



Sustainable Sourcing Event 2017

Direct purchasing from farmers now possible for
medium and small-sized companies

SMALL FARMERS
BIG DEAL

Do business with farmer
cooperatives worldwide



Direct purchasing

Following large companies like Cargill, Mars and Friesland Campina, small and medium-sized companies can also obtain products directly from farmers and their organizations in developing and emerging markets. Demand for agricultural products from Africa, Asia and Latin America is growing strongly. Direct cooperation with small-scale farmers offers Dutch companies future security of delivery.

This conclusion was heard on 29 May in The Hague, during the Sustainable Sourcing Event organized by Agriterro, together with IDH, the Sustainable Trade Initiative and Solidaridad. Of the 120 participants in the debate, more than a third consisted of entrepreneurs, especially from medium and small-sized companies. They held discussions with policy makers and non-profit organizations on best practices, opportunities and challenges when collaborating with small-scale farmers,. The focus was on cocoa, coffee, fruit and vegetables, but entrepreneurs from sectors such as flowers, dairy and spices also participated.

Kees Blokland, Director of Agriterro, noted in his introduction that there is a 'growing battlefield' in the acquisition of agricultural products. 'I also hear that from big buyers.' Due to economic development in the countries of production, local demand is growing. 'As a Dutch company, you can no longer be sure of obtaining your products through merchants or large-scale farmers in future. The role of small farmers is becoming increasingly important. Cooperatives and farmers' organizations combine their production, and are new business partners.'

Quiet revolution

Another trend, described by Blokland as a 'quiet revolution', is that farmers' organizations are taking care of more and more of the production themselves. 'Dairy farmers' organizations set up a milk processing plant, and finance it with their own money. A partner organization in Ethiopia has just set up a flour mill, providing employment for 200 people. Potato farmers in India invest in refrigeration cells. These developments are rapid, and as Agriterra we support them.'

A company like Maas goes along with this trend. This supplier of business coffee and tea machines wants to offer customers locally processed supplies as much as possible. That's why it invested in a coffee processing factory in Ethiopia. Maas is now working with Agriterra on the direct purchase of packaged tea from a cooperative of 200 tea farmers in Nepal.



Kees Blokland



Marc van Houten

Maas brings the locally produced coffee and tea to the market as part of its own Impact@Origin programme, which aims to help move production to countries of origin. Marc van Houten, purchasing director at the Eindhoven company, explains this as assistance through trade: 'We see opportunities to distinguish ourselves with these products. Consumers now also want quality coffee and tea at work, and are prepared to pay something extra for it. The new approach addresses this: premium tea, with the fair sourcing story. And it's nice that we can add value locally, so that people benefit from it.'

Hans Docter, Director of Sustainable Economic Development at the Ministry of Foreign Affairs, also sees opportunities. 'There is a huge drive focussed on growth among many farmers and companies. We support that with our knowledge and funding power. Thanks to Dutch investment in Ethiopia and Kenya, completely new sectors have appeared in flowers and vegetables. That can be done elsewhere too. Agriterra, IDH and Solidaridad all provide companies with vital support.'

Docter: "Thanks to Dutch investment in Ethiopia and Kenya, completely new sectors have appeared. That can be done elsewhere too."



Hans Docter

Continuity in cocoa cultivation

Multinational Cargill has already gained experience in this area. In 2012, the food company promised to support sustainable cocoa production through the Cargill Cocoa Promise, thereby contributing to better living conditions for farmers, improved nature conservation and better quality cocoa beans. In implementing the programme in Ivory Coast, Cargill receives support from IDH, the Sustainable Trade Initiative.

The 80,000 Ivorian cocoa growers who work with Cargill are almost all united in cooperatives. 'These cooperatives are essential for achieving sustainability in the cocoa sector', said Taco Terheijden, director of Cocoa Sustainability at Cargill Cocoa & Chocolate. The Service Delivery Model programme that Cargill implements with IDH is also intended to keep the cocoa farming attractive for farmers. Due to the growing demand for food products in their own country, it is attractive for cocoa growers to switch to other crops. Continuity in cocoa production is vital for Cargill. Farmer Field Schools have been set up, and programmes started for crop protection, delivery of plant material and fertilizer, and leasing trucks to transport the harvest.



Challenges in working with small-scale farmers

Iris van der Velden, Innovation Manager at IDH, emphasizes that Service Delivery Models, which runs her organization with several companies, are focused on providing services to farmers. This can include funding, inputs such as fertilizer and seed, or market access. The providers offering these services may be farmer cooperatives, NGOs or government organizations. Buyers such as Cargill often also decide to invest in such a model.

IDH is currently investigating the effectiveness of this approach. A community has been set up where individuals learn from each other. Because, Van der Velden says, 'despite the differences between flower cultivation in Ethiopia and cocoa production in Ivory Coast, ultimately, the challenges of working with small-scale farmers are mostly the same.'

Van der Velden: "Ultimately, the challenges of working with small-scale farmers are mostly the same."



Iris van der Velden

Customized work required

These challenges were discussed in practice in several workshops. Companies like Riedel, coffee processor Peeze, Fair Trade Original and Mara Farming presented their experiences of direct purchases from local farmers.

One of the conclusions was that customized work is often required. For example, fruit juice manufacturer Riedel (a subsidiary of Friesland Campina) operates in India with tens of thousands of small-scale mango producers, focusing primarily on the fresh market in their own country. The leftovers are used in the processing industry. In Brazil on the other hand, large-scale orange farmers work exclusively for the processing (export) industry.



Workshop

Customized work and supply chain cooperation in complex purchasing markets

International agricultural supply chains are often so complex that sustainability requires a well-defined strategy, which is only possible after an in-depth sectoral analysis. The example of Riedel shows how this can work in practice.

Together with Solidaridad, fruit juice manufacturer Riedel examined the various issues in the fruit supply chain. These include issues such as working conditions and employee rights, the level of knowledge of small-scale farmers and the uncertainty they experience in the market, pesticide use, access to water, water pollution and erosion, and biodiversity loss. 'We analyze by country of production how a company can influence sustainability in the chain,' says Jeroen Kroezen, Programme Manager, Fruit & Vegetables at Solidaridad. 'And we encourage companies not to do this alone. Only through working together with other companies can you achieve a real impact.'

Communication through a company's own brand

Riedel could choose between two approaches to sustaining the supply chain. The first is a standardized approach, imposed from above on all manufacturers. The alternative is a differentiated approach, with more of an eye for differences between producers, countries and the various issues in each country. Riedel was also faced with the question of what to do with external labels (certificates): to give these priority and place them on the packaging, or to use its own brand to communicate with consumers about sustainability?

Riedel eventually chose a differentiated strategy, and for communication through its own brand. That means flexible handling of certification standards, and addressing the relevant issues per country. The company absorbs external labels into its own brand, which is thereby strengthened. Kroezen says: 'This is how Riedel can keep communication about sustainability efforts in its own hands.'

Two million Chinese apple growers

The workshop also considered the cases of Döhler, Nature's Pride and Verstegen Spices & Sauces. Döhler uses a country and product-specific approach. In China, they buy apples from two million unpredictable and disorganized apple growers, producing mainly for their own urban markets. Döhler first consults with village elders and executives of the communist party, and then focusses on training farmers.

Nature's Pride buys 500 product types from 72 countries. Like Riedel, Nature's Pride has a highly differentiated landscape. The company mainly addresses the question of how small-scale farmers can become socially compliant. The suggestion from the workshop was to strengthen the negotiating skills of farmers by organizing them into cooperatives and farmers' organizations.

Verstegen Spices & Sauces has used supply chains of unprecedented length for its most important products, initially with tens of thousands of small-scale producers. The suggestion from the workshop was to shorten the chains, and where possible, to organize producers into farmers' organizations and cooperatives. Cooperation can also help organize the supply chain and sector more effectively.



Workshop

Cooperation with non-organized farmers

Flexible quality marks offer small-scale farmers more opportunities in the international market. Horticultural entrepreneur Chris Benard has learned this in Kenya.

The Dutchman Benard has been a horticultural entrepreneur in Kenya since 1998. His company Mara Farming exports mainly green beans, avocados and passionfruit to European supermarkets. He started by buying from individual, unorganized, small-scale farmers, but that changed in 2003 with the advent of GlobalGAP, the certification that Europe demands for imports of agricultural products, including requirements for pesticide use. 'We then chose to do part of our production through our own company, so that we could fully control it.'

Self-audits

In addition, Mara Farming set up a Service Delivery Model around the smallholders from which the company purchases, to get ready for the new requirements. Farmers organized themselves into groups of fifty growers, who have received agricultural training and can borrow from a local microfinance institution. Seeds are obtained from Mara Farming, and all the beans are supplied to the company under contract. In the meantime, Mara Farming has received GlobalGAP certified products from 1400 farmers. Mara Farming employs five people who do the self-audits for different quality labels, and an agronomist for every two farmers groups, who follows and guides the farmers. IDH highlighted Mara Farming's Service Delivery Model, which shows that farmers produce substantially more and earn higher incomes.



The results were discussed in the workshop. How efficient is it for Mara Farming to work with small-scale farmers? Benard: 'The costs of the green beans are lower if we buy them from them. If you include the training and certification costs, they are more expensive than the beans we grow in our own business. But I also enjoy working with these people, and it's good to have satisfied neighbours. Moreover, it is important to share the risk and not rely entirely on the production of our own company.'

Certification often negative for the farmer

Benard often finds it difficult to explain the social requirements in the quality labels 'A farmer with a quality label must not allow his children to work. People do not understand that. It has been suggested that a basket of certifications could be offered, from which the entrepreneur can choose what suits the farmers he works with', Benard says. 'If the market is not good for me, I cannot be good for my smallholders. Certification is often negative for the farmer. I would like a certification system that is friendly to the farmer.'

The conclusion is that a form of organization is necessary for farmers, even if it is only to arrange for transportation. Benard adds: 'This Service Delivery Model, with groups of this size, works in Kenya. That does not mean that it will work elsewhere. Kenyans are driven entrepreneurs. '

Workshop

Transition to a new trade approach to coffee purchasing

Ensuring transparency in the premium coffee chain and at the same time building long-term relationships between parties. That was one of the recommendations of the workshop, in which participants commented on how coffee processor Peeze can make its premium coffee production more sustainable and keep it profitable.

Coffee processor Peeze from Arnhem sells specialty and premium coffee, says product manager Janneke Neutelings. The more expensive specialty coffee comes directly from farmers and farmer cooperatives, but with the less expensive premium coffee, much more of which is sold, direct trade is difficult. Peeze has to work with tens of thousands of coffee farmers and traders in more than ten countries, which is expensive and time consuming. Peeze therefore includes premium coffee from the Nybot coffee fair. But here, increasing speculation and trade in coffee contracts cause strong price fluctuations, which are not very closely related to the real cost price. Peeze cannot guarantee that the coffee farmers get a fair price.

Fluctuating costs

The workshop participants nevertheless believed direct trade to be the best solution. The aim should be a coffee supply chain in which both the cost price for farmers and the margins in the rest of the chain are clear. In addition, it should be clear to all parties that the farmers are struggling with fluctuating costs. An increasing oil price, for example, causes more expensive fertilizers. Crops can also fail due to diseases or pests. A coffee buyer suggests: 'The price of coffee for consumers has been the same for fifteen years. Can a supply chain not base the price of coffee in the supermarket on the cost price for the farmers?'

The parties can negotiate about whether the margins can be reduced, in favour of farmers and investments in more sustainable coffee growing. Such negotiations require long-term partnerships, and they will not succeed without trust. Brokers and supply chain coordinators are also required. Who should take what part of the risk of a disappointing harvest?

Coffee processors can work together to share the cost of setting up a transparent chain. At the moment, however, it is forbidden for them to make mutual price agreements. This legislation should therefore also be adapted.





Workshop

Product and supply chain development together with farmers' cooperatives

Fair Trade Original works with small-scale farmers, and wants to process as many products as possible locally. Director Bert Jongsma confronts the workshop participants with a number of challenges entailed by this approach.

Fair Trade Original's Asian products are a hit in Dutch supermarkets. The fair trade green Thai curry is even the best-selling curry. The company therefore wants to expand the range with boemboes (spice pastes) from Indonesia. Jongsma says: 'There are many authentic looking Indian products in our supermarkets, but they are all made here, and they are not fair trade or organic. We are taking that that step.'

Agriterra asked Fair Trade Original to contact a farmers' cooperative on Java, which will provide the necessary vegetables and spices. A company has also been found that can process the ingredients into boemboes. Farmers and the processor have now been trained. They should not only meet the requirements for fair trade and organic food, but also the quality requirements of the European Union, and the price must compete with existing products.



Challenges and incentives

Jongsma had just returned from a visit to Indonesia, and talked about a 'very complicated process'. He presented the following challenges.

1. Producers must meet all sorts of requirements, even before the first product is placed on the market, and there is no guarantee of success. How do you keep them enthusiastic throughout the process?
2. Farmers and processors are unfamiliar with certification processes and international quality standards. How do you prepare them for this?
3. Security of delivery is a difficult demand for large retailers. How do you guarantee the reliable delivery by local partners?

The notion of incentives was particularly evident in the discussions. Are there any benefits for producers in the short term? Activities that provide quick results should be attempted first. Financial incentives always work best.

For this, it is important to know what type of farmers you are working with. What crops do they grow, and when do they have difficulties with cash flow? This approach fosters goodwill. It is also important to understand the nature of the organizations with which you cooperate. How does communication work, and what is the degree of participation? Sustainable relationships can be enhanced by appointing local ambassadors. It should also be made clear from the beginning who is at risk. In order to build more security of supply, it is important to train enough producers, so that there is backup if some have trouble delivering.

Bert Jongsma is also sensitive to the importance of early incentives: 'We also think about this regularly. How can you get farmers to benefit in other ways? We will certainly continue to examine this.'



Finally

The purpose of the meeting was to share practical lessons with and between entrepreneurs and policy makers. The many reactions afterwards suggest that this goal was achieved, with full use being made from broad opportunities to networking.

A broad shared conclusion of this meeting is that in the case of sustainable purchasing, the challenges for large and small companies do not differ so much. Short supply chains help keep the process manageable, are more transparent and often more beneficial to the various stakeholders. Also important is the tendency for farmers and their organizations to do more and more themselves, and thus account for a larger part of the chain.

The opportunities for sustainable purchasing are increasing as the market grows. Working with organized, small-scale farmers has benefits, in many cases and in various chains. Increasingly, it is even a prerequisite for success.

Tackling social and sustainability issues requires customized work. This is often successful, but it is expensive and time-consuming for individual companies. This is therefore an important task for supporting organizations, such as Agriterro, IDH and Solidaridad.

In 2016 and 2017 Agriterra is campaigning on the importance of farmer cooperatives with the 'Small Farmers, Big Deal' campaign. Agriterra is organizing different outreach moments to the Dutch government and business sector. In May 2016 it organized a 'Seeds debate' on the issues surrounding access to seeds by farmers in developing countries. A wide range of attendees were present from the seed-sector, policy makers and representatives from different ministries and experts from the seed sector. The event was considered a great success.

One year later Agriterra organized another event, on the theme of Sustainable Sourcing. 'Sustainable' should be interpreted here not only as ecological sustainability, but also in terms of social development, strong business relationship and creating a transparent market. Agriterra invited IDH, the Sustainable Trade Initiative, and Solidaridad to join in organizing this event, by pooling their knowledge and network of companies and other actors interested/active in sustainable sourcing from developing countries.

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