Global Citizenship: Corporate Social Responsibility in the Agrifood Sector

Few industries have the potential to contribute to developmental progress on the same scale as the agrifood industry: its value chains involve millions of people from producers to consumers, and increasingly include farmers in developing countries. Corporate social responsibility takes many forms and has evolved into a layered system with different approaches and objectives. This brief examines two areas currently at the forefront of agrifood companies' corporate citizenship agenda: 1) standards and codes 2) value chain innovations. In their current state, standards and codes face several key challenges: lack of impact assessment; lack of mutual recognition between the numerous existing schemes; lack of flexibility with respect to the different contexts in which suppliers operate; and high implementation costs, particularly for small-scale producers, leading to concerns over their economic impact. Value chain innovations do not impose generalized practices as do standards and codes but, instead, are designed to develop sustainable business models by addressing context-specific issues that meet both economic and social objectives. Multilateral agencies, governments, industry platforms and civil society need to work together to make implementation of standards and codes more accessible and more effective. Governments, local authorities and civil society also have an important role to play in scaling up value chain innovations, as well as in helping small farmers diversify their income sources and, in the longer term, in moving out of agriculture.

INTRODUCTION

There is growing recognition that private enterprise that operates on an international scale must help find solutions to global problems. Governments, NGOs and the media have put large companies in the spotlight to account for the social consequences of their activities. As a result corporate social responsibility (CSR) has emerged as an important area of action for large companies globally. For the agrifood sector which is dependent on natural, human and physical resources, responsible innovation is increasingly being viewed by firms as a corporate and strategic necessity to ensure long-term sustainability.

Few industries have the potential to contribute to development progress on the same scale as the agrifood industry. A relatively small number of companies has the ability to impact the lives of millions of people and their use of natural resources. Yet the agrifood sector today faces critical challenges: global food demand is due to double in the coming 25 years, and will require a two- to three-fold increase in agricultural production. The growth in demand increases the potential to capture value from agriculture and food production, and offers large numbers of small-scale producers an opportunity to improve their livelihoods. For this to occur, however, a greater share of the value generated by agrifood chains needs to be captured at the producer level. Particularly in agriculture-based countries where the sector is a major source of GDP growth, the agrifood industry is of critical importance in fighting poverty and achieving progress towards the Millennium Development Goals (MDGs). The emergence of CSR has played a significant role in companies contributing towards these objectives.

Many companies engage in CSR for largely defensive reasons. While some view CSR principally as a PR tool based on traditional philanthropy, others use it to prevent negative media publicity by imposing "ethical" codes of conduct within their value chains. Increasingly, too, companies cooperate with competitors in the same industry in an effort to set common values, spread risks and shape opinion.

There is also, however, a growing number of companies that see the benefits of "shared value creation" for the society in which they operate, motivating them to foster stronger ties with local producers, suppliers and communities and creating benefits for all stakeholders in the agrifood chain. Thus, approached in a more strategic and proactive way, CSR can become part of a company's long-term competitive advantage by creating more favourable conditions for business.

This brief examines two areas currently at the forefront of agrifood companies' CSR agenda: 1) standards and codes; and 2) value chain innovations.

STANDARDS AND CODES – MANAGING RISKS AND SETTING COMMON RULES

Agrifood companies have historically used standards and codes in their supply chains to underpin food quality and safety requirements; increasingly they also use them as tools to increase the sustainability of their supply chains. There are several reasons why agrifood companies are choosing standards and codes over other types of CSR initiatives. First, they allow companies to exert greater control over their supply chains, in order to manage risks more effectively. Second, standards and codes can be used to validate marketing claims of quality, safety and "sustainability" – an increasingly important source of brand differentiation and competitive advantage. And third, standards and codes are a well-known and understood approach backed by a considerable pool of knowledge and expertise.

To encourage code adoption, companies may offer a “carrot”, such as a price premium, to suppliers in return for compliance. More commonly they wield a market entry “stick”, whereby noncompliant producers are excluded from the supply chain.

In recent years, standards and codes have proliferated; references to over 100 schemes have been found. Many manufacturers and retailers have developed their own proprietary schemes. In addition, there are many independent schemes that focus on agricultural sustainability (which may be backed by governments, NGOs, industry consortia), along with more general ones that have application well beyond the agrifood industry (e.g. SA8000, ISO 14002).

A detailed analysis of 14 standards and codes (Box 1) found that while none addresses an identical set of issues, they collectively span topics in four categories: **environmental issues** (e.g. ecosystems and biodiversity; waste management); **labour conditions** (e.g. health and safety; human rights in the workplace, including child and forced labour); **local economic and community benefits** (e.g. business ethics, education, social rights); and **food safety and quality** (e.g. traceability; hygienic production and handling). Codes generally do not address gender issues, food security or producers’ economic viability.

Standards and codes in their current state face several key challenges:

1) Whilst standards and codes have clearly benefited the consumer by improving the quality, safety and traceability of food, the lack of impact assessment studies provides little evidence of how codes have improved environmental, social and economic conditions for producers. This lack of data makes it difficult to know how codes can be improved and where future investment should be targeted.

2) There is a lack of mutual recognition between the large number of standards and codes in existence. This can be confusing for both producers and consumers, and can increase producers’ implementation costs (e.g. auditing fees). Also, such a landscape offers little security to producers, who may invest heavily in meeting one set of requirements, only to find they are not recognized by other purchasers. This further discourages adoption.

3) Standards and codes are designed to set common rules for companies’ global supply chains, irrespective of the different contexts in which suppliers operate, attempting a one-size-fits-all “solution”. The generalization of issues can make codes inappropriate for smallholders, where a more customized, context-specific approach is needed.

4) Widespread application of standards and codes accelerates consolidation of producers into fewer, larger entities who have the financial resources and technical skills required to implement them effectively. High implementation costs are a particular challenge to small-scale producers. Research indicates that the capital costs of implementing GlobalGAP can amount to 160 percent of the annual profit margin of small-scale growers in Sub-Saharan Africa.[1]

Box 1: Standards and codes analyzed in depth for this Brief

- GlobalGAP
- Rainforest Alliance/SAN
- SCS-001
- Ethical Trading Initiative
- Common Code for the Coffee Community
- Marine Stewardship Council
- Basel Criteria for Responsible Soy Production
- Round-table on Sustainable Palm Oil
- SA8000
- Fairtrade Standards
- IDF/FAO Guide to Good Dairy Farming Practice
- SAI Principles & Practices for Sustainable Production
- EISA
- Utz Certified

Although smallholders have at times lost significantly from such changes, this may be counter-balanced by more efficient food production and by job opportunities with larger producers for the very poorest. There is some evidence that companies can apply standards and codes to small-scale suppliers without driving such consolidation, but only as part of an ongoing package of intensive support from both private and public sectors.[2]

VALUE CHAIN INNOVATIONS

It is clear that while standards and codes are an important tool for increasing the sustainability of agrifood supply chains, they are difficult to implement effectively and can lead to the marginalization of small producers. Recognizing these drawbacks, more visionary agrifood companies have adopted innovative approaches, with the objective of expanding economic opportunity along the entire value chain. Such initiatives usually start as pilot projects, with the aim of scaling up those that are successful.

Most supply chain innovations remain demand driven, i.e. initiated by agrifood companies, and focus on producers, small and medium enterprises in the chain, and on economic development at community level. The initiatives, however, do not impose generalized practices as do standards and codes but, instead, are designed within multi-stakeholder partnerships (including farmers’ organizations, industry associations, small and medium enterprises, the public sector and civil society) to address context-specific issues and meet shared objectives.

The pilot projects typically concentrate on one crop, one farm production system, or one supply chain, and strive for a combination of technical, financial and educational transfer, as well as capacity building. This approach allows for greater flexibility than the implementation of standards and codes alone, and is more suited to the needs of small producers

[1] Graffham, A. & B. Vorley, *Standards Compliance: Experience of Impact of EU Private & Public Sector Standards on Fresh Produce Growers & Exporters in Sub-Saharan Africa*, NRI/IIED, December 2005.

[2] Minten, B., L. Randrianarison and J. Swinnen, *Global Retail Chains and Poor Farmers: Evidence from Madagascar*, Catholic University of Leuven, September 2005.

Box 2: Reliance India sourcing directly from local farmers

Farming in India is highly fragmented and subject to harsh climatic conditions: once harvested, it is very difficult to keep fruits and vegetables fresh. To secure high quality, Reliance Retail is directly sourcing fresh agricultural produce from thousands of farmers from villages through Collection Centers. With this concept, Reliance has built a business model generating shared value that links the company supply chain more closely to poor farmers in Indian villages.

Reliance is providing a guaranteed market for the farmers' produce, reducing transaction costs and training the farmers in better and sustainable farming practices. This initiative results in higher income and upgrading of skills for the farmers, and reduced spoilage of produce (up to 35 percent) and better quality products for Reliance retail stores.

This corporate initiative was made possible after the Indian authorities adjusted regulations from the 1960s requiring produce to pass through intermediaries. Local authorities further delivered the necessary licences.

who require a wider package of intensive support. However, companies will usually make this investment only where there is a clear business case for them to do so; either building or expanding a supplier base; improving the quality or reliability of supply; or lowering costs. The example of Reliance India (Box 2) demonstrates how innovation within its supply chain led to better quality produce, lower transaction costs and higher incomes for small farmers.

While value chain innovations can show impact in their pilot phase, they are only "pockets of social progress" that remain minor in comparison to entire agrifood supply chains. To expand their benefit for society, they require scaling up. The replication of such pilot projects necessitates resources: financing (from companies, donors, and governments), production factors (seeds, plants), capacity building (at farm or community level for logistics, processing, branding, marketing), and project management resources (especially when dealing with smallholders). Moreover, to scale up a pilot project requires considerable time; months and often years. In order to become sustainable, value chain innovations need to rely on a solid business case; they should be able at some given point to continue without external financial support.

THE ROLE OF THE GOVERNMENT AND CIVIL SOCIETY

CSR initiatives are led and implemented primarily by agrifood companies themselves but, nonetheless, governments and civil society have an important role to play in harnessing the growth in CSR activities for sustainable development of the agrifood sector. They can create the conditions for that growth to continue, both by helping companies act responsibly and by building an enabling environment.

Multilaterals and development agencies are also taking a keen interest in CSR; the UN Global Compact and the Global Reporting Initiative are examples of high-profile public sector initiatives that monitor company performance and publish results globally. Moreover, the emergence of industry platforms and multi-stakeholder bodies, such as the Sustainable Agriculture Initiative Platform, the Sustainable Food Laboratory and the Ethical Trading Initiative, is one of the most striking recent trends in the agrifood sector and presents a potential new force in the facilitation and documentation of CSR practices.

Multilateral agencies, governments, industry platforms and civil society need to work together to harmonize standards and codes and make their implementation more accessible and effective. This should be done through measuring and publishing data that will inform impact assessment and help schemes become more locally relevant. Governments can further ensure that good practices are replicated by endorsing those schemes which are most effective – such endorsements are a key factor in the competition between independent schemes (e.g. Kenya's adoption of GlobalGAP as a basis for its own national standard). Additionally, industry associations with support from government and NGOs can offer technical assistance to producers, such as training and extension services, and strengthen the local certification and accreditation infrastructure. Finally, governments can play a role in managing the economic effects of standards and codes on small-scale producers.

Governments, local authorities and civil society can smooth the progress of value chain innovations in three stages: by creating an enabling environment (adapting legislation, investing in market infrastructure); by participating in pilot projects (facilitating access to production factors such as trial seeds, providing logistical support and playing a facilitator role); and by taking an active role in their scale-up (endorsing replication, co-financing, building capacity and actively participating in industry platforms).

All developing and transition economies have seen significant reductions in the number of people employed in agriculture and corresponding increases in productivity. This points to a key long-term role for governments and civil society: helping small farmers to diversify their income sources as well as facilitating a smooth transition out of agriculture. Policy priorities should include creating rural off-farm jobs, increasing accessibility to education and training, and providing "safety nets" to the

Box 3: Role for the public sector in Unilever's application of a sustainability standard to Lipton brand tea.

As the world's largest tea buyer, Unilever wanted to give growers a clear signal in favour of sustainable tea production by emphasizing a long-term business model based on quality rather than quantity. The company chose to work with the Rainforest Alliance to certify all of its tea purchasing for its leading Lipton brand by 2015.

The company is expecting to pay its suppliers roughly EUR 2 million more a year in 2010 and EUR 5 million more by 2015. It does not foresee passing the price increase over to customers.

While large-scale plantations should be able to adjust on their own (and many have started already), small-scale farmers are receiving support from local associations and from development agencies to build the right skills and know-how.

In addition to this support, it will be important for the government and donors to think about how to support those producers who cannot meet the standard and provide them opportunities for transitioning to other areas of economic activity.

chronically poor. The example of Unilever's application of a sustainability standard to Lipton tea highlights the need for government in facilitating this transition (Box 3).

CONCLUSIONS, RECOMMENDATIONS AND KEY MESSAGES

For the agrifood sector, dependent on natural, human and physical resources, Corporate Social Responsibility is no longer regarded as a luxury, but a corporate and strategic necessity.

Two types of initiatives have emerged at the forefront of agrifood companies' CSR agenda; 1) standards and codes; 2) value chain innovations. These initiatives show considerable promise in increasing the sustainability of the agrifood sector. However key challenges in improving their effectiveness remain, such as dealing with the lack of equivalence between different standards and codes, as well as developing more context-specific initiatives that effectively encourage the participation of smallholders in global supply chains.

Governments and civil society are also taking a keener interest in CSR. The emergence of industry platforms and multi-stakeholder bodies is one of the most striking recent trends in the agrifood sector. These actors have much potential in playing a significant role in the facilitation and documentation of CSR practices. The research highlights four concrete areas that require attention from industry, civil society, governments and multilaterals:

- First, there is a need to collaborate and invest at international levels to **make standards and codes more effective, efficient and accessible** through an agenda of impact assessment, mutual recognition, and knowledge transfer. As the industry has strongly promoted such standards it would be logical to embed such a process amongst its champions, such as the Sustainable Agriculture Initiative (SAI) Platform and the Sustainable Food Laboratory, whilst maintaining a close dialogue with civil society, multilateral agencies and other interested stakeholders.

- Secondly, **multiple-stakeholder agro-industry platforms and sector councils at the national level** are required to co-ordinate and monitor implementation of standards, codes and value chain innovations, for mutual support and the sharing of good practices. These might be linked to the international industry platforms mentioned above, mirroring, for example, the structure of the World Business Council for Sustainable Development and its national councils.

- Thirdly, national governments, multilaterals and donors should **pro-actively identify and support the scale-up of high potential innovations**, including facilitating the adoption of standards and codes by specific producer groups where this could be beneficial. Whilst CSR innovation in the agrifood sector is being led primarily by agrifood companies, the public sector plays an essential role in facilitating their engagement with producers, creating an enabling environment and expanding lessons from pilot projects to national and international levels.

- Finally, the evidence points to a key long-term role for governments and civil society in **helping diversify small farmers' income sources, and facilitating their gradual transition** out of agriculture into other economic sectors.

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Vorley, B., *Food, Inc.: Corporate Concentration from Farm to Consumer*, UK Food Group, October 2003

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Useful Web sites

Agrifood Standards Project:
www.agrifoodstandards.net

Regoverning Markets Programme:
www.regoverningmarkets.org

Sustainable Agriculture Initiative Platform:
www.saiplatform.org

Sustainable Food Laboratory:
www.sustainablefoodlab.org

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