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## ***Managing the Root of the Problem***

A Discussion Note on Sustainable Agricultural Commodities



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**United Nations Development Programme**

February 2013

## **Acknowledgements**

This Note was written based on discussions held during a one day workshop with the following persons and companies: A Bexell, UNDP (at IKEA at time of workshop); A Bovarnick, UNDP; C Dragisic, US State Department; M Hendriksz, ADM; J Horrell, Kraft; M Morton, Shell; S Perry, Johnson & Johnson; F Tramontin, Kraft. The document does not reflect any specific corporate policies from the contributors.

Additional review and comments provided by A Swaites, SAB Miller; D Oyna, Norwegian Chocolate Manufacturers Association; S Henzell Thomas, IKEA; D Croft, Waitrose; L Kahnert, 4C; E Rueda and A Schöning, GIZ; D Pollard, Nestle; G Alvarez, ITC; M Spannagle, AusAID.

## Introduction

Companies that are reliant on agricultural commodities are increasingly exposed to a series of direct and indirect risks to their business: a) cost and volatility of prices, b) security of supply, c) reputation linked to environmental and social issues.

There are important issues such as farmer poverty, productivity and profitability; land use change and deforestation; greenhouse gas reductions; labor conditions; food and energy security; water scarcity and pollution; and future impacts from climate change which all threaten the integrity of supply chains, increase market risks for producers and the ability of companies to manage effectively their business and reputational risks.

Business strives to work collaboratively across the value chain to mitigate and reduce the risks and communicate their efforts to their consumers and concerned NGOs. The extent of this depends, in part, on their position in the value chain. To this end, a small number of companies came together with UNDP and the US State Department, in May 2012, to brainstorm on how best to manage their supply chains and challenges associated with sustainable agricultural commodity sourcing. **The intent was to find innovative ways for companies to consider and manage sustainability issues in their supply chains and in particular manage root causes.** This Paper is to share this work in order to engage more companies to collectively address the root causes.

## Discussion

The main instruments put in place by companies to promote sustainable farming are a) supporting projects aimed at research and training farmers on good agricultural practices b) establishment of baseline sustainability standards, often through roundtables, c) sourcing and procurement policies and d) purchasing of third party certified product. The tools are in most cases closely interlinked. Certification up until now has been the most effective tool to manage reputational risks related to sustainability issues and, in some cases, drive brand value. However, whilst certification is an important tool to promote best practices and provide assurance for the avoidance of worst practices, it has not resolved all the issues which put companies at risk.

“Often private standards fill the gap where governments do not implement/enforce standards they committed to. Although this seems to be better than complying with no social or environmental standards, this cannot be a satisfactory status in the long term as it further weakens the role of governments, particularly in developing countries. The relation between the public domain and private standards should rather be a complementary as opposed to a substituting one.”<sup>1</sup>

**Unsustainable practices persist because they are symptoms of inherent structural problems,** prevalent in developing economies where many commodities are produced and sourced. Training 5,000 or even

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<sup>1</sup> Steering Committee of the State-of-Knowledge Assessment of Standards and Certification. (2012) *Toward Sustainability: The roles and limitations of certification*

50,000 farmers in good agricultural practices will not change all the underlying structural causes of issues such as deforestation and child labor. In spite of training, these issues will only reoccur over time and manifest themselves elsewhere unless the underlying causes are addressed. These underlying structural causes of issues are often referred to as root causes as they are at the root of the problem. These root causes go beyond what any one company or farm can solve.

Root causes can include: insecure and complicated land tenure, weak land use planning, policies and fiscal incentives promoting negative impacts, lack of production standards, weak extension services, limited access to financial services, non-monetized externalities, etc. These will vary by commodity, country and issue. Two specific examples of how root causes affect business include:

- In Indonesia, oil palm plantation companies that voluntarily convert forested land banks within their concessions to forest sanctuaries risk the District governor transferring the conserved lands to another company to produce palm. This highlights that the underlying problem is that these voluntary agreements need to be legalized so that companies have the confidence to make such commitments.
- In Colombia even the best managed and certified coffee farms were still vulnerable to storm induced flooding. Whilst tree cover on the farms helped reduce damage, watershed management plans are needed to control the flow of water from affecting farms lower down in the watershed.

Addressing root causes can support development of effective long-term solutions to sustainability problems, and be a major contributor to accelerating the scale up of certification in a given country. Higher government production standards, strengthened extension and positive fiscal incentives can improve farm practice, level the playing field and bring producers closer to certification standards.

Hence, identifying and managing root causes can overcome business risks and bring major benefits to supply chains. Companies have historically failed to address (or often even acknowledge) root causes as they are mostly beyond their traditional sphere of control and expertise. However, business should now recognize the business case for addressing these root causes and support initiatives to tackle them. Once companies determine the degree of impact of root causes on their business, they need to find the most appropriate way to engage and identify partners to tackle them.

**National governments should have the lead role** in addressing many root causes and specifically in improving the following: setting and enforcing baseline farming standards; providing agricultural extension services; implementing effective land use planning; reforming land tenure and rights; integrated water resource management; monitoring and enforcement of regulations and standards; introducing positive fiscal policy incentives; and investing in infrastructure and social services such as health and education. The more government can deliver on these responsibilities and address root causes the more confidence there can be of acceptable economic, environmental and social practices in production practices in origins.

**Companies need to map out and select which root causes they tackle and validate and advocate for their resolution with key stakeholders.** They should focus on change and traceable improvement, and work with the appropriate stakeholders including government to affect change. The suite of root causes selected to be tackled will depend on the degree of impact on the business, ambition of the intervention and what is realistic in a country, given its existing conditions. In some countries with weak governance, reaching a minimum standard in agricultural practices across the country would be a major advance. In other countries with more sophisticated governance tighter regulations and taxation might be possible. An example of a successful regulatory reform is in Paraguay. Paraguay suffered high levels of deforestation due to agricultural expansion into the Atlantic Forest. In 2004 a legal moratorium was introduced and deforestation rates dropped by over 50%, demonstrating the impact of legal reform on land use.

It is recognized that it can take many years to address root causes whereas business requires quick wins. However, in many cases companies will be purchasing commodities from the same countries in 10 years so results, even if long-term, will still be relevant. In the meantime quick wins can still be pursued and achieved. It is also recognized that governments value hearing from companies that these are important issues to be resolved to remain globally competitive and enable progressive elements within governments to build coalitions around best practice.

Four pre-requisites were identified to effectively tackle root causes:

- Increase government sense of ownership and ability to make improvements
- National level coordination and collaboration of stakeholders and projects
- Capacity strengthening of government agencies to deliver services eg. extension
- Engagement by private sector to provide market signals, demand-side incentives and technical expertise

**New forms of Public Private Partnerships (PPPs)** is a beneficial option for companies to work effectively with government to tackle root causes. PPPs allow companies to become engaged beyond their purchasing power for product, allowing them to move from individual site based action to collective action to tackle root causes. There are many meaningful and compelling stories companies involved in a PPP can tell their customers and constituencies.

PPPs can be set up with a neutral convener to make a bridge between the government and companies. PPPs can establish targets and indicators and can provide transparency and accountability through monitoring systems. Within PPPs individual partners can hone in on the piece that is relevant to their values, core areas of expertise and existing projects and can bring them in to support the work.

An example of a successful PPP has been in Ghana where the Cocoa Board, COCOBOD, was given the responsibility to provide extension to cocoa farmers but had no extension officers. The Kraft Cocoa Project funded the costs of 17 extension officers to kick start COCOBOD's extension service. Once COCOBOD experienced the benefit of these extension officers it then invested government funds and brought in additional donor funds and now has a complement of 120 extension officers.

One national level PPP is the National Commodity Platforms being pioneered by UNDP. These Platforms build on the global convening powers of the commodity roundtables but are hosted by national government and focus within a specific country. The Platforms introduce codes of conduct and transparency to decision making and provide a neutral space for companies along a supply chain to engage Ministries, local government and civil society to jointly understand and tackle root causes.

### **Next steps**

Building on certification tools is key to identify new solutions to both business and reputational risks linked to agricultural commodities. Companies should consider how their supply and the sustainability issues they are trying to address are affected by root causes. For example, will deforestation in a given region stop being a reputational risk when you have 100% of FSC certified timber in your supply chain? Will 100% certification protect your supply chain in the long-term? On the other hand, can more product be certified in a source country if certain root causes are addressed?

It is important for companies to recognize that the root causes and their relative importance to business will vary by country and commodity. Therefore an essential pre-cursor to any corporate sustainability program is an initial analysis of what the root causes are within a given country. Root cause analysis can build on value chain analysis and ecological footprint mapping tools (eg of water use). Without a rigorous root cause analysis businesses and development partners may design costly programmes of assistance to tackle symptoms or assumed rather than actual root causes. For example to design an effective extension programme it is important to understand the root causes of poor farming practices – is it more about lack of knowledge, lack of access to technology, lack of financing or lack of market incentives, or the entire package? Understanding which the key root causes are will help shape the most effective approach.

Where the analysis identifies that risk to business of disregarding root causes, or the benefit for certification programmes of resolving root causes, is substantial, companies should consider how they can best get involved to manage the root causes. However, to start managing root causes a company may need to develop a different framework for addressing sustainability which takes a long-term programmatic approach which would include managing root causes. Within such a long-term sustainability framework and approach, specific questions to ask to manage root causes include: How to prioritize which root causes to tackle? What will be cost effective ways to manage root causes for a company supply chain? What has proven to work and be a good value investment? Who can carry out a root causes analysis? Who are the right partners to tackle root causes? Is joining a PPP most appropriate for managing root causes? Are company practices affecting root causes and need to be adjusted? The answers will pave the way for a new generation of analysis and prevention based approaches targeted at root causes.

## Annex

Table 1 illustrates roles and limitations of key instruments in use.

Instrument	Strengths	Limitations
Certification	<p>Improves practices at a farm level</p> <p>Provides traceability</p> <p>Provides a label and a credible story of the product</p> <p>Very targeted and easy to communicate</p> <p>Provides financial incentives for producers to improve practices</p> <p>Accepted by key stakeholders as effective action at farm level</p>	<p>It is farm based and does not have the ability to tackle root causes of the sustainability issues.</p> <p>Huge costs to segregate certified product up the supply chain.</p> <p>Often does not reach the mass of unorganized farmers at the base of the pyramid. Certification costs are typically less efficient for small holders than for large plantations.</p> <p>Farm level not landscape permitting leakage of unacceptable practices to non-certified farm.</p> <p>May be perceived by governments and producers in-country as externally driven so lack local ownership.</p>
Roundtables	<p>Convenes global stakeholders</p> <p>Establish baseline standards</p>	<p>May not convene sufficient stakeholders at country level to obtain local buy in and government engagement</p> <p>Often relies on the certification systems to demonstrate progress</p>
NGO local projects	<p>Site specific success</p> <p>Relatively direct and quick impact and easy to set up</p> <p>Provides useful pilot lessons</p>	<p>Difficult to sustain once project finishes. No scale up strategy. Results remain local not fed into national policy</p>
Company training of farmers	<p>Farmer specific improvements</p>	<p>Very costly per tonne of product and seldom scaleable nor long lasting effects. Often weak links to company purchases.</p>