Summary points

- Leading members of the UK food industry are committed to adopting more ethical sourcing practices and support the view that greater integration of the poor into the agriculture value chain would help to alleviate poverty and enhance development.
- In practice, however, very few of their current initiatives are oriented towards pro-poor growth, while many attempts to incorporate development through certification schemes are also failing to address core ethical sourcing concerns.
- To solve this problem, development indicators and principles of fairness and equity need to be integrated into mainstream procurement practices if large-scale pro-poor growth is to be delivered. Such a goal requires businesses to make tough choices in order to align social concerns and commercial considerations by embedding principles of responsibility into their supply chains.
- To facilitate action governments and donors can also support innovation by providing incentives at the production level to share costs and risks with businesses and by promoting fairer and equitable trading systems.
Introduction

In much of sub-Saharan Africa (SSA), development of the agriculture industry remains one of the best options for reducing poverty and stimulating overall economic growth and development. With millions dependent on the sector for their livelihoods, enhanced agricultural performance can increase incomes, improve food security and drive structural transformation.1 The UK is particularly well positioned to act as an economic driver for SSA by continuing to import goods such as fruit, vegetables, cocoa, tea and coffee.2 At present, the UK is importing approximately £1.3 billion of products, with an estimated 70% sourced from just four countries – South Africa (27%, £348m), Kenya (17%, £227m), Mauritius (12%, £159m) and Ghana (13%, £173m).3 While trade between the UK and SSA is significant, further expansion could help to boost pro-poor growth. Further diversification of imports to include a larger number of countries would help to spread those benefits. Better sourcing practices should be established in all trade relations.

This briefing paper is drawn from individual meeting reports and presentations delivered during events organized by the Procurement for Development Forum (P4D) at Chatham House (see p. 8). It looks at how UK food businesses are affecting supplier countries in SSA through ethical sourcing practices and how they can improve practices for both ‘better’ trade and ‘more’ trade. It then outlines challenges and barriers to the integration of pro-poor strategies with mainstream business practices, as well as models of best practice and other opportunities for engagement to increase impact and scale.

Beyond CSR

In the UK, leading members of the food industry are engaged and have committed themselves to making trade better in the supply chain through ethical sourcing practices. To facilitate these efforts, companies use a variety of tools from consumer-facing to business-to-business (B2B) strategies.4 At present, however, very few of these initiatives are oriented towards pro-poor growth. They focus instead on production and workplace standards for a particular commodity or group of commodities. Evidence also indicates that the majority of programmes do not access the most vulnerable workers – women and ethnic minorities.5 Nor do they consistently incorporate smallholder producers at the base of the supply chain. Integrating more poor people into the agriculture value chain would help to alleviate poverty and enhance development. Businesses that genuinely wish to contribute to pro-poor growth need to examine their ethical sourcing programmes and procurement practices and see whether they are genuinely development-oriented. Options available to help support that effort include:

- Consumer-facing ‘Good for Development’ label or a similar voluntary certification that focuses on development and procurement from developing countries;
- Incorporation of development indicators into pre-existing ethical sourcing programmes;
- ‘Development-friendly’ procurement guide linking procurement activities to development goals; and/or
- Creation of a more inclusive business model that integrates smallholder producers, and particularly women, into the supply chain.

At first glance these options may seem relatively straightforward, but the reality is that achieving pro-poor growth can be complex and challenging. Effective strategies are likely to make use of a combination of options, which will vary depending on the position in the supply chain. Retailers, for example, are in direct contact with consumers and are likely to opt for solutions that can

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4 Consumer-facing initiatives are those that involve direct contact with or access to consumers; for consumer goods, initiatives may use labels and logos for purposes of communication and market differentiation.
engage consumers and build their support. Manufacturers and producers, on the other hand, may favour production-related strategies or efforts to expand sourcing in order to secure and sustain supply, such as through the integration of smallholders. In both contexts, ethical sourcing concerns sit within a commercial environment in which price, quality and delivery of product remain at the foundation of procurement policy and practice.

**Good for development?**

A wide range of ‘ethical’ labels is now on the market and becoming increasingly popular as a mechanism for product differentiation, particularly on production or origin characteristics. Retailers are using these labelled goods to engage with their customers on ethical issues, enabling consumers to select and make informed purchases on the basis of how (and where) products are produced. Most of the standards and certification labels focus on production standards for a particular commodity or on specific product or source attributes such as animal welfare, environmental integrity and labour standards. In the UK, these products occupy a niche market at around 2% of the total grocery market, with approximately 30% of the population stating they buy goods with an ethical or Fairtrade (FT) label. Of these purchases, animal welfare products lead in popularity at 69%, followed by local (British food) at 55%, environmentally friendly at 53%, and FT and organic at 48% and 32%, respectively. Among the schemes, FT is one of the only standards to address development by improving the terms of trade for smallholder producer organizations and paying a premium for their products. However, the certification is only accessible to a comparatively small number of producers owing to the restricted commodity range (only certain products are eligible for certification), the limited capacity of the certification programme itself and its small market share. In other words, few certifications are addressing ‘development’, and those that do are greatly limited in scope and capacity to deliver impact on a large scale.

To fill the gap in labelling schemes, a new development-oriented and mainstream product label was proposed – a ‘Good for Development’ label. This label would allow a wide range of developing-country products to be eligible for certification, with the aim of recognizing the broader development benefits of trade as well as related social and environmental improvements. Examples of supplier practices to be credited include on- and off-farm employment opportunities, provision of access to finance and technical training, responsible resource management, improved access to domestic and export markets, innovation in production and processing, the use of environmentally sound production techniques, and carbon offsetting.

Despite the demonstrated gap in current standards and certification systems, the ‘Good for Development’ label was summarily rejected by the P4D for a number of reasons. Primarily, there was an overwhelming reluctance to add yet another certification programme to an already extensive list of programmes and standards. Producer groups were concerned about the added costs that a new certification system would impose on farmers currently struggling to be in compliance with various buyer requirements. Among retailers, there was concern about consumer fatigue with regard to labelling and label identification. Would consumers be able to distinguish between a development label and an FT label? Without a critical mass of consumers demanding a development label, the incorporation of ‘development-friendly’ indicators and practices into current tools was considered the most effective way forward.

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7 Ethical labels included in the calculation are FT (£635million), Rainforest Alliance (£369), RSPCA (£51), MSC (£128) and organic (£2.1billion). Available at Ethical Consumer, http://www.ethicalconsumer.org/ShoppingEthically/ukethicalmarket2009.aspx.

8 P4D Meeting VII: IDS: Spencer Henson, ‘Personal Actions in Pursuit of Development: The Challenge of Consumer Perceptions’, 25 February, 2010. For simplification, Fairtrade (FT) refers only to products that are labelled by the FairTrade Foundation with the FAIRTRADE mark and which meet international fairtrade standards as set by the Fairtrade Labelling Organization (FLO).


11 Ibid.
Integrating development into procurement

In addition to voluntary standards and certification systems, food businesses also have a set of private standards used to communicate brand value and requirements to other businesses. These are B2B standards that are invisible to the consumer but have great influence in the supply chain. Compliance with these standards, which include GLOBALGAP, BSCI and SEDEX, is often a precondition of doing business with a particular company. Unlike the restricted capacity of the niche market certifications, the private standard requirements are applied at the mainstream level to all product categories, and are thus capable of delivering impact more widely.

Development: impact, measurement and monitoring

Before development standards are added to pre-existing programmes, a broad definition of what ‘development’ means must be formulated, along with ways in which it can be measured and linked back to procurement practices. Traditionally, development was defined in terms of economic growth and measured by increases in GDP. Gradually, a wider range of socio-economic indicators was introduced to help define improvements in human welfare, quality of life and social wellbeing. Today, development is a highly complex concept, with hundreds of indicators and frameworks available to help quantify and measure it, such as the Human Development Index (HDI), Human Poverty Index (HPI) and Millennium Development Goals (MDGs).

Using the available range of social and environmental indices, businesses can create a broad definition of ‘development’ that is appropriate to their values and priorities. Once articulated into indicators, the criteria can be integrated into ethical procurement policies. In order to bridge the gap between the buyers and ethical trading teams, these indicators need to be linked to business activities or practices that can be measured at the supplier level. Buyers could then assess and base future sourcing decisions on improvements made by the suppliers in key indicators. However, to be of value, such a procurement tool or guide would have to be practical and easy to use, with involvement and input from buyers (designated users).

Creating a development-friendly procurement guide

A prototype for an ethical sourcing ‘toolkit’ (a development-friendly guide) was created and piloted to determine the feasibility of implementation by food businesses to support purchasing decisions. The toolkit was designed to receive data on various aspects of the producers’ operations and use them to generate indicator measures of the impact of sourcing activities, considering both workplace and community level.

General feedback from potential users highlighted the positive value of the exercise in assisting with internal definitions of ‘development’, but the pilot toolkit failed to meet their expectations. Concerns included the specificity of ‘development’ as defined by labour standards; the lack of applicability to smallholder farms; too many questions, some of which were not linked clearly to procurement practices and/or too vague to be answered accurately; and blurred divisions between workplace and community impact. For retailers, who are far removed from the suppliers at the base of the supply chain, it was very difficult to isolate and assess how (and to what extent) their practices could affect development on the ground. Far from being a simple task, linking a given activity to a defined social, environmental, economic or other development-related impact, particularly in the long term, is extremely difficult given the influence of external factors such as political, ecological, and economic uncertainties. Currently efforts are being made by the ISEAL Alliance to build consensus and to develop a common framework through which voluntary standards systems can assess what issues to measure and how best to measure them.

Future activities designed to revise and improve on the

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12 The GLOBAL Good Agriculture Practice (GLOBALGAP) standard works to minimize the environmental impacts of farming by reducing chemical inputs, ensuring a responsible approach to worker health and safety as well as animal welfare. The Business Social Compliance Initiative (BSCI) is a business-driven platform for the improvement of social compliance in the global supply chain. The Supplier Ethical Data Exchange (SEDEX) is a portal to which members upload and share ethical assessment reports based on the Sedex Members Ethical Trade Audit (SMETA).

13 Impactt Ltd was contracted to construct the toolkit using Microsoft Excel. Made available on the P4D site.

14 ISEAL Alliance (a global association for social and environmental standards), has developed ‘The Impacts Code of Good Practice’, 30 June 2010. Available at http://www.isealalliance.org/content/impacts-code.
Existing ethical toolkit should be informed by ISEAL guidance documents to ensure consistency with other international standards.

Other key lessons are that, in a context where retailers have hundreds of product lines and source from thousands of suppliers, an ethical sourcing tool needs to be clear and concise to be of value. Indicators need to be restricted to those with direct links to procurement practices and that can be answered in a reasonable timeframe, without being an impractical use of resources. There is a balance to be struck – with too few questions it is not possible to generate a useful output, while with too many the process becomes onerous and is too time-consuming (and costly) to complete. Further, the eventual output of the tool needs to be relatively simple to assess, ideally resulting in a tick-box-type output for buyers. Buyers must adhere to strict timelines to fill purchasing orders, and since performance evaluations are frequently based on profit earnings, there is little time to evaluate suppliers in terms of their contributions to development impact beyond essential criteria.

Inclusive business models
New business models aim to expand economic opportunity to a greater and wider range of people, including producers, suppliers and consumers. To include more producers and engage in the foundation of the supply chain, the main challenge is getting production to the quantity and quality required by retailers. This process generally requires coordination of farmers into producer organizations, followed by training to meet quality standards. By providing cost- and risk-sharing incentives at the production level, governments and/or donor agencies can facilitate the integration of smallholders and encourage businesses to explore new market opportunities. In addition to providing market access, other derived benefits from training include diversification of crops and product range as well as improved yield, income and food security. Partnerships created early on enable buyers to provide insight into future market demand or products. In return, companies gain access to a more sustainable supply chain.

Smallholder challenge: access to markets
Examples of initiatives delivering innovative partnerships include the Food Retail Industry Challenge Fund (FRICH) and the African Marketplace initiative. In the case of FRICH, support is given to projects that bring African farmers and their workers, including poor smallholders, into the food supply chain. Designed as a risk-sharing mechanism, FRICH seeks to get innovative business ideas off the ground, with projects ranging from new technologies along the supply chain to developing new crops or products and opening up new distribution channels. The funding is intended to reach some of the poorest countries north of South Africa and south of the Sahara; one overall goal is to discover new approaches that can be scaled up, achieving sustained increases in trade.

The focus of the African Marketplace is to connect food companies to small-scale producers in Africa. The role of the Marketplace, which is supported by the Gates Foundation, is to find smallholders who fit certain criteria and then introduce them to category managers, thereby shortening the supply chain and bringing the product to market in the fastest way possible. Before the product is brought to the retailer, the Marketplace must first ensure that the products satisfy the following criteria: risk-free (in both brand reputation and commercial exposure); compliant with required standards; cost-neutral or better (when compared with other sources); capable of being applied as a product substitute; and with the potential to scale up (if successful). To participate, the retailers need to open up a direct communication channel between the smallholders’ group and their senior category buyers, and to agree to pay a fixed year-round price. The key here is to make it as easy as possible for the buyers to select quality suppliers because they receive no incentives to procure from ethically sourced smallholder farms.

Smallholder challenge: meeting standards
Costs associated with meeting quality standards can be prohibitive for some producers, particularly smallholders and unaffiliated producers, effectively driving them out.

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of the market. In order to improve effectiveness and alleviate cost pressures, greater collaboration is needed at the pre-competitive level to address common barriers including production capacity and market access through certification. One example of cost-sharing is through a joint training initiative in the cocoa sector called the Certification Capacity Enhancement Programme.\(^\text{16}\) In this case, competing certification programmes and major industry players had no choice but to collaborate owing to the declining quality and quantity of the cocoa supply. In West Africa, approximately 80% of production comes from informal smallholders, which means that achieving quality and quantity is a major challenge and beyond the capacity of any one organization. Using a common training module based on core sustainability principles, the participating certification groups – FLO, UTZ CERTIFIED or Rainforest Alliance – issue the core training and add on their own specific certification module as required. This model of shared training can be further strengthened and transferred to other regions and commodities, with widespread opportunities for collaboration at the pre-competitive level.

Towards more responsible supply chain management

Up to this point, this paper has addressed areas where businesses can introduce aspects of ‘development’ into ethical sourcing practices and/or adopt a more inclusive business model to integrate smallholders into the supply chain. But these amendments do not address issues at the core of ethical sourcing dilemmas, such as aligning social objectives with commercial considerations and the multitude of challenges associated with implementation. Even in the most progressive of companies, this balance is difficult to achieve and ethical sourcing far from easy to implement. Nevertheless, by embedding principles of responsibility into basic policies and practices that govern their supply chains,\(^\text{17}\) businesses can build up a framework that is more supportive and responsive to development initiatives and create a fairer and more equitable value chain in the process.

Challenges: reconciling business practice with development

Sustainably or ethically sourced products generally require a certain amount of investment, either in resources or time, before benefits such as enhancement to pro-poor growth are realized. The return on investment is informed by concepts such as sustainable development, which require consideration of future generations, and are therefore also assessed in the long term. To sustain and provide incentives for investment, suppliers need long-term contracts to confirm commitment from buyers and to be assured of an income stream in the future. In contrast to this long-term perspective, shorter contracts help to maximize the profit potential of buyers in buyer-driven chains by increasing their flexibility to switch suppliers and change orders. This practice undermines profit earnings for suppliers, with the potential for product loss and problems with workforce management. To encourage fairer and more transparent relations in the supply chain, buyers need to be held accountable for ethical as well as commercial considerations. One option is to provide financial incentives to buyers by either integrating sustainability criteria into performance reviews or introducing them as part of a bonus scheme to increase the number of verified ethical purchases.

Challenges: responsibility and human rights – HIV/AIDS

As part of corporate duty and responsibility to global citizens, UK businesses may also have to look outside their direct sphere of influence to exercise due diligence as it relates to human rights – a process that is not just about assessing risks to the company, but also about assessing the rights of others.\(^\text{18}\) The HIV/AIDS pandemic in Africa

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\(^{16}\) P4D meeting IX: Rainforest Alliance, Eric Servat, ‘Strengthening the Ownership of Best Practices’. Not available on P4D site.

\(^{17}\) The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. Available at http://www.unglobalcompact.org/aboutthegc/thetenprinciples/index.html.

is an example where the failure to act or participate in HIV/AIDS mitigation strategies will result in greater risk or harm to millions and undermine progress made on the development agenda to date. At present, there are approximately 22 million people infected with HIV in SSA, a region which also accounts for over 14 million of AIDS-related deaths.19 Within the agricultural supply chain, the potential reduction of the workforce is profound, with forecasts predicting losses ranging from 13% of the labour force in Cameroon up to 26% in Namibia.20 As the pandemic continues to spread and the operations of more and more suppliers are affected, the food industry in the UK will face increasing pressure to act. Early intervention from all stakeholders could help to prevent the spread and transmission of the virus, saving lives and maintaining progress made in poverty reduction and development.

Examples of policies and practices to be introduced by buyers and retailers in order to improve equality and distribution of benefits throughout the value chain include:

- **Lengthening contracts with suppliers and the period of tenure for buyers.** Longer and more secure contracts with suppliers will encourage investment in compliance (production standards and workplace conditions). Suppliers have a longer return on investment and need security of income to cover costs. Buyers need time to become familiar with the constraints of producers and to build relationships with suppliers. Better relationships can facilitate communication and create more responsive and compliant supply chains, thereby reducing risk.

- **Mainstreaming a gender perspective into policy and practice so that men and women benefit equally from development efforts and are presented with opportunities for inclusion and upgrading in the supply chain.**

- **Integrating policies essential to development at the bottom of the supply chain including:**
  - Ensuring ‘living wages’ to bring hired labourers out of the poverty cycle. The minimum wage is insufficient to provide basic needs, particularly in single-income households, and without land or other assets to rely on, hired labourers are among the poorest of the poor.
  - Integrating HIV/AIDS policies into code of conduct and supplier contracts throughout the supply chain, including base codes used by major social compliance initiatives such as ETI or SA8000.21 Implementation (and verification) of the policy will help alleviate the stigma of HIV/AIDS and avoid fear, low morale, overwork and low productivity.

**Next steps**

The standard CSR programmes and business-as-usual strategies are not contributing enough towards development goals in Africa. To address the challenges of pro-poor growth, businesses need to extend beyond niche market activities and workplace-oriented CSR strategies. But the best way forward is far from clear. To facilitate action, governments and donors need to support innovation by providing incentives at the production level to share costs and risks with businesses and by promoting more fair and equitable trading systems. Further, the governments themselves should commit to ethical sourcing for public facilities to help expand market opportunities for developing countries and drive pro-poor growth forward.

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21 Ethical Trading Initiative (ETI) has a Base Code of nine clauses which reflect the most relevant international standards with respect to labour practices (mainly drawn from the International Labour Office’s (ILO) Conventions). [http://www.wwaco.uk/pdf/ETI%20Base%20Code.pdf](http://www.wwaco.uk/pdf/ETI%20Base%20Code.pdf); Social Accountability 8000 (SA8000) is an auditable certification standard developed by Social Accountability International (SAI) and based on international conventions including ILO. Available at [http://www.sa-intl.org/_data/n_0001/resources/live/2008StdEnglishFinal.pdf](http://www.sa-intl.org/_data/n_0001/resources/live/2008StdEnglishFinal.pdf).
About the Procurement for Development Forum

The Procurement for Development Forum (P4D) brings together representatives of leading UK food businesses concerned about development and the impact of their businesses on developing countries. The goal is to encourage best practices in procurement and supply chain management that provide more benefits to the poor in developing countries. Sponsored by the Department for International Development (DFID), P4D was convened from early 2008 through to the end of September 2010. The core group of participants was restricted to UK food businesses – retailers, manufacturers and producers – and a select group of organizations strategically linked to core members and/or directly engaged with socially and environmentally responsible production and trade. To encourage sharing and openness, all events were held at Chatham House under the Chatham House Rule of confidentiality and at the pre-competitive level.

http://www.chathamhouse.org.uk/research/eedp/current_projects/procurement/

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