contracts must enable producers to plan in the long term and produce sustainably. These certificates are issued by labelling initiatives in importing countries (such as **Max Havelaar** in the Netherlands). The system is coordinated by a worldwide umbrella organization, Fairtrade Labelling Organizations International. (www.fairtrade.net)
Eco-label: Eco-label is a voluntary scheme run by the European Union to encourage businesses to market ecologically friendly goods and services. (www.milieukeur.nl). **Milieukeur** is the Dutch variant. (ec.europa.eu/environment/ecolabel/, www.milieukeur.nl)
Rainforest Alliance: This US-based organization certifies farms that fulfil certain standards to protect wildlife, wild lands, workers' rights and local communities. The certification scheme also covers forestry and tourism. (www.rainforest-alliance.org)
Tesco Nature's Choice (TNC) is a certification system for suppliers of fruit and vegetables to Tesco, a big British supermarket chain. It is carried out by Control Union Certifications, a specialist company. The standard is similar to GlobalGAP but is more stringent on several points. (www.controlunion.com)
UTZ Certified: This is one of the world's largest coffee certification programmes. A UTZ certificate assures consumers that coffee was produced and sourced in a responsible way. It also creates opportunities for farmers to improve their business practices and meet market expectations. (www.utzcertified.org)

Research questions

This book is intended for readers who work for businesses and support organizations interested in promoting sustainable procurement in developing countries. It asks how sustainable procurement by Western companies in global value chains can be increased in such a way that all chain actors, including the poor, benefit. It presents three cases of businesses that procure supplies from Sierra Leone, Mali and South Africa (Table 1).

Table 1 Case studies in this book

Chapter	Sector	Product	Origin	Supplier company	Trading company	Buying
3	Spices	Ginger	Sierra Leone	CTFGE	Unifine	Unilever and others
4	Fruit	Mango	Mali	4 exporters	Bakker Barendrecht	Ahold
5	Fruit	Citrus	South Africa	Zebediela Citrus Estate	AgroFair	European retailers

The book draws lessons from the cases on the drivers behind sustainable partnerships in value chains. It asks why partnerships were established between businesses in the Netherlands and the South. It discusses the changes that were needed in organization and marketing, the additional costs of applying sustainable procurement principles, and the actors who bear these costs. It then suggests conclusions on the sustainability of the partnerships and the limits of sustainable purchasing for businesses.

Methodology

This book is based on a desk study and semi-structured interviews with stakeholders in the three cases (see Appendix I). The ginger and the mango cases also use data gathered during conversations in Sierra Leone and Mali. The project team analysed the information that was collected, and referred it to the Dutch companies for verification. A discussion on the findings was held in March 2008 (Appendix II) at KIT in Amsterdam, involving experts from the public and private sectors, non-profit organizations and academia. This bulletin reflects the results of this discussion. The manuscript was then reviewed by several specialists in the field.

Structure of the book

Chapter 2 outlines the history and trends that underlie sustainable procurement. It starts with the Millennium Development Goals ratified by the United Nations in 2000, then discusses the trends towards corporate social responsibility and sustainable procurement practices.

Chapters 3, 4 and 5 present three cases that differ widely in location, products, strategies and business models. **Chapter 3** analyses how Unifine, a Dutch company supplying ingredients to the food industry, procures ginger from CTFGE, an enterprise in Sierra Leone. **Chapter 4** looks at how Bakker Barendrecht (a fruit wholesaler in the Netherlands) and Ahold (its supermarket partner) purchases mangoes in landlocked Mali. **Chapter 5** discusses AgroFair, a Dutch Fairtrade company, and its partnership with Zebediela, a company that runs a citrus estate in South Africa.

Chapter 6 draws general lessons from the cases and lists challenges for producers, business and support agencies involved in sustainable procurement. It also suggests a division of roles in sustainable purchasing practices and proposes some ideas for the future.

2 Aligning sustainable procurement and corporate social responsibility

As a result of globalization the world is 'getting flat' (Friedman 2005). Trade has become faster and easier, and has increased in volume. Various groups challenge globalization, claiming it creates inequalities between rich and poor. These groups seem to overlook that globalization creates opportunities for everyone, including the poor. Because developing countries have comparative advantages in terms of production – cheap labour, natural resources and warm climates – companies relocate production there. Globalization thus creates a chance for the poor to participate in the world economy.

But globalization and liberalization also involve risks – the overuse of natural resources, pollution, and the exploitation of people through human rights violations and setting unfair wages and prices. Even though companies may make profit in the short run, in the longer term such practices may be harmful for society as a whole, and hence for the long-term profitability of the companies. Partly due to pressure from civil society, the private sector is increasingly aware of these risks, and company boards are increasingly interested in developing sustainable businesses – as was acknowledged during the Millennium Summit of the United Nations in 2000.

The Millennium Development Goals

In September 2000, 189 heads of state ratified the Millennium Declaration of the United Nations, which sets eight goals for development:

1 Eradicate extreme poverty and hunger.
2 Achieve universal primary education.
3 Promote gender equality and empower women.
4 Reduce child mortality.
5 Improve maternal health.
6 Combat HIV/AIDS, malaria and other diseases.
7 Ensure environmental sustainability.
8 Develop a global partnership for development.

These goals stimulated the development of a movement for corporate social responsibility among enterprises. All eight goals are relevant for the global economy. For example, companies need access to skilled labour, so primary education is important for the private sector (goal 2). Companies rely on healthy staff, so are interested in fighting diseases (goal 6). But the goals are defined broadly; to make them more comprehensible and accessible for businesses, the International Business Leaders Forum (IBLF) and the United National

Development Program (UNDP) have defined three main tasks for the business community (IBLF 2003):

1 **Investing in a sound environment** in which to do business, meaning an open, non-corrupt and well governed economy.
2 **Managing the direct costs and risks of doing business**, including environmental costs and costs on the negative effects of HIV/AIDS and little-developed educational systems.
3 **Harnessing new business opportunities** and applying corporate social responsibility to achieve innovation, value creation and competitiveness.

All three are more or less incorporated in corporate social responsibility guidelines and regulations.

Corporate social responsibility

Corporate social responsibility extends beyond a company's own organization. Nowadays it covers all activities within the company's supply chain. MVO Nederland, a Dutch coalition that promotes corporate social responsibility, uses the following definition: 'Corporate social responsibility is a process in which an enterprise takes the responsibility for the social, ecological and economical impact of its actions in the whole chain, and participates in a dialogue about this with stakeholders' (MVO 2008). That makes it the responsibility of companies to check their suppliers on sustainability and, if necessary, to help them to improve. Close collaboration is essential if such efforts are to succeed.

The interest of enterprises in corporate social responsibility is growing. This was confirmed by a special report in *The Economist* in January 2008. While three years previously, only 35% of businesses said that 'very high' or 'high' priority should be given to corporate social responsibility, at the end of 2007 55% did so. Over the next 3 years it is expected that this will grow to almost 70%.

Since there is so much interest in corporate social responsibility one might think that by now companies know how to apply it in their business activities. The opposite is true: although companies say they want to use corporate social responsibility, their actual performance is much lower, found a McKinsey survey of 400 chief executive officers (Oppenheim et al. 2007, p. 21). The gap was particularly striking in supply chain management: 60% of the respondents said their companies should improve global supply-chain management issues to address environmental, social and governance issues, but less than 30% were actually doing so.

A major reason is that there is no single cross-sectoral approach for applying corporate social responsibility. It is in fact a wide collection of numerous international norms, decisions and guidelines, made and maintained by international organizations (Table 2). Moreover, the norms vary widely between and within sectors due to different geographical circumstances, production requirements, labour involved, etc.

Table 2 Corporate social responsibility norms and sources (based on MVO Nederland 2007)

Group	Norms	Website	Examples
Human rights	- Universal Declaration of Human Rights	www.unhcr.ch	- Enterprises should promote human rights in all countries they work in
Labour	- ILO Conventions - ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy	www.ilo.org	- Liberty of organization and collective negotiations - Prohibition of child labour and slavery - Right to minimum wage - Right to safe and healthy working circumstances - Restriction of working hours
Environment	- Rio Declaration on Environment and Development (Earth Summit Rio 1992) - Convention on Biological Diversity - Kyoto Protocol - OECD guidelines for multinationals - European Commission treaty - Etc.	www.unep.org www.biodiv.org www.unfcc.int www.europarl.eu.int	- Polluter pays principle - Preventive action, etc.
Consumer protection	- UN Guidelines for Consumer Protection		- Right to access to needed goods and services - Right to safety - Right to information, etc
Health	- Universal Right on Health (Art. 25 Universal Declaration of Human Rights and International Treaty in Social, Economic and Cultural Human Rights)		- Right on healthy work environment (Art. 12.2b ICESCR) - Support for non-discrimination of access to health services and goods - Access to food, shelter, sanitation and drinking water - Access to education and information
Corruption	- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions	www.oecd.org	
Others	- Control of restrictive business practices - Taxes - Science & technology - National sovereignty and local communities		

Purchasing and supply management

While businesses only vaguely understand the concept of corporate social responsibility, why do they want to apply it to their organizations and supply chains? We can answer this question by looking at developments in the field of purchasing and supply management.

Purchasing is extremely important for companies. While the percentage varies by industry, in manufacturing the cost of procuring goods and services is the largest of all costs. So **reducing procurement costs** can have a big impact on a company's returns. A study by A.T. Kearny of 69 Dutch companies found that by professionalizing their procurement, the firms could increase their profitability by 21% (NEVI Zoetermeer 2004, p. 3).

But how to do it? In the 1970s, the emphasis was on buying primary inputs. Only later did the concept of procurement become wider; nowadays it also refers to all management activities related to purchasing, such as managing relations with suppliers. The importance of managing relations is clearly shown in Van Weele's definition of purchasing and supply management:

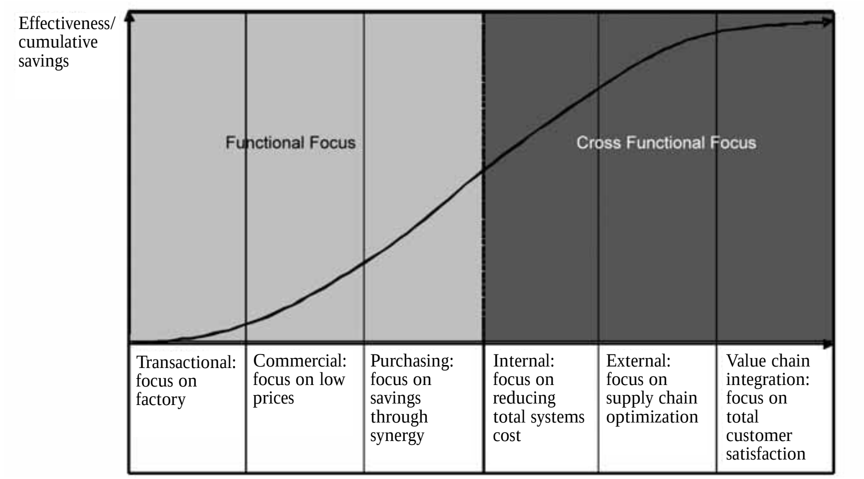
> *'the management of the company's external resources in such a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company's primary and support activities is secured at the most favourable conditions'* (Van Weele 2005, p. 12).

Purchasing roles and structures have also changed over time. Of interest for this book are three roles that Axelsson and Hakansson (in Wynstra 2006) allocate to purchasing and supply management: rationalization, structure and development.

- In the **rationalization** role, decisions regarding purchasing are made based on diminishing costs.
- In the **structure** role, the emphasis is on the balance between dependence and independence of suppliers.
- In the **developmental** role, the most important factor is cooperation, i.e., how can the business and its supplier together innovate processes and add value to their products, lower costs and so increase profits.

Management structures have become more integrated. In the past, purchasing management, supplier partnerships and supplier involvement were rare, but nowadays they are key to many businesses. Obviously companies think they can reduce costs through such integrated structures. Van Weele's model of purchasing and supply development (Figure 2) depicts the development of purchasing structures, from on-the-spot-market transactions (on the left side of the diagram) towards value chain integration (on the right). At first, purchasing was seen as a function to enable factories to run. Then only the cheapest inputs were purchased, and there was still no synergy between buying practices. The next step was to reduce costs by developing strategies for purchasing.

Figure 2 Purchasing and supply development model (based on Van Weele 2005)



Nowadays, it is more common to build strong relationships with suppliers to optimize the supply chain, i.e., by lowering costs and producing good products. The focus has shifted from unit costs, to reducing the total system cost, to optimization of the whole supply chain.

In the final stage value chains are fully integrated. Suppliers are actively included in product development so as to achieve full customer satisfaction. Full cooperation is sought both upwards in the value chain (with suppliers and producers) and downwards (with customers and consumers), and the purchasing and marketing functions are fully integrated.

Close collaboration with suppliers and coordinated management of purchasing activities lead to low costs, high quality and social responsibility – the basis of sustainable procurement. From there, it is only a small step towards corporate social responsibility in the supply chain.

The final stage of Van Weele's model is relatively new, and its reliability has not yet been demonstrated. Do all organizations follow the same path? Will they all end up at the final stage, with the same costs and benefits? The answers are unclear. Maybe only some companies, following particular strategies, will do so. Also, who are the decisive actors: purchasing managers, or others such as sales managers? The same questions should be considered for sustainable procurement and corporate social responsibility in value chains.

Conclusion

The real impact, and hence the added value, of applying corporate social responsibility in value chains has not been shown. Research and learning lessons from practice is needed to find out whether and how sustainability in supply chains adds value to business. The remainder of this book focuses on these issues, with special emphasis on pro-poor value chains from developing countries. The next three chapters describe three African supply chains. They pose three questions:

- What are the drivers for sustainable supply purchasing?
- What are its costs and benefits?
- What are its limitations?

In the literature, the terms 'purchasing', 'supply management' and 'procurement' are often used randomly, and their meaning is changing over time. As 'procurement' is most commonly used in the international development arena, we use this term in the remainder of this book.

3 Unifine: Sourcing ginger from Sierra Leone

Company profile

When research for this book started, Unifine Sauces & Spices was part of Royal Cosun, a cooperative of 12,000 Dutch sugar beet farmers (www.cosun.nl). In December 2007, Cosun sold Unifine to focus on its core businesses of sugar, potatoes and alcohol. The new owner is Clearwood, private investment company. Unifine expects to continue its growth strategy.

Unifine produces about 500 different sauces and spice mixes for the meat-packing and food industries and for restaurants, caterers and wholesalers. It markets its products under the wholesale brand names Wyko (sauces), Degens (spicy ingredients for meats) and Unifine Industry/Unispice (spices and mixes for the food industry) (www.unifine.nl, Figure 3). The company monitors consumer trends and is aware of its responsibility towards the environment and the communities where it works. Food safety, corporate responsibility and hygiene norms are important elements of the company's policy.

Figure 3 Unifine's supply chain

Source: www.unifine.com.

In 2007, Unifine's turnover was € 90 million. The firm employs 300 people in two modern production facilities in the Netherlands.

Unifine's major market is Belgium, the Netherlands and Luxemburg. Other European markets – the United Kingdom, France and Eastern Europe – are growing steadily, by about 5% a year. Unifine is the third biggest player in the Dutch spice industry.

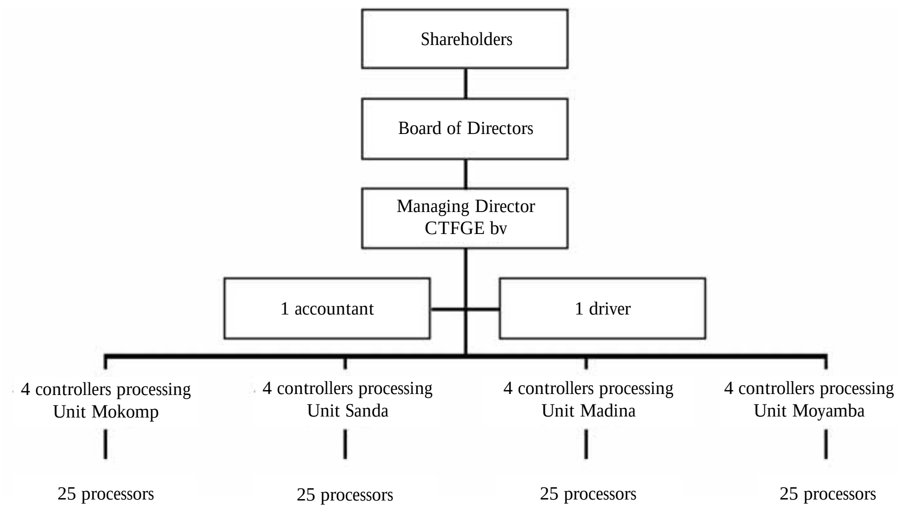
Unifine sources its spices and herbs from all over the world. Ginger is one of its strategic products, along with peanuts, pepper, nutmeg, lemongrass and chillies. The company processes 500-1000 tons of ginger a year.

Supplier profile

Cotton Tree Foundation Ginger Enterprise (CTFGE) is a company registered in Freetown, the capital of Sierra Leone, a West African country currently recovering from war. CTFGE started in 2003 as an income-generating project of the Cotton Tree Foundation, a non-profit organization that aims to improve the general welfare of people, families and communities. The project lasted from 2003 to 2006 and was fully funded by Cordaid, a Dutch development agency. It trained 1,231 ginger growers. In 2006, CTFGE was formed to create access to markets for the growers. Cordaid provided a loan to cover start-up costs.

CTFGE is governed by a managing director and a board of directors (Figure 4). The Cotton Tree Foundation holds 99% of the company's shares.

Figure 4 Organization of Cotton Tree Foundation Ginger Enterprise



The company started with four processing units in Mokomp, Sanda, and Madina, three towns in northwestern Sierra Leone (Figure 5). Three of the units are still operating. Each unit employs four ginger dryers and about 25 women who cut and clean the ginger on a seasonal basis. The company has two support staff: a driver and a bookkeeper.

Unifine is CTFGE's only customer. In 2007, CTFGE shipped 40 tons of dried ginger to Rotterdam. That year CTFGE's turnover was US$ 55,000. The company plans to increase production in 2008 to 75-100 tons, and in the longer term to 200 tons.

Figure 5 CTFGE production area

Historical background of partnership

In August 2005, Unifine requested the Royal Tropical Institute (KIT) to set up direct supply chain relations with reliable spice producers overseas. The aim was to replace its practice of sourcing through traders and brokers. The driving factor was Unifine's need for better quality assurance and full traceability in its supply chain. KIT took up the challenge to match Unifine's business interests with its own overall mission of sustainable poverty alleviation and its special interest in sustainable procurement. KIT therefore identified as potential suppliers various organizations of small-scale farmers, or processors working with small-scale farmers under an explicit policy of corporate social responsibility.

With Cordaid assistance, KIT identified CTFGE as a potential ginger supplier to Unifine. In 2006, CTFGE sent a test order of dried ginger to Unifine. Tests at Unifine's laboratory in Putterhsoek found it was suitable, and in February 2007 staff of Unifine and KIT visited CTFGE in Sierra Leone. The aim of this visit was to audit the company's business processes and supply relations. Unifine's standard audit form was used for this purpose. Although CTFGE's facilities and quality systems had major limitations, particularly in terms of logistics, the quality of the ginger was good enough, and Unifine placed an official order for 80 tons. CTFGE had offered to supply 140 tons, but its production capacity was too low for supplying this amount. In the end CTFGE supplied only 40 tons in 2007. Even though this was far less than expected, Unifine placed a new order for 80 tons in 2008. Cordaid has offered CTFGE grants amounting to € 100,000 to help it fulfil its contracts and improve its business through investing in, amongst others, transportation and capacity building.

Drivers of the partnership

Unifine

For Unifine, the two main motivations for setting up a partnership with CTFGE were increased quality and traceability, and competitiveness.

Quality and traceability. The quality of raw materials from developing countries is unreliable. Some suppliers do not control quality well enough, resulting in food safety problems such as moulds or pesticide contamination. Some use banned chemicals. At the same time, consumers and supermarkets increasingly want to know the origin of every ingredient of the food they buy. This trend appeared first in the British market, where Sainsbury and Tesco, two large supermarket chains, began demanding that a product be traceable – meaning that every step in the chain must be known.

Many wholesalers and general traders lack technical skills and knowledge about the products they trade in, simply because they are not connected to suppliers or to the value chain. On the contrary, they buy on the spot market. To overcome this lack of transparency, processors such as Cosun and its subsidiaries (like Unifine) feel the need to source directly.

Cosun started by improving transparency in the value chain among its own sugar-beet growing farmer members. Potato farmers and red fruit suppliers abroad followed. Herbs and spices suppliers were last in this process as it is more costly to make these chains transparent due to the multitude of products, the small volumes involved (making it hard to earn economies of scale), and the many suppliers. Unifine chose the most critical spices first: those it buys in (relatively) large amounts and that face a high degree of risk. That meant peanuts, pepper, nutmeg, garlic, onion and ginger.

Next Unifine did a pilot test of sourcing peanuts directly. This gave encouraging results: the produce quality was better, fewer losses occurred, better prices were obtained, and overall operational costs fell. Other products followed. Unifine currently has a shortlist of 25 preferred suppliers who supply all its strategic herbs and spices (or about 80% of the total). The 25 preferred suppliers are audited once a year on product quality, management, production processes and (less obviously) social conditions. Unifine's goal is to set up long-term partnerships with its preferred suppliers and to achieve full transparency in its value chains.

Competitiveness. Unifine's need to be competitive is a second driving force behind its partnership with CTFGE. In a globalizing world the business environment is getting more competitive. Companies aim to reduce their transaction costs by improving value chain activities and integrating with actors up and down the value chain. Unifine particularly wanted to diversify its supply of ginger.

Unifine's motives to source in a sustainable manner are driven by business concerns. Its collaboration with CTFGE in Sierra Leone is a pilot where it is learning how to work with small-scale farmers and a local start-up company. Unifine budgeted extra to cover these investment costs. Unifine paid premium – US$ 50 per ton extra – for development purposes. Although that has given the business in Sierra Leone a special status, in the long run the collaboration with CTFGE should become a regular business. Unifine cannot afford to pay more than world market prices because its products are not visible to consumers, and its customers – the food industry – do not put a higher value on sustainable or socially responsible products.

CTFGE and farmers

For CTFGE, the main motivation for the partnership was access to a higher value market. The local market for ginger is limited. Ginger is not a traditional product in Sierra Leone, and is used only for making beer. The partnership with Unifine secures a market and income.

For the farmers, the main motivation is cash income. Before this partnership they grew crops only for subsistence.

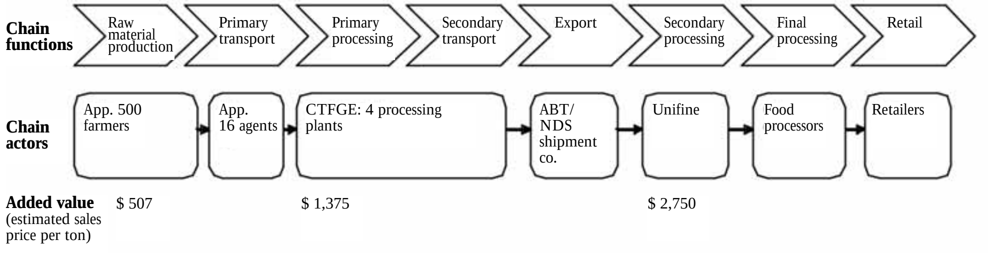
Value chain analysis

CTFGE currently participates in only one value chain: dried ginger for export (Figure 6). Its suppliers, 400-500 ginger farmers, mostly women, grow small plots of ginger in their backyards or fields. Ginger grows for 1, 2 or even 3 years; longer times produce bigger roots, but bigger roots contain more fibre and so have more waste. Growing ginger is relatively easy as it needs no fertilizers or additional inputs.

The farmers harvest the ginger late in the dry season, from January to May. They carry the roots, in baskets or bags, on their heads to collection points, where CTFGE's agents pick them up. The company loads the bags of ginger onto its own vehicle or a hired truck, and brings them to one of the processing plants.

At the processing plants, women seasonal workers clean the roots by hand, cut them up and lay them out to dry in the sun. These workers are supervised by four men, who are also responsible for the drying. After drying, the ginger pieces are weighed and packed in 40 kg jute bags. CTFGE stores the ginger on its premises until a suitable shipping container is available in the port of Freetown. The ginger goes through customs and is shipped to Unifine's factories in the Netherlands. There Unifine sterilizes the ginger and grinds it to powder, which it sells or uses in mixes and sauces.

Figure 6 Dried ginger export value chain (2007)



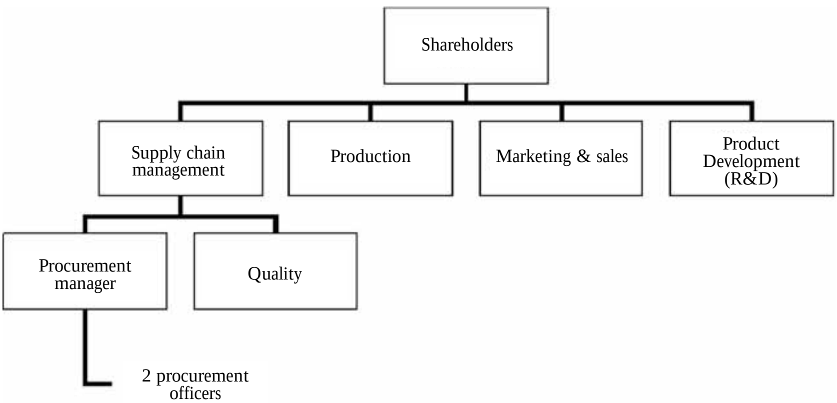
In terms of governance, power is asymmetrically distributed in this value chain. CTFGE has only one buyer and produces too little to diversify its markets. It is strongly dependent on external support, both financial and management. Export requirements for the EU are tough, and CTFGE does not have any choice other than to comply.

At first sight, Unifine appears to govern the chain. It has diversified its suppliers, so can choose where to buy ginger. But it too is dependent on the wider industry: it has to follow its customers' requirements and is dependent on world market prices. In fact, it is the finished-food industry that really dominates the chain.

Practical implications for the buyer

To fulfil the high quality and traceability standards, Unifine had to reorganize its business (Figure 7). Within its supply chain division, a special purchasing manager position was created to improve Unifine's purchasing process, as well as to collaborate with other departments, including distribution, quality, and marketing & sales. The procurement division grew to three people. The buyers had to be trained in how to conduct audits in the countries of origin, instead of merely auditing wholesalers.

Figure 7 Organizational structure of Unifine



Since quality has become crucial, the quality control system had to be changed: it turned into 'quality assurance'. Before, this was a step executed by the quality control department in the production process. Unifine purchased raw materials, processed them into powders or seasonings, then checked the quality of these end products. If the product passed the tests, it was sold. Today, quality control takes place at all stages in production. It starts when samples of the raw materials arrive in the factory, and ends at the time of product delivery. Since 2004, almost all the factory workers have received training in quality assurance, and Unifine has invested in much equipment to sustain quality. The new role of the quality control department is to develop norms and provide services, training and advice to purchasers, processors and sales staff. Five full-time-equivalent quality controllers also perform audit missions in the field.

Eighty percent of Unifine's products are ingredients for the food processing industry. The sales department is crucial to connect to these customers. Since the strategy switch towards traceability, the sales department has acquired an extra function. Salespeople now have to be able to tell a customer where the product comes from. That makes it necessary for sales staff to join audit missions so they understand the intrinsic value of good procurement of raw materials – where they come from, how they are produced, in what ways they are superior, and so on. As an extra effort, Unifine has developed a production and product manual – a 'spice school' – to train its account managers.

In what sense have Unifine's products changed as a result of sustainable purchasing? One improvement is that its quality assurance programme has secured the quality of its products. Unifine is aiming at 100% quality, and zero losses. As a result it has less production waste, fewer unwanted products, fewer recalls, and fewer complaints.
A downside is that production costs have increased. Audits are costly: every year, Unifine spends around € 100,000 more on audits than before. Other costs have increased too – for staff training on quality, storage (which used to be handled by wholesalers), and organizational costs (more staff are needed to sustain quality and traceability).

Do the reduced losses compensate for all these additional costs? That is unclear. Because Unifine's customers are not willing to pay more for sustainability, the firm's sales prices have not risen above the market price. And its target markets have remained the same: Unifine is still aiming at the highest-quality markets.

Unifine is a frontrunner in its market, so it plays an important role in the industry, and its managers are active in the European Spice Association, the industry umbrella group. Within such forums, Unifine stimulates discussions on topics such as illegal adulteration, the development of GlobalGAP for herbs and spices, and standardization. Producers have so far not been involved in such forums, but this is planned.

Unifine has committed itself to its relationship with CTFGE by drawing up a partnership agreement. This envisages developing CTFGE as a reliable, high-quality supplier and as a strong company in its own right. Unifine's commitment is to provide a market to CTFGE for at least 2-3 years, so helping CTFGE develop. Unifine paid CTFGE a top-end market price in 2007, and added a premium for social investments in the farmers' communities. It also invested in the relationship by visiting Sierra Leone and devoting more than the normal time to communication, meetings, etc. The biggest challenge was probably being flexible and accepting 40 tons less in deliveries than was agreed.

Practical implications for the supplier

CTFGE is a new company. It did not exist before the partnership with Unifine. The design of the company is therefore in large part influenced by the Cotton Tree Foundation, Cordaid and the partnership with Unifine. CTFGE needs to fulfil many requirements to produce ginger for export:

- **Ensuring good business management**. The enterprise is a business set up with support from a non-profit organization (the Cotton Tree Foundation). The foundation's management was still, at the time of writing, interfering heavily in the business. It is a challenge to find skilled people in Sierra Leone with the right capacities to run a business. The first chief executive officer was not able to do this; a new managing director has now been found.
- **Dealing with cultural differences**. Cultural differences play an important role. CTFGE is an inexperienced exporter that is not fully aware of all the EU's strict requirements and of the importance of close collaboration to meet them. One of the

implications was, at the time of writing, too little communication between the supplier and the buyer. CTFGE was asked to improve communication in order to make business more efficient and to prevent from, amongst others, shortage of supply.

- **Arranging logistics**. Poor roads, telecommunication and other infrastructure in Sierra Leone make communication between chain actors difficult. CTFGE is trying to adapt, but this may take a while.
- **Setting up a quality control system**. Quality control and traceability of the ginger are extremely important. The quality control system has already been improved by labelling the bags, but the system needs to be further formalized to become fully transparent.
- **Involving farmers in the chain**. Collaboration with the ginger farmers needs to be improved to attain full transparency in the value chain. The farmers were identified by CTFGE. The next step is to include them in developing the value chain by helping them standardize agricultural practices and involving them in chain decisions on aspects such as production planning, price setting, quality control and improving logistics.
- **Scaling up production and market differentiation**. The price of CTFGE's ginger depends on world market prices, which fluctuate a lot. In periods with low world market prices this is difficult for a small, young company like CTFGE. CTFGE does not have capital to tide it over such lean periods, and it has no alternative buyers (in the jargon, it lacks 'market differentiation'). Despite this, over the last 2 years, it has improved its product in terms of quality and traceability. The next step is to scale up its production and diversify its markets outside Europe.

CTFGE did not make profit in 2007. Its costs on transportation (hiring trucks) and management were too high, and its volumes were too low. Only if it manages to grow in 2008 and 2009 and fulfil the above requirements, will it be able to make a profit in 2009. Despite its losses, it generated income for 400-500 farmers and for about 100 labourers. Cordaid therefore decided to provide extra financial support in 2008.

Limitations to sustainability

Cost efficiency

High production costs at supplier level. CTFGE is still in its infancy. It needs investments not only in capital, but also in management and business skills, supply chain organization and training. It is not yet cost-effective, so it faces difficulties in dealing with the current low world market price. As long as CTFGE does not scale up, it can supply only one client, so remains highly dependent. That weakens CTFGE's position in the value chain and means it is not yet financially and organizationally sustainable.

Sustainable financial support. CTFGE has received additional financial support in 2008 through a grant from Cordaid. It will use this to invest in logistics and cover operational costs. The question is whether a grant is sustainable in this business case. Providing financial assistance to companies is sustainable as long as the investments are based on a realistic growth plan. And the management needs to improve its results. Both are uncertain.

High costs of sustainability. Unifine markets its products to other businesses. It is positioned in the middle of the value chain. On one hand it depends on suppliers that decide on the products they deliver, and on the other hand it depends on customers who decide on the products they want to buy. Unifine is a front runner in a market that is (still) very disorganized (with ad hoc buying and selling). In this sense Unifine is taking a risk. Its ambition to be sustainable is not without costs. Considering Unifine's position in the value chain, where it cannot directly add value by promoting sustainability, the strategy may harm its competitiveness in the short run.

Quality

Production practices. The farmers who grow the ginger, and the staff at the processing plants in Sierra Leone, have limited access to technical assistance or extension advice, mainly due to the geographic spreading of the farmers. The ginger production processes are underdeveloped: there are no product specifications, flow charts, production guidelines or process records. This restricts the reliable quality of the output produced.

Traceability. In 2007, the first year of production, collaboration and integration between the chain actors was rather weak. CTFGE communicated with the farmers only through its agents, and did not gather data on the origin of ginger and the background of the growers. Cultural differences between Sierra Leone and Europe also affected traceability and, as a consequence, quality control management. Unifine has to ensure the product fulfils all the European quality standards, and requires a product delivered on time. Constant communication about production processes, volumes, dates, problems, etc., is required to fulfil this goal, but is not yet common in Sierra Leone.

Social responsibility

Farmers are not included in the chain. As in 2007 there was hardly any cooperation with the farmers, value chain cooperation stopped at the level of the ginger collectors. A survey of farmers done by the Cotton Tree Foundation in late 2007 produced a list of 500 farmers, the areas they had available for growing ginger, and production forecasts. But these findings were not shared with Unifine. The farmers' power to influence the management of the value chain as well as their position (Are they being paid a fair price? What are their working conditions? How sustainable is ginger growing for them? Do farmers have access to market information, education, etc?) are still unclear and need further evaluation. In a socially responsible value chain, small producers are more involved and thus empowered.

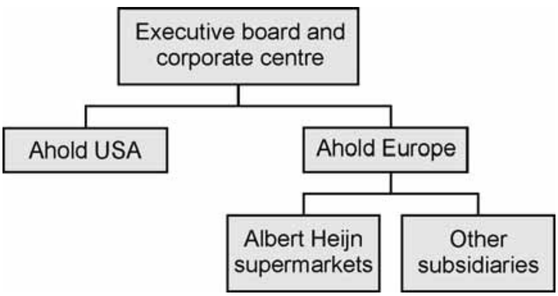
Unaware consumers. Most ginger is used as an ingredient for the food processing industry. Therefore it is questionable whether end-users of ginger are aware, or want to be aware, of the sustainability of this supply chain. Currently, most buyers opt for the cheapest inputs instead of the most sustainable. Buyers need to adhere to corporate social responsibility and sustainable procurement. As long as this is not the case, the sector as a whole will remain unsustainable.

4 Ahold/Bakker Barendrecht: Sourcing mangoes from Mali

Company profile

Ahold is an international group of supermarkets based in the Netherlands and with subsidiaries in Europe and the United States (Figure 8). It has an annual turnover of almost € 28 billion (2007). Its corporate mission is 'to make it easy for customers to choose the best for themselves and the people they care about'. It does this 'through strong local brands and by putting customers at the heart of every decision' (www.ahold.com).

Figure 8 Organizational structure of Ahold (simplified)



The Albert Heijn supermarket chain in the Netherlands is an Ahold subsidiary. Named after a businessman who started a small grocery shop in Zaandam, the company grew to become the core of the Ahold group. Today, Albert Heijn has 55,000 employees, 750 retail stores and an annual turnover (in 2005) of € 6 billion.

Almost all Albert Heijn's fruits and vegetables are supplied by Bakker Barendrecht, a fruit and vegetable wholesaler that forms part of the Univeg Group. Bakker was established in 1930 and has 400 employees. It processes 1,600 tons of fruits and vegetables a day. Albert Heijn is Bakker's main buyer, accounting for about 80% of Bakker's total turnover. Albert Heijn and Bakker have worked together for over 40 years. As a result they have a close partnership in which they share many operational details.

Bakker has three main departments: procurement, logistics, and research and development. The procurement department is responsible for sourcing products and looking for product differentiation opportunities. Bakker has 300-400 suppliers in the Netherlands, and another 300-400 abroad. The logistics department arranges contracts with suppliers, running operations, and managing warehouses. The research and development department conducts research into food safety and environment and is responsible for certification, ensuring quality and innovation. This department was formed 15 years ago with encouragement from Ahold.

One of the products that Bakker sells to Ahold is mangoes. The fruits are sourced from Brazil, Costa Rica, Israel, Mali, Peru, Puerto Rico, Senegal and South Africa.

Supplier profile

Mangoes grow abundantly in landlocked Mali: the country produces an estimated 205,000 tons of this fruit a year (Verkuijl 2006). The main production areas are around Bamako and Koulikoro, and in Sikasso and Bougouni (Figure 9). Even though Mali produces a lot of mangoes, until recently it exported small quantities – and only by airfreight, amongst others, because it has limited access to seaports.

Figure 9 Mango growing areas in Mali

In Mali, Bakker Barendrecht buys mangoes (Kent and Keith varieties) from four export associations, each of which has 5-10 members. These exporters buy mangoes from traders and, increasingly, directly from farmers. The four exporters, together with 100 farmers in Sikasso and 140 in Bamako, are GlobalGAP-certified by Bio-Scope, a specialist organization in Senegal. This certification signifies that they produce according to health and environment standards accepted by European retailers (see Box 1). Their certification in 2006 was funded by the Centre for Promotion of Imports from Developing Countries (CBI, a Dutch government development organization, www.cbi.nl), and in 2007 by the World Bank-funded Agricultural Competitiveness and Diversification Project (known by its French acronym, PCDA). Apart from mangoes, the exporters trade green beans, papayas, sugar snap peas, and okra.

Historical background of partnership

In 2003, a group of Malian exporters visited the Netherlands for an exposure tour managed by the Centre for Promotion of Imports from Developing Countries. KIT introduced the exporters to Bakker Barendrecht and Ahold. Ahold indicated an interest in buying mangoes from Mali. At that time the Dutch embassy in Bamako, Mali's capital, allocated a grant of € 1 million to the Malian government to build a modern logistics and cooling centre for processing mangoes. Staff from Bakker Barendrecht and Ahold visited Mali and were positive about the quality of the country's mangoes and the support provided by donor organizations.

As a result, Bakker Barendrecht made a trial order of 40 tons (2 containers of 20 tons each). The quality of these shipments was disappointing, and Bakker Barendrecht had to sell the fruit elsewhere. In 2007, after the logistics centre was complete, Bakker Barendrecht sent a specialist and a management trainee to train staff in Mali in warehouse management and processing. In the same year, 10 containers with a total volume of 200 tons of mangoes were shipped to the Netherlands.

At the end of the 2007 season, Ahold and Bakker Barendrecht again visited Mali. They decided to increase their purchases to 350 tons in 2008, provided that all exporters became GlobalGAP-certified. The exporters must also comply with BSCI or comparable social guidelines (Box 1). The partners aim to trade 1,000 tons of mangoes in 2009. That will make it necessary to increase the capacity of the logistics centre, which can now handle only 750 tons.

Drivers of the partnership

For Ahold and Bakker Barendrecht, the main driver of their partnership with the Malian exporters is business. West Africa has a seasonal advantage over other mango-producing areas. Ahold wants to sell mangoes all year round, and West Africa fills a gap in supplies from the end of March to mid-June.

Mali also has a comparative advantage in terms of quality:
- Mangoes from Burkina Faso were of unreliable quality, and another Dutch buyer is already sourcing Fairtrade mangoes from Burkina Faso.
- The supply of mangoes from Côte d'Ivoire is risky because of political instability there. Ahold fears that buying products from this country may harm the firm's image.

Ghanaian mangoes are also of inferior quality due to the humid climate. Mangoes from northern Ghana, which has a drier climate, are already sold to another Dutch buyer (also under a Fairtrade label).

A second important driver for sourcing mangoes from Mali is external. Ahold is aware that its European consumers keep an eye on its corporate social responsibility commitments. Buying mangoes from Mali suits this interest. Bakker Barendrecht, Ahold's preferred supplier, is merely following Ahold's strategy.

For the mango exporters in Mali, the driver is also business. They expect that the partnership will open a new market for them and for the mango farmers.

Value chain analysis

Many Malian farmers own mango trees. Their tree plantings generally cover 0.5-3 ha or less. The farmers do not care for the trees, but merely wait until the fruits are ready to pick. Harvesting is done by harvesting traders, known as *pisteurs* . As a result, many mango trees are in bad condition, too large and unproductive.

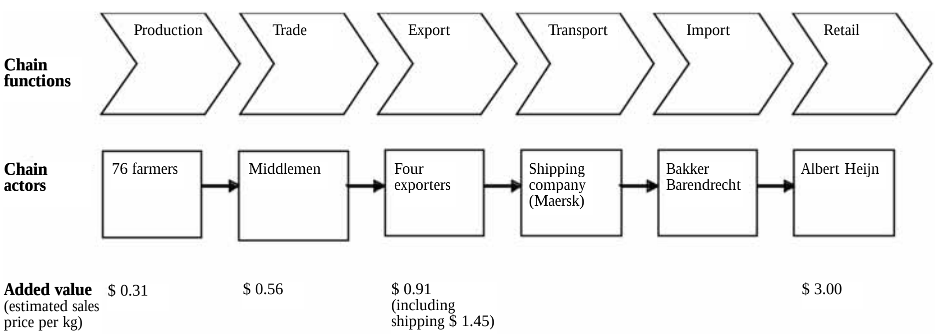
Generally, traders and exporters buy mangoes from the *pisteurs* . These visit the farmers at harvest time, pick the fruit and transport it to the market in minivans. Some *pisteurs* are organized in associations, such as in Bamako where 100 pickers (mainly women) are members of such a group. The mango sector in Mali is opaque, a result of the large number of traders in the chain and the lack of information about farmers.

In the Ahold mango chain (Figure 10), 76 GlobalGAP-certified farmers supply the superior mango variety fruit. Supplies are procured largely by traders. Under pressure from Ahold to cut costs, some exporters have started organizing farmers and buying directly from them.

The traders transport mangoes in plastic crates to the four exporters in Bamako. The exporters handle a series of processes: cleaning, sorting, grading, post-harvest treatment, weighing, polishing, packaging, tracing, paletting, pre-cooling, cooling, transport and shipping. Most of these processes are done in the logistics centre, near Bamako's airport.

The mangoes are then transported in refrigerated trucks to the port of Dakar, in Senegal, by Maersk, a shipping firm. At the port, they are then shipped to Rotterdam; the shipping freight costs CFA 230/kg (€ 0.35/kg). Bakker Barendrecht collects the mangoes from the port, stores them and delivers them to Ahold for sale in its Albert Heijn stores. For now, the mangoes are sold unlabelled; only the country of origin is mentioned. The mangoes currently sold in Albert Heijn stores are priced more cheaply than Fairtrade-certified fruit.

Figure 10 Ahold's mango value chain



Other stakeholders in the chain include:

- the Dutch embassy in Bamako, which funded the logistics centre;
- USAID Mali, which funds a trade promotion programme to support mango producers;

- The World Bank's PCDA programme to support agricultural development;
- KIT, which supported the construction and management of the warehouse.

In terms of chain governance, Ahold is the most powerful actor. It is Ahold that decides on the requirements for mangoes, and because Ahold is a leader in the sector, the other actors must follow these requirements strictly.

Practical implications for the buyer

Ahold has invested heavily in quality and safety, and (more recently) corporate social responsibility. For sustaining quality and safety Ahold has adopted the GlobalGAP system. Ahold's corporate social responsibility unit is part of the firm's world headquarters. The firm produces a corporate social responsibility report that states 'Ahold is committed to behaving ethically. It strives to build value while protecting the environment and improving quality of life for those our business touches, now and for future generations.'[1]

Ahold's says its main corporate social responsibility principles include:
- promoting health and wellbeing;
- providing safe and responsible products;
- operating efficiently with regard for the environment;
- valuing diversity and providing a great work environment;
- supporting the communities where the company operates;
- practising business ethically and responsibly.

Ahold Europe has established a special department to develop guidelines for safety, quality and social accountability. This department is responsible for coordinating GlobalGAP certifications and the social audits for the BSCI certification.

Ahold Europe has also set up a programme known as the Ahold Sustainable Trade Development with 2.5 full-time staff (one in the Netherlands, one in Ghana and a part-time position in South Africa). This programme aims to set up sustainable relationships with suppliers in Africa, and promote organic and fair trade products. Ahold estimates that through its sustainable trade activities it has boosted turnover by € 20-25 million over the last 5 years.

Part of the Ahold Sustainable Trade Development programme is a partnership with ICCO (a Dutch development organization). This partnership has established a development foundation with a budget of € 1 million in the first year (funded by Ahold and four African exporting companies). The aim is to audit suppliers, work with small farmers and impact on communities.

As a preferred supplier, Bakker Barendrecht is more or less integrated in Ahold. Ahold's corporate social responsibility department works closely together with Bakker's sourcing, logistics, and research and development units.

Bakker Barendrecht follows the trends within Ahold, including the move towards traceable and high-quality products. As a result, it has for the last 5 years sourced directly from companies in developing countries. It is also implementing GlobalGAP regulations and BSCI guidelines, and is initiating corporate social responsibility policies in its work. Bakker is an early adopter within its market sector, but competitors such as The Greenery are moving in a similar direction.

Ahold does not cover Bakker Barendrecht's investment costs directly. But its additional costs are, in the end, included in the prices Bakker charges. So far, Bakker Barendrecht has borne an estimated € 30,000-37,000 of additional costs for the mango value chain in Mali. These have included:

- three visits of Netherlands-based staff to Mali;
- 3 months of technical support in Mali;
- the costs of communication and meetings.

Ahold has so far invested in:

- extra staff focusing on corporate social responsibility;
- five visits from Ghana to Mali;
- three visits of Amsterdam-based staff to Mali;
- two months of technical support in Mali.

The expected benefits of this chain for Bakker Barendrecht and Ahold are:

- increased market share, as Ahold will be able to sell high-quality Malian mangoes at a good price all year round;
- enhanced reputation from supplying a fair trade, traceable product from Africa;
- potential long-term supply relationships.

'There is no step back to the old way of doing trade', say the two firms. They see sustainable trade as the future. Ahold, and as a result Bakker Barendrecht, feel forced to change their practices by a public that desires traceable, fairly traded products.

Practical implications for the supplier

The exporters in Mali have to undergo several changes so they can export mangoes to Bakker Barendrecht/Ahold. The requirements include:

- **Being GlobalGAP-certified**, hence knowing their farmers and transporters as well gaining insights into their production practices.
- **Improving their processing practices** in terms of cleaning, washing, sorting, transporting, etc. These practices are not yet well developed because the logistics centre is not yet suitably organized. For instance, there are not enough crates for local transportation, and the centre has no stable management. Whenever the exporters need to use the centre, they operate it with their own team.
- **Paying for acceptable packaging**. This now has to come from Côte d'Ivoire, Senegal or France, so costs a lot: CFA 400 (€ 0.60) per box to hold 4 kg of mangoes, which works out as CFA 2,040,000 (over € 3,000) per 20-ton container). In 2008 Smurfit Kappa Vandra, a Dutch producer of corrugated packaging, plans to invest in equipment for packaging in Mali.

1
Ginger in the field
(Source: Royal Tropical
Institute)

2
Seasonal workers of CTFGE
(Source: Royal Tropical
Institute)

3
Washing ginger
(Source: Royal Tropical Institute)

4
Drying ginger
(Source: Royal Tropical Institute)

5
Ginger packaging hall
(Source: Royal Tropical Institute)

6
Visit of the buyer (Poul)
(Source: Royal Tropical Institute)

7
Mango street vendors
(Source: Royal Tropical Institute)

8
Warehouse in Bamako
(Source: Royal Tropical Institute)

9
Cleaning and packaging line
(Source: Royal Tropical Institute)

10
Mango sorting system
(Source: Royal Tropical Institute)

11
Mali mango
(Source: Ahold)

12
Citrus worker of Zebediela Citrus Estate
(Source: AgroFair)

13
Citrus worker of Zebediela Citrus Estate
(Source: AgroFair)

14
Oké oranges
(Source: AgroFair)

15
Orange pallet
(Source: Joe Sheehan)

16
Oke fruit
(Source: AgroFair)

- **Arranging transport**. The roads in Mali are in bad condition, and the trucks that move the mangoes to the port of Dakar are not always cooled. Transport to Rotterdam takes a minimum of 12 days and is still a risky part of the supply chain.
- **Complying with BSCI rules**. This means ensuring good social conditions for farmers.

The farmers have not so far been organized, but under the pressure of GlobalGAP and BSCI, this has to be arranged in the future. This is not easy in Mali, so it is possible that the exporters will set up their own plantations, excluding small-scale farmers from the export market.

Only the highest quality mangoes can be transported by ship. This product has different attributes from mangoes that are air-freighted: they have to be green/red in colour and of a certain size. Obtaining the right quality is difficult because of inadequate farming practices that fail to control diseases and damage by fruit flies. In 2007, over 70% of the mangoes handled by the exporters were wasted.

The price of mangoes obtained by the exporters (€ 0.91/kg) is much higher than the retail price in local markets in Mali (€ 0.27). But the operational costs of export are also much higher: they include processing, land transportation, packaging and certification costs.

A full cost-benefit analysis in which all costs are included has not yet been conducted. GlobalGAP certifications have so far been paid for by donors. In the future these and the BSCI costs need to be borne by exporters and farmers themselves. The BSCI and GlobalGAP costs range between € 1,500 and € 5,000 per exporter. Investments in training farmers and improving orchards are also required, as well as payments for using and maintaining the logistics centre. Without an overview of the costs per unit, it is hard to say whether the chain is financially sustainable.

The potential benefits of exporting mangoes for the exporters and farmers include:
- **Increased turnover for exporters**: the exporter earns a gross revenue of € 0.91 per kilogram of mangoes. For 1,000 tons, that totals to € 910,000.
- **Increased income for farmers**: the farmer (should) sell(s) a kilogram of export-quality mangoes for € 0.31. Multiplied by 1,000 tons, that equals € 310,000 in gross revenue for farmers.
- **Improved farm practices** lead to a better environment and protection for consumers for the part of the harvest that is sold locally.
- **Fewer losses**, as a result of better production and processing.
- **Improved social standards** in terms of labour rights, fair prices and community development through BSCI practices and the Ahold Sustainable Trade Development programme.
- **Long term supplier relationships.**
- **Macro-economic development** through increased general welfare, taxes, expenditures on services, etc.

Limitations to sustainability

Cost efficiency

High costs of packaging. As in many other developing countries, packaging material is not produced locally in Mali, so has to be imported. That pushes up costs. This may change in 2008 with a new packaging production facility.

Unknown costs of investments in the supply chain. Many costs in this supply chain are paid for through subsidies, as local value chain actors do not have the financial resources to invest, and the buyers view such investments as outside their responsibility. Even though subsidies can be positive during the start-up stage of a value chain, there is a risk that the real costs remain hidden, making it hard to assess the chain's economic feasibility. In this chain the costs and benefits for adapting to European standards (GlobalGAP and BSCI) for farmers and exporters are not known. Second, the investments in the logistics centre have not been included in the economics of the chain.

Warehouse costs. By using the full capacity of the warehouse, the fixed costs per kilogram of mangoes could be further reduced. The warehouse could be used to handle other products outside the mango season, such as other fruits and sugar snaps.

Quality

Lack of good farm practices. Most farmers have mango trees in their backyards. They do not take care of the trees, so the trees suffer from diseases and the fruit quality is low. Moreover many low-value mango varieties are grown. These can not be exported.

Lack of knowledge about the product and quality. The exporters lack detailed knowledge about mangoes: they merely trade mangoes, and know little about the production process. Even after the training provided in 2007, they are still relatively unfamiliar with handling the mangoes in the logistics centre. That means they cannot monitor the product quality adequately, resulting in losses.

Social responsibility

Lack of management skills. Mali is one of the poorest countries in the world. Good business and management skills are scarce. Investments in education and training are required to manage the mango supply chain and logistics centre, and for Mali to become competitive with other mango-producing countries such as Côte d'Ivoire, Ghana, Brazil, Egypt and South Africa.

Weak position of farmers. Although USAID and the PCDA provide assistance at the producer level, the position of farmers in the value chain remains weak. They are neither organised and nor actively involved in chain governance. It is therefore not clear whether farmers received a fair price for their products and whether human rights were respected and labour and health conditions adequate. In addition, while GlobalGAP and BSCI may improve farmers' position, they also incur costs. Total costs and benefits for the farmers in this chain are unclear. And without additional financial support, small-scale farmers may no longer be able to supply mangoes and will be excluded altogether from this value chain in the longer term.

Collaboration among multiple stakeholders. Many stakeholders are involved in this chain. Collaboration between public and private parties has not always been efficient due to their competing goals, expectations and backgrounds.

5 AgroFair: Sourcing citrus from South Africa

Company profile

AgroFair is a Fairtrade fruit company in which suppliers (farmers) are shareholders. It was established in 1996 by the Dutch development organization Solidaridad, one of the founders of the Fairtrade movement. It began to import Fairtrade bananas, aiming to stop as soon as mainstream businesses also began to use fair trade approaches. This has changed, and AgroFair is now looking for new ways to add value.

According to www.agrofair.nl, the firm's mission is 'To bring about sustainable production and social-economic developments by empowering producers and workers in developing countries, by guaranteeing a better security of supply and fair prices and by giving them a share in the trading chain so that they can create social, fair and environmentally friendly structures in which to work. In short: A Fair Price, A Fair Say, and A Fair Share.'

AgroFair has the explicit aim of changing other companies' business practices in favour of Fairtrade principles: 'AgroFair is continuously growing and increasing its market share, forcing other companies to improve their social and environmental practices.' (AgroFair 2006).

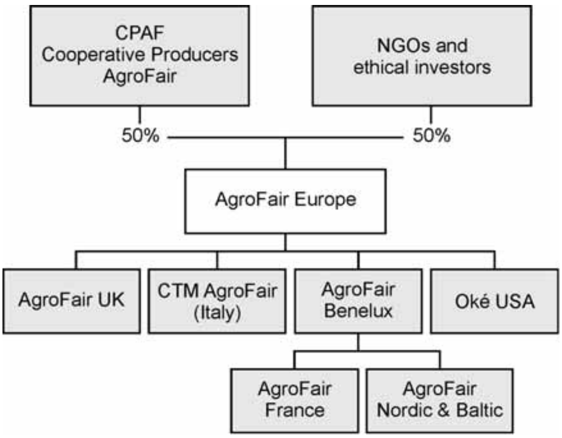
AgroFair has an unusual organizational structure: farmers own half of the company's shares, while NGOs and ethical investors own the other half. Dividends are distributed following the same ratio – half to the investors and half to the farmers. Among the farmer groups, the dividends are divided based on the fob (Free On Board) value each group supplies. The farmers are organized in a producers' organization, Cooperative Producers AgroFair (CPAF), while the other parties make up a foundation (Figure 11).

AgroFair's turnover was € 62 million in 2006, 39% above the year before. The firm employs about 45 full-time-equivalent staff.

AgroFair itself is a for-profit company, but it works closely together with a not-for-profit organization, the AgroFair Assistance and Development Foundation (AFAD). AFAD supports new and existing value chains in the horticultural sector to become more socially responsible. It provides training and support to producer organizations that supply AgroFair, as well as to other producers of fruit and vegetables. AFAD has an annual budget of € 1,200,000.

AgroFair's product range includes bananas, mangoes, pineapples, citrus (mandarins, oranges, lemon, and grapefruit) and processed fruits. The products are sold in 14 European countries and the USA.

Figure 11 Organizational structure of AgroFair



AgroFair's citrus products include oranges, mandarin, lemons, and since 2007, grapefruit. They originate from producer organizations in Argentina, South Africa and Morocco. Some are members of CPAF and therefore participate in the strategic decisions of AgroFair. In 2006 together they produced 5,000 tons of citrus, with a free-on-board value of US$ 3.6 million (€ 2.6 million) and a Fairtrade premium[2] of US$ 173,000. The three countries deliver produce at different times: South Africa and Argentina deliver citrus from April to October, while Morocco delivers mainly from October to June.

Below we focus one of these products: the sustainable procurement of citrus from Limpopo Province, South Africa.

Supplier profile

Zebediela Citrus Estate, in the community of Bjatladi, Limpopo province, supplies oranges and mandarins to AgroFair (Figure 12). In 2003, land that had been confiscated from their families under the apartheid regime was restored to the black farmers in Bjatladi. The farm is a model for land restoration in South Africa: the community was not able to manage the land itself, so established a partnership with the Boyes Group, a group of white farmers that cooperates with various local communities and provides them with management support. The Boyes Group has leased the land for 15 years and is gradually transferring ownership to the community. After this time the community is expected to be able to manage the plantation independently.

Zebediela Citrus Estate is registered as a limited liability company. At the beginning of the 15 year contract, the Boyes Group had a 50% share, the community 35%, and the workers 15%.

Figure 12 Location of Zebediela Citrus Estate

The daily management of the estate is handled by a chief executive officer, 5-6 production managers, and a warehouse manager. There are 250 full-time-equivalent and 800 seasonal workers on the estate. The seasonal workers are mainly poor Zimbabweans who cross the border to work.

Zebediela produces several types of products, but its main output is oranges. Of its annual volume of 28,800 tons, 17% (4,800 tons) is sold through Fairtrade channels to AgroFair. The remainder is exported to other buyers all over the world. Since 2006 Zebediela has been Fairtrade-certified under the FLO certification. In addition it has a GlobalGAP certification and is Tesco-certified.

Historical background of the partnership

AgroFair and Zebediela started to collaborate in 2005, and AgroFair bought the first shipment of fruit in 2006. The year of preparations was needed to enable Zebediela to begin implementing standards. Both AFAD and AgroFair advised Zebediela on the changes that would be needed.

At first AgroFair bought only oranges from Zebediela. Recently mandarins have been planted and another member of the SAFM group supplies Agrofair with grapefruits and oranges. AgroFair and Zebediela have a close relationship. AgroFair has the first rights to buying and trading Fairtrade products from Zebediela, and new orders for such products go through AgroFair. If the global market price rises above the agreed Fairtrade price, AgroFair pays Zebediela conform market prices.

Drivers of the partnership

The main internal driver for AgroFair was its need to diversify its sources of citrus to guarantee year-round supplies. Risk management was also a factor: AgroFair needed to guard against harvest failure in one of its source areas. Quality was less of an issue: quality and taste of oranges from different places are similar as all varieties belong to the same group.

AgroFair screened several citrus-producing organizations in southern Africa, and concluded that Zebediela had the best Fairtrade profile, as the estate belonged to the community and workers. In comparison, estates in the Cape, further south in the country, belong to larger commercial farmers.

No clear external drivers pushed for this partnership, as sustainability is anyway one of AgroFair's strategies.

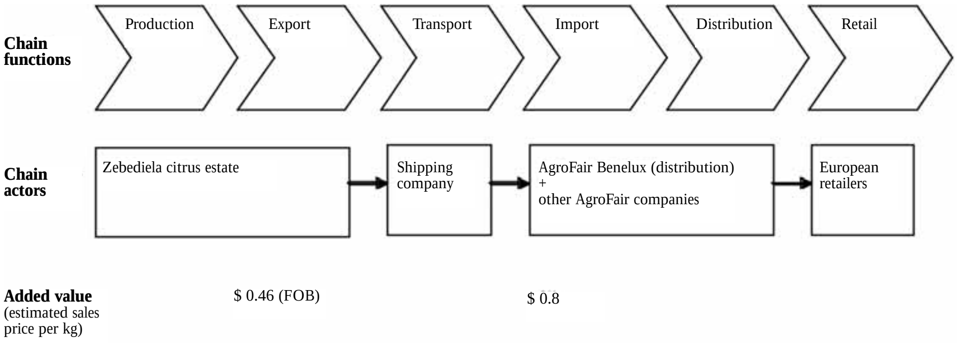
For Zebediela the main drivers were the desire for a new, high-value export market and stable prices leading to a stable income.

Value chain analysis

The Zebediela estate produces oranges for eating between May and August. For juicing and eating Zebediela produces between August and October. It harvests lemons between February and July.

In 2007 Zebediela sold approximately 4,800 tons of oranges to AgroFair with a total free-on-board value of US$ 3.1 million (about € 2.2 million) and an average price of € 467 per ton. The fruit are packed in open carton boxes containing 15 kg each, and are shipped weekly to the Netherlands ( ). Depending on the customers' needs, they may be repacked in nets or other packaging at the AgroFair warehouse in Barendrecht. The biggest market for Zebediela oranges is currently Scandinavia, and the second biggest market is the Netherlands.

Figure 13 AgroFair's citrus value chain



AgroFair sold 5,000 tons of citrus in 2006 with a turnover of € 4 million. In 2007 this grew to 6500 tons and a turnover of € 5.4 million.

Practical implications for the buyer

AgroFair has offices in the Netherlands, the UK, the USA and Italy, and agents in France and Finland.

AgroFair is in a state of constant change, caused by:
- **Growth**. In 2000 only six people worked for AgroFair; there are now approximately 45, of which 40 are in the Netherlands. This has meant reorganizing the company's structure. For instance, in early 2007 the operations department was established, as the sales department could no longer cope with all the work. Another reason is the firm's pillar structure, in which the departments (sourcing, quality control, operations, sales, marketing/communication) work relatively independently, making the organization bureaucratic and less flexible.
- **Changing markets.** Increasing competition in fair trade products requires a different approach from AgroFair – faster and more adaptive.

The sales price of AgroFair's products is higher than that of conventional products. This is caused by the higher costs for producing Fairtrade products:
- FLO sets a minimum free-on-board price that at least covers the costs of sustainable production.
- A premium is included in the price for community development.
- The lack of economies of scale lead to higher per-unit overhead costs.
- AgroFair pays a membership fee to FLO.
- Smaller volumes are sold to AgroFair's buyers meaning higher per-unit logistics costs.
- On top of that, the retail price for Fairtrade citrus in the Netherlands is usually 20% higher than for conventional citrus. The main reason is that retailers top up the price for Fairtrade products: they say that the sales cycle per square metre of shop space is slower than for conventional oranges. But they also try to protect their own house brands from Fairtrade competition.

Selling Fairtrade products means selling a concept. The concept has a value, for which supermarkets need to pay. Not all retailers attribute the same value to Fairtrade products as AgroFair. This makes selling Fairtrade products more difficult than selling conventional products. This is particularly true for citrus. In the eyes of consumers, citrus is a less logical Fairtrade product than, say, bananas; consumers do not see a connection between oranges and Fairtrade. Second, there is not much organic citrus available. Consumers in specific countries (e.g. Germany) want fruit that is both organic and Fairtrade certified. This is difficult for citrus as production frequently requires the use of pesticides.

In order to create customer loyalty to Fairtrade fruit, AgroFair sells its products under the brand name Oké. Branding is complex as customers are generally not used to buying branded fruits – except for Chiquita bananas. Instead of relating to brands, consumers tend to look for specific types of oranges, such as navel oranges. So most traders sell unbranded fruits, saving them trouble and expense. Another problem for AgroFair's Oké brand is confusion with the well-known Max Havelaar label – which consumers think is a brand but in fact is a Fairtrade certificate issued in the Netherlands to products that comply with FLO standards. Because of these difficulties, AgroFair also sells unbranded (unpacked) fruits in order to enlarge its market share.

AgroFair's market position is growing, but it is under threat so the company is growing less rapidly than before. AgroFair's competition includes multinational firms as well as direct-export companies from the South, e.g., from the Dominican Republic for bananas. Partly as a result of AgroFair's efforts to promote Fairtrade in the Netherlands, an increasing number of mainstream companies are nowadays promoting sustainable trade. These mainstream sustainably traded products have therefore become a challenge for AgroFair's future position.

Due to its partnership with Zebediela, AgroFair was able to increase its turnover of oranges between 2005 and 2007 by about € 3.8 million. Investment costs were contributed mainly by AFAD. AFAD has invested in GlobalGAP certification (€ 25,000), Fairtrade certification (€ 2,500) and in visits, exchange programmes, training, administration and advisory services (about € 50,000). AFAD also receives grants from Solidaridad, a Dutch non-government organization that pioneered the Fairtrade movement. These investment costs are not included in AgroFair's results.

Practical implications for the supplier

Generally the global citrus sector is well developed. The Zebediela estate was already producing a high quality crop and was financially sustainable. The organization of the estate's production processes did not have to change much when it partnered with AgroFair, and it took only 1 year for Zebediela to prepare for Fairtrade and GlobalGAP certification. These changes had a positive impact, and the estate now uses its resources more efficiently and in a more environmentally friendly way.

What had to be changed was the organizational structure. Zebediela had to establish a joint body which brought together both management and workers. This body decides how the Fairtrade premium is to be used. In Zebediela this is somewhat complicated, as most workers come from Zimbabwe. The funds are therefore also spent across the border. The Fairtrade premium has enabled the 230 families of the Zebediela community to invest in an AIDS-prevention plan, education programmes for adults and for the relocation of the school so children who live far away can attend. The community has also developed an ecotourism project and studied organic agricultural practices.

Zebediela has been a shareholder in AgroFair since 2007, but has so far had little influence on the bigger firm's business. This is because Zebediela is just one of several shareholders, and delivers only citrus, which accounts for just 10% of AgroFair's total volume. Zebediela's dividends are still small for the same reason.

Zebediela's selling price for citrus has stabilized as a result of its partnership with AgroFair. AgroFair's prices are based on FLO minimum prices, which usually lie above the world market price (which fluctuates considerably). Zebediela's turnover is thus more stable and secure. The only disadvantage is when the world market price goes up structurally, and FLO needs to adapt its minimum price. This usually takes a while.

The situation of the Zebediela workers is more secure as result of FLO certification, as all employees must be given fair employment conditions. The producer organization must pay wages in line with or above national laws and agreements on minimum wages, or the regional average.

What has particularly improved is the way payments are calculated. Usually estate workers get paid based only on their productivity (the number of boxes they harvest in a day). At Zebediela, however, all workers get a minimum wage, plus a bonus based on productivity. Other benefits for workers are access to unions, contracts with Zebediela, the right to have meetings during working hours, dialogue with the management, the banning of child labour, medical insurance, guaranteed pensions, and other improved working conditions.

Due to its partnership with AgroFair, the cost structure of Zebediela has changed. Zebediela has to bear the costs of certification (€ 2,500 a year), except in the first year when this expense was covered by AFAD. Other investment costs, such as training, were also covered by AFAD. In the future, the extra turnover as a result of the partnership should be more than enough to cover these additional costs.

Limitations on sustainability

Cost efficiency

Relatively high operational costs. Even though this was its ultimate aim when it was founded, AgroFair now faces increased competition from conventional fruit traders which threaten its own market position. This also includes conventional citrus chains that, as a result of pressure from customers, have become more sustainable. It is difficult for AgroFair to compete with these often lower-cost companies.

Small scale. In general AgroFair faces relatively higher costs due to the scale and smaller volumes it usually sells to its buyers.

High costs of capacity building. Investment in terms of time, staff and capital is necessary to prepare smallholder farmers and their organizations to do business with AgroFair. These costs are now largely covered by AFAD. AgroFair covers only the running costs of the trade. As a result it is hard to say how cost-effective it would be to do procurement according to FLO standards without such external support.

Quality

Organic certification. Many consumers are interested in buying Fairtrade fruit only if it is also organic. Producing organic citrus is difficult due to mould: pesticides are needed to maintain quality, but using them disqualifies the fruit from being organic. FLO's environmental criteria contains a list of forbidden chemicals though also permits the use of a limited number of non-organic chemicals.

Trade barriers. During some months of the year, non-European citrus producers are excluded from the European market, included Fairtrade citrus-producers. This is EU policy to protect its own producers. From 15 October until March, only citrus grown in Europe or Morocco can be sourced by European buyers. This causes unequal competition to producers in developing countries. During this period AgroFair has to sell from stock, which is more costly.

Influence of farmers. Although they are co-owners of AgroFair, farmers have little actual influence on the company's business. This is particularly true for Zebediela farmers because they supply a relatively small share of AgroFair's total volume.

Branding. It is difficult to sell citrus as a Fairtrade product as the market is not aware of its intrinsic value.

FLO. Fairtrade Labelling Organizations International is known for its slow decision-making procedures in terms of adapting prices to market changes, and in granting certifications. It may happen that AgroFair fruit has to be sold as conventional fruit (so for a lower price) because it has not yet been certified.

6 Recommendations for sustainable procurement

This bulletin has analysed three cases to understand the opportunities and challenges of corporate social responsibility in value chains, and of sustainable procurement in developing countries in particular. The cases cover different experiences with sustainable procurement. They cover different products (fruits and spices), from different sources (Sierra Leone, Mali and South Africa), ending at different parts of the value chain (production, wholesale and retail), managed through different management structures. Though it is not possible to draw exhaustive conclusions, the cases offer several ideas and raise many questions that may help further development of sustainable procurement from the South. The challenges of sustainable procurement are discussed in this final section.

Key challenges

Internal and external drivers

These are forces that push companies towards sustainable procurement. They can be internal to the company, or external. Both types of drivers are needed for a company to successfully become sustainable.

Internal drivers. In each of the three cases, the purchasing company's management promotes sustainability. The company chose to use preferred suppliers as a way of increasing it own competitiveness. It set up a partnership in a country which offers advantages in terms of production seasons and high-quality products. This partnership offers control, traceability and sustained supply.

The internal drivers have also resulted in changes in the three companies' management structures. The companies have invested heavily in quality control systems throughout the value chain. They have developed and applied internal and external audit and certification systems. They have also put more effort into monitoring quality and in linking purchasing management closely with sales and marketing departments. Ahold has even appointed a specialist manager for corporate social responsibility.

It is a challenge for a Western company to understand and support the drive towards sustainable sourcing, to infuse this throughout the company, and to communicate this clearly to the market. Probably the most important factor in doing so is support from top management. If this is not available, the company will face difficulties in making its business more sustainable – as becoming sustainable requires additional investments in the supply chain, such as in quality control and adapted management structures.

External drivers. The internal drivers have been triggered by external forces: first, the demand for quality and traceability (prompted by the government and consumers' demand for safe food), and second, to a lesser but growing extent, the companies' need to demonstrate social responsibility in general. NGOs press for companies to be socially and environmentally responsible, and the media bring problems to public attention. As a result, consumers have started to ask companies, 'Where does your product come from?' and 'Are producers paid a fair price?' That results in market pressure on companies to provide products that fulfil corporate social responsibility criteria.

So far this has been more important for end-products, such as mangoes and citrus, than for semi-finished products, such as ginger. For the latter, the pressure from consumers and the food industry is lacking, meaning there is less incentive for companies to purchase sustainably. In the case of citrus, too, customers do not yet understand the sustainability concept.

The challenge for companies that aim for sustainable procurement but whose markets are not yet driven by sustainability is, then, to convince the market of the value of sustainably sourced products, to make the importance of sustainability known, and to develop a common code for sustainability for that commodity. Such a common code would require all companies to buy in a sustainable way, so eliminating the cost disadvantage faced by companies (such as Unifine for ginger) that currently do so.

For all three of our developing-country suppliers, the main drivers have been the desire for high-value markets and hence increased revenues and income and, second, the increased demand for quality and social responsible products in the market. Personal motivations may also have played a role: the development of individual skills and capacity development and, in the case of AgroFair in South Africa, the desire for increased influence over decision making in the chain.

Technical and management capacity need

Particularly in the cases with less integration in the chain, technical and management capacities need to be much further developed. In many developing countries there are no clearly defined good farm practices, making it extremely difficult and expensive to fulfil standards for export to Europe. Practices therefore need to be upgraded; Good Agricultural Practices should be introduced and standardization procedures promoted to improve quality and traceability and to cut losses.

In terms of management skills, too, the actors in developing countries need to further strengthen their position in the value chain. Inadequate education systems means there is a shortage of managers who can both manage an export business and understand the technical aspects of the sector. Management support is required, but how can this be put into practice and, more important, who should take on this role? The buying companies claim that this is not their core business and that they do not have the resources to invest in capacity building. Apart from private investment, additional support from governments, donor agencies and NGOs is needed to strengthen the suppliers' technical and management capacities.

Need for cultural integration

There are big differences in ethics between value chain actors in the South and Europe. Issues such as child labour and maximum working hours are viewed differently; what is reasonable in Europe is not automatically seen as reasonable in the South. This is particularly important when designing sustainability guidelines, certification systems and corporate social responsibility rules. It takes time to understand and adapt to cultural differences in doing business, and one needs to be flexible and open-minded. Clear communication and cooperation between the export companies and buyers has been a challenge in the mango and ginger cases. It was especially so in the latter, where the suppliers failed to comply with the volumes and dates set in the contract, and did not communicate this because they first wanted to try solving the problem themselves.

Need for funding

The investment and operational costs for start-ups in developing countries are generally high. This is because they lack technical and management capacities (see above), infrastructure is poorly developed, and an enabling environment is missing. These costs need to be covered. It is a challenge to find funding to invest in strengthening such suppliers.

For Western companies, the best option is often to select existing suppliers or experienced entrepreneurs that have proven business track records and access to investment capital. But there are few such companies in Africa, so other options are needed to contribute to economic development and to set up economically feasible partnerships.

Private investment by buyers, loans, microcredit and funding by the government and non-profit organizations are other ways to finance the development of value chains. Buyers are not always willing to invest in weak suppliers, and it can be hard to get finance from banks. Although private actors should take on financial responsibility for their value chains, funding from the government and non-profit organizations can be an option to fill the gap. All the cases in this book have made use of grants. Such funding is a cheap way to support value chain activities, but should be treated with care. It raises questions about dependency and moral hazard.

Another issue is hidden costs. Because several activities in each of our cases were financed by donors, it is difficult to get a clear picture of the true investment needs and economic feasibility (cost-benefits) of these chains.

Developing the three chains was possible only with additional donor funding (though we cannot conclude that this is true for all value chains in developing countries). This funding was allocated especially to build local capacity. The challenge of such funding is to arrange it carefully. Clear exit strategies are required to prevent long-term dependency. Another challenge therefore is to invest and intervene in supply chains in a responsible way that is supported by all chain actors.

Early inclusion of small producers

In the mango and ginger cases, it is striking that farmers were hardly involved in setting up value chain activities. There was no direct communication between the Dutch buying companies and the farmers in these chains. It was not sure whether the farmers have received a fair price for their products, if human rights were respected, or if their labour and health conditions were adequate. Moreover, the products could not be traced back to the level of the farmers, which hampers quality assurance. This was different in the citrus case where workers do have a voice in their business.

Not including farmers in value chains is a sustainability failure in quality and social terms. It undermines the farmers' commitment to supply high-quality products on a reliable. The challenge remains to involve small-scale producers (or their organisations) in chain development (in negotiations, meetings, trainings, etc.), and to make them co-owners of the value chain.

Transparency and equal distribution of power

In value chains, there is always a major risk that the most powerful actors get the biggest slice of the pie. This is especially true where the power is very unequally distributed and chains are managed by the so-called chain leader – the actor with the most power that takes all the decisions about prices, volumes, etc. (e.g., big supermarkets such as Ahold in Europe). In such cases, other aspects of sustainability aspects, particularly the social, may become less important. Unifine faces this challenge in the ginger chain in Sierra Leone. In the middle of the value chain, Unifine has less power than, for instance, the food industry and retailers at the end. In chains where the actors are more integrated (as in a joint venture or shared ownership), this risk is smaller. This is true for the AgroFair chain, where the workers are shareholders in the buying company, so are (in theory at least) involved in setting the rules for sustainable chain development.

Sustainable procurement requires transparency and a fair distribution of power in the chain. An objective chain facilitator can help coordinate chain development and ensure equal distribution of costs and benefits. Moreover, with cooperation from all stakeholders, the facilitator can also help create broad-based trust, commitment and ownership. A chain facilitator can be any intermediary organization such as a consultancy firm or NGO, as long as it understands and serves all chain actors in an impartial way. In our three cases, only for ginger KIT was a chain facilitator. KIT's temporary role was to facilitate the establishment of a chain partnership contract. KIT did not get the opportunity to continue this role, as other actors stepped in, and full transparency has not (yet) been achieved.

We can look outside the three cases in this book for examples of successful facilitation. One such case in Mozambique's cashew industry (KIT, Faida MaLi and IIRR 2006, p. 47). Here, SNV, a Dutch international development organization, started and facilitated the Support for the Cashew Sector (CASCA) programme which aims to help people start small-scale village processing plants around medium-sized factories and to improve the quality and increase the quantity of cashew nut production by smallholders. The small plants sell their output to the factories, which sell to exporters, which sell them in Europe. CASCA serves a large number of rural cashew growers and processors. It collaborates with a range of partners, including smallholder cashew producers; small processing units; medium and large private enterprises (a medium-scale cashew-processing factory and a Dutch importer); NGOs and government that provide micro-finance services, technical training and support; and a donor agency. As a result the yield and quality of cashew have improved, producers are paid a better price, and the private sector has reliable local supplies. This would never have happened without the intermediary role of the chain facilitator.

Multi-stakeholder process

Finally, we can conclude (particularly from our mango and ginger cases and also from the above example in Mozambique) that sustainable sourcing needs multistakeholder processes. As well as the primary value chain actors, it is important to involve other stakeholders – researchers, government, support agencies, etc. – to improve sustainability. These actors have different understandings of value chain development, different expectations, and different approaches. It is necessary to create synergy among these differences by managing conflicts and interests as to ensure that all actors gain.

Roles and responsibilities in sustainable procurement

The trend towards sustainability in global supply chains is irreversible. The three aspects of sustainability (efficiency, high quality and social responsibility) need to be considered in the structure of an organization and its supply chain in order to add the highest possible value to the chain. Additional efforts are needed to do this: not only the usual strengthening of quality control systems and reorganization, but also involving and strengthening small-scale producers upstream. As long as these are not included in the chain, there will be losses in terms of quality, reliability of supply, and social welfare.

Each partner has its own role in increasing the sustainability of the chain. Where small suppliers need to become more empowered, buyers need to become more receptive to including all actors in the chain. The public sector, support agencies and donors should actively and responsibly support this process. In poorly integrated chains, a facilitator may be needed to coordinate and mediate the process towards a fair chain partnership.

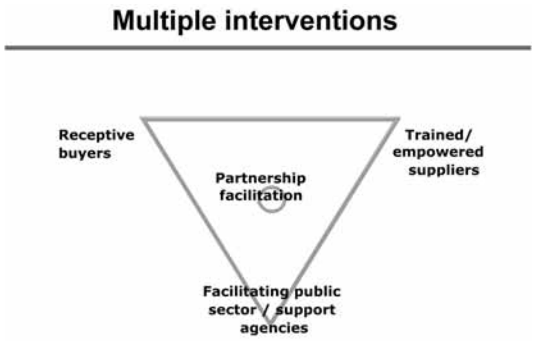
What should the various stakeholders do? A clear division of tasks would streamline such interventions. Figure 14 and the sections below outline the roles of four types of stakeholders: buyers; suppliers; public sector support agencies and donors; and chain partnership facilitators.

Buyers

Buyers can encourage sustainable procurement in several ways:

- **Access sustainable markets**. Get involved in and commit to promoting the sustainability concept, and make sustainable products visible through branding and certification.

Figure 14 Roles in multi-stakeholder sustainable supply chain initiatives



Based on Berdegué et al. (2008).

- **Ensure interdepartmental collaboration**. Foster understanding of the sustainability concept within the company so managers, purchasers, quality controllers and marketers understand and support it.
- **Support capacity building**. Build the capacity of suppliers, and invest in audits, training and (exchange) visits for overseas partners. If needed, collaborate with (public) service suppliers to provide technical assistance and capital to suppliers.
- **Ensure value chain integration to farm level**. Establish transparent relationships with all actors in the value chain, including small-scale producers, to overcome cultural differences and mistrust. Find a facilitator if outside coordination is required.

Suppliers

Suppliers (both farmers and the companies that buy their products to sell to buyers in the North) can support sustainable procurement in these ways:

- **Build capacity**. Participate in meetings and training, and collaborate with other small-scale producers to achieve quality standards, deliver the requested volumes, and reduce costs.
- **Invest in the value chain**. Together with buyers and support agencies, source capital and access credit to invest in developing sustainable value chains.
- **Become co-owner of the chain**. Integrate into the value chain, understand and adapt to cultural differences, and get involved in chain management through clear communication and transparency with buyers.
- **Scale up and diversify**. Diversify products and markets to lower risks and gain power through increased independence.

Public sector support agencies and donors

- **Build capacity**. Monitor market needs and provide technical support to smallholders through training, management support, advice, etc.
- **Provide funding**. Provide access to (public) funds for investments in the technical and management capacity of value chain actors in developing countries, and in developing the enabling environment.

- **Promote value chain integration and fair distribution of power**. Advocate sustainability and the fair distribution of power among actors in global value chains.
- **Create an enabling environment**. The government should create an enabling environment for value chain actors in which basic conditions for economic development are met, i.e., good infrastructure, supportive macroeconomic and sector policies, and transparent laws and regulations.

Chain facilitator

- **Facilitate sustainable value chain development**. Facilitate and coordinate the establishment of sustainable, multi-stakeholder partnerships between all actors in a value chain, in such a way that value is added and costs, quality and social aspects are respected.

Next steps

Sustainable procurement is not only for Fairtrade organizations. It is no longer something done by non-profit and philanthropic organizations. On the contrary, aspects of sustainability – transparency, human rights and fair prices – are becoming more integrated into mainstream business.

This trend is to be welcomed. It can be furthered by promoting sustainable partnerships between both Fairtrade and conventional buying companies on one side and small-scale farmers, producer and worker organizations in developing countries on the other. This book has offered an analysis of the requirements for increasing sustainable partnerships, but more insights are needed on the different approaches that exist in order to take up the challenges.

In the next few years, KIT will work on this further through action research and chain facilitation, and will investigate still existing dilemmas such as these:

- How to enhance supplier co-ownership in the chain?
- How to better facilitate multi-stakeholder processes in such a way that all actors, public and private, large, medium and small are involved, add to and gain from sustainable chain development?
- How to position conventional products, some of which are just ingredients to other products, sustainably (in terms of costs, quality and social responsibility) in consumer markets?
- How to finance value chain development and sustainable procurement?

Innovation takes place continuously, whether by design or by chance, and it is important to identify innovative practices and learn from them. KIT remains committed to building on experience through identifying, publishing and acting upon lessons learned. We invite everyone, from the business sector and beyond, to engage with us in learning and improving performance. If you feel your experience is successful, please share it with us.

Notes

1 www.ahold.com
2 The Fairtrade minimum prices are guaranteed and cover the costs of sustainable production. The prices citrus producers receive is conform conventional market prices as longs as they are higher than the Fairtrade minimum prices. Apart from the Fairtrade minimum price producers receive a Fairtrade premium to invest in their livelihoods, so improving their health, education, environment, economy, etc. The workers decide themselves what they want to invest in.

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About the author

Marije Boomsma is economic development specialist with more than 7 years of working experience. She studied international relations and development economics at the Universities of Twente and London. She has worked in the private and semi-public sectors in Europe, Africa and Asia, including long-term experience in Laos and Vietnam. Her expertise lies in market and business development through chain development, marketing strategies and business planning. She has professional skills in action research, participatory approaches, training and project management.

Prior to working for KIT, she worked for 3.5 years in Southeast Asia as market development consultant. In Vietnam she was a freelance consultant for several international organizations and donor agencies on value chain analysis and market development, including SNV, the International Labour Organization, Oxfam Hong Kong/World Bank, and Traidcraft. In Laos, she worked for Arcadis Euroconsult/BMB on a rural development project. Marije has also worked as a management consultant in the Netherlands, advising Dutch enterprises in exploring market opportunities in African countries.

Marije Boomsma is currently employed as advisor on sustainable economic development at KIT. One of her projects is facilitating Western companies in setting up sustainable value chains in the South.

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Appendix I

People interviewed

Unifine: Sourcing ginger from Sierra Leone
Paul Asbreuk, supply chain manager, Unifine, the Netherlands
Willem van Noort, group director, Unifine, the Netherlands
Poul Wiertsema, purchasing manager, Unifine, the Netherlands

Ahold/Bakker Barendrecht: Sourcing mangoes from Mali
Adrie Bakker, Bakker Barendrecht, the Netherlands
Roland Waardenburg, vice-director for corporate social responsibility, Ahold Corporate, the Netherlands

AgroFair: Sourcing citrus from South Africa
Kees de Kievit, sales manager, AgroFair, the Netherlands
Gert-Jan Lieffering, product manager exotics, AgroFair, the Netherlands
Wim Spieringhs, Fairtrade business development expert, AgroFair Assistance and Development Foundation, the Netherlands
Marnix Wolters, product manager citrus, AgroFair, the Netherlands

Appendix II

Round table participants and agenda

19 March 2008, Royal Tropical Institute

Participants

- **AgroFair**
  - Monique Schlepers, sales & marketing
  - Marnix Wolters, product manager, citrus
- Ahold
  - Roland Waardenburg, vice-president for corporate responsibility
- MVO Nederland
  - Derek Wilson, project officer
- Global Reporting Initiative
  - Joris Wiemer, Small and medium enterprises development
- Unifine
  - Willem van Noort, group director (and vice-president of the European Spice Association)
  - Paul Asbreuk, supply chain manager
- KIT, Royal Tropical Institute
  - Lucian Peppelenbos, senior advisor, sustainable economic development
  - Marije Boomsma, advisor, sustainable economic development
  - Michiel Arnoldus, advisor, sustainable economic development
- Ministry of Foreign Affairs
  - Omer van Renterghem, Department of Sustainable Economic Development
- University of Tilburg
  - Bart Vos, Professor, supply management; chair of NEVI (Dutch Association for Supply Management)

Agenda

09.00	Opening by the chairman (Lucian Peppelenbos, KIT)
09.10	Presentation, Unifine and ESA: ginger from Sierra Leone (Paul Asbreuk and Willem van Noort)
09.30	Presentation, AgroFair: citrus from South Afrika (Marnix Wolter)
09.50	Presentation Ahold: mangoes from Mali (Roland Waardenburg)
10.10	Questions
10.40	Break
11.00	Presentation, KIT: Key issues from action research into sustainable procurement (Marije Boomsma)
11.30	Discussion (Lucian Peppelenbos, KIT)
12.20	Summary and conclusion (Lucian Peppelenbos, KIT)
12.30	Lunch

Colophon

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The KIT Bulletin Series deals with current themes in international development. It is a multi-disciplinary forum to present the work of scientists, policy makers, managers and development advisors in agriculture, natural resource management, health, culture, history and anthropology. These fields reflect the broad scope of KIT's activities.

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