INTERNATIONAL SUSTAINABLE CHAIN MANAGEMENT

Lessons from the Netherlands, Benin, Bhutan and Costa Rica

International sustainable chain management

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Netherlands International Partnership for Sustainability (NIPS)
Royal Tropical Institute – The Netherlands

NIPS is the *Netherlands International Partnership for Sustainability*. NIPS is responsible for the coordination of the implementation of the Sustainable Development Agreements in The Netherlands. These agreements between The Netherlands and Benin, Bhutan and Costa Rica were signed in 1994 and are based on reciprocity, equality and participation.

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Foreword

The Netherlands International Partnership for Sustainability (NIPS) and its predecessor – Ecooperation – have been charged with the coordination and implementation of the Sustainable Development Agreements (SDAs) between the Netherlands and Costa Rica, Bhutan and Benin. These agreements were signed in 1994 with the goal of contributing to the renewal of relations between rich and poor countries on the basis of reciprocity, equality and participation. These starting points have been 'translated' into a model for sustainable chain management projects. The fact that these projects were carried out in the context of constitutional agreements obviously provided them with a specific institutional embedding.

This publication intends to make the NIPS experiences with sustainable chain management more widely available and usable, keeping in mind a recommendation formulated by the Foundation for Society and Private Enterprise (SMO): "the Dutch government in particular must learn from the experiences with the SDAs. The starting points formulated in implementing the SDAs in practice and the mechanisms that have been built up, must be replicated in countries (…) that are ready both administratively and in terms of the level of development they have attained (…)."[1]

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Herman Verhagen

1 M.P. Hillen and N. van Geelen; Africa-Europe – reciprocal opportunities in the new economy. SMO-publication 2000-4; page 98.

1. Introduction

Sustainable chain management maps out the economic, ecological and social effects that occur during the life cycle of a product and focuses on measures that improve the sustainability.

There is no 'quick fix' for sustainable chain management. Especially international chains with partners in developing countries are usually complex, because a world of difference exists, literally and figuratively, between the producers of raw materials and end-users. The chains leading from a coffee bean to a cup of coffee, from a cacao bean to a bar of chocolate and a cotton plant to baby clothing are highly segmented. Raw materials are transformed, change ownership and cross international frontiers before they reach the consumer.

Yet the importance of international sustainable chain management will increase in the future. This development is, on the one hand, caused by globalisation and, on the other hand, by the creation of new rules to which companies (have to or want to) adapt within the framework of Corporate Social Responsibility (CSR) or Sustainable Business.[2] Sustainable chain management is an instrument to put CSR into practice.

Companies that were involved in international sustainable chain management projects in the past, have sometimes learnt by bitter experience. Thanks to these pioneers, we now have a better picture of the real-life situation and the threats to and opportunities for sustainable chain management with developing countries. The common factor in the experience of the NIPS and other organisations is that this type of chain management is primarily 'the success of working together'. Through cooperation, the chain partners (producers, processors, retailers, external stakeholders, etc.) are able to achieve much more than they could working alone!

This book outlines the current situation regarding international sustainable chain management. The text includes descriptions of concrete cases (about cashew nuts, bananas, coffee and cotton) that illustrate the main themes. The book is structured as follows: chapter 2 contains an overview of different forms

[2] The terms Corporate Social Responsibility (CSR) and Sustainable Business are closely interwoven. They have virtually the same meaning and are interchangeable.

of chain management and chapter 3 describes sustainable chain management as an instrument of CSR. In chapter 4, the interests and motives that the most important chain partners attempt to realise via sustainable chain management are examined and chapter 5 contains a description of the evolution of the process of sustainable chain management from theory to practice. In chapter 6, the most important criteria and success factors of international sustainable chain management are summarised.

2. Forms of chain management

2.1 Introduction

Nearly every company makes arrangements with suppliers and customers and thus, in actual fact, takes part in chain management. However, the level of ambition of *sustainable* chain management goes a number of steps further and creates not only added value for the company, but also for (global) society. Sustainable chain alliances will help small-scale food producers in developing countries, for example, to improve their social security and can also alleviate consumer concerns about food safety, because product chains will become more transparent.

The different forms of chain management can be schematically summarised in a matrix in which, on the one hand, the geographical scale is one criterion and, on the other hand, the level of ambition. This chapter contains a description of these different forms of chain management.

Ambition Scale	'Ordinary' chain management	Socially or environmentally responsible chain management	Sustainable chain management
Local/regional			
National			
International			

2.2 Scale levels

A distinction can be made into local/regional, national and international chain management on the basis of the geographical scale. The geographical scale partly determines the complexity of chain management:

- In a local/regional chain, the number of links is small; communication and contact between the chain partners is direct; there is a large degree of transparency and consumers are close by. An example of this is the increasing demand for so-called (certified) regional food products that local farmers sell directly, or through their own sales organisations, to local consumers or local chains of shops and restaurants. The end product usually derives its added value from its regional identity.
- Conversely, international chain management is less transparent. There are more links in the chain; the lines of communication are longer and, because of

language and cultural differences, more complicated as well. Examples of this are the chains from a cocoa bean to a bar of chocolate, from a coffee bean to a cup of coffee and from raw cotton to the production of baby clothes.

The internationalisation of chain management has become a general trend. Production processes are not only becoming faster, more streamlined and more knowledge-intensive, but also more international. The number of international relationships between companies is increasing. This is part and parcel of globalisation. An important feature of globalisation is the reduction or removal of restrictions in time and space (e.g. in the form of national frontiers). Another feature is the attention that is drawn to the potential negative consequences (for example, child labour and environmental aspects) of the internationalisation of production processes.

2.3 Ambition levels

In chain management, besides geographical levels of scale, different ambition levels can also be distinguished. The different types of chain management form a progressive series running from ‘ordinary’ chain management, via socially or environmentally responsible chain management to sustainable chain management:

- ‘Ordinary’ chain management focuses on achieving control over and the management of every link in a product chain. This is a commonplace requirement for the smooth completion of the trading process. Virtually every company has suppliers and customers, and makes agreements with both about, among other things, product composition, logistics, distribution, quality and/or product freshness. In this sense, chain management in itself is old. New are the stringent requirements to which chain management is subjected in a global economy – bursting with unprecedented possibilities, but also full of areas of tension.

- Socially and environmentally responsible chain management accentuate respectively social and ecological aspects. Although their origins are different, these two types of chain management are gradually merging together in recent years.

  Socially responsible chain management is rooted in the Third World movement that made ‘Fair Trade’ an issue on the political agenda in the 1980s. This led, among other things, to the establishment of separate production and sales lines for ‘Fair Trade coffee’ and later for other products as well. Consumers pay a higher price for Fair Trade products, which directly benefits small-scale farmers in Africa, Latin America and Asia. The introduction of separate certification schemes such as the Max Havelaar brand in the Netherlands, has encouraged this development. The market share of Fair Trade products remains, however, limited to a few percent. Although sales are still growing slightly, Fair Trade products seem to be a niche market for ‘critical’ or ethical consumers. Large groups of farmers in the Third World do not, however, have access to this niche market and are running into problems caused by dump prices on the world market and trade protection measures.

In addition to organisations establishing their own production and sales channels, meant to improve the social position of small producers in developing countries, a second front was opened a few yeas ago. In this case, the focus is not on the 'alternative' niche market, but on the mainstream market. Campaigns run by NGOs and anti-globalists criticize the policy of multinational companies on themes such as child labour, human rights, fraud & corruption and working conditions. These campaigns aim to damage (the reputation of) companies and force them to change their policy. A recent example is the Anglo-Dutch multinational Unilever, which, when pressurised by a number of social organisations, was forced to find a solution to the large-scale use of child labour in cotton seed production by the Indian company Paras Extra Seed Growth (PESG). An Indian subsidiary of Unilever – Hindustan Lever – has a substantial interest in PESG. Unilever's code of conduct does not, however, permit any form of child labour and, because Unilever's contracts also include stipulations to the same effect, this is also prohibited for partner companies and suppliers.[3]

Environmentally responsible chain management focuses specifically on reducing negative environmental effects in the chain. This can range from banning the use of pesticides in crop cultivation to improving the eco-efficiency of production processes. The roots of environmentally responsible chain management are embedded in a number of factors that include: pressure from the environmentalist lobby groups (cf. campaigns against the use of tropical wood), the limitations of internal environmental management systems and the increasing attention of the consumer for food safety (cf. the use of pesticides). A spokesman from Unilever stated in this respect: "Our customers want to know exactly what has been done to the vegetables they buy before they cook them. Producers say that their products are OK, but people do not believe that anymore".[4] Consumers' organisations are now in fact claiming that people have the right to know what the exact ingredients of processed foods are and how products are grown. For this reason, the Netherlands Consumers' Association has formulated legislative proposals designed to achieve more openness in production chains.[5]

As a result of these developments, the responsibility of companies is gradually expanding to encompass the entire chain. In 2002, Albert Heijn, the best known and most influential supermarket chain in the Netherlands and

3 'Unilever involved in child labour, but promises to help find a solution.' Report from the National India Work Group on the OneWorld website; 5 May 2003.

4 'Sustainable agriculture is not expensive'. Article in 'De Volkskrant' (Dutch daily newspaper); Monday, 14 October 2002.

5 Agrarisch Dagblad (Dutch agrarian daily newspaper); 29 October 2002.

part of the Ahold Group, announced that, in a few years time, not one of the products sold in its shops would contain pesticides. This promise implies a colossal turnaround and presupposes a mega operation on an almost inconceivable scale. After all, the average Albert Heijn supermarket sells thousands of products that come from literally every corner of the globe. For every runner bean, jar of coffee and bar of chocolate that it sells, Albert Heijn will have to check the conditions under which the raw materials are grown, how the processing takes place, etc. The company takes on the commitment of obtaining complete insight into every link in the chain in order to be certain that the end products it sells in its shops do not contain any pesticides.

Although social and environmentally responsible chain management are growing together, they can also be at odds with each other. If Dutch supermarket companies decide, from the perspective of food safety, only to import certified beans from Kenya, small-scale local farmers in the African country may become a victim, because they cannot afford the costs of certification.[6] This means the environmental gain for consumers may create social 'loss' incurred by small-scale producers. Developments like this explain why developing countries sometimes refer to the environmental measures imposed by companies or governments in rich countries as 'green' trade protectionism.

- Whereas 'ordinary' chain management is as old as trade itself and socially and environmentally responsible chain management are rooted in the 1980s, sustainable chain management did not appear on the political agenda until the second half of the 1990s. The roots of sustainable chain management can be traced back to placing sustainable development on the political agenda (in 1987) and the related growing importance of CSR.
  Sustainable chain management is the superlative of chain management and integrates the so-called 'triple P' bottom line in the core strategy of companies. This means that, besides economic revenue (profit), companies must also take into account the effects that their operations have inside and outside the company on people and the environment (planet). In recent years, the 'triple P' bottom line has become an analysis framework for implementing CSR or Sustainable Business. It is expected that companies will increasingly be judged systematically and fundamentally on the basis of this 'triple P' bottom line.

Sustainable chain management is one way to put CSR into practice. In sustainable chain management, social and environmentally responsible chain management go hand in glove and are elevated to a higher plane. The more integrated focus of sustainable chain management can be schematically represented as follows:

[6] The example was given in a speech by the Netherlands Minister for Development Cooperation, who added: "I am now in negotiation with the Dutch Central Bureau for the Foodstuffs Trade on the issue of whether the private sector can help these farmers to meet reporting requirements and other relevant conditions."

	Focus			
	Profit	People	Planet	People, planet and profit
'Ordinary' chain management	******			
Socially responsible chain management		******		
Environmentally responsible chain management			******	
Sustainable chain management				******

Case: Making the cashew nut chain more sustainable

Cashew nuts produced in Benin are processed in India before being sold on the Dutch and West European retail markets. Cashew nuts from Benin are of a high quality. However, during the processing phase, they are mixed with nuts from other countries. As a result, the original high quality and the fact that the nuts come from Benin can no longer be seen. The farmers in Benin who grow the cashew nuts cannot exert any influence on this development. They supply their product to an anonymous market and find themselves in a dependent position. They do not know the luxury of having consumers nearby with a large amount of purchasing power.
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Would it be possible to make the cashew nut product and marketing chain between Benin and the Netherlands/West Europe more sustainable? What would be required to do this? Could the various partners in the chain commit themselves to this type of venture? Would they realise what it would mean? Would they be prepared to invest morally and financially in this type of venture? There were no ready-made answers to these questions; they were (and still are being) gradually discovered. Although the cashew nut chain is relatively transparent, there is no 'quick fix' for making it more sustainable.

The first step in this chain project was a feasibility study carried out by the consultancy Novotrade. The study formulated the ultimate goal of the project: to bring an exclusive brand of Benin cashew nuts onto the European market in a venture that would also benefit the farmers in Benin. In order to achieve this goal, there had to be a seamless overlap between the production, processing and marketing links in the chain based on an integrated perspective: *people*, *planet* and *profit*. Specific measures are required for each link of the chain.

In the first place production. Although the farmers in Benin do not use pesticides in the production of cashew nuts, certification attesting to this fact still has to be obtained. In the second place the processing. This should take place in Parakou (Benin) in order to generate added value for the nuts for local people. This would mean building a new factory. Would the commercial partners 'at the other end of the chain' be willing to invest in building a new factory and would they facilitate the transfer of knowledge and technology? Would it be possible to give the cashew nut producers a controlling interest in this processing plant so they could also share in the added value and benefit from the transfer of knowledge and technology? What would be needed to teach farmers to see the value and effects becoming stakeholders and owning shares in the processing plant?

Making the cashew chain more sustainable means working (hard) together. The success of the project will have to be measured over a period of years. The various partners in the chain are however determined. Global Trading is the commercial partner in Europe; Anfani in Benin. The small-scale producers now have a 20% share in Anfani. Novotrade is responsible for the operational management of the chain; the Dutch co-financing organisation ICCO and the Benin and Dutch organisations responsible for the coordination of the Sustainable Development Agreements between the two countries (CBDD and KIT-NIPS) provide financial support and administrative *back-up*.

3. Sustainable chain management as a CSR instrument

3.1 Introduction

The term CSR refers to activities that have an added value for companies and society, which are part of a company's core business, and are not required by law. CSR is not the same as showing social commitment. Social commitment – for example, sponsoring or allowing staff to do volunteer work on company time – involves, contrary to CSR, activities that are separate from the company's core strategy. On the basis of this distinction, the Netherlands Ministry of Economic Affairs has concluded that only 12% of Dutch companies has incorporated CSR. This figure is considerably lower than the perception that companies themselves have.[7] When asked whether they paid any attention to CSR, all multinationals and more than 80% of large and medium-sized enterprises answered affirmatively. Yet CSR is not a momentary hype, but a continuous trend. This chapter investigates CSR motives and the threats & opportunities that sustainable chain management offers in this respect.

3.2 CSR motives

A KPMG Sustainability Study showed that companies that adopt CSR have various reasons for doing so. Their motives can be divided into a defensive and an offensive line of argument:

- In a defensive context, safeguarding the company's reputation and brand name play an important role. Defensive sustainability measures ensue from the realisation that, if they are not implemented, companies are vulnerable to the demands or actions of consumers, NGOs and other interest groups. CSR is, in this case, an answer to an external threat, or aimed at reducing that threat.
- In an offensive context, sustainable business methods are not a response to a threat, but an initiative to obtain competitive advantages. "Companies that want to stand out because of their unique characteristics, regard CSR as an opportunity for obtaining a competitive advantage by introducing sustainable products and/or propagating a sustainable image."[8] Other motives (may) also

[7] The (Netherlands) Ministry of Economic Affairs; Entrepreneurship Monitor – winter 2002-2003. Theme special CSR; page 13.

[8] Floris Lambrechtsen and Ivette van der Linden; 'Taking on the competition with responsible business practices'. In: Financieel Dagblad; 18 June 2003.

play a role: increasing the commitment of employees, improvement of internal organisation, etc.

Although it appears that CSR is becoming a permanent feature of the 21st century corporation, considerable steps are still needed to improve the practical implementation of the three Ps – 'people, planet, profit'. Progress has been made, but a number of crucial issues have hardly been addressed:

- It is a fact that, with respect to planet aspects, extensive programmes have been initiated to improve the eco-efficiency in widely ranging sectors of industry. This means that fewer raw materials and energy are needed to make the same product. However, the positive effects are partly nullified by increasing levels of consumption. This is referred to as the rebound effect.
- It is a fact that issues related to people aspects are also receiving attention. In most cases this implies more or better dialogue with external stakeholders such as NGOs and local communities or financial support to local community projects, which introduces an element of social philanthropy.
- The question that, until now, has only hesitatingly penetrated the CSR agenda is: how can business do business with the poorest in ways that benefit, rather than exploit, this group? The enormous inequality in the distribution of wealth in the world has barely started to enter the arena of corporate management. Prahalad and Hart couple the following challenge to this: "If MNCs are to thrive in the 21st century, they must broaden their economic base and share it more widely. They must play a more active role in narrowing the gap between rich and poor."[9]

International sustainable chain management with developing countries brings this issue closer to home, because it makes the role that companies have to play in closing the social gap between rich and poor more inevitable and less abstract. It confronts entrepreneurs with the area of tension between their moral or ethical values and the financial value of the company. According to the KPMG Sustainability Study, coupling personal and business values will become the largest challenge that companies have to face in the future. "The ideal company couples its corporate strategy to the inner values of people inside and outside the organisation, in both the minds and actions of the management and employees."[10]

3.3 Threats and opportunities

In the context of CSR, instruments are needed to make the social responsibility of entrepreneurs more tangible, for example, codes of conduct, certification schemes and sustainability reports on the social and ecological aspects of doing business.

(International) sustainable chain management is also an instrument for CSR. It is a topic receiving more and more attention. When the foundation of a Dutch

[9] C.K.Prahalad and Stuart L. Hart; The fortune at the bottom of the pyramid. Undated.

[10] Idem.

CSR Knowledge Centre was investigated, for example, the need for projects in the area of international product chains was emphasised by many. [11] Against this background, it makes sense to list the threats and opportunities related to international sustainable chain management with developing countries:

Opportunities

- *International sustainable chain management is an ideal test area for a match between development cooperation and the private sector. Both have something to gain in this respect.*

  Development cooperation and the private sector have been separate circuits for (much) too long. In development cooperation, the importance of private sector investments in combating poverty did not receive much attention in the past. Conversely, the private sector regarded combating poverty as the exclusive work area of international institutions such as the World Bank and development aid organisations. It was not their 'cup of tea'.

  The demand for new links between the public, private and civil sectors is gaining importance in a general sense. Specifically, this is also leading to growing interest in a marriage of convenience between the domains of traditional development cooperation and private sector investment. On the one hand, companies are increasingly acknowledging that they need the help of others, especially for penetrating the markets of developing countries. "Contrary to more conventional investment strategies, no firm can do this alone. Multiple players must be involved, including local governmental authorities, NGOs, communities, financial institutions, and other companies."[12] On the other hand, development organisations recognise that companies can play a unique role in building up a healthy economy in developing countries. This has the additional advantage of creating more business-like relationships that do not suffer from the paternalistic donor-recipient attitude that characterises traditional development cooperation. A recent SMO publication[13] names four arguments for giving Western industry a greater role in development cooperation:
  - Western companies have more expertise in doing business than governments or development organisations;
  - Furthermore, Western companies have considerably more capital to invest in the Third World;
  - Western companies can provide access for their counterparts in developing countries to markets in rich countries much more effectively and more successfully;

[11] Study of the foundation of the national independent knowledge and information centre for CSR. Report by Triple Value Strategy Consulting; 18 September 2001.

[12] C.K.Prahalad and Stuart L.Hart; The fortune at the bottom of the pyramid. Undated Page 6.

[13] M.Mahangi; The superlative step in business ventures – good practices for CSR in Third World countries. SMO; January 2003 – page 9.

- Western companies can advise on setting up a suitable enabling environment in which economic activity and private enterprise can flourish.

- *In sustainable chain management, developing countries can function as innovation laboratories. The results of this type of innovation also benefit developed countries.*

Developing countries are, all the more so after September 11, often regarded as risk zones and the poorest population groups as risk factors. They do not inspire hope, but suspicion. This is caused, for example, by the floods of refugees, the fear that, in the not too distant future, India and China will emit the same level of CO2 that we have been accustomed to doing for years, the fear of terrorism and the fact that, in a 'global village', Afghanistan and New York are in fact right next door to each other.
The idea that developing countries are the problem is one-sided and short-sighted to say the least. In a number of ways, they have the potential of being the beginning of the solution. Firstly, the earth's environmental capital (rain forests, biodiversity, mineral deposits, etc.) is largely situated in their territories. Secondly, three-quarters of the world's population live in developing countries. The combination of environmental capital and population size gives these countries an (ecological) position of power. Without their cooperation, sustainable development is simply inconceivable. "(…) it seems clear that the South will increasingly dominate the twenty-first century. Today's industrial powers will likely resist this shift, but they will soon find that they cannot achieve their own goals without the cooperation of the South."[14]

Developing countries have the remarkable possibility of not repeating the mistakes of rich industrial countries and to leapfrog to sustainable development. This makes them a unique innovation laboratory. "Countries that still don't have the modern infrastructure or products to meet basic human needs are an ideal testing ground for developing environmentally sustainable technologies and products for the whole world."[15] In terms of sustainable chain management, this innovation laboratory often has a social rather than technological nature. Coming from a disadvantaged situation, chain partners from developing countries should – if the process is set up properly – acquire an equal position in sustainable chain management projects. Not for moral or ethical reasons, but because it is desirable for the success of chain management projects.

- *Natural capital is the most important asset of many developing countries. In the age of the experience economy, this is precisely where new possibilities can be found.*

[14] Worldwatch Institute; State of the World 2001; page 19.

[15] Prahalad and Hart; The fortune at the bottom of the pyramid. Undated – page 2/3.

The most important asset that an African, Asian or Latin-American producer has for being recognised as a co-developer by other chain partners is natural capital. The unspoilt nature, purity, authenticity and use of traditional production methods associated with natural capital appeals to consumers' sentiments. This can be linked with a 'product' that quickly becomes popular: the telling of tales, myths, sagas, rituals and lifestyles. In 'The Dream Society', Rolf Jensen writes: "anyone who wants to be successful in the market of the future must be able to tell a story. The story forms therefore the heart of the matter."[16] According to Jensen, in the twenty-first century, experts from large countries will travel to remote areas to buy myths from the local population.

At the present time, developing countries hardly benefit from their natural capital. This is because raw materials and agricultural crops are sold in bulk or as commodities for low prices and the end products do not have a recognisable local identity. However, by emphasising local identity and "by appealing to other customer needs than price and continuity alone", market segments can be penetrated in which consumers are prepared to pay higher prices. Efforts to attain this level (…), require changes to be implemented throughout and starting at the source of the chain towards making a product with more identity that can be sold in the upper market segments. In this way, investing in the first links of the value chain acquires an economic necessity similarly to making an effort to ensure that an African chain partner is given more control and responsibility."[17]

Threats

- *Western companies that become active in sustainable chain management with developing countries are confronted with different circumstances to what they are accustomed to* '*at home*'.

  Markets in developing countries are less organised and less transparent. The social, institutional, physical and knowledge infrastructures are more weakly developed. This also applies to legislation and the enforcement thereof. In order to discover the possibilities of these markets, companies must change their mindset. They are accustomed to working with highly qualified personnel or expensive consultants. At the 'Bottom of the Pyramid' market, local company partners, governments, NGOs and civilians are their consultants. They have the local knowledge capital – including knowledge of local traditions – that has to be matched with the global market. This is not easy, but if a way can be found to harness local knowledge successfully, this particular threat can be converted into a strategic advantage.

[16] Rolf Jensen; The Dream Society. Rijswijk 1999; page 48.

[17] M.P. Hillen and N. van Geelen; Africa-Europe – reciprocal opportunities in the new economy. SMO 2000-4; page 27.

- *In sustainable chain management projects with developing countries, there are often insufficient financial resources in the start phase, especially with regard to the development component. This can form a barrier for small and medium-sized enterprises in particular.*

  What companies that are interested in international sustainable chain management can and cannot expect from governments is not always clear. Until now, Western governments have played a fairly reticent if not passive role. There is no policy framework for international sustainable chain management or a set of instruments designed to support the development component in commercial chains with developing countries. This is especially important for small and medium-sized enterprises that often run into difficulties in obtaining finance for the development component of chain management projects, especially in the start phase, for example for feasibility studies, training, pilot projects, educational courses, etc.

- *Western companies have to realise that moving too fast can undermine a sustainable chain management project. By acting too much out of self-interest and not treating the chain partners at the other end as equals, the weakest links in the chain will be trampled underfoot and there can be no shared ownership.*

  Lack of experience in building up relationships with partners in developing countries can in itself also form a threat. This is shown, for example, in wanting to see results too quickly, dictating the agenda too much or taking too little account of local customs. Building up a relationship based on trust requires long-term investment. Working with a long-term horizon is one of the basic meanings of sustainability. Sustainable chain management must not, in this respect, disrupt the culture and lifestyle of local people, but should emphasize the importance of creating shared ownership. An effective combination of local and global is required.

Case: Making the banana chain more sustainable

Ex-Chiquita employees have set up their own banana cooperative in Costa Rica. There are 69 members (so-called socios) and 200 plantation labourers are also affiliated. The cooperative is called Coopetrabasur and it has become the most important supplier of Fair Trade bananas to Europe.[18] In 1999, Coopetrabasur sold 13,153 tonnes of bananas, 60% of which was supplied as a Fair Trade product. By 2000, this percentage had risen to 67%.

Elia Ruth Zuniga describes what these cold figures mean for a banana worker as follows: "with Fair Trade our salary has risen quite a lot, which means we have a better life for our families. (…). We have water, electricity and a company house. You don't get these benefits if you work somewhere else." The legal minimum wage for a banana worker in Costa Rica is 179 dollars per month. The people who work for Coopetrabasur are paid 290 dollars per month.

Coopetrabasur bananas make their way to customers in Europe via supermarket companies like Albert Heijn and Laurus in the Netherlands, Co-op in Switzerland and England and similar supermarkets in Denmark, Belgium and Italy. The supermarkets buy in the Coopetrabasur bananas from AgroFair Europe BV, a company that combines agriculture with fair trade. AgroFair imports bananas and other tropical fruits and vegetables. The products are grown in a socially responsible and environment-friendly – where possible organic – way. Fruit that is grown organically is marketed under the EKO-OKE brand name in which ecological and social aspects are integrated.

Making the banana chain more sustainable means more than simply paying the producers a better price and making the production more environment friendly. Management of the entire chain on the basis of *people*, *planet* and *profit* has a much broader scope than management of the production alone. The most important difference is that sustainable chain management strengthens the position of the farmers in the commercial chain: 50% of the shares in AgroFair Europe are in the hands of Costa Rican farmers. Furthermore, Coopetrabasur receives direct access to the European market via AgroFair. The members of the cooperative share in the added value that is realised in Europe. The chain is becoming more transparent; communication and contact between the participating organisations are much more direct. Arturo Gomez, a member of the Cooprabasur cooperative, describes what it means for him personally: "I used to be someone who picked up boxes and loaded them onto a train. That was the only thing I had to do. I was just a farm worker and a go-between. In the new system, I have become an international businessman and can write Coopetrabasur Costa Rica on my products."

[18] Source: this information comes from the AgroFair website (www.agrofair.nl).

4. Interests and motives in international sustainable chain management

4.1 Introduction

If a product chain is to be made more sustainable, producers, transporters, processors and retailers have to cooperate. Sustainable chain management assumes that the chain partners no longer feel responsible for just their own part of the chain, but for the whole chain. Usually, the involvement of a broader category of stakeholders – government bodies, NGOs, consumers and research institutes – is needed or required. International sustainable chain management is therefore a process in which a large number of widely differing players are involved. All the players have their own interests, motives and agenda. This imposes demands on the cooperation process. In this chapter, the different participants are reviewed.

4.2 The producer

Agricultural producers in Benin or Costa Rica who grow bananas, coffee, cashew nuts or cotton do not have the luxury of having consumers nearby with a large amount of purchasing power. They produce goods for anonymous markets in Europe or North America. Their cashew nuts are processed in India and their cotton in Eastern Europe. The chain is usually not transparent; there is no communication or contact with the end-users. The price that, for example, coffee farmers receive for the raw material they produce is low; the chain is long and is highly segmented. Value in real terms is mostly added further on in the chain. As a result, Third World communities only benefit to a limited extent from their natural capital. The producers are in a position of dependence and are subject to capricious market forces and – just as importantly – to political measures of governments in North America, Japan and Western Europe that protect domestic markets. In principle, cotton farmers from Mali or Benin are able to compete with their European counterparts on an equal footing. Both groups of farmers can supply cotton for a cost price of approximately 1 euro per kilo. However, as long as cotton farmers in the European Union receive a fixed (subsidised) price of 2.80 euros per kilo for their product, the producers in Africa will always come off second best.[19]

[19] Figures taken from the 'EU wants to help coffee farmers grow French beans'. Message posted at www.oneworld.nl; 20 November 2002 reporting on an EU meeting on development cooperation. Outgoing State Secretary for Development Cooperation Van Ardenne referred to the differences in cotton prices as "unfair competition" and called for "similar practices to be banned in Europe."

For (small-scale) producers in developing countries access to (international) markets is an important motive for participation in sustainable chain management. It offers an opening for a better or fixed price for their products. Cooperation with permanent chain partners gives them more social security and, in this sense, fits in with their survival strategy. The benefits that other chain partners can receive in this respect stem from the fact the anonymous suppliers who depend on whims of the market become, in sustainable chain management, co-developers. Their contribution obtains more equality, but is also essential for an improved price-quality ratio of the end product. This subsequently enables the producers to earn more money.

It is important to pay explicit attention to development components such as facilitating the *empowerment* of (small-scale) producers at the start of the chain and strengthening their knowledge, capacity and market access. Sustainable chain management is, after all, about 'the success of working together' and it benefits from the equal participation of all the chain partners and therefore from paying additional attention to the emancipation of the weakest link in the chain – the small-scale producer. The removal of the restrictions faced by small-scale producers can supply a significant amount of leverage for success. Based on a number of case studies, the SMO lists "investing in an (African) chain partner" and "exchanging knowledge with an (African) chain partner"[20] as generally applicable points of attention in sustainable chain management.

4.3 The processor

Developing countries often lack the expertise, capital and/or knowledge to set up processing plants that will add value to their products within their own frontiers. Because of the unfavourable local investment climate and obsolete factories, a large number of developing countries only have limited processing capacity. For example, cashew nuts are grown everywhere in Africa, but processing in Africa has completely stopped.

Yet the accepted notion that, in order to combat poverty, it is preferable to relocate processes that add value to products geographically to developing countries, should be reconsidered. The experiences of the NIPS – and Fair Trade – show that it does not really matter where value is added as long as small-scale producers also benefit from the process. This implies building in guarantees to ensure that the interests of small-scale producers are represented elsewhere in the chain. This can, for example, be expressed by eliminating middlemen, agreeing long-term fixed prices to give producers certainty and by giving agricultural cooperatives access to and/or a financial interest in the (retail) companies at the other end of the chain.

[20] M.P. Hillen and N. van Geelen; Africa-Europe – reciprocal opportunities in the new economy. SMO publication 2000-4; page 63.

4.4 The (Western) company

Companies have a privilege unknown to mere mortals – they do not have to die. This does, however, mean that they should (have to) be additionally responsible.[21] In this respect, Western companies are confronted with the challenge of responding to new consumer demands that focus on health, exclusivity, quality and self-realisation. Josephine Green, head of the Trends & Strategy department of Philips Design, formulates this as follows: "a holy alliance is being marked out that will lead to a future in which the social identity of a brand or company in terms of sustainability and responsibility will be just as important as brand identity."[22] Sustainable chain management is in line with this transition from quantity to quality.

In international chain management, Western companies mainly play a role in the processing and *retail* phase. Viewed from the perspective of these companies, the importance of chain management involves:
- Fixed partnerships offer the possibility to adapt production more quickly and to better anticipate (future) market trends, because the distance between the chain partners is reduced, for example, through the application of ICT.
- In addition, chain management offers these companies the possibility of obtaining control of the various processes in the chain. This is also important logistically. To reduce delays and irregularities in supply, and to be able to exert influence in this respect, it is important to have good relationships with the other partners in the chain. Quality assurance, logistics and distribution can be improved by drawing up specifications, making concrete agreements and cooperation.
- (Inter)national legislation and codes of conduct related to social and ecological aspects of products and production processes increasingly require companies to have more insight into what happens elsewhere in the chain.
- Lastly, companies have to deal with the concerns of consumers effectively. These can be related to the quality of the products themselves, but also to the social and ecological circumstances under which products are manufactured.

4.5 Other stakeholders

The government

In Western Europe, governments generally play a reserved role in sustainable business. According to many of them, CSR is primarily subject to an interplay of social forces in respect of which legislation is not needed.[23] However, in

[21] Charles Handy; The real challenge in doing business. In: Visions of Socially Responsible Business Practices. Assen; 2000 – page 101.

[22] 'People occupy centre stage in the economy' – interview with Philips-strategist Josephine Green. In: Visie Magazine Extra; Mees Private Wealth Management; July 2000.

[23] Most companies share this position, although CSR trendsetters often advocate tighter regulation.

specific areas – such as food safety – there has been an increase in the amount of legislation, which is designed to curb the health risks for consumers, but has had a knock-on effect on CSR in general and on sustainable chain management in particular.

The facilitating role of governments in respect of CSR includes drawing up international guidelines and conventions, such as the OECD directives. These guidelines indicate what can be expected of internationally operating companies and involve, among other things, environmental impact, accountability, working conditions, etc. However, guidelines like these are voluntary and not binding in nature. Of all the Dutch companies that import products from or invest in developing countries, slightly more than one third indicated that they were familiar with the OECD directives.[24]

A policy framework and set of instruments geared to sustainable chain management with developing countries could help clarify exactly what companies can and cannot expect from the government. In this respect, governments should focus primarily on supporting the development component of commercial chains with Third World countries.

The role of a chain manager (see paragraph 4.6.) also deserves special attention. Western governments can (through their embassies) claim this task for themselves or outsource it to other organisations. Working in this way improves the chances of success of sustainable chain management projects, especially the ones in which small and medium-sized enterprises are involved.

Governments in developing countries can also contribute significantly to the success of chain management projects, for example, by creating a stable political and investment climate, good governance, laying on port and shipping facilities, the efficient processing of goods through customs, etc.

The NGO community

NGOs come in all shapes and sizes – their strength is their diversity. The global NGO sector – "the eighth largest economy in the world"[25] – has over the last fifteen years, according to a study carried out by the World Economic Forum[26], gained more influence and is more trusted by the general public than company directors, international institutes and national governments.

[24] (Dutch) Ministry of Economic Affairs;Entrepreneurship Monitor; Theme Special CSR (winter 2002-2003); page 15.

[25] SustainAbility; The 21st century NGO. London; 2003 – page 2.

[26] Press release World Economic Forum; 'Declining public trust foremost a leadership problem.' Geneva; 14 January 2003. "The survey asked respondents how much they trust various leaders "to manage the challenges of the coming year in the best interests of you and your family." Of the eight leadership categories tested, leaders of NGOs are the only ones that enjoy the trust of a clear majority of citizens across the countries surveyed."

Many NGOs are traditionally at their best in campaigns against companies. They are better at confrontation than cooperation. Most NGOs are, in other words, not attracted to what they want to create, but are repulsed by current reality. As long as NGOs are against something, what they are actually for tends to be less clear. The consequence of this is that NGOs are traditionally more oriented towards stragglers than trendsetters. However, from an NGO perspective, the question 'what do the innovative and pioneering companies (in the area of sustainable development) do' is just as interesting as 'what should we do with the stragglers'?

NGOs can increase their impact by moving on from anti-company campaigns to developing market expertise and thus influencing and focusing on entire sectors of industry. This would inevitably mean that they intervene "'higher up' in the system, reframing markets to reward positive behaviour and to penalise negative behaviour"[27], which would lead to "more fundamental changes within companies and value chains."[28] This context makes international sustainable chain management an interesting work area, in which NGOs could initially function as whistle-blowers criticising the social or ecological policy of companies. Subsequently, they could show companies the way to new markets for sustainable products, such as sustainably produced tropical wood. This could lead to sustainable chain management projects that are facilitated and, to a certain extent, legitimised by NGOs. The latter is important in convincing consumers to buy the sustainable (end) products.

From a company's perspective, bringing in an NGO is, at the very least, highly recommended. Strong local NGOs in developing countries can play the role of 'watch dog' providing incentives for and influencing the process of sustainable economic development. The can also play a role in mediating between local knowledge and (traditional) norms & values on the one hand and global markets and multinationals on the other hand. Furthermore, local NGOs in developing countries are often trusted locally.

Western NGOs can play a role in strengthening local NGO-structures in developing countries by capacity building, by identifying partners with which Western companies can cooperate and by integrating local NGO structures in global networks and discussions.

The consumer

The average consumer is, in a certain sense, a walking contradiction. He/she will sometimes buy organic products and sometimes a hamburger at McDonalds. He/she is likely to support campaigns run by environmentalist organisations for organic meat, but will just as easily prepare a meal that is a combination of cheap battery hen and 'toxic' potatoes. It should therefore be asked whether consumer behaviour can exert any influence on the sustainability policy of companies.

[27] SustainAbility; page 33.

[28] SustainAbility; page 29.

As consumers, people pay attention to safety, health, flavour, quality and price. As civilians, they are concerned about the environment, the Third World, child labour and similar issues. Chris Dutilh of Unilever describes this apparent dichotomy as follows: "as civilians, consumers regard products from a broader social perspective and can become incensed about the issues involved without ever really intending to buy sustainable products, for example coffee with the Max Havelaar certification scheme. (...) Only a small group consciously combines self-interest and social commitment when buying products." This would seem to justify the conclusion that consumers are more willing to punish non-sustainable companies with their buying behaviour than to reward sustainable companies. "A comparative 'green' advantage exists only when all else – meaning price and quality – is equal. Consumers may like to think about doing the right thing; research shows that they just don't do it."[29] The amount of influence exerted by concerned consumers on the market is therefore relative.

One could also conclude, however, that apparently existing marketing concepts are no good and that new marketing concepts are needed for sustainable goods in order to tap into the unused potential of socially-aware consumers. In this regard, Mahangi talks about part-time socially-aware consumers and claims that this group is growing spectacularly. This provides opportunities for mainstreaming the marketing and sale of sustainable products.[30] They advocate no longer using ethical motives as the goal of marketing. If sustainable products are sold on the basis of purely ethical motives, they will only reach a small niche market of socially-aware consumers. The part-time socially-aware consumer, however, requires a different approach, in which sustainable products are transformed into mainstream desirable articles; marks of quality for sustainable products acquire an exclusive, luxurious image; or new sales channels and shop formulas are developed.[31]
Fair Trade also seems to be adopting this strategy. The image of the new line of clothing of this organisation is trendy instead of being primarily 'for charity'. The quality, image and mark justify the more expensive price. The objective is to ensure that sustainable products can hold their own on the 'normal market'.

4.6 The role of the process manager

Many international chain management projects are made up of a collection of separate initiatives and often "efforts are insufficiently structural to generate a permanent impact."[32] Promoting a structural approach is an important argument for appointing a separate process manager for international chain

[29] Tom Rotterham; I say, therefore I do. In: Tomorrow – global sustainable business; June 2001; page 39.

[30] Mahangi; page 10.

[31] M.P. Hillen and N. van Geelen; Africa-Europe – reciprocal opportunities in the new economy. SMO publication; 2000-4. Page 106.

[32] M.Mahangi, J.R.Vergeer and M.P.Hillen; The superlative step in business ventures – Good practices for SRBP in Third World countries. SMO; January 2003; page 20.

projects. The need for this is especially noticeable at the small and medium-sized enterprise level. Large companies are more likely to take on the responsibilities of chain management themselves.

A chain manager facilitates, acts as a catalyst and mediator between the various partners in the chain, alleviates people's fear about diving in at the deep end and contributes to the development of chain alliances. Chain management requires an effective balance between detachment and involvement. The chain manager is a process manager that:
- has access to relevant knowledge and networks in developing countries;
- either has sufficient project funds to pay for specific components of chain management (such as feasibility studies) that are difficult for the market parties involved to finance on their own;
- or is familiar with and can access subsidy schemes that can play a role in this respect;
- employs a work method focused on building a network of relations between civil society and private and public organisations;
- reduces the distance between partners in the chain;
- encourages and ensures that the needs of small-scale producers at the start of the chain are met and not just the requirements of consumers at the end of the chain in Western countries, or that small-scale farmers are regarded as equal partners in the chain, which means improved access to markets and to expertise, better prices, training and education, a higher degree of organisation, etc.
- ensures that 'ordinary' chain management is transformed into sustainable chain management. In other words, chain management that entails equal participation and social and ecological improvements.

Case: Making the coffee bean chain more sustainable

General background information
Because of structural over production, coffee prices on the world market have slumped. The global coffee crisis is having a negative effect on the sustainable management of the product chain. Low prices are forcing coffee farmers to increase production and reduce production costs. This has led to a rise in the use of agricultural pesticides. This has increased health risks and had a negative effect on the quality of the coffee as well as the environment. Furthermore, growing productivity is increasing the market volume and putting the prices on the world market under additional pressure. This vicious circle has caused problems for millions of small-scale coffee farmers. "Taking inflation into account, the 'real' price of coffee beans has fallen dramatically (…): it is now just 25 percent of its level in 1960. This means that the money that farmers make from coffee can only buy one-quarter of what it could 40 years ago."[33]

[33] Oxfam; Mugged – poverty in your coffee cup. Oxfam International; 2002; page 9.

Escape routes

In Central America, the effect of the coffee crisis has been compared with "another (hurricane) Mitch in terms of income losses."[34] The crisis has also hit the heart of the Costa Rican economy. Coffee is the country's second most important export product. Decreasing incomes are leading to a downward social-economic spiral in the coffee-producing regions of Cost Rica. As a result, in 2001, the government felt obliged "to make US$73 million available in interest-free emergency credit to farmers."[35]

Costa Rica is poorly positioned to compete with coffee supplies from other countries in terms of price. This is caused by the relatively high Costa Rican production costs, which, in turn, are due to the relatively good social conditions. For this reason, price competition would virtually automatically lead to a worsening of the social-economic position of coffee producers.

Costa Rican farmers have devised survival strategies to soften the blows of the global coffee crisis:

- Besides coffee, most farmers grow their own food products and often have fruit trees and livestock. In this way, they create a buffer.
- Some farmers switch to other agricultural *commodities* to reduce their dependence on coffee. The ornamental plant project is an example of this. In this project, the coffee cooperative, COOPEINDIA, which has a thousand members, has set up an independent trading company for ornamental plant seedlings together with the Dutch nursery Ravensbergen. The seedlings are exported to the Netherlands where they are further grown to maturity.
- The third strategy that farmers use is to make their coffee production more sustainable and – as an extension of this – a marketing strategy that exploits this sustainability as a competitive advantage. The Suscof project is an example of this strategy.

The Suscof project

Suscof is a consortium in which six Costa Rican coffee cooperatives representing a total of almost 10,000 farmers work together. Over the past few years, the consortium has, with support from organisations in both the Netherlands and Costa Rica, taken a number of pioneering steps to make the production and processing of coffee beans more sustainable. In addition, Suscof has set up its own sales organisation that consults directly with overseas customers in Western Europe. Dutch coffee roaster Ahold Coffee played an important role in the initial phase. The fact that the company looks back on the set-up of the company with some pride became apparent when Ahold Coffee gave its business relations a Christmas and New Year gift of two packs of Suscof's sustainable coffee at the end of 2001.

The primary requirement for being able to market sustainable coffee successfully is quality. The reason for this is that quality is the only factor that can justify the higher

[34] Idem; page 12.

[35] Idem page 13.

price. Such quality guarantee assumes that monitoring systems have been put in place. Suscof has indeed successfully introduced its own quality control systems:

- In the production phase:
  To provide insight into the cultivation method, a monitoring system has been set up. In this system, various criteria regarding quality, environmental aspects and health have been incorporated. The parameters were based on the so-called *Good Agricultural Practices* (GAP) protocol. GAP is an initiative by a number of large-scale European *retailers* to set up a minimum standard for sustainable production methods with which suppliers must comply. GAP has now been 'applied' to the coffee industry in the form of an international code of conduct. To monitor compliance with the code, a separate organisation has been set up called Utz Kapeh. Suscof will receive certification from Utz Kapeh in the near future.

- In the processing phase:
  The processing of coffee has a drastically negative impact on the local environment, the most important aspects of which are excessive consumption of energy, water and firewood, and the production of large quantities of organic waste (pulp) and heavily contaminated waste water. The cooperatives affiliated with Suscof now process coffee using an environmental and quality management system that is ISO certified (ISO 14001 and ISO 9001). It is however not exactly clear whether the coffee market rewards coffee-processing companies for having ISO 14001 certified production processes.

The marketing of sustainable coffee
The most decisive factor for the success of Suscof is the marketing, or sale of its coffee to customers in Western Europe and North America. Because Suscof does not aim to penetrate the market on the basis of a lower price, but on the basis of higher quality – which also justifies the higher price – the consortium has to compete with and prove itself in niche segments. The first of these is 'organic' coffee and the second is 'social' Fair Trade coffee.

Suscof wants to create a distinct profile for itself in these two market segments in the following way: "there is no initiative that explicitly addresses sustainability in the full sense of the word (social, economic and ecological) and the trade channel at the same time."[36] Because organic and social are gradually merging together, Suscof will mainly have to attempt to benefit from organising the trading process differently in which direct marketing will be the most important criterion for giving Suscof an edge over its competitors.

With respect to direct marketing, Suscof appears to be an anomaly. Although the consortium operates as an intermediary between cooperatives and farmers on the one hand and buyers (mainly) in Europe on the other hand, many aspects of the way in which it works are atypical:

[36] ISCOM; The Sustainable Coffee Project – six Costa Rican cooperatives launch initiative for sustainable coffee. Utrecht; 14 November 2002; page 47.

- The coffee chain in general "has clearly become a buyer-driven chain with a trade-led industrialisation, in which roasters dominate the down-stream marketing, transportation and distribution (...)."[37] Suscof, however, attempts to control the next links in the chain from the supply side.
- Although *middlemen* in the coffee industry usually play a pivotal role, Suscof has adopted a strategy of direct contact and communication with buyers that eliminates the *middlemen* and thus reduces costs.
- Using sustainability to create a distinct profile, Suscof hopes to be able to capitalise on the changing requirements of coffee roasters and supermarkets quickly and professionally with direct marketing. "This would allow Suscof to obtain a market position without facing major competition"[38], was the (rather optimistic) conclusion of the Institute for Sustainable Commodities (ISCOM) that supported Suscof with this new approach.

SUSCOF RESULTS

Suscof total export by year (bags of 46 kilograms)

	2000	2001	2002	2003*
Ahold Coffee (Zaandam)	4,157	9,093	9,576	18,780
Douque's (Amstelveen)	-	2,888	-	-
ICS (Dordrecht)	-	1,408	939	1,408
Others	-	-	-	15,112
Total	**6,157**	**13,389**	**12,517**	**35,300**

* expected

Suscof Group

Cooperative	Location (city, state)	Total members	Production of green coffee (bags of 46 kg)	ISO 14001 (environmental)	ISO 9001 (quality)
CoopeAtenas	Atenas, Alajuela	1250	45,414	XX	
CoopelDos	Tilaran, Guanacaste	900	20,481	XX	XX
CoopeCafira	San Ramon, Alajuela	2550	59,580	XX	
CoopeMontes de Oro	Miramar, Puntarenas	400	11,183	XX	
CooproNaranjo	Naranjo, Alajuela	2680	112,285	XX	XX
CoopePalmares	Palmares, Alajuela	1760	45,702	XX	XX

[37] Idem; page 49.

[38] Idem; page 48.

5. From idea to practice

5.1 Introduction

Making international commercial chains with developing countries sustainable is not simple and takes time. Because every situation is different, there is no quick fix for chain management. In this chapter, the various phases that can be differentiated in the process that leads to sustainable chain management are outlined.

5.2 The start phase

The initiative for setting up a chain management project is usually taken by companies at the end of the chain. This is often because they feel consumer organisations breathing down their necks as illustrated before (Albert Heijn, Unilever). It is, however, important to organise the active involvement of other chain partners as early as possible in the process thus preventing that chain projects become too donor-driven and do not or insufficiently represent the interests and priorities of producers and companies in developing countries.

In the start phase of an international sustainable chain management project, the main emphasis is on acquiring sufficient and accessible information. Dutch companies that want to start sustainable chain management projects must, for example, decide which producers/cooperatives or companies in which (developing) countries would be suitable partners. They will want to find out what the experiences of other companies are, will want to know about local regulations and available opportunities for externally financing the project. NGOs and embassies can be relevant partners in the information phase by opening up their networks and by contributing to the establishment of structures for public-private cooperation.

It is also possible to adopt a reverse – recipient-driven – approach. The starting point for the chain management projects that the NIPS has carried out together with Benin was, for example, a programme document ‘Sustainable economic development’ that was drawn up on the basis of a multi-stakeholder dialogue that took place in Benin. The Dutch component was subsequently ‘glued on top’ with the objective of linking preferences in Benin to opportunities in the Netherlands. In this way, the priorities and interests of the recipient country formed the basis for starting the projects.

5.3 The research phase

Each individual partner has their own motive for participating in sustainable chain management. For farmers in developing countries, social aspects are, for example, important as well as access to Western markets; the main consideration of the end-users is guaranteed quality. In the research phase, studies and company visits are needed to examine how diversified interests can be brought together in a trade relationship based on sustainable chain management and to obtain insight into what is necessary to be able to do this. The identification of threats and opportunities, the way in which each link is organised, the interests, requirements and orientation of (potential) chain partners are, in this respect, special points of attention. In the research phase, the main emphasis is on adding depth to and enhancing the available information. In this way, more insight is gradually obtained into the agenda for the implementation phase of the respective project.

5.4 The chain consultation phase

Putting the links in the chain together and bringing in other relevant stakeholders is referred to here as a separate phase. This process often involves people and organisations who have not worked with each other before or who are even unaware of each other's existence and who are unequal in an economic respect. In this phase, it is important to make agreements about organisation, prices, credit facilities, knowledge transfer, etc. Consultations at an early stage can also play a significant role in building up trust between the chain partners and at the end of this phase, a strategic alliance or joint venture can be forged to formalise the cooperation between them.

5.5 The implementation phase

The implementation phase of a sustainable chain management project usually consists of a number of widely diverse components:

- Training, education and knowledge transfer has to give producers at the start of the chain insight into the commercial process, make them aware of their position in the chain and convince them of the need to supply high-quality products so they can retain their position. This type of process contributes to the empowerment of producers, which enables them to develop into more equal commercial partners. Elements that play an important role are the reduction of the distance to and ignorance of the market. Making the market more predictable – regular customers/chain partners, price guarantees and long-term agreements – will help small-scale producers. Eliminating middlemen and the need for things like credit facilities can contribute to the motivation of small-scale producers.

- As part of the drive to professionalism, improving efficiency and certification often require explicit attention. Although the basis of cooperation in the chain is primarily based on mutual trust, certification can harmonise the agreements and objectives of the chain partners. It also provides consumers with guarantees and helps stave off unwanted competition on the basis of quality. Certification can take the form of a company or product guarantee. Certification usually also requires long-term support from external advisors and a certification organisation. Furthermore, obtaining certification often demands investments in (for example) cleaner technology or changing from environment-unfriendly to ecological production methods.

- Usually, making commercial chains more sustainable also imposes requirements on the organisational structure of the producers at the start of the chain. Contemporary monitoring and certification systems are not normally tailored to the small-scale operations of business partners in developing countries: “a lot of small-scale farmers from Kenya can no longer supply fresh beans to the European supermarket chains, because they cannot individually afford the costs of the new certification process”[39], the Dutch Minister for Development Cooperation reported, for example, last spring. Certification can be a reason for small-scale farmers to organise themselves in a cooperative. Another reason for doing this is that it makes it easier for them to assume the role of an equal market partner.

- (Western) companies at the end of the chain will, in this phase, have to be patient, help build up confidence and, by investing, they can contribute to the success of the projects in which they are involved. Because there is a large price difference between raw materials and end products in many cases, this type of investment need not generate an enormous price increase. Small-scale technical and/or financial assistance can have a significant impact especially in the transition period.

5.6 The evaluation phase

Sustainable chain management projects often require additional financial and other resources to start up. Usually, the resources are only available for a limited time. This means that, after a given period, a project has to be able to be self-sufficient. The financing of the start-up phase with public funds cannot continue indefinitely. The chain manager will pull back and the NGOs or government and research institutes that participated in setting up the project will also take a step back. In this phase, we see whether the initial investments in the joint venture are sufficiently stable and can guarantee long-term continuity.

In the evaluation phase, it is important to map out the experiences and ‘lessons learnt’ properly. Using this procedure as a basis, a number of ‘best practices’ can be gradually formulated that enable projects to be scaled up. Some of the lessons will be on a general level; others will entail sector specific experiences.

[39] Quoted from a speech by Agnes van Ardenne, Minister for Development Cooperation, at the VITE International Development Conference on the match between multinationals and developing countries. Tilburg; 13 May 2003.

Case: Making the cotton-textile chain more sustainable

General background
The world market for cotton is in a deep crisis. Since the middle of the 1990s, cotton prices have halved. Benin in particular and sub-Saharan Africa in general have been hardest hit. In this region, more than ten million people depend directly on cotton production. In Benin, cotton is the only source of income for approximately 100,000 agricultural families. Because they have nothing else to fall back on, poverty amongst cotton farmers is rising. This development can largely be blamed on agricultural subsidies in the United States and Europe. The federal subsidies that American cotton farmers receive are three times higher than the total volume of American development aid for Africa.

The profit and loss account of American cotton subsidies

- In 2001/2002, cotton farmers in the United received subsidies totalling 3.9 billion dollars.
- As a result, the BNP of Benin fell by 1.4 percent and export revenue from cotton by 9 percent during the same period.
- In 2001/2002, Benin’s export revenue from cotton amounted to 124 million dollars. Without the US agricultural subsidies, this would have been 157 million.
- As a consequence of the American subsidies, Benin therefore suffered a loss of income of 33 million dollars, which is the same as “twice its level of aid provision.”[40]

Sustainable chain management in the cotton/textile sector
The plan to set up a sustainable Benin-Netherlands textile chain is the result of two different lines of development:
- Firstly, the Dutch side of the story in which a coalition of NGOs (united in the Schone Kleren Overleg *(Clean Clothes Platform))* started to address clothing shops like C&A, Hema, Bijenkorf and V&D about their social responsibilities. The central issue in this respect was the willingness to switch to organic cotton. Timmermans Confectie set itself up as the potential supplier of products like baby clothes, bed linen and curtains made from organic cotton.
- Secondly, the Benin side of the story that is dominated by the poor environmental, health and income situation of small-scale farmers who grow cotton using conventional methods. The farmers spent a great deal of money on imported pesticides. 80 percent of the imported chemicals – including Endosulfan[41] – is used in the cotton industry. In 1999/2000, approximately 70 people died as a result of the (improper) use of these chemicals. It is therefore not surprising that many cotton farmers are interested in the development of organic cotton as an alternative.

40 Oxfam; Mugged – poverty in your coffee cup. Oxfam International; 2002; page 17.

41 In a number of countries, the use of Endosulfan has been prohibited or its sale is voluntarily banned. Various NGOs are demanding a worldwide ban on the production and use of this insecticide.

The cotton chain has a large number of links. This means making it more sustainable is complicated. For this reason, initially substantial investments have to be made in studies, company visits and the forming of three strategic alliances – one in Benin that will focus on growing organic cotton; one in the Netherlands for (the sale of) textile products made from biological cotton; and an international alliance linking the previous two.

The production
OBEPAB (Organisation Beninoise pour la Promotion de l'Agriculture Biologique) is an NGO in Benin attached to the local university that encourages the production and trade of organic cotton. Because of the involvement of OBEPAB, there is a gradual increase in the number of farmers that grow organic cotton. This is shown in the table below.

Table 1: evolution of the cultivation of organic cotton[42]

Year	Number of farmers	Percentage of women	Hectares	Seed cotton (tonnes)	Yield (kg/ha)	Price (FCFA)	Premium (%)
1996/97	17	-	10	4.8	494	240	20
1997/98	47	-	35	9.5	271	240	20
1998/99	113	10	102	35.9	352	250	11
1999/00	119	10	81	45.3	562	210	13.5
2000/01	283	80	168	72.4	431	240	20
2001/02	468	147	314	150.7	480	240	20

The yield of organic cotton per hectare is lower, but this is compensated in two ways. "Firstly, organic farmers do not have to pay back input credit loans (on average 30% of gross conventional cotton income). Secondly, they receive a premium of 20% above the local conventional price. The producer price is set at the start of the season. The purchase of the entire organic cotton crop is guaranteed by the project."[43]

To help the producers of organic cotton – most of whom are illiterate – to organise themselves, a great deal of attention is spent on developing education methods and training programmes (Farmer Field Schools).

The processing
In order to be able to attain the objective of realising sustainable production of cotton, it was clear from the start that the processing companies in Benin would have to modernise. There is after all no point in producing organic cotton unless it is used for expensive, high-quality products that can only be made with modern technology. This is also the most important bottleneck. The goal of locating as much of the processing (and thus added value) as possible in Benin appears to be difficult

42 Development of organic cotton in Benin – mission report June 2002; Obepab and Agro Eco. Page7.

43 Brochure 'Benin organic cotton project'; September 2002.

to achieve. Because it had to be assumed that Benin was (not yet) capable of exporting complete end products, a link had to be inserted in the chain between production in Benin and marketing in Western Europe in the form of a production alliance in Eastern Europe (Moldavia) that processes the semi-finished goods from Benin into end products.

Marketing and sales

The set-up of a sustainable cotton alliance in Benin will be worthwhile if there is a market for the products (in Europe). In the philosophy of Timmermans Confectie, market introduction is only feasible if the quality of the product has added value.

With this in mind, Timmermans Confectie has now developed an integrated trademark that works in the same way as a mark of quality in a combination of environmental, quality and social criteria.

The lessons

The feasibility of a sustainable cotton chain between Benin and the Netherlands will have to be worked out over the next few years. The (sub) projects that have already been carried out have revealed the bottlenecks and brought the parties involved closer together. In spite of the complexity of the chain, progress has been made in a number of areas:

- The number of producers switching from conventional to organic cotton cultivation is growing.
- This turnaround is flanked by training and educational programmes based on the model of the Farmer Field Schools that has proven success.
- The conversion also serves as an example; it radiates a positive image for the agricultural production in Benin in general and has attracted the interest of policymakers and politicians.
- The processing phase is the most difficult bottleneck.
- The sale of end products made from organic cotton in the Netherlands has not yet really started.
- However, there is now a registered trademark – and mark of quality – for organic cotton (from Benin).
- There is no ‘quick fix’ for making the cotton chain more sustainable.

6. Criteria and success factors

6.1 Introduction

The methods applied to international sustainable chain management vary from project to project and from product to product. Because every situation is unique, there is no universal formula for sustainable chain management. Each project also has to overcome different bottlenecks. In the cotton case study, this is, for example, the processing capacity in Benin, in the coffee case study, the marketing in the Netherlands.

6.2 Criteria

'Hard' criteria

- The 'baseline' is that the price-quality ratio of the end product has to be balanced and the continuity of (the supply of) the product has to be guaranteed. A balanced price-quality ratio means either that the product is competitive or that it has a special image that justifies a higher price.

  At the end of the day the vitality of a sustainable product chain is, however, not determined by market availability, but by sales figures. Experience has shown that the success of marketing strategy plays, for this reason, a dominant role and – vice versa – is also the greatest potential risk for the (economic) success of sustainable chain management. For this reason, it is a pity that marketing is often a closing entry in project financing that is difficult to finance. In the worst case scenario, this leads to capital destruction, especially if poor marketing nullifies previous efforts in the chain. A place on the shelves in supermarkets usually requires a basic investment in promotion and advertising. However, small and medium-sized enterprises in particular do not usually have the money to mainstream products in this way. In this respect, it is an anomaly that Ministries of Development Cooperation and development aid organisations mostly spend their money 'far away'. In the framework of sustainable chain management, this 'conditionality' should either be reviewed or covered by a flanking policy, because when all is said and done, good sales figures and supporting marketing activities in Europe will be extremely helpful to small-scale coffee farmers in Vietnam or Costa Rica.

- Certification and monitoring the chain process are important instruments in supporting marketing strategy. Consumers have to be able to rely on products having quality guarantees and that they are made and processed in an ecologically and socially acceptable way.

- Another 'hard' criterion is that chain partners have long-term commitments to each other. In this context, there has to be a willingness to make financial investments as well as investments in relationships and networks that support the knowledge, management skills and capacity of the producers. The 'profit' for the retailers at the end of the chain is that, as a result of these investments, they obtain improved and shorter lines of communication, which enables them to respond more quickly and more efficiently to the (changeable) demands of consumers.

'SOFT' CRITERIA

- Trust: in the commercial chain, it is important for the participants to be able to trust each other. In the same way that each participant has their own reasons for taking part, each participant also has their own reasons for wanting to be able to trust the other partners in the chain. In short, it is important to create a non-competitive framework for cooperation and to strengthen the bond between the different links in the chain so that each participant feels more responsible for the whole chain. Having a basis of trust allows the commercial chain processes to run more smoothly.

- Transparency and accountability: to bring the links in the chain, i.e. the buyer and the seller, closer together will bring about an evolution in which remote partners are becoming more involved and lines of communication are becoming shorter. There will be an increased sense of collective responsibility. But such progress will only happen if chain partners are transparent and accountable to each other and if decision-making is based on dialogue and consensus.

6.3 Concluding remarks

Sustainable chain management is a system aimed at marketing 'green', fair and affordable products. Integrated management principles and drawing up and implementing guidelines for all the steps in the process make the chain transparent. This will take time and requires investing in the relationships between and the operational management of chain partners. Advice, support, focus and feed-back are essential components. For sustainable chain management with developing countries, there is neither a 'quick fix' nor a 'one size fits all' approach.

International sustainable chain management defines a new window of opportunities that can, in the long-term, bring about many benefits for companies, societies and poor population groups. Being able to open the window depends on whether companies and other stakeholders are willing, in the context of CSR to integrate the three 'Ps' of people, planet and profit. Besides the individual responsibility of companies, the willingness of governments to deploy sustainable chain management as an instrument of development cooperation is also important.

(International) sustainable chain management (with developing countries) is receiving a great deal of attention, but practical experience in this area is still relatively limited. The fact that 40% of Dutch companies do not impose any CSR requirements at all on their suppliers shows that a large amount of real progress still has to be made.[44] Because many companies wait to see which way the wind blows, it is important to map out the experiences of pioneers and, in this way, create a learning infrastructure for international sustainable chain management.

Taking everything into consideration, management guru Prahalad hits the nail right on the head: “It is imperative, however, that managers recognize the nature of business leadership required in the (Bottom of the Pyramid) arena. Creativity, imagination, tolerance for ambiguity, stamina, passion, empathy, and courage may be as important as analytical skill, intelligence, and knowledge of the complexities and subtleties of sustainable development in the context of (the Bottom of the Pyramid). Finally, managers must have the interpersonal and intercultural skills to work with a wide range of organisations and people.”[45]

[44] (Dutch) Ministry of Economic Affairs; Entrepreneurship Monitor; Theme Special CSR. Winter 2002-2003; page 15.

[45] C.K.Prahalad and Stuart L.Hart; The fortune at the Bottom of the Pyramid. Undated.

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