Natural Resources Institute

Central Avenue, Chatham Maritime
Kent ME4 4TB, United Kingdom
Telephone: +44 (0)1634 883865
Fax: +44 (0)1634 883706
Internet: http://www.nri.org
Email: a.m.tallontire@gre.ac.uk

ESTABLISHING CSR DRIVERS IN AGRIBUSINESS

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ANNE TALLONTIRE
PETER GREENHALGH

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Introduction

The global market for agricultural products is highly competitive and demanding. Suppliers are required to comply with an ever-growing set of standards, some of which are legislated (such as food safety) and others voluntary. There are many that result from consumer and other stakeholder concerns about the social and environmental conditions of production. Social and environmental criteria, such as labour standards, form the basis of corporate codes of conduct that retailers and large agribusiness companies have developed to manage their supply chains and assure key stakeholders that they are responsible corporate citizens. Social codes of conduct are one of the main tools used to demonstrate corporate social responsibility (CSR) on the part of large retailers and branded companies in the agriculture sector.

From the perspective of countries supplying retailers and branded companies, the adoption of CSR standards can be to be used to enhance competitiveness. One of the tools that the Foreign Investment Advisory Service (FIAS) of the World Bank Group uses to advise southern governments on strategies to improve productivity and competitiveness is Value Chain Analysis (VCA). FIAS has commissioned this report to enable it to adapt its approach to VCA to include an understanding of the factors enabling or hindering the adoption of CSR along agricultural supply chains. It would like to consider in more depth how governments can use CSR to promote agricultural exports and better integrate smaller producers into international food supply-chains.

This report provides an overview of recent trends in CSR codes of conduct in the agriculture sector and explores how VCA can be used to highlight the nature of codes, what drives their adoption and factors affecting their implementation. It explores the enabling environment for the adoption of CSR practices, particularly the business case and the role that governments can play to facilitate the adoption of CSR, thereby improving competitiveness and increasing agricultural exports.

Codes in agribusiness

A variety of codes of conduct are used primarily to manage mainstream supply chains in agriculture. Whilst the content of codes is largely the same, there are differences between sub-sectors in how codes are being implemented.

Certain codes are becoming minimum market entry requirements, specifically EUREPGAP in the fresh produce sub-sector. Whilst supermarket codes persist in this sub-sector, multi-stakeholder initiatives are important in some markets and in some producer countries which has led to considerable innovation in code implementation. An influential example is the Ethical Trading Initiative in the UK and in Africa, the HEBI and WIETA multi-stakeholder initiatives show promise. These initiatives exhibit elements of a ‘third generation’ in CSR which is oriented towards competitive advantage, partnerships and institution building and present important

entry points for governments wishing to promote competitiveness on the basis of CSR.

There has been considerable development with regard to best practice in social auditing agriculture sector. However, there is much to do with regard to disseminating new approaches to auditing social codes in the agricultural sector, especially with regard to ensuring that social auditing is cost effective.

Codes may present barriers to market entry to small producers as they often involve considerable monitoring and recording and are not necessarily written with the smallholder in mind. In the fresh produce sector where the risks of smallholder exclusion from the market are greatest, improved ways in which codes may be applied in a smallholder context are being explored and tested.

In coffee, cocoa and tea sectoral code initiatives are becoming more significant. A sectoral approach is important where there in considerable diversity in suppliers who are dispersed over a wide geographic area and are few strong business drivers for brands and buyers firms to deal with issues in the chain.

One reason for the different approaches to implementation is the different kinds of chain found in the different sub-sectors and the differing drivers at work.

Value Chain Analysis

Value Chain Analysis is concerned with how markets are co-ordinated, the role played by different actors along the chain (focusing on all links in the chain, not just production), the identification of economic rent, categories of value chain and the governance of the chain. In order to examine factors driving CSR in agribusiness chains, it is important to adopt an approach to VCA that looks beyond the competitiveness of an individual firm to the creation of and distribution of value between actors involved in the trade of a product, the structure and integration of the chain and particularly the governance of the chain.

Chain governance is concerned with the rules of the chain, how they are made and enforced and ultimately who 'drives' the chain and how the benefits of trade are distributed along the chain. The concept of governance is helpful in understanding the way in which codes have been introduced in different chains and who has leverage over the chain. Governance issues are also important with regard to how costs of complying and auditing standards are allocated along the chain.

We give examples of five value chains in the agriculture sector in which commodities are grown in developing countries and are internationally traded (fresh semi-prepared and packaged vegetables, cut flowers, tea, coffee and cocoa) in order to indicate the additional elements of VCA that can be incorporated into the current approach adopted by FIAS. The discussion highlights the differing levels of complexity and integration in the chains, the different forms of governance in the chains and the differing approaches to CSR.

We recommend that the FIAS approach to Value Chain Analysis be adapted to include the following elements.

1. Stakeholder analysis, both industry and non-industry
2. Analysis of the extent of integration between nodes of the chain, chain co-ordination and the role of buyers

3. Chain governance, particularly beyond legislative governance to consider assessment of conformity with chain rules (including legal compliance) and executive governance
4. Greater consideration of the markets, particularly the needs of different markets.
5. Costs and benefits of adopting standards in short and long term.

Enabling framework

Having considered the value chains for agricultural commodities and the factors driving the adoption of different kinds of CSR standards, we consider more generally drivers for CSR and other elements of an enabling environment for CSR in the agriculture sector. This includes the business case, as well as other drivers and the role that the public sector can play in promoting CSR in agriculture.

The precise role that government can or should play is likely to be different in different country and value chain contexts. Where the business case is relatively weak, governments may need to play a stronger role than where firms see a clear commercial reason for engaging with a CSR agenda. Or where the supply base is dispersed and there is a weakly integrated value chain, there is likely to be a need for direct government involvement. However, even where there are strong business drivers, governments can take action to enhance the competitive advantage of CSR. The precise role taken by government may be influenced by more than the types of drivers that exist, including the business culture and the international trade policy environment.

Government may play an important role in relation to:

- setting and promoting CSR standards, especially those that are locally appropriate and ensuring that standards and legislation are mutually reinforcing;
- building the capacity of industry associations and others enabling producers to meet and audit standards;
- empowering workers and smallholders so that they are aware of standards and are able to meet and benefit from them; and
- improving incentives for compliance with CSR standards.

Value Chain Analysis, especially with a focus on the structure and governance of the value chain, can help identify the forms in which CSR has been expressed in the chain, how CSR is driven and, more practically, which standards are likely to be important in which markets. Moreover, understanding the distribution of the costs of compliance with CSR standards is key part of the interface between conventional VCA and an approach to VCA that incorporates an understanding of CSR.

Abbreviations

4C	Common Code for the Coffee Community
AEAAZ	Agricultural Ethics Assurance Association of Zimbabwe
BSR	Business for Social Responsibility
CAFTA	Central America Free Trade Agreement
CSR	Corporate Social Responsibility
DFID	Department for International Development
EHPEA	Ethiopian Horticultural Producers and Exporters Association
ETI	Ethical Trading Initiative
ETP	Ethical Tea Partnership
EUREPGAP	Euro Retailer Working Group Good Agricultural Practice
FGDs	Focus group discussions
FIAS	Foreign Investment Advisory Service
FLO-International	Fair Trade Labelling Organizations International
FPEAK	Fresh Produce Exporters Association of Kenya
GVC	Global Value Chain Analysis
HEBI	Horticulture Ethical Business Initiative
ICS	Internal Control System
IFC	International Finance Corporation
IFOAM	International Federation of Organic Agriculture Movements
ILO	International Labour Organization
ISEAL	International Social and Environmental Accountability and Labelling Alliance
KFC	Kenya Flower Council
MPS	Floriculture Environmental Project
NRI	Natural Resources Institute
PSA	Participatory Social Auditing
RRA/PLA	Rapid Rural Appraisal/ Participatory Learning and Action
SA 8000	Social Accountability 8000 Standard
SAI	Social Accountability International
SAI Platform	Sustainable Agriculture Initiative Programme
SAN	Sustainable Agriculture Network
SASA	Social Accountability in Sustainable Agriculture
SCI	Sustainable Cocoa Initiative
STCP	Sustainable Tree Crops Programme
UFEA	Uganda Flower Exporters Association
VCA	value chain analysis
WIETA	Wine Industry Ethical Trade Association
ZEGA	Zambia Export Growers Association

1. Background and Rationale

World trade in agricultural products is increasingly characterised by global supply chains dominated by agribusiness. The global market is highly competitive and demanding. Suppliers are required to comply with an ever-growing set of standards, some of which are legislated (such as food safety) and others voluntary. There are many that result from consumer and other stakeholder concerns about the social and environmental conditions of production. Social and environmental criteria, such as labour standards, form the basis of corporate codes of conduct that retailers and large agribusiness companies have developed to manage their supply chains and assure key stakeholders that they are responsible corporate citizens.

Over the past decade the volume of corporate codes and other standards in global food chains has grown considerably (Barrientos et al 2002). By and large, codes have originated in the North, often reflecting northern concerns, but are applied in both the North and South (Blowfield 2004). Together with corporate social and environmental reporting and community projects, social codes of conduct and environmental standards are one of the main tools used to demonstrate corporate social responsibility (CSR) on the part of large retailers and branded companies.

There is some debate as to the definition of CSR, especially its relationship to the legal requirements for firms. Some organisations, such as the European Union (EU), believe that CSR only relates to the steps a company 'voluntarily' takes in social, environmental or ethical issues beyond the minimum standards required by the state.[1] There are two problems with this definition: the meaning of 'voluntary' is unclear and it ignores that part of the challenge of responsibility in some countries actually compliance with laws, not just going 'beyond compliance'. In contrast other definitions take a broader perspective relating CSR to the relationship between a company and society. In this report we take the broader societal view as expressed by the World Bank,[2] but in terms of tools for CSR focus primarily on codes of conduct used for ethical sourcing in agribusiness value chains.

Despite the considerable research and consultancy activity on codes of conduct, little is known about their impact, both social and economic.[3] Indeed doubts have been raised about the efficiency of codes, for example in terms of transaction costs as suppliers are required to meet and be audited against multiple codes that may have different requirements (Pruzan-Jorgensen et al 2004). Another concern regarding

[1] According to the EU, CSR is 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a *voluntary basis*", European Commission, 2002.[2] "Corporate social responsibility is the commitment of business to contribute to sustainable economic development- working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development" World Bank 2004.[3] The Ethical Trading Initiative in the UK commissioned an impact study in 2003, due to report shortly. NRI's long-term study of codes in the South African wine sector and Kenyan flower sector is currently being completed. Both studies raise concerns about whether codes are truly benefiting workers.

codes, despite the moves to 'multi-stakeholder' participation in some of the code initiatives that are recognised as best practice (such as the Ethical Trading Initiative and Social Accountability International), is that there has been little engagement with southern governments (Blowfield 2002).

Indeed the lack of understanding amongst southern governments about ethical sourcing or the implementation of social and environmental standards along supply chains is a key concern. Frequently, codes are seen as an impediment to trade, especially if they are biased towards larger rather than smaller producers (UNCTAD 2004; Tallontire and Blowfield 2000). Hence, the potential for CSR standards to be used to promote exports is often overlooked.

However, governments can promote the adoption of CSR practices as part of a strategy to increase the competitiveness of an economy, industry or companies in a particular supply chain. Until recently the business case for CSR has been at the micro level, i.e. individual businesses rather than the overall economy (Swift and Zadek 2002), however over the past two years the role that the public sector can play in promoting good business practice, to promote economic competitiveness and overall social benefit, has been explored by consultants on behalf of the World Bank (Ward 2004, Pruzan-Jorgensen et al 2004).

One of the tools that the Foreign Investment Advisory Service (FIAS) of the World Bank Group uses to advise southern governments on strategies to improve productivity and competitiveness is Value Chain Analysis (VCA). FIAS has commissioned this report to enable it to adapt its approach to VCA to include an understanding of the factors enabling or hindering the adoption of CSR along agricultural supply chains. It would like to consider in more depth how governments can use CSR to promote agricultural exports and better integrate smaller producers into international food supply-chains.

Some comments should be made at the outset regarding the scope of the report and use of particular terms. We focus on codes of conduct which are used primarily to manage mainstream supply chains rather than schemes that focus on niche markets or differentiate themselves with a label, though reference is made to Fairtrade or Organic certification for example where they highlight particular issues.

The focus is largely on social codes and standards. However, reference is inevitably made to environmental and technical standards, with which there is considerable overlap, especially with regard to health and safety sustainability issues, which are of critical importance in agriculture.

The main codes discussed in this report are described in Annex 1.

Following this introduction, Section 2 provides some background on codes operating in the agriculture sector, highlighting the role of key stakeholders, especially retailers that often 'drive' codes, and implications for small producers. Section 3 discusses the main features of Value Chain Analysis (Kaplinksy and Morris 2002), highlighting those aspects that enable analysis of CSR initiatives. Section 4 maps out value chains in the fresh vegetable, flower, tea, coffee and cocoa sub-sectors, highlighting the implementation of codes of conduct and provides a checklist to assist FIAS in conducting value chain analysis that includes an assessment of CSR in terms of the standards in place and drivers for their adoption. The discussion continues in Section 5 by highlighting the nature of the 'business case' or market pressures for the implementation of standards, by whom and where challenges to the promotion of CSR might lie. Following a discussion of the relationship between CSR and

competitiveness, we consider the role that government can play in CSR in the agribusiness sector, including facilitating access of small producers to markets that require standards. Section 6 concludes the report.

2. Overview of Codes of Conduct and Their Implementation

International trade in agricultural products, particularly food commodities that reach the consumer in an identifiable form, features a variety of codes. In some sub-sectors there is a range of different codes. For example, coffee has a huge variety of codes relating to different market niches such as speciality, Fairtrade, environmentally friendly and more recently codes aimed at mainstream markets. In cut flowers there are codes developed by northern multi-stakeholder bodies, retailers and southern exporter groups, whereas in other sub-sectors, one code is dominant: in fresh produce there are many ethical codes but the predominant entry requirement, at least for the European market is EUREPGAP. Whilst the content in terms of labour rights are broadly similar, codes in agricultural value chains differ relating to their origins, reach, scope, characteristics of production and destination market. Some codes are the major tool used to manage the ethical dimensions of a supply chain, however, other codes form part of a broader initiative, perhaps involving a number of different actors and approaches.

In this section we review some of the main characteristics of codes, give some examples of significant codes used by agribusiness and discuss best practice with respect to code implementation, focusing on the participation of southern stakeholders, application to small producers and social auditing.

2.1 Codes in Agriculture[4]

There are a variety of codes and approaches to codes in the agribusiness sector. We refer here to codes in horticulture (including floriculture), coffee, cocoa and tea. There has been a great deal of activity in the horticulture sector, including the emergence of multi-stakeholder code initiatives that have been tested in the sub-sector.

Codes in the horticulture sector may be categorised by the kind of organisation that has developed them (see Table 2.1 for examples from Africa). Ten years ago codes were largely developed by civil society as model codes or by individual companies. Recognising the limitations of both of these approaches (for example lack of private sector engagement in NGO codes and limited scope and content of company codes), in the late 1990s independent multi-stakeholder codes were developed, drawing on the experience of civil society and private sector. Key examples are the Ethical Trading Initiative's Base Code and Social Accountability International's SA 8000. The ETI Base Code has been particularly significant in the sourcing of fresh produce, as six of UK's largest supermarkets are ETI members [5] and have agreed to apply the ETI Base Code to all 'own brand' products, which includes fresh produce.

[4] Background to the codes cited in this section can be found in Annex 1.
[5] Supermarket members of the ETI are ASDA, The Co-op, J Sainsbury, Marks & Spencer, Somerfield, and Tesco.

Table 2.1: Codes in African Horticulture

Company codes	UK supermarket codes UK importer codes South African exporter codes
Northern sectoral codes	EUREPGAP MPS
Southern sectoral codes	Kenya Flower Council (KFC) Fresh Produce Exporters Association of Kenya (FPEAK) Zambia Export Growers Association (ZEGA)
Independent codes	ETI Base Code International Code of Conduct for Cut Flowers Max Havelaar Switzerland Criteria for Fairtrade Cut Flowers

Source: Smith et al 2004

A third kind of code has also emerged, the sectoral code. These are industry based and aim, amongst other things, to reduce confusion between codes, to create a level playing field and to reduce the number of audits that need to be carried out. In fresh produce EUREPGAP was developed by European retailers to create a common standard and certification system primarily with regard to food safety, but with the addition of some basic labour rights provisions.[6] Also in horticulture some southern sectoral codes have been developed by industry associations keen to promote an image of good quality and good labour practices. As with EUREPGAP, these codes began with food safety in mind, but codes such as those written by the Kenya Flower Council (KFC) and Zambian Export Growers' Association (ZEGA) have well-developed social sections covering labour rights, working conditions and issues such as worker housing.

Despite the introduction of sectoral and independent multi-stakeholder codes, in the fresh produce sector in the UK retailer codes persist and codes such as EUREPGAP have become the minimum entry requirement and adherence to stricter company codes is required for market access.

For other agricultural commodities whilst company codes appear on paper (see Smith and Feldman 2003 for analysis of company codes in coffee, bananas and sugar), they are less rigorously implemented (Smith and Feldman 2004). This difference in codes is related to the kinds of value chain in operation and the leverage, but also vulnerability, of key buyers in the chain (see Section 4 for more on differences in value chains).

Only relatively recently have coffee companies felt the weight of consumer pressure to adopt codes. There are however many initiatives with NGO origins aiming at niche markets (such as Fairtrade, Sustainable Agriculture/ Eco-OK, bird-friendly), in which mainstream companies have participated, usually for specific brand lines. This situation may change however with the introduction of Utz Kapeh certification which has aimed at more mainstream coffee markets beginning in the Netherlands. There is therefore considerable diversity in approaches to CSR in the coffee sub-sector which has led to considerable confusion. A recent interesting development in the coffee sector however is the Common Code for the Coffee Community (known as 4C). 4C has been facilitated by the German donor agency GTZ in collaboration with

[6] There was a move for EUREP to take into account a wider range of worker issues. However, a major objection was that EUREPGAP is essentially a technical code audited by technical auditors and the inclusion of social elements to the audit would potentially yield misleading social information. EUREP has focused on its core competency.

the German coffee association in which a wide range of private and civil society stakeholders participate, see Section 4.5.

The cocoa sector has also been marked by a lack of company codes. In response to serious issues in the supply chain, particularly in West Africa, the International Cocoa Initiative has been established primarily by key industry players, but with wide stakeholder participation (see Section 4.6).

It appears that a sectoral approach to CSR is becoming more apparent in agribusiness, often with a multi-stakeholder dimension. This reflects the challenges in implementing codes in geographically diverse and far-reaching value chains. In some cases the industry approach reflects the absence of strong business drivers for firms to deal with the problems themselves, or more accurately the public good nature of the benefits.

The move, albeit slow and hesitating, towards multi-stakeholder initiatives that promote codes as part of a wider programme to improve working and environmental conditions along chain the may be seen, perhaps optimistically, to reflect a general evolution towards 'third generation' CSR. This third generation of CSR is oriented towards competitive advantage, partnerships and institution building, in contrast to 'first generation' CSR based on a short-term risk management (Swift and Zadek 2002). However, there is much to be done by the initiatives and key stakeholders, including governments, before we can say that we are approaching a third generation of CSR.

Some CSR initiatives in the agriculture value chains have a broader focus than codes. Two prominent examples are the Sustainable Agriculture Initiative Programme, (SAI Platform) and the various activities under auspices of the International Cocoa Initiative and the Sustainable Tree Crops Programme (see Section 4.6).

The SAI Platform also adopts an industry approach, bringing together many of the major multinationals in the agriculture sector (including Nestlé, Danone, Unilever, Dole and Kraft) to investigate issues affecting the sustainability of specific crops. Beginning with coffee they have convened commodity specific working groups to examine issues relating to sustainability in the sector. SAI Platform's members are running sixteen pilot projects that aim to test the SAI Platform's sustainable principles and practices for green coffee production.[7] It is not in the business of developing social codes per se, but has included some labour issues in its 'sustainable coffee principles and practices' framework, under the rubric of 'social sustainability'. Other commodities on which the Platform is working include cereals, dairy, fruit, palm oil, potatoes and vegetables.

Many social and environmental codes in the agriculture sector build on the food safety and agricultural health standards that are often a precursor to exports. In

[7] The main principles behind the SAI Platform are to a) **Provide the base for ensured food safety** by producing high-quality agricultural products and by supporting innovations to improve their quality and safety; b) **Secure adequate food supplies** to meet current and future food demand, by producing high yielding and healthy crops and animals, while increasing efficiency and keeping resource and external input requirements as low as possible; c) **Protect and possibly improve the natural environment and resources**, by minimising any adverse effects from agricultural activities on soil, water, air and biodiversity, optimising the use of renewable resources and caring for animal welfare; and d) **Support economically viable and responsible farming systems**, enabling local communities to protect and improve their livelihood, safeguard their environment and improve their well-being. (http://www.saiplatform.org/about-us/what-is/approach.htm.

some cases social issues are the subject of separate codes, in others they are linked together. [8]

2.2 Code Content

With respect to social issues codes in the agriculture sector are increasingly similar, reflecting the influence of multi-stakeholder dialogue and direct reference to ILO Core Labour Standards. A recent study for the World Bank undertook a detailed analysis of codes in agriculture, drawing on examples in bananas, coffee, cut flowers and sugar (Smith and Feldman 2003). This study highlighted most variability with regard to the minimum age for workers: some codes permit 14-year olds to work, whilst others stipulate a minimum age of 18. In countries with limited employment opportunities and high incidence of HIV/AIDS the limitations on child labour, especially in the age group 14 to 18, is a contentious issue. It should be noted that even when younger children are permitted to work on farms, there are stricter rules with regard to use of chemicals or other hazardous activities.

Despite increasing reference to ILO conventions 87 and 98, the rights to freedom of association and collective bargaining are effectively curtailed in some codes as there is frequently a caveat relating to local laws, e.g. 'to the extent possible'. However, other codes do give more definitive rights.

Protection for non-permanent workers is relatively poor in most codes which means that in certain industries reliant on large numbers of seasonal, contract or temporary labour the percentage of workers actually covered by code provisions may actually be very low.[9]

A gender-oriented analysis of codes in horticulture (including retailer, sectoral and multi-stakeholder codes) suggests that the coverage of gender issues was poor in general (Barrientos et al 2003). Some codes integrate a number of international conventions relating to gender discrimination and inequality, yet other codes make no mention of gender at all. Yet even where codes address gender issues, their coverage and sensitivity can often be limited. For example, both SA 8000 and the ETI Base Code include sections on discrimination but neither includes coverage of reproductive rights, maternity or paternity leave, protection for pregnant women or childcare. Where maternity leave is covered, e.g. in the Zambian Export Growers' Association code, the extent to which it translates to real benefits to women workers depends on whether the code relates to non-permanent workers and the gender balance in different categories of employment.

There was little detail on harassment, abuse and discipline in the codes examined by Smith and Feldman (2003). However these were important issues identified in recent research on the implementation of codes in horticulture and the banana sectors (Smith et al 2004; Prieto and Bendell 2002). Whether the incidence of harassment and abuse is uncovered and dealt with depends largely on the auditing methodologies adopted (see 2.4 below).

Whilst buyers set standards, suppliers have to meet them. However, the purchasing practices (e.g. prices, contracts and ordering procedures) which are rarely considered within the remit of CSR, frequently constrain the ability of suppliers to meet codes (Oxfam 2004, Tallontire and Vorley 2005 forthcoming).

[8] Amongst UK supermarkets, Tesco includes labour standards in its 'Nature's Choice' standard which also covers technical issues, whereas The Co-op and Sainsbury have separate social codes.

[9] For example in the floriculture sector in Zambia 68% of workers were considered permanent, but in the vegetable industry it was only 23% (Tallontire et al, 2004).

2.3 Best Practice in Implementation of Codes in Agriculture

Since codes were introduced in the mid 1990s there have been considerable improvements in their implementation and monitoring, especially in certain sub-sectors. Early company codes were not sufficiently comprehensive and rarely referred to the ILO's core labour standards. Monitoring techniques have improved, see below, but largely monitoring is first or second party, with some exceptions (e.g. Chiquita which has implemented SA 8000 which is audited by an independent third party).

Analysis of code content for the World Bank by Smith and Feldman (2003) has been supplemented more recently by analysis of code implementation (Smith and Feldman 2004). They note that implementation is not so well established in agribusiness as in the apparel sector, especially in terms of use of independent monitoring (ibid). However, these conclusions are based on the analysis of four commodity cases (banana, coffee, cut flowers and sugar) grown in Latin America, largely destined for US markets. If this analysis had been extended to own brand fresh produce from leading supermarket retailers, especially from the UK and northern Europe, conclusions would be more positive in terms of the steps taken to promote implementation. Importantly, the cases assessed lack strong drivers, an important factor with regard to the adoption and particularly implementation of codes, as will be shown in Section 4.

Social Accountability International is the main multi-stakeholder initiative with a general and global remit. SAI's SA 8000 code and certification system is not widely used in agriculture and many certifications can be accounted for by the adoption of the code by the leading banana multinational Chiquita.[10] It is only in the past three years that SAI has actively considered how the SA 8000 code may be applied in an agricultural context.[11] The Ethical Trading Initiative has influenced the implementation of codes in agricultural supply chains, particularly with respect to fresh produce (fruit, vegetables and flowers) and tea sold in UK markets.[12]

In this section we comment on best practice in the agriculture with respect to the implementation of codes. Much of this experience derives from the fresh produce sector, especially where produce is destined for UK or other northern European markets, with relatively direct supply chains driven by dominant retailers. We focus on developments in three areas:

a) Social auditing;
b) Multi-stakeholder initiatives in the south;
c) Application to small producers.

a) Social Auditing

There is a considerable range of experience and practice in social auditing. At one extreme, social auditing in some chains has tended to be the addition of labour rights and working conditions criteria to a technical checklist, all to be audited in a single

[10] Of the 655 certified facilitates listed on the SAI website, only 25 were in agriculture, largely in tobacco and cigarettes, bananas, canned and fresh fruit (SAI website, last updated 31st March 2005).
[11] With a view to learning more about the application of codes in agriculture, SAI has actively participated in the Social Accountability in Sustainable Agriculture project managed by the ISEAL Alliance (www.iseal.org/). SASA was a joint project of four voluntary certification initiatives, Fairtrade Labelling International, International Federation of Organic Agriculture Movements, Sustainable Agriculture Network and Social Accountability International, all of which are members of ISEAL,
[12] The ETI model of a learning initiative has been emulated in Norway.

day. In other cases a social audit involves verifying compliance with a specific social code involving stakeholder consultation beyond the confines of the farm or packhouse. However few social audits last more than a day or two, tend to be pre-announced and take place at best annually.[13] They are often undertaken by outsiders, though in some sectors, notably in horticulture, social auditors are being trained locally, or local offices of international service providers are used.[14]

The fly-in snap-shot approach to social auditing is rapidly being discredited (see O'Rourke 2002 with respect to a professional services company auditing a garment factory). Social auditors have tended to be from a technical back ground, are usually foreign and rarely speak local languages (O'Rourke 2002). The top-down approach to audit can be likened to policing. It may result in minimal changes being made as necessary to pass an audit and may even lead to falsification and faking to pass an audit, rather than systemic improvements (Oxfam 2004).

However, there are some advantages in traditional auditing, as it is quick and easy to assess the basic level of compliance with a view to risk assessment, as opposed to problem solving. It 'provides a set of verifiable indicators that can be quantified and checked out' (Auret and Barrientos 2004: 4) but not all social issues are easily assessed through observation and management interviews. Moreover, in agriculture there are particular concerns about the use of auditors who have no training in social auditing and have limited understanding of the cultural context. This is particularly important in remote rural settings, but also in commercial agriculture where many workers may be employed on an informal basis and sensitive gender or cultural issues are rarely taken into account in farm level policy or legislation.

Some recent projects have focused on identifying how social auditing techniques can be improved, and at the same time not incur too many costs. Two examples considered here are 'participatory social auditing' (PSA) developed by Diana Auret particularly in the context of commercial horticulture and recommendations from the SASA project (Social Accountability in Sustainable Agriculture).[15] PSA can be seen as a specific philosophy of social auditing, see Box 2.1, whereas the SASA project offers a toolkit of recommendations.

Participatory social auditing is defined by Auret and Barrientos (2004) in opposition to snapshot auditing which 'often focuses on assessing the formal record-keeping and responses of firms and managers, which tend to relate to more established and permanent employees' (Auret and Barrietos 2004:1). Snap-shot auditing, if it involves worker interviews at all, usually fails to include the whole range of workers. It may omit the casual and contract labour characteristic of many commercial farms, especially where production and demand are dictated by seasons. It is likely thus to fail 'to pick up the problems of the more insecure and vulnerable' (ibid). In contrast, PSA extends the audit process to all categories of worker as well as entities outside the company such as trade unions, local government and NGOs and is 'more likely to reveal issues of non-compliance'.

[13] The Ethical Tea Partnership audits plantations and factories on a four year cycle.
[14] The Ethical Tea Partnership contracts PriceWaterhouseCoopers to monitor its supply sites as it has a network of offices in Africa and Asia.
[15] See Foot Note 14.

Box 2.1 Participatory Social Auditing

PSA has roots in RRA/PLA, anthropology and rural sociology. It is a worker-centred, process approach.

The main tools for PSA are semi-structured interviews with different categories of worker, focus groups discussions, cross checking and triangulation. Group exercises such as mapping, role-play, ranking (wheel and spider diagrams) and transect walks play an important role in focus group discussions to ensure that workers are not passive participants in an audit but active participants in a process of improvement and change. The use of PSA enables access to a considerable number of people in a day and so is time and cost effective

PSA does not end with the on-site audit but feeds into a process of joint planning and decision-making.

Source: Based on Auret and Barrientos (2004)

Typically the extent and nature of sexual harassment on horticultural commercial farms in Sub-Saharan Africa were not uncovered until social auditing techniques were employed (Auret 2002, Smith et al 2004). It is important to make the process more gender sensitive as women tend to be in subordinate positions in the workplace and lack a voice.

The SASA project involved testing social auditing methodologies across four voluntary schemes, SAI, IFOAM, FLO-International and SAN in a variety of country contexts and value chains. The project made recommendations under the headings a) requirements, knowledge, training for auditors; b) auditor skills and c) composition of the team (Lorenzen et al 2004).

The audit protocols recommended by SASA have many similarities with those of PSA developed by Auret. However a key difference is the use of focus group discussions which are central to the Auret PSA approach: the SASA project only adopted FGDs with respect to specific issues, notably sexual harassment.

Lessons learned in the pilot audits Horticulture Ethical Business Initiative underlined the importance of participatory approach to social auditing (see Annex 2 and ETI 2005).

Another recent development that aims to improve social audit practice is a web-based system known as SEDEX that companies can use to maintain data on labour standards at sites along their supply chain. A key objective of the system is to reduce duplication in auditing and thereby focus attention on resolving labour practice problems.[16]

[16] SEDEX, launched in 2004, is a not-for-profit company developed on behalf of leading UK retailers and food companies and has a multi-stakeholder advisory board. The system is able to store background information on production sites together with information about compliance with various code criteria and self-assessment questionnaires, access to which is controlled by companies and is password protected. See www.sedex.org.uk

b) Multi-stakeholder Initiatives in the South

Multi-stakeholder initiatives have emerged in some countries to improve implementation of codes, especially with respect to mitigating the pitfalls associated with top down conventional auditing and fostering greater accountability in ethical sourcing. In Africa the creation of the Wine Industry Ethical Trade Association (WIETA) in South Africa, the Agricultural Ethics Assurance Association of Zimbabwe (AEAAZ) and Horticulture Ethical Business Initiative (HEBI) in Kenya provide constructive models of locally-owned multi-stakeholder initiatives with potential for positive achievements in workplace improvement (see Annex 2). In Guatemala CORVERCO (Guatemalan Independent Monitoring Group) has worked in agriculture as well as garments and the private electric power industry. One of its main aims is to independently verify audits through unannounced visits (Smith and Feldman 2004; Barrientos 2005).

These initiatives are not unproblematic and there are many challenges involved in bringing together diverse and often opposed stakeholders together to deal with frequently controversial issues, not least ensuring that the least powerful groups have a voice (see Dolan and Opondo forthcoming with respect to HEBI). Nevertheless, they are important centres for co-ordination of monitoring of labour practices, a focal point for learning about code implementation (e.g. through the development of specific implementation guidelines directed at management to clarify legal and code requirements) and resolution of problems.

The African examples of multi-stakeholder initiatives are closely associated with the ETI either as a result of pilot projects (particularly WIETA) or their formation catalysed by interventions of ETI members (HEBI). The company members of WIETA, HEBI and AEAAZ all have strong business links to UK retailers and there were already relatively strong industry associations (with their own codes in the cases of Kenya and Zimbabwe). In contrast, efforts to establish a multi-stakeholder code body in Ghana failed to get off the ground (NRI 2002a) and in Zambia where ETI retailers source a similar range of products as from Kenya, there has not been the same impetus for the formation of a multi-stakeholder grouping to aid code implementation (Tallontire et al 2004).[17] There appears to be a need for a facilitator and a strong driver for the formation of such initiatives.

An important issue with respect to southern multi-stakeholder initiatives is whether they are recognised by buyers. Does the development of a local code, however effective, just mean the creation of another layer of codes or does it mean a reduction in the number of external audits through accreditation and recognition agreements?[18]

c) Smallholders

Few code bodies have considered how codes might be applied to smallholders. By and large experience of implementing codes of conduct in agriculture has been on large scale commercial farms. Most codes were designed to deal with worker rights, particularly in a formal workplace such as a factory, packhouse or commercial farm and do not consider the needs and concerns of smallholders (e.g. contracts, terms of trading, grading systems). Table 2.2 identifies the extent to which certain codes have been applied in a smallholder context.

[17] In Zambia contributory factors include the lack of NGO campaigns directed at the country, much smaller volumes destined to the UK market and that local NGOs are focusing on issues other than labour rights on the commercial horticulture farms (e.g. HIV/AIDS).

[18] WIETA has begun to win buyer recognition (two UK supermarkets are now members of the organisation).

Table 2.2 Smallholders and Codes

Code	Sub-sector	Smallholder application
Ethical Trading Initiative Base Code	General	Not designed for smallholders, but considering how it may be applied
SA8000	General	Not sensitive to smallholder issues[19]
EUREPGAP	Initially fresh produce but scope widening	Not designed for smallholders; some attempts to certify them individually and in groups, but at some cost
Utz Kapeh	Coffee	Designed primarily for plantations, though potential to be applied to co-operatives
Ethical Tea Partnership	Tea	Applied at the plantation and factory level to date. But participating in ETI project on smallholders
Kenya Flower Council	Cut flowers	Very little smallholder production
Zambian Export Growers Association code	Horticulture	Includes a small producers section

The application of codes in chains where there are many smallholders raises a number of challenges, both for the smallholder and those who buy from them. Firstly it can be tricky to trace the individual producers involved in export supply chains resulting in high costs for monitoring large numbers of scattered producers. Standards, such as ILO core labour standards, and particularly the indicators used to measure them, may not be appropriate to small producer situations. Finally large investments in training and materials may be needed to meet standards and more significantly to demonstrate compliance.

Concerns about the applicability of codes and the ability of small producers to meet and demonstrate compliance with codes are particularly acute in sectors where small producers compete with larger producers for the same market and where buyers can choose whether to buy from large producers or small producers. In export horticulture there have been trends towards supply chain consolidation, which inappropriate application of codes amongst smallholders may only accelerate.[20] The auditing and transactions costs associated with the EUREPGAP code (see Box 2.2) are particularly significant. It can cost significant sums for a packhouse or exporter to enable smallholders to comply with certification requirements.

Pushing small producers out of the supply base may be less likely in beverage crops such as tea, coffee and cocoa where smallholders may, in some regions such as East and West Africa, dominate production. However, the insensitive application of codes may unduly increase the costs borne by smaller producers reducing their returns and leading to further impoverishment and marginalisation. Questions may be raised about whether conventional codes and auditing practices are appropriate in a

[19] SA8000 was involved in the Social Accountability in Sustainable Agriculture project which, amongst other things, tested auditing practice with smallholders in the four sectors/chains (rice in Thailand, mangoes in Burkina Faso, coffee in Costa Rica, cotton in Uganda). SA8000 proved less applicable to smallholders than the IFOAM organic standard and the FLO fairtrade standard (Pyburn 2004).

[20] Concerns that small producers may be excluded from supply chains as an indirect result of standards and CSR initiatives have been particularly acute with respect to Kenyan suppliers to the UK fresh vegetable market through supermarket supply chains (Dolan and Humphrey 2001) but Gibbon (2003) suggests that the decline in the share of exports from smallholders is not so stark as Dolan and Humphrey suggested in 2001.

smallholder context and some steps are being taken in the fresh vegetable and other agriculture sub-sectors to consider the challenges raised by smallholders.

Box 2.2 EUREPGAP and small producers

The current EUREPGAP standard favours large-scale producers. With respect to smallholders there are two main issues:

1) The detail of the standard is hard to implement in the smallholder context, with requirements such as a field toilets, and field-scale soil assessments. Some of the criteria are input-specific rather than focusing on outcomes (e.g. reference to a full fireproof chemical store, when a locked cupboard would be sufficient).
2) Demonstrating compliance. In many instances there are few problems with meeting standards, rather the issue is record-keeping. For example, suppliers to a Kenyan exporter now have 12 sets of records to keep.

These issues are increasingly being recognised in EUREP which is now supporting the development of "*compliance modalities for small-scale farmers*" which will be key to reducing the costs of EUREPGAP implementation and adjusting the standard to the realities and context of smallholder production. Two DFID-funded projects are contributing to this dialogue on how the challenge of smallholder compliance with the standard may be achieved:

- *Promoting improved food safety management for small scale farmers involved in horticultural exports* – NRI project to facilitate small groups of farmers in Zambia and Uganda to be certified against EUREPGAP, based on Option 2 (i.e. group) certification.
- The Business Market Development Project (BSMDP) in Kenya is developing *"Smallholder EUREPGAP Interpretation Guidelines"* for consideration by a dedicated EUREP National Technical Working Group in Kenya.

The ETI is undertaking a project to consider how to apply its code in the smallholder sector, with a focus on tea and fresh produce. The project has considered how certain clauses of the code may need re-interpretation in recognition of the smallholder position as worker and employer. For example, what does the living wage requirement (ETI Base Code 5.1) mean for prices paid along the supply chain? How do prices relate to the costs of production? What sort of contract should the smallholder receive? What does the requirement for security of employment mean for a smallholder? Does it mean a long-term commitment from buyers? The ETI recommendations for its Base Code with respect to smallholders were field-tested in 2004 in Kenya following a needs assessment.[21]

The Social Accountability in Sustainable Agriculture (SASA) project sought to address the particular needs of small producers involved in social and environmental certification schemes. Its starting point was the Internal Control System (ICS) for group certification developed in the organic sector which was used in test audits for selected commodities (rice in Thailand, mangoes in Burkina Faso, coffee in Costa Rica, cotton in Uganda). The aim was to assess whether the ICS tool could be expanded for social certification and for gauging the strengths and weaknesses of current approaches used with respect to smallholders by Fairtrade, SAI and Sustainable Agriculture Network (Pyburn 2004). The experience was positive

[21] The Guidelines have recently been approved by the ETI board are to be launched in September 2005.

enough to encourage SAN, SAI and FLO to consider the development of ICS for themselves. However, it was acknowledged that an ICS used for social certification does increase the documentation burden for producers and that some labour rights issues had limited applicability in a smallholder context (where labour is largely family based and external workers may be hired through common pool or other reciprocal systems).

2.4 Impact of Codes

It is difficult to precisely attribute improvements in exports to CSR initiatives, indeed to date there have been very few impact assessments undertaken (BSR and Accountability 2004). Moreover recent, on-going, impact assessment studies on ethical trade have focused more on micro issues such as the direct impact on worker conditions and rights rather than trade impacts (Barrientos 2003; Nelson et al 2005), though BSR and Accountability (2004) outline how firms may begin to scope their economic impact in agricultural value chains.

The Ethical Trading Initiative in the UK commissioned an impact study in 2003, which is due to report later in 2005, focused on food and apparel supply chains. A recent presentation about this study[22] indicated that positive impact was systematically found where the ETI member company was committed, where there is an integrated supply chain, and the company has high leverage over its suppliers. In other kinds of supply chain, "pockets" of positive impact were also found e.g. a "random" supplier or exporter somewhere down a complex supply chain decided that codes were a good thing and took the initiative to work with their suppliers to implement labour standards. In general most positive effects on labour conditions have been felt on health and safety, working hours and the living wage. Fewest impacts have been felt on freedom of association and collective bargaining, discrimination and the provision of regular employment. Most benefits were felt largely by permanent workers. It was stressed that the where 'no impact' was reported, this may be because the situation was satisfactory prior to the implementation of codes, or was not perceived to be a problem.

NRI's long-term study of codes in the South African wine sector and Kenyan flower sector is currently being completed. But some initial findings have been published with respect to the South African wine case. It appears that permanent workers in code adopting companies are experiencing better conditions especially with respect to wages and written contracts. However, note Nelson et al (2005) temporary workers who are mostly women are not seeing the same level of improvements. Both the ETI and NRI studies raise concerns about whether codes are truly benefiting all workers. They also raise some methodological issues regarding attribution: it has proved difficult to link impact to any one specific code[23] or untangle the effects of codes from broader structural processes (e.g. recent trends to recruit temporary or contract labour rather than permanent staff in South Africa).

As with social impact, it is very difficult to attribute an increase in competitiveness and increases in exports to the adoption of CSR codes, as in many value chains adherence to codes is a condition of entry rather than differentiating feature. Indeed competition in some sectors is so fierce that work place changes resulting from

[22] A brief overview of findings to date was presented at the ETI conference on 12th May 2005 but only very general comments, aggregating findings from food and apparel sectors, can be made here as the discussion was non-attributable and the study is not yet complete.

[23] Jaffee and Henson (2005:100) also note the difficulty of an empirical assessment of the effects of the implementation of a single standard.

codes that may be associated with efficiency improvements do not necessarily lead to increased export revenues as the prices offered to producers are being eroded. The French bean market in the UK is an example of where pack price (after adjusting for inflation) has stayed constant, despite considerable value added on the part of the producer.

In certain markets standards are a condition of market access, an entry ticket, rather than a differentiating feature. They are therefore an important factor to maintain competitiveness in demanding markets such as UK fresh produce.[24] This does not however negate efforts to reduce the cost of complying with standards and to increase their credibility and effectiveness.

2.5 Summary

In this Section we have provided an overview of codes employed by agribusiness to manage supply chains. Whilst the content of codes is largely the same, there are differences between sub-sectors in how codes are being implemented.

Certain codes are becoming minimum market entry requirements, specifically EUREPGAP in fresh produce destined for European supermarkets. In addition to this and the persistence of supermarket codes, multi-stakeholder initiatives are important in some markets and have led to considerable innovation in code implementation. An influential example is the Ethical Trading Initiative in the UK and in Africa HEBI and WIETA multi-stakeholder initiatives show promise. These initiatives exhibit elements of a 'third generation' in CSR which is oriented towards competitive advantage, partnerships and institution building and present important entry points for governments wishing to promote competitiveness on the basis of CSR.

There has been considerable development with regard to best practice in social auditing agriculture sector. However, there is much to disseminate new approaches to auditing social codes in the agricultural sector, especially to ensure that social auditing is cost effective.

Codes may present barriers to market entry to small producers as they often involve considerable monitoring and recording and are not necessarily written with the smallholder in mind. In the fresh produce sector where the risks of smallholder exclusion from the market are greatest, improved ways in which codes may be applied in a smallholder context are being explored and tested.

In coffee, cocoa and tea sectoral code initiatives are becoming more significant. A sectoral approach is important where there in considerable diversity in suppliers who are dispersed over a wide geographic area and are few strong business drivers for brands and buyers firms to deal with issues in the chain. In these initiatives it will be important to maintain collaboration between key brands and along supply chains.

[24]. Some Kenyan pre-packed salad industry firms have seen extraordinary year on year growth in the range 15-30%, leading to investment in new packhouses and farms which some may attribute to the adoption of codes by Kenyan growers However, the export growth can be explained by several factors, including growing customer preferences for pre-packed and hand-prepared salads, the cheap cost of labour (pre-pack salad companies such as Vitacress automate salad preparation in the UK for some more robust leaves, but fly-in in from Kenya hand-prepared produce where the salad leaves are more delicate) as well as the ability of the top growers and exporters to meet a range of standards, of which CSR standards are but one (Pers. comm. Ed Havis, vegetable technical and trade specialist, 27 May 2005).

One reason for the different approaches to implementation is the different kinds of chain found in the different sub-sectors and the differing drivers at work. In certain markets, notably the UK and other parts of northern Europe, supermarkets are seen as drivers of their fresh produce supply chains and have been targets of NGO campaigns and as a result, they have been very active in developing and implementing codes of conduct. In contrast it is more difficult to precisely determine the main driver of other value chains, especially in the more mainstream markets. In coffee, is it the roasters, the more anonymous coffee trading houses or the brand names?

Until recently companies working in other agricultural commodities such as coffee, cocoa and tea have been less active in their implementation of company codes. This difference in codes is related to the kinds of value chain in operation and the leverage, but also vulnerability, of key buyers in the chain. More sectoral approaches are being adopted in these chains.

We move now to consider how to analyse the chains.

3. Analytical Framework for Drivers of CSR

3.1 Value Chain Analysis

This section focuses on value chain analysis (VCA) and in particular considers how it may be applied to cover corporate social responsibility issues. Following a brief discussion of the main features of VCA, it looks at how this analytical framework may be applied to analysing the adoption of CSR standards, focusing on governance and leverage in the chain and also on the nature of costs associated with CSR standards and how they are distributed.

Value Chain Analysis entails a business approach and market orientation. It is concerned with how markets are co-ordinated, the role played by different actors along the chain (focusing on all links in the chain, not just production), the identification of economic rent, categories of value chain and the governance of the chain. Considerations of rent, categorisation of value chains and chain governance distinguish value chains as an analytical rather than heuristic construct (Kaplinksy and Morris 2001).

There are a number of different forms of VCA. One school of thought follows Michael Porter[25] who considered factors affecting the profitability of a firm by focusing on the value added by different primary and support activities involved in production with a view to identifying the areas of greatest value added, on which the firm should concentrate. Another school with roots in political economy and economic sociology (termed here Global Value Chain Analysis, GVC, but is also known in the literature as the Global Commodity Chain approach) instigated by Gary Gereffi has looked beyond the competitiveness of an individual firm to the creation of and distribution of value between actors involved in the trade of a product. GVC was initially used to analyse trade in apparel and other manufactured goods but has more recently been applied to agricultural commodities[26].

GVC specifically explores how the linkages between the production, distribution and consumption of products are globally interconnected along value chains, and is an important framework for analyzing economic development in the context of globalization (Gereffi and Korzeniewicz 1994). Although GVC analysis was originally used to examine the international structure of production and trade, it has recently been extended to analysis of codes and standards in certain global industries (Ponte 2002, Gereffi, Humphrey and Sturgeon forthcoming, Dolan and Humphrey 2004). A key feature of GVC that makes it particularly useful for the analysis of CSR and codes is its concern with governance.

3.2 Governance

Chain governance is concerned with the rules of the chain, how they are made and enforced and ultimately who 'drives' the chain and how the benefits of trade are distributed along the chain. Gereffi's original work on GVCs (Gereffi 1994) distinguished between two types of governance structures: producer-driven and buyer-driven. In a buyer-driven value chain, large retailers or brand-name companies make the key decisions about the nature of activities and actors in the chain without actually owning any manufacturing facilities themselves. In contrast, in a producer-driven value chain large manufacturers/producers play the central role in

[25] For example, Competitive Advantage. Creating and Sustaining Superior Performance, 1985

[26] For example: fresh vegetables, Dolan and Humphrey (2000); coffee (Fitter and Kaplinsky 2001; Ponte 2002); cocoa (Fold 2002).

coordinating production networks. More recent work has suggested that there are more types of governance than this dualism implies[27] and different chains in the same market for a commodity may exhibit different levels of "driveness", i.e. not all buyers are lead firms in the same way. Kaplinksy and Morris (2001) distinguish between chain co-ordination and chain governance. There may be many nodes in the chain involved in co-ordination but if the chain exhibits governance there is the implication of power asymmetry; there is only one driver or governor.

In addition to the idea of 'driveness', another way of looking at governance suggested by Kaplinksy and Morris (2001) is to use the 'lens of civic governance'. They identify three kinds of governance:

- Legislative - who makes the rules and how;
- Judicial - how conformity is assessed;
- Executive – management of subordinate links.

The concept of governance is helpful in understanding the way in which codes have been introduced in different chains. Moreover, understanding of supply chains through VCA is significant because 'it shows the degree of integration and fragmentation' within a chain that affects 'where a company can exert leverage' over other actors in the chain (BSR and AccountAbility 2004:12). It is also useful to identify a point of entry for other actors, such as governments, to influence the chain or to support initiatives within the chain.

3.3 Leverage over a Chain

Different characteristics of a chain affect the leverage a buyer may have over a chain. There tends to be more leverage:

- In short chains, where there is little separation between growers and local processors from buying companies such as brands or retailers.
- In highly integrated chains.
- Where product provenance and the ability to trace a product from 'farm to fork' is important to demonstrate compliance with food safety regimes (less important in palm oil, cotton, wheat and soy compared to tea or fresh vegetables or organic produce).
- Where a small number of retailers account for large proportion of sales.
- Where for business or legal reasons businesses must work closely together (e.g. in the case of a quality or premium product).
- If buyers have long term trading agreements with intermediaries or growers, with high degree of trust.
- If the commodity is identifiable in an end product or is the product itself (e.g. coffee compared to margarine; fresh carrots compared to a ready meal).

(Based on BSR and AccountAbility 2004:15).

3.4 Costs associated with CSR

The implementation of CSR standards inevitably bears costs, though some may be off-set by benefits (such as improved efficiency, access to more lucrative markets or price premia). However, costs and benefits are not necessarily borne evenly along the value chain. Actors that incur costs do not necessarily reap all of the benefits. Moreover, benefits may occur some time in the future and so it may be difficult for less well-resourced actors to invest in CSR standards. The distribution of costs and benefits is affected by the nature of value chain and in particular the governance of

[27] Barrientos et al (2003) highlight chains driven by 'infomediaries' and international traders.

the chain. Where CSR standards are a market requirement driven along the chain by a lead buyer, the main costs are likely to be incurred upstream by the supplier whereas many of the benefits are likely to be accrued by the buyer. Analysis of costs and benefits along a value chain is a central element of VCA and understanding the costs of compliance with CSR standards is key part of the interface between conventional VCA and an approach to VCA that incorporates an understanding of CSR.

The costs and benefits of complying with standards for the supplier are likely to be affected by a variety of factors[28], including:

- Is there a divergence between legal regulations and CSR standards? In theory the cost of meeting a CSR standard should be greatest where there are changes required beyond legal requirements. But frequently, the main cost of implementing and being monitored against a CSR standard are the result of complying with laws previously disregarded.
- Who pays for monitoring?
- Does the buyer undertake or commission monitoring? There may be no up-front fee but costs may be transferred to the supplier over time in the price offered. Or does the supplier itself have to ensure that it is certified as compliant?
- Has the producer decided unilaterally to meet a standard or is it an imposition of the buyer? In the latter case there may be less flexibility with regard to the choice of standard, but the buyer may offer some advice on how to meet the standard. High transaction costs may be associated with the search for an appropriate standard where the producer decides itself to implement a CSR standard.
- Are there auditors available locally (accredited to international services) who can offer appropriate services?
- Do the monitoring and recording requirements complement or improve existing management systems?
- The relative size of the supplier. The initial fixed costs of meeting and complying with a standard are likely to be disproportionately high for a smaller producer.
- Are there price premia associated with a certified product? Does compliance with a standard facilitate access to higher value markets?

For the buyer, costs include:

- Establishing and communicating the standard to suppliers.
- Ensuring consistency across business with regard to implementation of the standard, especially between commercial purchasing divisions and technical/ CSR departments.[29]
- Monitoring compliance by suppliers.
- Advice and assistance to suppliers to ensure compliance.
- Reporting compliance to relevant stakeholders (including customers, media, investors, code initiatives).

[28] There has been relatively little analysis to date of the cost of complying with CSR standards, but see Collinson (2001a and b) with respect to the business costs of meeting codes in the Kenyan flower and South African wine industries.

[29] The differences in approach between purchasing departments and CSR departments with respect to the signals given to suppliers was reported by Oxfam (2004) who pointed out that the prices and trading terms often created conditions for codes to be routinely breached. Acona (2004) indicates how supply chain management can be made more efficient, including greater congruence between standards and purchasing departments, with potential commercial benefits.

Benefits from adopting CSR are frequently intangible and experienced over the long term, whereas there may be significant up-front costs and recurring costs associated with meeting and maintaining a standard. Where benefits accrue to a particular actor they form an important part of the so-called 'business case' for the adoption of CSR standards, to which we will return in Section 5.

3.5 Summary

This discussion of VCA has indicated its usefulness in examining where CSR codes are used to manage supply chains, especially in terms of the leverage of key actors in the chain. But what factors lead to the adoption of tools such as codes of conduct along the value chain? Why do key actors in the chain introduce codes? We look now at some examples of agribusiness value chains, especially with respect to the kinds of CSR standard adopted and how they are implemented.

4. Agribusiness Value Chains

4.1 Approach to Value Chain Analysis

In this section we consider five examples of value chains in the agriculture sector in which commodities are grown in developing countries and are internationally traded, usually for markets in developed countries, highlighting the additional elements of VCA that can be incorporated into the current approach adopted by FIAS. The focus of this analysis is the factors that have led to the adoption of CSR codes and implications for key actors, hence governance is a central concept for the analysis. Also of importance is the structure of the value chains in question and specific nodes in the chain, as indicated in the mapping of the chains. The commodity value chains are discussed in relatively general terms for reasons of space and with a specific emphasis on how value chains for different commodities differ in terms of structure and governance, and hence the way in which CSR is articulated by the leading actors in the chains. The diagrams of the selected value chains are variations of the basic chain model linking the growing, processing and selling nodes identified in Figure 4.1 (adapted BSR and Accountability 2004).

We discuss the generic value chains for the following products:

- Fresh semi-prepared and packaged vegetables (e.g. snow peas or mangetout);
- Cut flowers (e.g. roses);
- Tea;
- Coffee;
- Cocoa (for chocolate production).

Discussion of code adoption and implementation draws considerably on experience in chains destined for European markets, particularly the UK which is regarded as the most codified in the world with respect to food products.

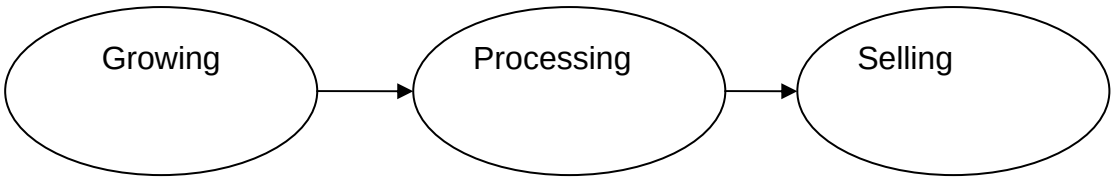

Figure 4.1 Basic Value Chain

4.2 Fresh Vegetables[30]

The value chain for fresh semi-prepared and packaged vegetables from sub-Saharan Africa sold in supermarkets,[31] particularly UK supermarkets, is seen as the classic example of a buy-driven chain in the agriculture sector. The chain is short and direct, involving only the grower, packhouse and importer in addition to the supermarket, which highly co-ordinates the sub-ordinate links in the chain. The initial driver for

[30] Draws on Dolan and Humphrey (2000) and Coote et al (2003).
[31] Such as French/ green beans, bobby beans, snow peas, mangetout, baby carrots, baby corn.

supermarkets to take this lead role is food safety legislation which requires 'due diligence' along the supply chain. This means that that the retailer can be held responsible for lapses in food safety that occur at any point along the supply chain. In order to limit risk and to identify potential hazards, they establish systems of traceability all along the supply chain. Secondly, the high profile of supermarkets in the UK and dominance in the market for fresh produce,[32] means that they are particularly vulnerable to NGO campaigns highlighting labour abuses and environmental problems on farms that supply their produce.

This has led supermarkets to steer the process from conception to point of sale through intensive supply chain relationships. Importers are closely linked to the supermarkets, usually acting as dedicated category managers. It is their role to select suppliers, following criteria set by the supermarkets.

Food safety and quality control protocols are based on the ability to trace produce back to the actual grower, including the establishment of monitoring and documentation systems. These systems laid the foundations for the introduction of labour codes of conduct, which were introduced frequently as additions to technical codes. The bottom line for acceptance by supermarket buyers tends to be adherence to EUREPGAP, which may be supplemented by their own technical requirements. Supermarkets in the UK, especially those that are members of the ETI also implement labour codes of conduct.[33] The ways in which labour codes are implemented vary. Some supermarkets just check the implementation by their importers, many of which have their own codes based on the requirements of their clients.[34] Others conduct audits across the supply base, often on the basis of a rolling programme or as a result of risk assessments (undertaking audits where there is perceived to be most risk of non-compliance).

In the example in Figure 4.2 one could expect a social code to be implemented all the way upstream to the grower, especially if the grower is relatively large. Few supermarkets require social codes to be implemented by smallholders, though this may change as experience with social codes at the smallholder level increases (see section 2.3 and 2.4 (c)). However, a packhouse would be expected to be ensuring that its supply base, including smallholders was implementing a certifiable system of good agricultural practice, such as EUREPGAP.

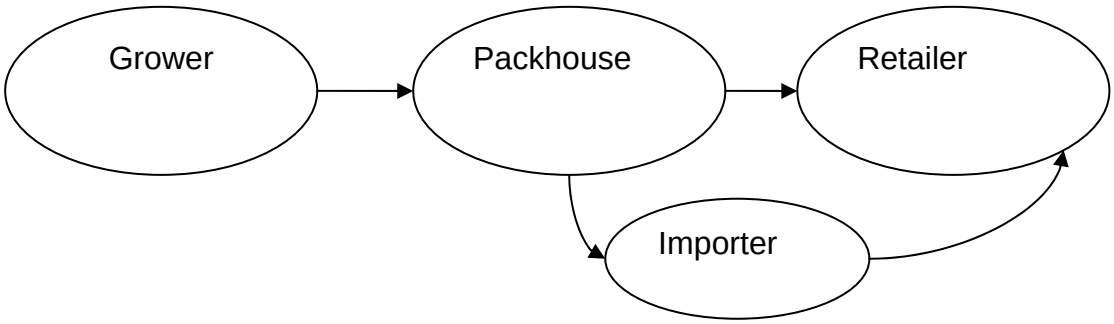

Figure 4.2 Fresh Vegetable Value Chain

[32] Supermarkets account for approximately 75 per cent of fresh fruit and vegetable sales in the UK and count as own brand.
[33] Membership of the ETI does not require independent auditing of the code, but members report annually on the extent of implementation and independent verification of audits.
[34] Some importers are members of the ETI in their own right, as well as supermarkets.

Some suppliers enjoy relatively long term relationships with their supermarket buyers, mediated by their dedicated importers. However, they do not have written contracts with them, and may be dropped by supermarkets which are continuously monitoring their supply networks for innovative products and cheaper prices. Supermarkets are moving towards a process rather than policing approach to compliance and tend not to drop a supplier for failing a social audit, so long as a progress along a plan of corrective action is perceived, and in some cases supermarkets and importers will provide advice on how to deal with problems. Suppliers will be dropped if there are no improvements in respect of serious breaches of social codes.

At present most supermarkets take responsibility for auditing compliance with social and there are relatively few cases of producers being charged directly. However, it may safely be assumed that the costs of supply chain assurance are incorporated into the price offered to suppliers over the long term. In contrast, producers themselves have to pay for a third party to audit them against EUREPGAP.

In addition to buyer codes in horticulture there are local sectoral codes. Southern sectoral codes developed in horticulture were developed less as a result of the dictates of buyers than a desire to protect the national reputation of southern industries in overseas markets. Fresh vegetable exporters in Kenya have developed their own code (FPEAK) as have growers in Zambia (ZEGA). Compliance with these codes is not necessarily recognised by buyers in the absence of a formal accreditation process,[35] but they play an important capacity building role and help protect the reputation of the local industry.

Compliance with social codes, along with food safety codes and quality criteria, are an important part of market access to the supermarket fresh vegetable value chain. However, market access, at an exporter/ packhouse level, also depends on continuity of supply/ length of season, technical capacity and competitive airfreight.

4.3 Cut Flowers[36]

As can be seen in Figure 4.3, two kinds of value chain operate in the cut flower market, (with respect to growers from sub-Saharan Africa in particular). The first is very similar to the value chain for fresh vegetables described above in that it is controlled by supermarket buyers (in the UK, supermarkets now account for approximately 50 per cent of cut flower sales) and is important for some Kenyan flowers. The second type of value chain is for flowers supplied to the Dutch Auctions, the most important market outlet for cut flowers worldwide, where wholesalers purchase flowers for re-export internationally. This chain is particularly important for Zambia (for over 90 per cent exports) and Kenya (for over two thirds of cut flowers). In contrast to the supermarket value chain, the auction is less-strictly co-ordinated by buyers and is characterised by relatively loose trading relationships.

The supermarket chain, as with vegetables, requires the adoption of a social code. In the recent past some supermarkets accepted audits by the Kenya Flower Council, but now more routinely require adherence to their own company codes (based on the ETI), especially in the wake of an international campaign on poor conditions on Kenyan flower farms (Dolan and Opondo, 2005).

[35] This only exists with the EUREP GAP scheme and to date only one developing country exporter has achieved this. Chile GAP.
[36] Draws on Tallontire et al (2005)

Codes are currently not a requirement to access the Dutch Auction chain and buyer codes are not implemented. However, some growers adopt sectoral codes, such as a code developed by an exporter association (in Kenya, the Kenya Flower Council, in Zambia, the Zambian Export Growers' Association) or adopt MPS (Floriculture Environmental Project's certification). MPS is a code developed in the Netherlands for the floriculture sector initially focusing on environmental issues but which has been expanded to cover ILO core labour standards. Recent research indicates that producers in Dutch Auction chains are adopting codes largely through their own initiative, rather than on the basis of buyer pressure, as part of a strategy to gain access to certain (niche) markets.

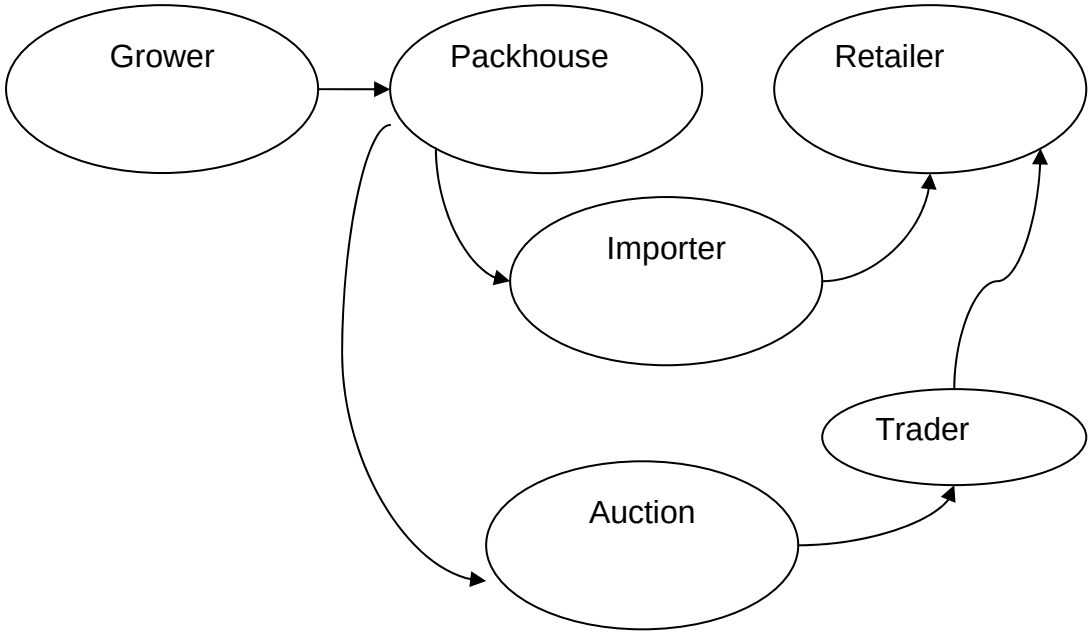

Figure 4.3 Cut Flower Value Chain

Producers must pay for certification by MPS themselves. However, as with vegetables, most supermarket buyers do not directly charge their suppliers for auditing.

4.4 Tea[37]

Tea is grown both on plantations and by smallholders, of whom there are large numbers in Sri Lanka and Kenya and certain parts of South India. A critical node in the tea value chain is the drying factory, as can be seen in Figure 4.4. Tea must be dried very soon after picking and so all plantations have their own facility. In some places smallholders have a direct link to a factory with which they have a long term relationship, in others they sell to an estate (perhaps as part of an outgrower scheme) but they can also sell to green leaf traders.

Consignments of tea can be traced back to a particular drying factory. It is technically possible to trace tea back to individual smallholder units where there is a dedicated agency buying green leaf tea from smallholders as in Sri Lanka and

[37] Draws on Bedford et al (2002)

Kenya. But where the relationships between smallholder and factory are one-off or short-term, traceability is difficult, even if co-operatives sell on behalf of a number of members.

Trade in tea can be through an auction system or via direct links with international traders. Some tea packing companies such as Brooke Bond are vertically integrated and own plantations in producing countries.

The most significant social code in the tea industry originates from the Ethical Tea Partnership, originally the Tea Sourcing Partnership, which is an initiative of major UK and multinational tea packers. The ETP code covers the usual labour standard criteria but focuses largely on compliance with local law. However, some tea firms have their own code, e.g. Premier Beverages.[38] Both ETP and Premier are members of the ETI.

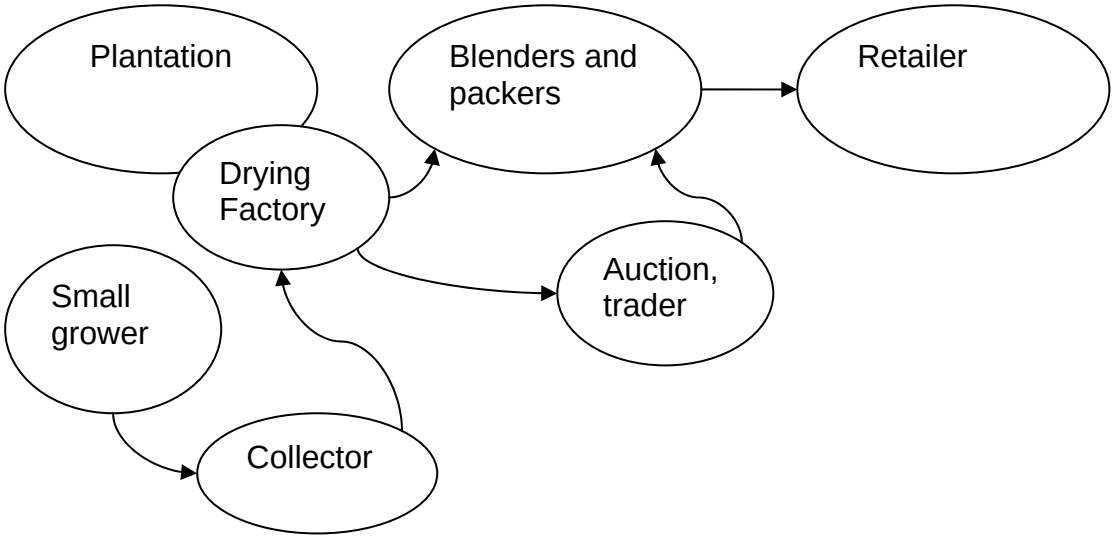

Figure 4.4 Tea Value Chain

The ETP code is applied at the level of plantations and tea factories; its scope has not extended to the smallholder sector. However, this is likely to change, especially as ETP is engaged in the ETI pilot project on application of codes in smallholder situations.

The tea value chain is relatively buyer-driven, but this power is mitigated by high level of government or producer control over the tea industry in certain countries (e.g. parastatals involved in marketing and export).[39] The importance of quality at the factory level provides a useful entry point for the introduction of a social code. However, the ETP has found it difficult to implement its code and to convince producers that compliance is important. Compliance with the ETP code is becoming a criterion for listing as a supplier by ETP members (ETP members have undertaken

[38] Premier Beverage's social code was developed in the mid 1990s and is closely integrated with its quality assurance system.
[39] In Kenya for example, the tea marketing agency has been privatised but the Kenya Tea Development Authority is still a key stakeholder in the value chain, as it runs a significant number of tea factories processing smallholder tea.

to buy only from the Approved Suppliers list) (ETP 2005). At present the costs of auditing codes are borne by tea buyers.

4.5. Coffee[40]

Coffee is grown by both small and large farmers, but the majority of coffee (around 70%) is produced by growers with less than 10 hectares. The value chain for coffee has undergone rapid change in the last fifteen years, as a result of liberalization of coffee marketing, especially in Africa, and the demise of the International Coffee Agreement. The balance of power in the chain has moved from producing countries based on quotas to buying countries as a result of the market power of key multinational firms.

Figure 4.5 indicates that there are several routes from grower to export. In some regions farmer co-operatives play an important role, in others agents or domestic traders are the link between the grower and the hulling factory and exporter. Most coffee can be traced to the hulling factory or plantation, and in some places to the co-operative. In general coffee cannot be traced to the individual smallholder.[41] Vertical integration is not common in coffee, especially in Africa. International coffee traders however, have close links to exporters, and may have their own agents or subsidiaries in key producing countries. Coffee roasters largely buy from international traders or the open market. Some, such as Nestle, engage in direct purchases for at least some of their coffee.

The extent to which the chain is buyer driven is disputed. Ponte (2002) argues that power lies in the hands of the branded roasters, especially since most introduced supplier managed inventories, thus placing the cost and risk of coffee stocks on the international traders. Fitter and Kaplinsky (2001) argue that power is more evenly shared between these two key groups of players. The remaining power of the relatively anonymous trading houses that do not feel the weight of consumer may be a factor explaining the difficulties in introducing good social practice codes in the sector.

The coffee market is highly differentiated. Key market segments are robusta and arabica coffee; specialty and mainstream markets; retail and catering. There has been more activity with regard to good social and environmental practice in arabica coffee than robusta, particularly in specialty market, which can be defined to include Fairtrade, Organic and other social and environmental labels (such as Rainforest Alliance's Sustainable Agriculture label). It has been relatively easy to introduce good practice codes in the specialty market because it is based on origin and quality, and in Fairtrade etc also certification and labelling, and therefore coffee can be traced to source.

[40] Draws on Ponte (2002 and 2004) and Tallontire and Greenhalgh (2001).
[41] Exceptions include tightly controlled NGO-run schemes aiming to link relatively highly capitalised smallholders to speciality markets, e.g. Technoserve's scheme in East Africa (Tallontire and Greenhalgh 2001).

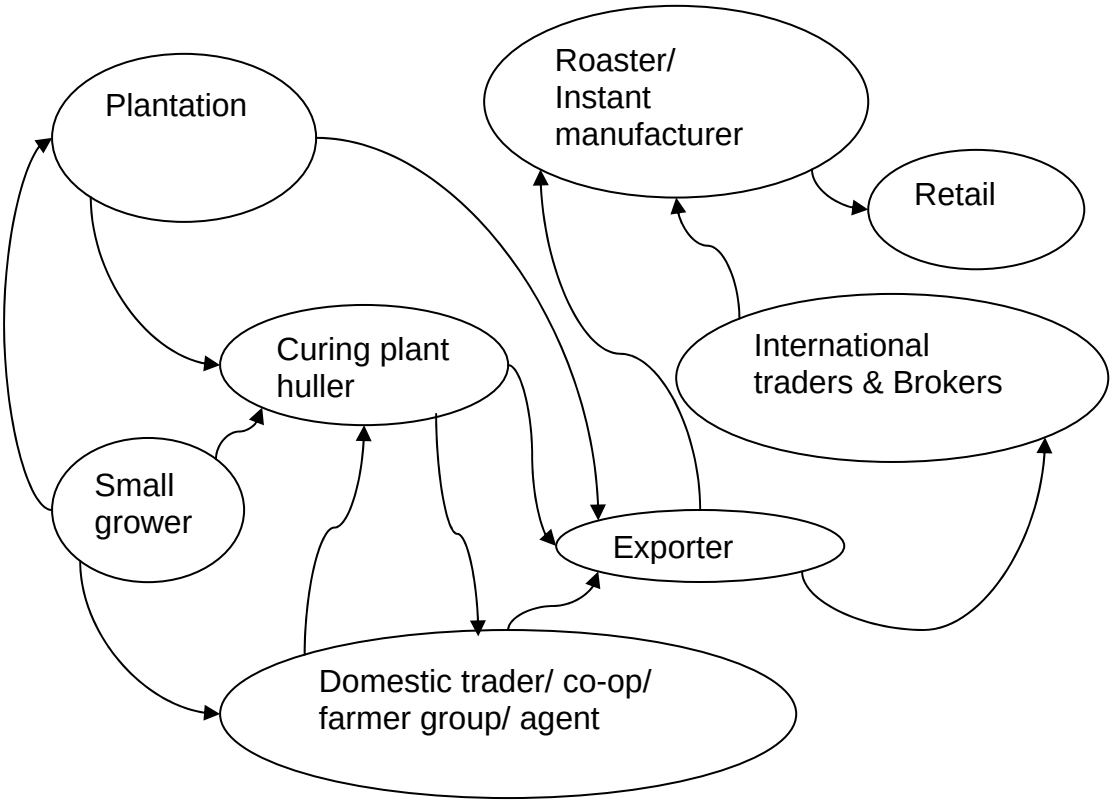

Figure 4.5 Coffee Value Chain

As a result of the success of Fairtrade and increasing pressure from campaign groups, international coffee firms supplying the mainstream have been spurred to consider codes for the bulk of their purchases, e.g. Nestlé and Proctor and Gamble. Some major multinational firms have introduced codes, but the extent to which they are implemented is unclear (Smith and Feldman 2004). It seems that to date most firms have been able to deflect criticism through marketing certain product lines with a Fairtrade or Sustainable Agriculture label.[42]

However, an initiative offering mainstream coffee firms certification and a social label has emerged in the Netherlands, known as Utz Kapeh.[43] This focuses on working conditions and labour rights and is based on EUREPGAP. And perhaps more significantly, the German donor agency GTZ has linked with industry and other stakeholders, in both the north and south, to draw on the experience of the wide variety of codes in the sector to produce a code that will cover the whole of the coffee chain, the Common Code for the Coffee Community (4C).[44] The founders believed that there were limitations in existing schemes: some were viewed unfeasible for mainstream coffee, e.g. fair-trade,[45] others were too geographically specific and some were developed without co-operation of all relevant stakeholders (particularly company codes) (Slob and Oldenziel 2003).

[42] Starbucks and Proctor and Gamble offer a Fairtrade labelled coffee line, which accounts for a very limited amount of their sales.
[43] See http://www.utzkapeh.org/
[44] See http://www.sustainable-coffee.net/
[45] Fairtrade criteria for coffee only apply to smallholders, whereas in other sectors such as cut flowers and tea, there are Fairtrade criteria for firms regularly hiring labour.

The 4C initiative is in its early days; its first draft code was only published late in 2004, but efforts have been made to disseminate it throughout the producing regions (e.g. at the East Africa Fine Coffee Association conference earlier this year) and to develop pilot projects to test the code in different contexts over the next two years.[46]

The emerging trend regarding the burden of costs for codes in the coffee sector is that buyers pay to have their own codes audited, but this may change. Roasters using the Utz Kapeh and Fairtrade labels pay a small license fee. However, in the case of particular social and environmental labels which have been more visible in the coffee market to date (e.g. organic or sustainable coffee), producers tend to pay to be certified.

The implementation of social codes is not yet widespread in the mainstream value chain for coffee, but this may change in the immediate future. However, social and environmental standards are an important way to reach niche markets for coffee and yield income and living standard improvements for small farmers.

4.6 Cocoa[47]

The cocoa value chain is more complex than that for coffee, as can be seen in Figure 4.6. Production is more reliant on dispersed and unorganized small producers who dominate production, accounting for over 90% of supply. Small scale producers are typically linked to export by a network of traders, with trading relations typically short term. For example, in Indonesia and Cote d'Ivoire trading is fragmented, with growers selling to a wide variety of traders. Cocoa trading in Indonesia in particular is characterised by a lack of trust, but is competitive and very efficient (Bedford et al 2002).[48] The result is that few cocoa buying companies have regular contact with growers, and the existing trading system does not provide a ready structure for managing social responsibility.

Quality control is less significant in international trade of the primary product, than for the other commodities discussed here, with the exception of certain origins such as Ghana.[49] Furthermore, the quality imperative has declined in the past decade as technical improvements in grinding and the introduction of bulk handling have meant that good quality chocolate can be produced with mixed quality beans. Hence there is very little technical incentive to trace cocoa back to its source, even if it were possible.

[46] It should be noted that not all civil society groups associated with 4C are happy with progress to date. Greenpeace has withdrawn because the code does not ban use of genetically modified material and Oxfam has published an open letter criticising the initiative for limitations in its participatory processes, failure to address price and weak conditions for participant companies.

[47] Draws on Bedford et al (2002) and Fold (2002).

[48] Whilst short term returns are very good, the growers in Indonesia are vulnerable to the actions of others further up the supply chain and they bear both price and production risks

[49] Ghana has traditionally earned a price premium on the basis of quality for its cocoa beans (which have a high fat content and rich flavour) and despite some moves towards liberalisation, including the licensing of private buyers, the parastatal Cocobod, undertakes all exports and has a strict system of quality control. Some chocolate companies, such as Cadbury, have proved willing to pay a premium for Ghanaian quality, even if major grinders can now produce a good cocoa liquor with inferior beans.

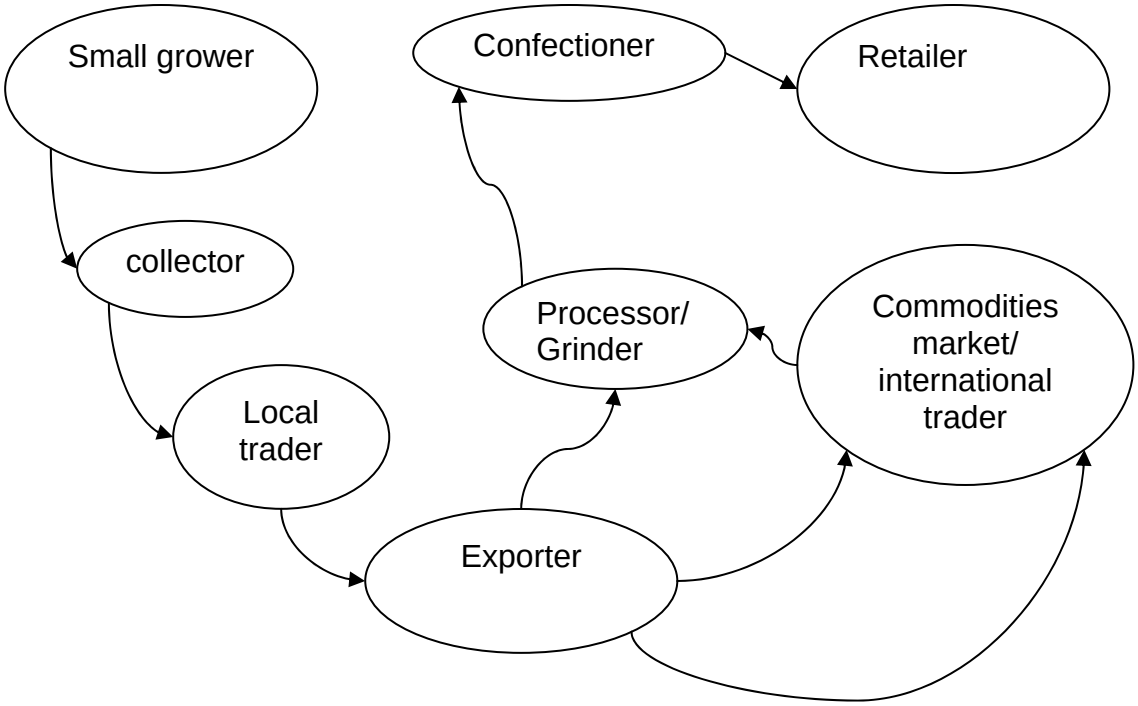

Figure 4.6 Cocoa Value Chain

Chain governance is located downstream, but power is shared between the grinders and confectioners, in a bi-polar buyer-driven chain, argues Fold (2002). Whilst some small specialist companies still operate and provide grinding facilities on a turn key basis to smaller chocolate makers,[50] the grinding part of the chain is highly concentrated, dominated by two firms ADM and Gerkens (a subsidiary of Cargill) based in Zaanstreek, in the Netherlands[51], on the basis of economies of scale and scope.

The other major drivers of the chain are the global chocolate brands. The largest six brands account for around 60 to 70 per cent of the world market, with even greater concentration in the USA. The ability of the brands to dominate the chain alone is curtailed by mutual dependence on the grinders and also the fragmented end market (several forms of retail outlet for confectionary and multiple uses of cocoa and cocoa products).

The main driver for action with regard to CSR in the cocoa chain were accusations in 2000 of poor labour practices, including forced and child labour in the cocoa producing regions of West Africa. The cocoa industry became the target of global campaigns with concerted action on a number of fronts following media exposés[52] and high profile campaigns by US politicians that made allegations of child trafficking and exploitation of children as well as generally poor working and living conditions on West African cocoa farms. The sensitive nature of the issues highlighted and the extent to which child labour and other potentially problematic labour practices are

[50] The existence of these firms has been important for the development of Fairtrade chocolate brands, e.g. under the Max Havelaar label.
[51] There exist some grinding facilities in producing countries, largely owned by multinational cocoa processors and chocolate manufacturers such as Cadbury have their own grinding facilities in the North.
[52] A particular trigger for action, especially by the British industry body, Biscuit, Cake, Chocolate and Confectionery Alliance (BCCCA), was a documentary in late 2000 made by Channel 4.

embedded in smallholder agriculture meant that the industry could not easily 'codify' the problem as may happen in a more formal working environment.

A wide range of organisations with different agendas began to take action in respect of these allegations. In the last two years interventions have become considerably more co-ordinated. Moreover, action to deal with working practice issues have been built on more longstanding industry-led programmes designed to tackle problems of agricultural sustainability of the crop (e.g. the need for replanting, protection from pests and increase smallholder productivity). Of particular significance here are the Sustainable Cocoa Initiative (SCI) and the related Sustainable Tree Crops Programme (STCP). The latter has a wider brief than cocoa, although it is the problems of the cocoa sector that is the centrepiece of its activities. [53]

Specific steps to improve labour standards in the cocoa sector began in 2001 with a joint statement by chocolate and cocoa industry associations around the world. The cocoa industry, under the auspices of the newly formed World Cocoa Foundation, announced in a protocol (known as the Harkin/Engel Protocol) to establish a system to certify that cocoa beans and their products have been produced under fair labour conditions -- particularly without using child labour or forced labour.[54] Following a survey that identified the main underlying issues of concern associated with labour practices (including farmer incomes, education, farm safety and working hours), standards for certification have been developed. Due to be completed in July 2005, the standards were developed by industry representatives working with the International Labour Organization (ILO), and West African governments.[55] The 2001 protocol also committed to the development of an effective verification system and thus created and a small multi-stakeholder working group independent of industry and governments to develop an initial design for a verification system.[56]

The industry recognises the need for a holistic, long-term approach and in parallel with the certification process is an industry funded organisation, the International Cocoa Initiative established in 2002, which is running a programme to address the underlying causes of the worst forms of child labour and forced labour.[57]

In contrast to other sectors discussed here where codes were originally developed by companies, initiatives to deal with social problems in the supply base in the cocoa sector have emerged at the industry level, with lead firms enlisting the support of wide range of stakeholders including governments. Partly due to the nature of the problems and the structure of the supply chain, CSR activity in cocoa has taken a very different form to other agriculture sectors, with an industry effort focusing on geographic areas rather than specific company activities. At present the costs of auditing are borne largely by the brands with some contributions from governments in producing countries.

[53] See www.treecrops.org/
[54] Specifically the protocol is "for the growing and processing of cocoa beans and their derivative products in a manner that complies with ILO Convention 182".
[55] See www.responsiblecocoa.org.
[56] The group includes International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF), the National Consumers League and independent experts, see http://www.cocoaverification.org/en/
[57] See http://www.cocoainitiative.org/

4.7. Value Chain Conclusions

The diagrams mapping the value chains for the selected commodities indicate the differing levels of complexity and integration in the chain. Of the examples given, the most simple and integrated is for fresh vegetables, with cocoa being the most complex and weakly integrated.

It has proved relatively simple for supermarkets to take responsibility for good labour practice across their supply base for fresh produce as their value chains exhibit high levels of governance. In contrast, the brand name firms producing chocolate are less in control of their value chains, due in part to the power of the grinders but also because of the wide dispersal of smallholder producers and the lessening importance of cocoa bean quality to the final product. The chain is less integrated and it is practically impossible to trace a batch of cocoa beans to a particular grower. The business case for a single firm to take responsibility for social conditions along the value chain is not strong as other firms are also likely to benefit from such action as free riders.

Traceability and strong market linkages are important if single firms are to be motivated by a business case to take responsibility for social issues along the value chain. Where traceability is impossible and there are weak links between nodes of the chain, the business case is likely to be less convincing to an individual firm. However there are still likely to be strong civil society drivers on business and there is a strong public good argument for business action. However, as the cocoa case shows, action with regard to corporate responsibility is most likely to be taken at an industry level.

There are likely to be different roles for government with regard to CSR activities in each of these scenarios, as will be discussed in the next Section.

The work of FIAS in helping governments improve their competitiveness through becoming more attuned to CSR will be enhanced by a re-orientation in their approach to VCA. To date VCA undertaken on behalf of FIAS has focused on the profitability of certain firms along value chains, for example Yee and Paludetta's (2005) analysis of the cassava, shrimp, cotton/textile and leather sectors in Nigeria. The empirical work behind this study has adopted the Porter approach to VCA and a corresponding focus on profitability metrics. Examination of this study suggests that if factors contributing to the adoption of CSR standards and the identification of levers to promote CSR are to be incorporated, the VCA would have to be adapted in terms of the data collected and scope of analysis.

Table 4.1 provides a checklist of key issues that should be considered in VCA that seeks to identify the drivers of CSR and recommend roles for government in supporting CSR in agribusiness value chains. Key areas to be incorporated include:

1. Stakeholder analysis, both industry and non-industry
2. Analysis of the extent of integration between nodes of the chain, chain co-ordination and the role of buyers
3. Chain governance, particularly beyond legislative governance to consider assessment of conformity with chain rules (including legal compliance) and executive governance
4. Greater consideration of the markets, particularly the needs of different markets.
5. Costs and benefits of adopting standards in short and long term.

Thus, the inclusion of more qualitative elements in the VCA is required that incorporates consideration of institutional factors and the policy process, in addition to understanding inputs and outputs and profitability in the marketing chain. From this analysis it will be possible to identify what drives CSR and in particular identify the business case for adopting codes and other CSR standards.

Table 4.1 Diagnostic Checklist

Issue	Comments
A Chain mapping 1. What are the main nodes and links in the chain?	Use of diagrams to identify key elements in the chain
2. Different kinds of stakeholder and numbers in the chain	Stakeholder analysis, understanding the roles of players in and outside of industry, including worker organisations and NGOs
3. How integrated is the chain? What ties the nodes of chain?	Are there business or legal reasons for working closely together, e.g. in the case of a quality or premium product. Is there a history of trust or mistrust between actors?
B Market analysis	
4. What are the main markets? What are the characteristics of the final market?	Are consumers sensitive to certain issues over others, e.g. labour standards, smallholders, environment, pesticide use? Does this differ in different target markets? Is the product sold in a variety of outlets or in a single format? E.g. vegetables versus confectionary?
5. What are the characteristics of the final and intermediate products?	Is the commodity an ingredient in an end product or is it the product itself? E.g. coffee compared to palm oil; fresh carrots compared to an ingredient in a ready meal. Degree of value added at origin? Perishability and storability?
C Chain governance	
6. To what extent is the chain driven by a buyer or small group of buyers?	Do certain players have leverage over the chain? Are there critical nodes?
7. How is/ to what extent is the chain governed?	
• Legislative governance- Who makes the rules and how?	Different actors may make rules on different aspects of the chain. Are there international standards?
• Judicial- How conformity is assessed?	Are there auditing systems (first, second, third party)? Is there independent verification? Are local schemes accredited? Process or policing approaches?
• Executive – how are subordinate links managed?	What happens in the case of non-compliance?
D Specific Standards	
9. What are the rules of the chain? • Food safety standards	How critical are food safety standards? Legal requirements for traceability can facilitate the implementation of CSR
• Traceability and provenance	Does it matter to the final product (or its label) where it came from? E.g. organic products or certificates of origin.
• Social and labour codes	Do social codes already exist in the sector? How widespread? Are they expected in all markets?
• Environmental standards	Are specific environmental standards developed for the sector? How widespread? Are they expected in all markets?

10. What is the relative significance of CSR standards in the chain?	How important is CSR compared to other standards? Which is dominant? Are CSR standards integrated with other factors affecting sustainability? Relative to other factors affecting choice of supplier? E.g. quality, continuity of supply, technical capacity, price; physical infrastructure (transport, warehousing, cold chain) ; Trade infrastructure e.g. documentation and speed of processing, scientific testing
E National context	
11. What is the relevant national legislation and how effectively is it implemented? 12. What local capacity exists to implement CSR codes?	Does legislation marry up with code requirements? If local producer organisations exist can they be encouraged to take on board CSR?
F Costs and benefits	
13. What are the costs of meeting the standard? 14. What are the costs of auditing and certification? 15. To what extent are costs shared by others along the chain? 16. What are the benefits?	Does the supplier bear all the cost? Is there assistance or at least advice available? From whom? Is it necessary for compliance to be certified by a third party? Are appropriate auditors available locally? Which costs? What contribution can buyers make? Does compliance enable market access? If the supplier does not comply is it excluded from the market?

5. An Enabling Environment for CSR in Agricultural Value Chains

5.1 Introduction

Having considered the value chains for agricultural commodities and the factors driving the adoption of different kinds of CSR standards, we consider more generally drivers for CSR and other elements of an enabling environment for CSR. This includes the business case, as well as other drivers and the role that the public sector can play in promoting CSR in agriculture.

5.2 The Business Case

The main driver cited for the adoption of CSR codes is the business case, or rather different kinds of business case. There is not a single 'business case' but different commercial reasons for participating in socially and environmentally responsible practices can be made depending on geographical context, market and value chain. Moreover, one can distinguish between a business case based on short-term risk management, a case based on long-term sustainability and a case based on a 'remoulded' competitive advantage involving (multi-stakeholder) institution building (Swift and Zadek 2002).

The nature of the business case may be different at different parts of the chain. Upstream, at the producer end, the benefits of CSR are largely in the form of cost-saving (e.g. energy efficiency, adoption of more stream-lined management systems) and better access to international markets whereas retailers and brand names can cite cases such as human resource retention, brand recognition and reputation assurance. [58] However, the business case upstream may be difficult to identify and indeed implement. Two key factors in concealing the commercial advantages of meeting social and environmental standards are the cost involved in improving performance and the overall policy environment which may curtail action (see Section 5.4).

It is also helpful to consider the business case from the perspective of different actors at different nodes along a specific value chain. In the example in Table 5.1 there are four nodes along a value chain for fresh vegetables (here an imaginary chain for a pack of trimmed snow peas): an up-market European supermarket, an importer, a developing country vegetable exporter with packhouse and an outgrower producing snow peas (assuming a medium to large farm rather than a smallholder). There are likely to be very different combinations of business drivers for each of these actors.

The business case for CSR for the up-market retailer is a strong commercial case based on protection of reputation and has potential to become a key part of the firm's competitive advantage in the long-term. It is a choice made by the firm in recognition of strong drivers. As the importer is likely to a category manager for the retailer, it faces a strong business case to implement the CSR code of the supermarket, perhaps supplemented by its own interpretation of what good social performance

[58] A report by Sustainability, IFC and Ethos Institute. 'Developing Value: The Business Case for Sustainability in Emerging Markets' published in 2002, provides dozens of examples of developing and middle income countries where firms have demonstrated a commitment to good social and environmental practice, with commercial gains. The examples in agriculture largely focus on marketing goods with environmental or social attributes in niche markets, such as fair trade coffee and organic cotton.

entails. A category manager is closely integrated with its client the supermarket, and if fails to ensure that its suppliers are following good practices it is likely to lose its coveted position. Importers tend to be relatively unknown outside the industry so are unlikely to feel much campaign pressure, but maintaining their reputation within the sector may be important.

The business case also is likely to be quite strong for the exporter/ packhouse, especially where an industry association shares a concern to protect the image of good social practice and sees potential in CSR and other standards to improve efficiency, especially through industry-level synergies. However, the case for CSR is largely communicated through buyer pressure and as such the business case is more about short-term risk management, but may in some part of the fresh produce industries be moving towards a (business) sustainability case. CSR is not seen as a voluntary step, it is a buyer requirement, but there is still nonetheless a strong market driver.

Table 5.1 The Business Case in a Fresh Vegetable Value Chain

Node in chain	Business case	Strength as a driver
Up-market supermarket	Management of reputation	High
	Campaign pressure	High
	Risk management	High
	Litigation	Low
Importer	Client requirement	High
	Management of reputation	Medium
	Risk management	High
	Litigation	Low
	Campaign pressure	Low
Vegetable packhouse and exporter	Buyer audit requirement/ maintain market	High
	Campaign pressure	Variable *
	Pursuit of new business through social and environmental innovation	Depends on capacity of firm
	Productivity (eco-efficiency, labour relations, health and safety)	Medium, depends on current productivity and may be less significant over time
	Improvements in management systems	Medium (as above)
Outgrower farmer	Buyer audit requirement/ maintain market	High (where there is auditing beyond packhouse and main farms) but may be relatively weak
	Improvements in management systems	Low
	Productivity (eco-efficiency, labour relations, health and safety)	Low

Note * Campaign pressure is currently high in the Kenyan cut flower where local NGOs are active in collaboration with international agencies. At a local level campaign pressure tends to be much lower in agriculture, but international NGO campaigns may pinpoint certain problematic industries.

The business case for CSR is weaker for small and medium sized companies like the outgrower. Whilst there is potential for business benefits through productivity improvements, CSR is largely an imposition along the value chain. Moreover, the

business case is likely to be based on benefits with a long time horizon which limits its incentive effect if the supplier is not confident of retaining access to the buyer and if the cost of investing in improvements is too heavy.

Some retailers are making efforts to communicate a business case for compliance with ethical standards to their main suppliers. Supermarkets such as the Co-operative Group are keen to express the case less as a buyer requirement necessary for market access than a step towards building a long term relationship and becoming a supplier of choice. Business benefits from assessing and improving working conditions are communicated to the supplier in terms of minimising risk, boosting productivity and quality.

Thus, the example from a supermarket vegetable value chain indicates that some drivers for compliance with CSR standards are relatively strong, and offer immediate benefits, especially for first tier suppliers such as the packhouse. This, as we have seen in Section 4, is a highly integrated, co-ordinated value chain, that is buyer-driven. The firm-to-firm business case is less strong where buyers have more indirect links with suppliers, as we saw in coffee and cocoa (Section 4.5 and 4.6). In these cases, it is important to consider other kinds of driver, including a business case at an industry or country level. Taking the business case beyond the simple firm-to-firm value chain involves thinking about a wider set of stakeholders, including the public sector.

Even in direct value chains such as fresh produce, the business case for action with regard to CSR standards can be strengthened if assessed from a national or industry perspective. For example, the motivation for the Kenya Flower Council, the Fresh Produce Export Association of Kenya and the Zambian Export Growers Association to develop their own codes of conduct derived from a concern to protect the reputations of all growers in the country. As fresh produce is rarely labelled with a particular farm but the country of origin, there is a public good case to ensure all growers maintain standards, whether quality, food safety or labour standards. This calls for involvement of a wider set of stakeholders, including government.

5.3. Beyond the Business Case

So, there are arguments for good social and environmental practice in the workplace beyond the individual business case. An important public or macro argument for CSR focuses on the link between improved social and environmental standards and competitiveness and improved exports. This link is expressed in Figure 5.1.

The role of government depends on whether CSR is being promoted for social benefits or because assurance that good labour standards will lead to increased competitiveness and therefore investment. Zadek and Swift (2002: 22) argue that ‘the point of corporate responsibility for public policy is to enable social and environmental challenges to be more effectively addressed. That it is hopefully good for business is no more or less than the means to this end’. That is government should focus on long term, sustainable, improvements in social and environmental performance, rather than quick-fixes to business reputation in order to attract investment, because ‘if corporate responsibility fails in its basic aim, its financial return to the business community will be undermined as its stakeholders’ frustration, disappointment and ultimately cynicism, take hold’ (ibid). In seeking to maximise the macro arguments for CSR and its links to international competitiveness, there is a danger however that the micro benefits of CSR are overlooked. What are the local level benefits and impacts – is the well-being of workers and smallholders really being enhanced? We should avoid public sector PR rhetoric.

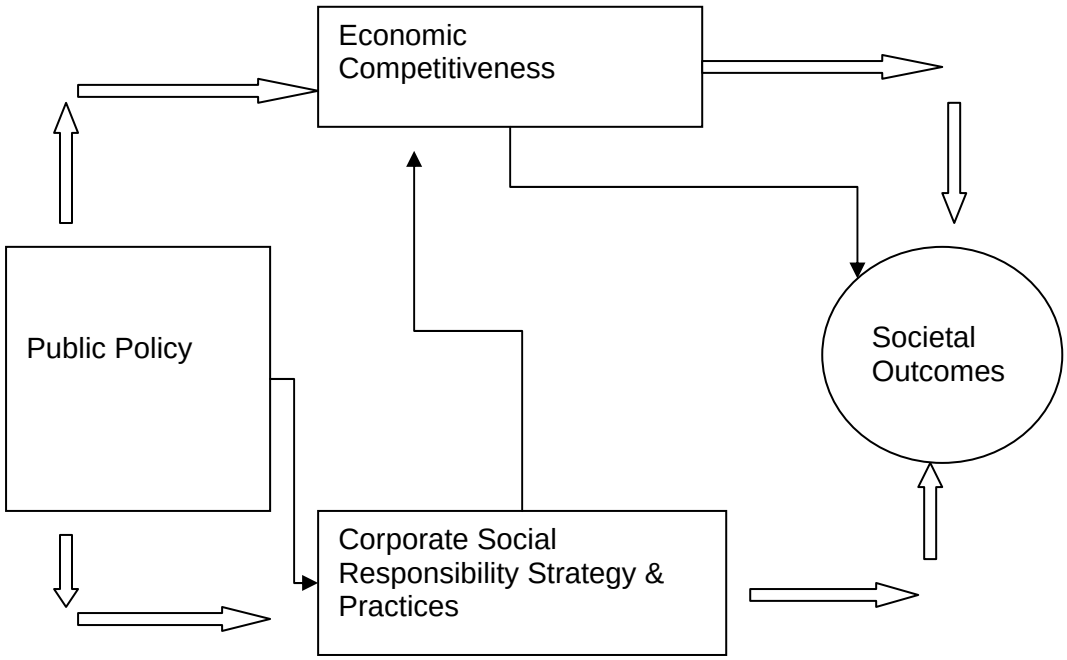

Figure 5.1
Source: Swift and Zadek 2002

The challenge for government is to focus on 'remoulding the basis on which economic competitive advantage is achieved' through creating an effective 'the relationship between corporate responsibility, social inclusion and economic competitiveness' (ibid). This they call 'responsible competitiveness'.

Thus, trade and investment promotion is an important driver for governments to promote CSR. A related argument is the demand from business to have a level playing field with regard to minimum standards, so that competitors are facing similar constraints. There may be demands from civil society for government to play an active role with regard to the standards adopted by business, at a local level as well as internationally, as was the case in the cut flower sector in Kenya, where initial campaigns were orchestrated by Kenya Human Rights. A final public sector driver is international policy processes. For example the Central America Free Trade Agreement (CAFTA) between the United States and six Central American countries Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua contains clauses on labour standards and the environment which refer to monetary fines, the proceeds from which will be used for solving problems and the potential for trade sanctions. Similarly, DFID has encouraged the Bolivian and Tanzanian governments to discuss labour standards in the Poverty Reduction Policy Strategy process (DFID 2004).

Government action to link CSR with legislation and policy is not an insignificant challenge. Lining up for a race to the top in terms of standards involves for some governments a complete reversal from successive dismantling of rules and regulations in order to attract capital (Utting 2000). Or, more common with regard to agriculture, it means considering a policy arena that has been neglected, with inflexible labyrinths of outmoded rules and documentation. For example, liberalisation of agricultural marketing has not always involved a thorough revision of the regulatory framework and institutional structures, as is illustrated by Ethiopian

and Mozambican efforts to re-activate their horticultural exports to levels seen some decades ago. Moreover, action is likely to be required in policy arenas outside of agriculture if businesses are to be able to respond to the global CSR agenda.

So, what does that mean in terms of government roles with respect to agriculture?

5.4 Roles for Government

Earlier work for the World Bank by Ward (2004) and Pruzan-Jorgensen et al (2004) identified some areas for public sector support to the implementation of CSR, especially with respect to global value chains. We focus here more specifically on areas for public support in the agriculture sector, with regard to standards, capacity building, empowerment and incentives. These are overlapping and mutually reinforcing areas of action, and in which government may play different roles in different countries and value chains.

Co-ordination between business attempts to comply with codes and public policy and government activities of government is critical to improving codes so that they yield generalised improvements in working conditions (Pruzan-Jorgensen et al 2004). However this means more than specific actions by government to support business efforts, it also means providing a relatively stable and uncomplicated policy, regulatory and fiscal environment. This means recognising that competitive de-regulation is a short-term position; that regulations, effectively enforced, help in assuring investors that their codes will be met with little problem; and that the cost of borrowing and short term timeframe for lending may actually hinder CSR (e.g. impeding investment in improved working conditions). Sustainability, IFC and Ethos Institute (2002) note that 'weak governance is a major problem for emerging market businesses, with issues such as unsuitable economic policies, corruption, general policy instability and inconsistent regulations topping the list of grievances'.

What Dorward and Kydd (2002) call the 'transactions infrastructure' is also critical to successful integration into global economy: are there enforceable contracts? What is the extent of bribery and corruption? Public sector governance is as important as corporate performance with respect to responsible competitiveness.

a) Standards

The effective enforcement of regulations can be drivers for good social and environmental practice which can then lay the foundation for achieving CSR standards. In many developing countries, there are often layer upon layer of regulations for business, but this is frequently accompanied by an inability to implement and enforce them. There is thus little incentive for business to comply, which has contributed to poor working conditions alongside a degree of cynicism of government actions.

An important initial area of government action is the development of standards, i.e. creating an effective raft of legislation, particularly labour legislation, upon which private codes can effectively be based. Linking labour legislation to the ILO's Core Labour Standards, which increasingly form the basis of most codes of conduct, is the starting point for improved standards. It is important then to ensure that they are effectively implemented (see below).

Stakeholders in developing countries can play an important role in the localization of codes of conduct, so that they are not simply implemented in a top down fashion as a compliance requirement and are supplemented with local understandings of what

constitutes CSR. One area where northern and southern perceptions of acceptable standards differ is with regard to child workers. For some consumers, child workers are a bad thing, whereas in rural communities, it is important that children work on farms. For smallholder families, children are an essential part of the labour force and this work is part of their cultural and technical education. Arguments have also been presented for older children, e.g. over 14, to be employed on commercial farms, for example the Agricultural Ethics Assurance Association of Zimbabwe engaged in a long debate with the ETI to permit AIDS orphans responsible for caring for their siblings to work on horticulture plantations.[59]

Government may be a key player in this localization process through international policy dialogue (e.g. representations to the WTO made by the Colombian government concerning private European eco-labelling schemes for cut flowers and the potential negative implications of this for access to European markets); direct participation in code and CSR initiatives (e.g. the wide variety of initiatives in the cocoa sector) or through support to indigenous code initiatives (e.g. WIETA, HEBI).

Government can help ensure that the content of CSR standards is effectively linked with local legislation and embody local understanding. Government can also play a role with regard to coordinating standards; there is also a need to cut a path through the jungle of standards in the agriculture sector, of which CSR standards are but one strand. In any single country there may be an apparent proliferation of manuals and advice with regard to standards for agri-food exports. Often the main concern is the volume and complexity of standards, both statutory and private sector, rather than their content per se. Information does not flow effectively between policy makers and players along the supply chain. There is a need for simple information regard what is required for entry to specific target markets, in terms of regulation and 'voluntary' standards.

Government can facilitate labour standard implementation, not least through the effective enforcement of labour legislation. However, as Pruzan-Jorgensen et al (2004) note, the capacity of most labour inspectorates is weak, both in terms of staffing and skill levels. The legislative and CSR agendas can support each other through co-regulation, that is government recognition of private sector audits and certificates. Pruzan-Jorgensen et al (2004) consider different models of public private sector collaboration in standards enforcement, including tacit co-operation, formal co-operation, self-evaluation and accreditation. In agriculture co-operation has been mostly tacit (e.g. indicated by government participation in HEBI and WIETA), especially as most locally-owned private systems of monitoring are still in their infancy. In forestry an example is the system implemented in Bolivia in 2003 through which companies managing forests that have third party certification (e.g. through the international certification scheme run by the Forest Stewardship Council) are exempt from state forest management audits and get their licenses renewed without public inspection. Nevertheless, this is a tricky area, with important considerations regarding legitimacy, but could be further examined where private sector social auditing is technically robust and has an effective system of multi-stakeholder governance.

[59] However, even codes developed in the South tend to exclude African (or otherwise 'local') perspectives from development and implementation (Dolan, Opondo, and Smith 2003). Codes of conduct are founded upon labour standards that privilege private property over community custodianship, the rights of individuals over communities, and secular, statutory legal systems over customary legal systems (Blowfield 2004).

b) Capacity Building

Whether or not co-regulation is on the agenda, an important area for public action is supporting the grower and exporter initiatives, especially in capacity building. Bodies such as the Kenya Flower Council have proved critical in maintaining competitiveness of particular industries. Governments can support promotional activities of industry code bodies.

Grower and exporter codes can also be used as a training tool. This has been a primary function of the ZEGA code, both for new entrants to the industry and to promote good practice in existing firms. Financial support is necessary to maintain this programme, especially with regard to building the capacity of new entrants and smaller producers.

In Ethiopia and Uganda, two industry associations, namely the Ethiopian Horticultural Producers and Exporters Association (EHPEA) and the Uganda Flower Exporters Association (UFEA) have played key roles in facilitating sizeable export expansion through collective action. Besides providing policy advice to government and representing and promoting the commercial interests of the sector, these associations have undertaken a range of other activities to build the capacity for the overall benefit of the sector. These activities include training, efforts to exist members to become compliant with international codes (e.g. EUREPGAP and MPS); sharing market and technical information and support; promotion of the sector particularly at the international level in part to encourage foreign investment; freight coordination and negotiation; preparing project proposals (particularly to potential donors); marketing initiatives, including the sharing of agro chemicals; and research.

Often some funding for such important producer associations originates from donors. Developing country governments may not have the funds to financially support such initiatives, but they should recognise their importance and take steps to co-ordinate with them.

c) Empowerment of workers and smallholders

An important element of codes if they are to be effective in improving labour standards is worker awareness of code provisions and empowerment of workers to take action in cases of code violation. Public action to improve the effectiveness and reach of agricultural trade unions is very important as they are typically weak and their importance as the legitimate voice of workers is not always recognised by leaders in the agriculture sector. Agriculture is a difficult sector to organise simply due to logistics, as well as local political problems (e.g. in Kenya, Central America). Of particular concern is the empowerment of female workers, who are least likely to be organised through the formal labour movement, and rarely have a voice. Efforts need to be made to ensure that worker representatives are included in local code bodies. This has proved a challenge in HEBI where trade unions have refused to participate. In WIETA the NGO Women on Farms acts on behalf of women workers.[60]

Empowerment is also an important issue with regard to smallholders. We have already noted in Section 2 problems relating to the relevance of codes to smallholders and some initiatives aiming to improve smallholder compliance with codes. Much research regarding the standards and smallholders suggest that they can meet the standards in question, but demonstrating compliance can be a critical issue.

[60] This subject is dealt with in detail by Pruzan Jorgensen et al (2004) so shall not be dwelt on here.

The promotion of smallholder farming is widely recognised as an area for public action (for developmental and political reasons[61]). The way in which sourcing strategies including codes may disadvantage smallholders is therefore an area of concern.

Particular public action required includes making codes applicable to smallholder needs and providing information on the requirements of codes, which can be part of a broader initiative to localise and provide information about standards (as noted above).

Smallholders are also an important target for capacity building on code compliance. However, this is only half the story with regard to smallholders. Experience on certification indicates that the main issue is not compliance per se, but building effective organisations that might facilitate documentation and report keeping, as well as improving marketing efficiency. No small farmer group has achieved certification on its own, including paying for it.

In much of the debate about smallholder compliance with CSR standards, different agencies speak on behalf of smallholders. They are rarely represented. If there is to be progress with regard to enabling smallholders to meet CSR standards, they have to be involved in the formulation of the standards. For example, in the Fair Trade movement, Fairtrade Labelling Organizations International has established producer forums on a regional basis to feed into their policy and standard development processes. An issue to be resolved is whether smallholders should be organised on the basis of commodity and involvement in particular global value chains or on a regional basis that is more likely to take into account the various activities that make up smallholder livelihoods.

d) Incentives

A final area for public action is improving incentives for compliance with CSR standards. Effective implementation of legislation is a critical part of the incentive structure so that all firms face the same basic set of rules. More positively, governments can develop ways of themselves procuring goods from firms that meet CSR standards.

An important incentive for companies to comply with CSR standards is access to low interest loans for investments in improvements (especially where this is congruent with other government policy, e.g. potable water for staff housing).

Governments can assist reward compliant companies with assistance in market access or fast tracking through customs or quality/ safety standards documentation procedures.

5.5. The Public Sector and CSR

We have identified different areas in which public sector action to support the CSR agenda in agriculture may be required. However, the precise role that government can or should play is likely to be different in different country and value chain contexts. Where the business case is relatively weak, governments may need to play a stronger role than where firms see a clear commercial reason for engaging with a CSR agenda. However, even where there are strong business drivers,

[61] There are political motivations behind support for smallholders in African countries such as Zimbabwe, Zambia, Kenya and Uganda.

governments can take action to enhance the competitive advantage of CSR. The precise role taken by government may be influenced by more than the types of drivers that exist, including the business culture and the international trade policy environment.

In some circumstances, the government does not need to play a hands-on role to improve competitiveness through CSR, especially in a buyer driven chain with direct linkages between firms in the chain. For example the Kenyan government played only a minimal role in the export success of the horticulture industry, including its compliance with CSR standards. However, the government now has a seat as an observer in the Horticulture Ethical Business Initiative. Industry associations are strongly resisting an increased role for government in the sector, especially with regard to increased regulation, arguing for a facilitative role, e.g. supporting HEBI (Dolan and Opondo 2005 forthcoming) rather than direct involvement. However, it is important that government provides an enabling institutional and regulatory environment, especially for infant agri-export sub-sectors and businesses.

In contrast, the government of South Africa has played a much stronger role in the Wine Industry Ethical Trade Association, particularly with respect to linking the code to national legislation and clarifying legal requirements (ETI 2005). Whilst this is a relatively buyer-driven chain, the difference can be accounted for by the strong labour legislation now in force in South Africa and the particular socio-political context in the wake of apartheid.

If there is more dispersed supply base with a less strongly governed value chain, there is likely to be a greater call for government involvement. For example, in the cocoa chain beginning in West Africa, government action is critical and includes active participation stakeholder dialogue, involving public sector personnel in pilot projects and co-ordination of the emergent certification system.

An important issue is not only the extent and type of government involvement, but also which part of the government hierarchy should be involved. In some cases local government officials are the most appropriate actors, e.g. in facilitating corrective actions following code violations or in support of smallholder capacity building. Regional approaches may be more appropriate in other cases, as in cocoa discussed above and as in the stakeholder dialogue to develop the Common Code for the Coffee Community in which the East Africa Fine Coffee Association[62] is involved.

Thus, governments have an important role to play in creating an enabling environment in which social and environmental standards can be achieved and thereby improve competitiveness of the agriculture sector. This role may vary from direct involvement in CSR initiatives and co-regulation of standards, to facilitation of industry action and the stream-lining of regulation.

[62] This body includes government bodies such as coffee boards as well as privately owned coffee estates.

6. Conclusion

There is a wide range of CSR codes operating in agricultural value chains. Whilst the content of codes is largely the same, drawing increasingly from ILO labour standards, the examples we have from the fresh produce, flower, coffee, tea and cocoa sub-sectors indicate that code implementation differs in different value chains. Differences include the actors involved in code development and scope of the code, especially how far upstream and how actively codes are implemented.

Even in chains where codes are actively implemented, they do not always reach upstream to smaller producers. This is partly due to reasons of cost and the limited applicability of codes to the smallholder situation but also because in many chains it is not always possible to trace the final producer. There have been some attempts in fresh fruit and vegetable sector to identify ways that codes can be made appropriate to smallholders, partly because this is the risk of excluding them from the market is greatest. This involves reinterpreting code content and innovations in social auditing.

The auditing of codes is another area where there has been progress in the agricultural sector in recent years. More participatory approaches have proved critical in identifying cultural and gender issues on farms. Multi-stakeholder initiatives are becoming more important in some sub-sectors, particularly horticulture. Key southern multi-stakeholder code initiatives (HEBI in Kenya and WIETA in South Africa) have been developing locally appropriate codes and training local social auditors.

Factors affecting the approach to code implementation include the complexity and integration of the value chain and how the chain is governed. Highly buyer-driven integrated chains such as supermarket fresh produce are characterised by a large number of codes -company, sectoral and independent- that are actively implemented. In particular EUREPGAP is critical to access the European retailer fresh produce market. In less integrated chains such as coffee and cocoa codes, especially company codes, are less common and sectoral approaches are becoming more common.

Understanding governance, how the issues such as CSR are driven along value chains, is a critical element of this approach to VCA. The governance and structure of the chain help in explaining how costs and benefits of CSR are allocated between actors, and contribute to determining whether there is a business case for adopting CSR standards. The nature of the business case may be different at different parts of the chain and may differ in the short-term compared to the long-term. In a supermarket fresh produce value chain some drivers for compliance with CSR standards are relatively strong, and offer immediate benefits, especially for first tier suppliers. The business case is less strong where buyers have more indirect links with suppliers, as in the coffee and cocoa sub-sectors. In these cases, it is important to consider other kinds of driver, including a business case at an industry or country level. Taking the business case beyond the simple firm-to-firm value chain involves thinking about a wider set of stakeholders, including the public sector. However, even in direct value chains such as fresh produce, the business case for action with regard to CSR standards can be strengthened if assessed from a national or industry perspective.

There is thus an important role for government with respect to CSR and improved social and environmental standards which can lead to increased competitiveness and exports. Government may play an important role in relation to:

- setting and promoting CSR standards, especially those that are locally appropriate and ensuring that standards and legislation are mutually reinforcing;
- building the capacity of industry associations and others enabling producers to meet and audit standards;
- empowering workers and smallholders so that they are aware of standards and are able to meet and benefit from them; and
- improving incentives for compliance with CSR standards.

Value Chain Analysis, especially with a focus on the structure and governance of the value chain, can help identify the forms in which CSR has been expressed in the chain, how CSR is driven and, more practically, which standards are likely to be important in which markets. Moreover, understanding the distribution of the costs of compliance with CSR standards is key part of the interface between conventional VCA and an approach to VCA that incorporates an understanding of CSR. The inclusion of these concepts will complement the existing FIAS approach to VCA. The checklist in Table 4.1 will enable FIAS consider how they will incorporate these additional elements in their Value Chain Analysis of agriculture sub-sector.

Annex 1. Codes in Agriculture

Code	Sub-sector	Comments
World Cocoa Foundation	Cocoa	2001 protocol committing the industry to develop standards to deal with working practices problems, particularly in West Africa. Standards due to be completed in July 2005, are being developed by industry representatives working with the International Labour Organization (ILO), and West African governments. Verification system also being developed.
Utz Kapeh	Coffee	The Utz Kapeh code for 'Certified Responsible Coffee' was set up with the support of the global retailer Ahold. It is based on EUREPGAP, but with more detail on worker welfare. It recommends that buyers pay a Sustainability Differential to producers when market prices are low. These are not fixed and at present it is not clear if this is monitored. Large estates and cooperatives of smallholders can be certified.
Common Code for the Coffee Community	Coffee	Programme funded by German government, managed by the donor agency GTZ and the German coffee industry association. It has broad stakeholder membership in its advisory board In late 2004 it produced a code that aims to cover the whole of the coffee chain. Currently 4C is developing pilot projects to test the code in different contexts over the next two years.

Kenya Flower Council	Cut flowers	The KFC was formed in 1994. The code originated as a technical standard addressing primarily environmental and pesticide related issues, but recent editions of the code have been much more comprehensive in their coverage of social issues. Members of the KFC account for the majority of Kenya's total cut flower exports. Member farms are regularly audited by KFC auditors and the auditing system is externally verified by a professional auditing firms.
MPS	Cut flowers	The Floriculture Environmental Project (MPS) originated as a technical standard to reduce the environmental impact of cut flower production but added an optional social chapter based on the Universal Declaration of Human Rights and ILO Conventions in 2001. The MPS environmental standard, which focuses on pesticide and water use, leads to grading as MPS-A, B, or C The MPS Social Chapter (known as MPS –SQ) has been benchmarked against the multi-stakeholder International Code of Conduct for Cut Flowers
Ethical Trading Initiative Base Code	General (but has been applied to agricultural commodities)	Not in itself a defined auditable standard but members are required to base their own code on the nine principles in the ETI Base Code which are based on ILO Conventions. The ETI has established a number of pilot projects with the aim of experimenting with different multi-stakeholder approaches to monitoring or to deal with specific implementation issues (e.g. definition of living wage, smallholder sector) The ETI has a tri-partite structures whose members are drawn from NGOs, trade unions and companies. It has had some funding from the British government.

SA8000	General Limited application in agriculture to date	Established by Social Accountability International. Its principles are essentially the same as those of the ETI, with the addition of a management system. It is an auditable standard, for which there are accredited auditors. It was developed in consultation with multiple stakeholders (including NGOs, trade unions and private companies), representatives of whom sit on the SAI board.
Zambian Export Growers Association code	Horticulture	All major growers of vegetables and roses for export are members of the Zambian Export Growers' Association, formed in 1984. The ZEGA code was developed in the late 1990s. All members are required to implement the code but (as of 2003) members were not systematically audited for compliance. The code has been promoted in a step-by-step manner, starting with the pesticides sections, followed by worker welfare, environment and finally the due diligence sections. The code is presented as a developmental tool for good management.
EUREP GAP	Initially fresh produce but scope widening	EUREPGAP began in 1997 as an initiative of the Euro-Retailer Produce Working Group with the aim of harmonising supply chain standards worldwide for good agricultural practice (GAP). The main focus of the EUREPGAP Protocol 2000 is standards for food safety and traceability designed to meet consumer concerns about pesticides and food hygiene, with environment and worker welfare issues as a secondary concern. Growers receive EUREPGAP approval through independent verification from an approved certification body. EUREP has developed an accreditation scheme that recognises certification by local or regional schemes. However to date there as been only one auditing scheme accredited in a developing country, ChileGAP in September 2004.

Ethical Tea Partnership (formerly the Tea Sourcing Partnership)	Tea	The code focuses on terms and conditions of employment, health and safety, maternity, education, housing and basic rights. It is working towards all of the ETI principles (one significant gap is that is refers to local minimum wages rather than a living wage and in general defers to national legal requirements rather than ILO Core Standards). Members originally were just UK tea packers and blenders, with multi-national companies only using the code with respect to products sold in the UK market. However in the past year most members e.g. Unilever (Europe) have extended their scope to products sold in Europe. In addition companies from Australasia have joined. To date the scheme operates in seven of the seventeen countries from which members source tea, accounting for 65% of supply. ETP members pay for supplier audits which are undertaken by PricewaterhouseCoopers on a biannual basis.
Wine Industry Ethical Trade Association code	Wine	WIETA was established in 2004 by the South African wine industry partly as a result of an ETI pilot project. Now an autonomous organisation. The code is based on the ETI base code.

Annex 2. Multi-stakeholder Initiatives in Agriculture

Wine Industry Ethical Trade Association, WIETA

The Wine Industry Ethical Trade Association is a coalition of companies, trade unions and NGOs aimed at monitoring its own independent code. Its establishment was one of the outcomes of the ETI's wine industry pilot project that ran from 1999-2003.

WIETA is an autonomous body which all companies, trade unions and NGOs linked to the wine industry, and committed to its objectives, can join. It has an Executive Committee which comprises representatives from each constituency group with the South African Department of Labour acting in an observer role to ensure collaboration with the official labour inspection services.

The objectives of WIETA include

- Formulating and adopting a code of good conduct governing employment standards for those involved in the growing of grapes for wine making purposes and the production and bottling of wine;
- Promoting the adoption of and adherence to the code of good conduct amongst all wine producers and growers;
- Educating producers and workers on the provisions of the code;
- Appointing independent social auditors to ensure that members of the association observe and implement the code of good practice;
- Determining ways of encouraging implementation of and compliance with the code and determining measures to be taken in the case of non-compliance with the code.

Sources: WIETA website, http://www.wieta.org.za/, Barrientos, 2005 and Nelson et al, 2005

Horticulture Ethical Business Initiative, HEBI

In 2002 NGO reports highlighted the continued existence of poor labour practices on Kenyan flower farms, despite the good reputation of some farms in the industry and several social audits. Follow-up action by the ETI and academic research verified the nature and extent of the problems and revealed weaknesses in the social audit methodology that meant that systemic abuses of labour standards were not detected, and therefore could not be remedied. The industry responded, supported by the ETI and donor funding with the development of the Horticulture Ethical Business Initiative.

HEBI has a tri-partite steering committee composed of members from government, civil society organisations and trade associations/employers. Unions were invited to participate and although to date they have declined to take part, there are still three (of twelve) seats being held for them. Donors and international NGOs participate in HEBI as observers.

The objectives of HEBI include:

- To harmonize stakeholder interests and involvement;
- To develop a participatory social audit system acceptable to all stakeholders including overseas buyers;

- To use the social audit system to assess the social conditions on flower farms and establish a baseline for future activities

To date 23 local social auditors have been trained.

Sources: Dolan and Opondo 2005 forthcoming; ETI 2005; Smith et al 2004.

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