

FINANCING OF SUSTAINABILITY PROGRAMMES IN SPICES

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Common Fund for Commodities



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STRUCTURE OF PRESENTATION

- Drivers of sustainability
- Promoting Sustainability in Spices / Agricultural commodities
- Common Fund for Commodities
- Technical Assistance , funding availability, and procedures to be followed



Sustainability - 1987, the Brundtland Report: *Our Common Future*

Elaborated concept of sustainable development as
“...development that meets the needs of the present without compromising the ability of the future generations to meet their own needs.” This statement asserts that economic development will not be sustainable, if the interactions between the three pillar of sustainable development - economic, environment, and social - are not managed through a win-win process.



Perceptions of sustainability

- Sustainability is carefully managing scarce resources.
- Sustainability aims to improve working conditions.
- Sustainability is meeting the needs of the present generation without compromising the ability of future generations to meet their own needs ;
- Sustainability is ensuring that environmental protection and economic development are complementary rather than antagonistic processes.



Perceptions of sustainability – contd.

- Sustainability is ensuring an equitable future and fair income for all; creating a just, inclusive society for all and creating equal opportunities for all without limiting the life for the future;
- Sustainability is the simultaneous pursuit of economic prosperity, environmental quality and social equality;



Perceptions of sustainability – contd.

- Sustainability is planning with integrated environmental, social, human and economic goals.

Sustainability is achieving three overarching objectives: (i) sustainable livelihood - eradicating poverty; (ii) protecting natural resources; and (iii) changing unsustainable production and consumption patterns.



Indian Spices



Source : IDH



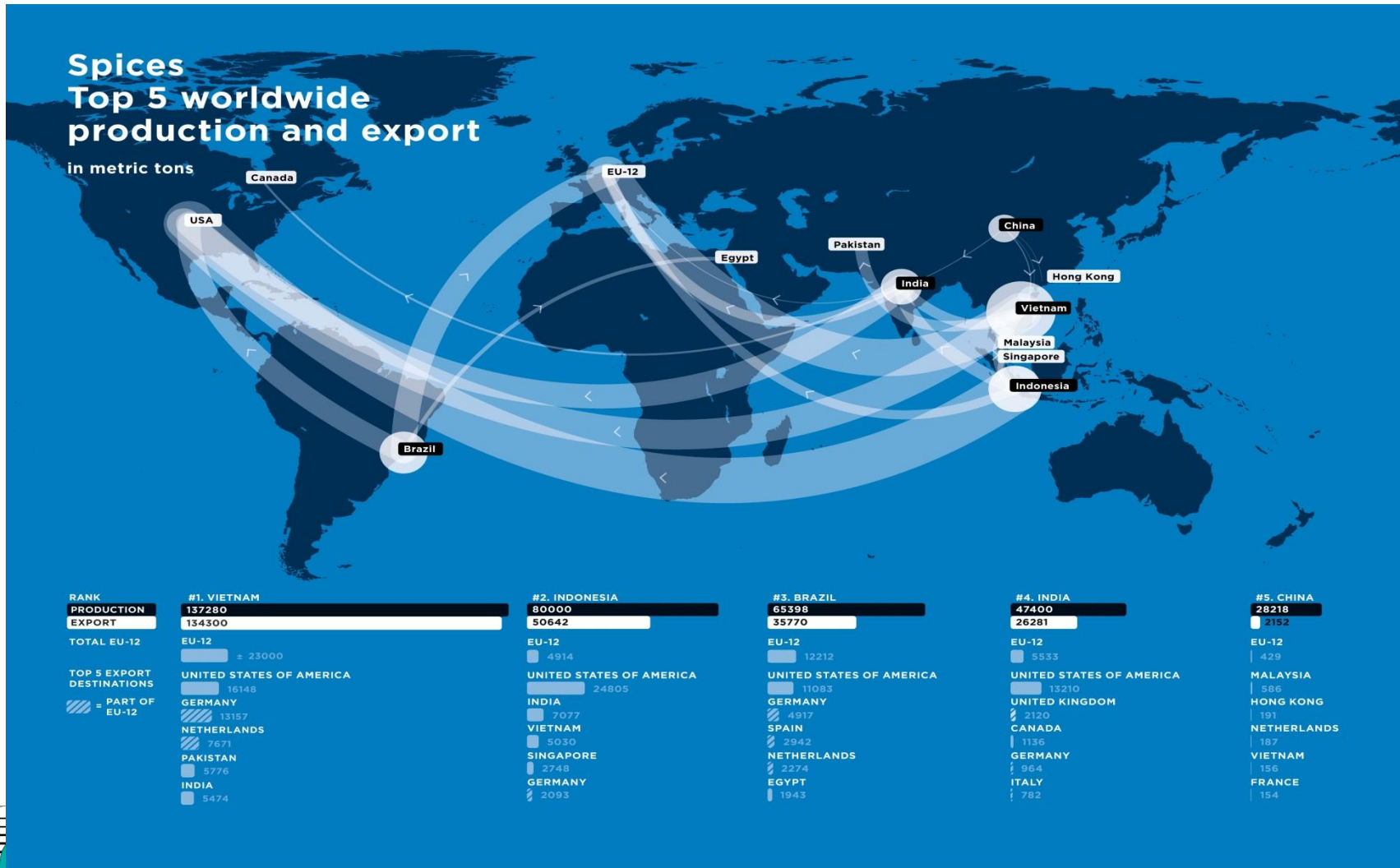
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SPICES

- Spices - a diverse group of dried seeds, fruits, roots, bark and other plant materials that are used as seasonings or to add colour or aroma to a wide range of foods and beverages.
- Demand steadily increasing as a result of population growth and rising incomes and the changing food preferences.
- The largest producers and consumer of spices are China and India. Largest overseas markets are European countries (particularly Germany, the Netherlands and the UK) followed by the United States.



Production and Trade



Difficulty in Defining Sustainability for Spices

- Immense diversity of products and countries of origin. Volumes are relatively low while the diversity of product types and source countries is rather large.
- Certification systems serve to demonstrate that the products comply with certain standards, or their method of production. Such systems are expensive to develop, introduce and maintain - Will it benefit small farmers?
- Should spice sector have its own sustainability certification system or apply existing certification schemes?



Headlines : Salmonella in Spices Prompts Changes in Farming

According to FDA, “The study identified 14 spice/seasoning-associated outbreaks worldwide that occurred from 1973 to 2010, resulting in less than 2,000 reported human illnesses and 128 hospitalizations worldwide.” The report furthermore states that, “Pathogen growth in spiced food is suspected to have played a role in some outbreaks, but it was not likely a contributing factor in three of the larger Salmonella outbreaks, which involved low-moisture foods.”

In an effort to enhance the spice safety, FDA will implement the following steps:

- Strengthen the capacity of regulatory systems in spice source countries
- Work with governments of spice producing countries to enhance food safety oversight by developing and formalizing programs such as the Indian EIC certificate program
- Improve storage practices for spices
- Improve Import Alert communication
- Enhance education and training for primary and secondary spice processors
- Increase inspections of foreign and domestic spice warehouses, spice processing, and spice pathogen reduction treatment facilities
- Alert/communicate with spice producing countries and the spice industry as a whole when observations suggest that the application of current preventive controls for pathogens and filth in spices may not be adequate
- Overhaul FDA product codes to allow for better identification of products and more precise tracking and trending of products by FDA



Drivers of sustainability in the spice sector

- Concerns over supply
- Corporate accountability of products sold. How and under what conditions are the goods produced goods produced i.e. child labour, working conditions, wages. Liability issues.
- Continuity of production and supply. Production and Trade is business proposition not charity. For stable supplies in the future, spice industry should be attractive to producers and processors. What matters most for producers is a good price. For traders and processors – price, quality, reliability and consistency of supplies and consumer preferences.
- Consumer preferences: Social and Environmental



Challenges and opportunities

- The growth of the artificial flavour industry. Increasingly, natural spices being replaced by synthetic substitutes, which are usually cheaper to produce and easier to source.
- The complexity of sourcing, the length of supply chains, the diversity of participants in each chain and the penetration of the spice chain into virtually every branch of the food system.
- Weather conditions, diseases, volatile markets make spice supply irregular.
- Buyers are still looking for high quality.



Challenges and opportunities

- Stricter food safety and health requirements. Retailers and consumers are demanding ever higher requirements regarding social and environmental aspects.
- Emergence of trade led standards
- Regulations and standards require good production inputs and practices, the application of quality management standards, traceability of products and approved social conditions. These are all conditions that require substantial investments in farm production and supply.



Challenges and opportunities – how to support sustainability initiatives

Many farmers and agri-trade companies lack resources to invest in improving the quality of and expanding their production. Farmers and spice exporting companies are abandoning export markets in favour of less demanding local and regional markets, or are switching to other crops.

Availability under threat?



Context

- Many features of the spice trade remain unchanged. Most spices are still grown in tropical or subtropical countries. Each chain still involves many players, and spices still change hands many times. Competition in the market is high, and may be becoming even more with the introduction of synthetic flavourings as new competitors and emergence of new sources.
- The context in which spice trade operates has changed dramatically. Market information is now freely available, and farmers in the most remote areas can access up-to-date prices. And the transfer of spices along each chain has been reduced from months to only a few weeks.



TYPICAL SPICE SUPPLY CHAIN



Source : KIT



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Requirements

- New requirements: quality standards and certification systems in the importing countries. The power of the buyer is no longer enough to guarantee the delivery of spices; other actors such as traders, producers and retailers are increasingly important.
- Many consumers and companies have added a new condition – that the spice trade should be sustainable.
- Compliance with regulations and rules.



Spice production and trade

- Most spices are produced by poor, small-scale farmers.
- Mostly sold on the spot market, or to traders who buy them directly at the farm gate, or the producers deliver them to a collection point.
- Often, sold to the same buyers. For a producer to commit to a buyer, needs a guaranteed and competitive prices. Supply contracts may work and help smallholders to access markets, but they do not provide guarantees to the buyer. If prices are not rewarding the producer might be inclined to shift to producing higher-value crops.
- A spice exporter/trader, a bridge between spice production and the market, has to deal with producers but also with buyers. On the one hand, deals with hundreds of small-scale farmers, usually through intermediate traders, who all want a good price for their produce. On the other, exporters need to deliver products that comply with quality requirements and, increasingly, with social and environmental standards in volatile markets.



Sustainable solutions

- There is a global trend to get closer to the sources of raw materials. Large customers are no longer looking for 'one-stop' vendors, but prefer to buy from specialized suppliers that provide value and expertise.
- For liability and safety reasons, customers expect suppliers to be accountable for the quality and traceability of their products.



Certification systems

A wide range of certification systems have been introduced in response to growing consumer interest in the economic, social and environmental impacts of trade. Such systems assign labels to products that comply with a defined set of standards.

In all of these certification systems, companies are required to undergo social audits, processes that enable them to assess and demonstrate their social and environmental benefits, and indicate where improvements are needed.





Source : IHT



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Scope of sustainability claims - four categories

- **environmental issues** (e.g. ecosystems and biodiversity, waste management);
- **labour conditions** (e.g. health and safety, human rights in the workplace, including child labour and forced labour);
- **local economic and community benefits** (e.g. business ethics, fair-trade, education, social rights);
and
- **food safety and quality** (e.g. traceability, hygienic production and handling).



Major Standards and Schemes

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



Three main clusters

(i) Economic sustainability (equal access to basic needs, fair-trade and incomes for disadvantaged workers and producers, employment business, quality, traceability, hygienic production and handling, as well as training).

(ii) Environmental sustainability (ecosystems and biodiversity, waste management, managing scarce resources, environmental protection, food safety, organic and ecological standards, soil protection, water, pollution reduction - transport, services, and housing).



Three main clusters – contd.

(iii) Social sustainability (health and safety, human rights in the workplace, including child labour and forced labour, equality, community development, inclusion, skills improvement, social services, corporate social responsibility, integration and protection of vulnerable groups).



What matters

- **For Consumers:** Sustainability claims substantiation
- **For Importers, Retailers, Processors, Manufacturers:** Reliability of Sourcing
- **For Producers and development practitioners:** Operational guidance
- **Regulators and Certifiers :** compliance



What can be done

- **Introduction to sustainability principles**
- **Definition and minimum requirements**
- **References to relevant legislations.**
- **References to existing schemes and their common denominators.**
- **Listing of approved producers and availability of certified products**



What can be done

- **Operational guidelines** for sustainable agriculture, packing and foods processing as well as standard operating procedures for verification/inspection, certification and labeling of defined product categories
- **Listing of accredited certification companies** and available training and support bodies.
- **Equivalency principles**



Possible interventions

Small-scale farmers can sell directly to final consumers, retailers, traders, and exporters. To develop an enterprise a short well organized supply chain is generally more effective. Membership of a farmer group or cooperative may enable access to more market opportunities with economies of scale and more support.



Possible Interventions

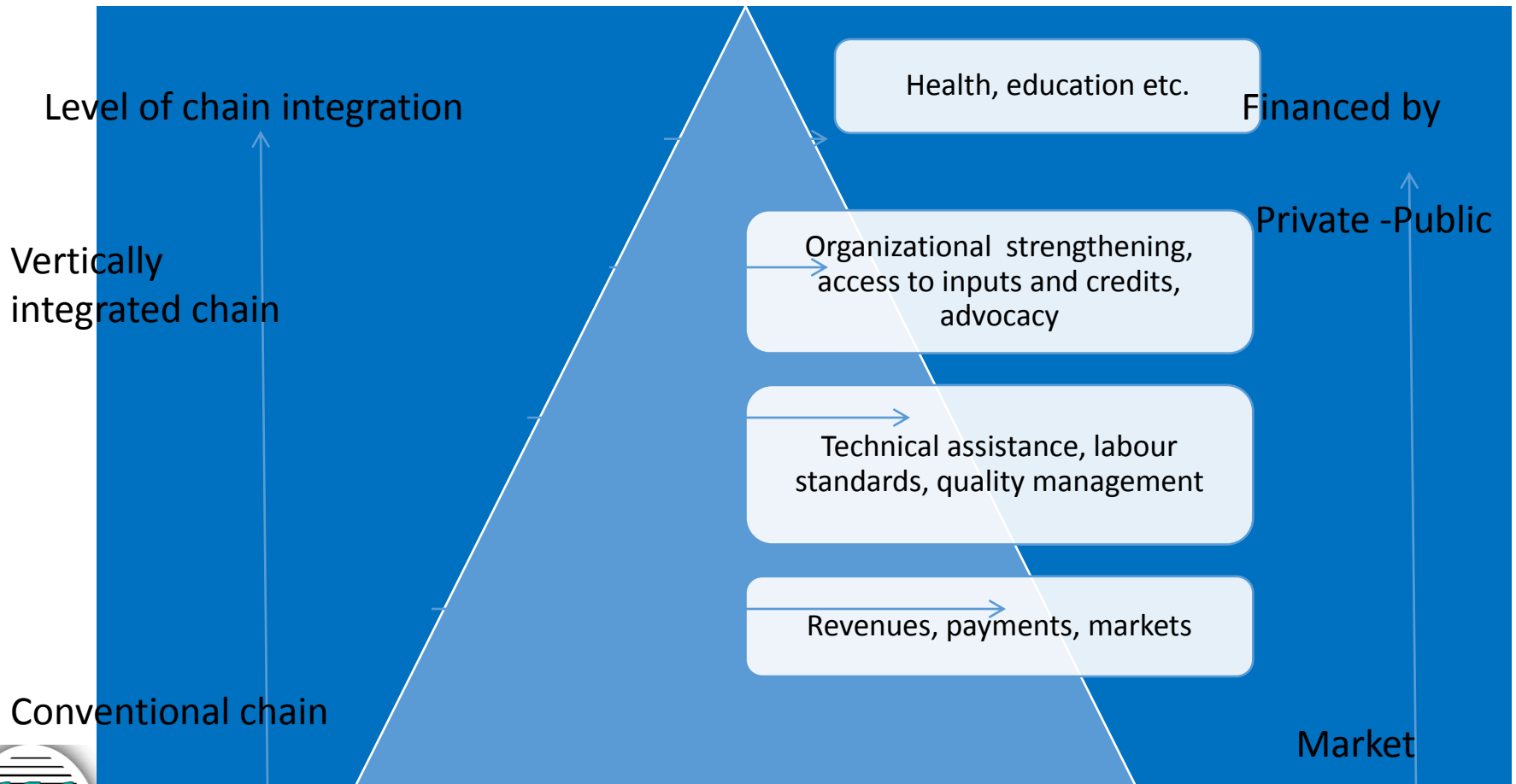
Having farmers involved in the programme makes economic sense in terms of traceability, information, availability and quality control.

Direct sourcing (i) increases gross profit margin, and (ii) investments, such as in added-value production.

From the farmers' perspective, participating in the programme brings financial benefits and information about the changing demands of end users. A processing plant at the source which brings added value to their crop is an indirect financial benefit and a source empowerment.



Investment pyramid



Taxonomy of development assistance

TDA	NTDA	Other flows
<ul style="list-style-type: none">• Traditional bilateral cooperation• Traditional multilateral cooperation	<ul style="list-style-type: none">•• Non-DAC flows• Philanthropic and institutional giving• Social impact investment• Global vertical funds• Public climate finance	<ul style="list-style-type: none">• Domestic resource mobilization• Export credits• DFIs (excluding those covered in OOFs)• Private remittances• FDI• Other private flows

Source: ODI, *The age of choice: developing countries in the new aid landscape*, 2013.

New donors: emerging market economies (EMEs)



New actors: private philanthropy and vertical funds

- **New landscape has evolved to include a number of foundations and non-governmental organizations.**
- **Emergence of Impact Investment funds**
- **New development partners are breaking out of the mold of traditional ODA financing, promoting their own economic and strategic interests, while at least partially meeting needs not addressed by traditional donors.**



COMMON FUND FOR COMMODITIES

- Inter-governmental development financial institution Members : 103 countries and 10 regional Inter-Governmental Organisations
- Main Functions – financing measures aimed at mitigating the vulnerability of commodity producers
- Approach – address vulnerability of the poor, i.e. (a) exposure to volatility, and (b) capacity to cope. Practical measures include diversification, value addition, market expansion, risk management etc.
- Projects structured around commodity value chains



CFC Vision

Contribute to social and economic growth, access to food and international and regional markets for Developing Countries through sustainable value addition to commodities and related value chains in a transparent manner.

Mission:

Be a leading partner in operationalized activities for commodities in Developing Countries



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CFC: Project Facts

- Financed over 370 projects
- Total cost ~USD 751 million, of which CFC funding of USD 307 million
- The CFC Secretariat carries out
 - Identification through open call for proposals
 - Screening
 - Appraisal of projects, and
 - Assembling a coalition of co-financiers



CFC Project Financing

- Proposals obtained through open call
- Project Partners– International organisations, Government, private sector, producer organisations, NGOs, etc.
- Financing: (1) CFC Funds, and(2) at least 50% of the project cost as Co-financing / counterpart contribution of which 50% in cash
- Financing Instruments : flexible depending on project needs



Objectives

The overall objective of the CFC is to: improve the income security and develop livelihoods of smallholder producers by increasing productivity, the sustainability of production, and encouraging the development of a mutually profitable relationship with processing and trading companies



Specific objectives

- Develop commodity sector markets and strengthen linkages between the value chain actors
- Promote practices that improve product quality and sustainability
- Create an enabling business environment.

Sustainable practice and quality development

- Quality development
- Sustainable production system
- Enabling business environment
 - Public private dialogue
 - Facilitate supporting policy development for commodity

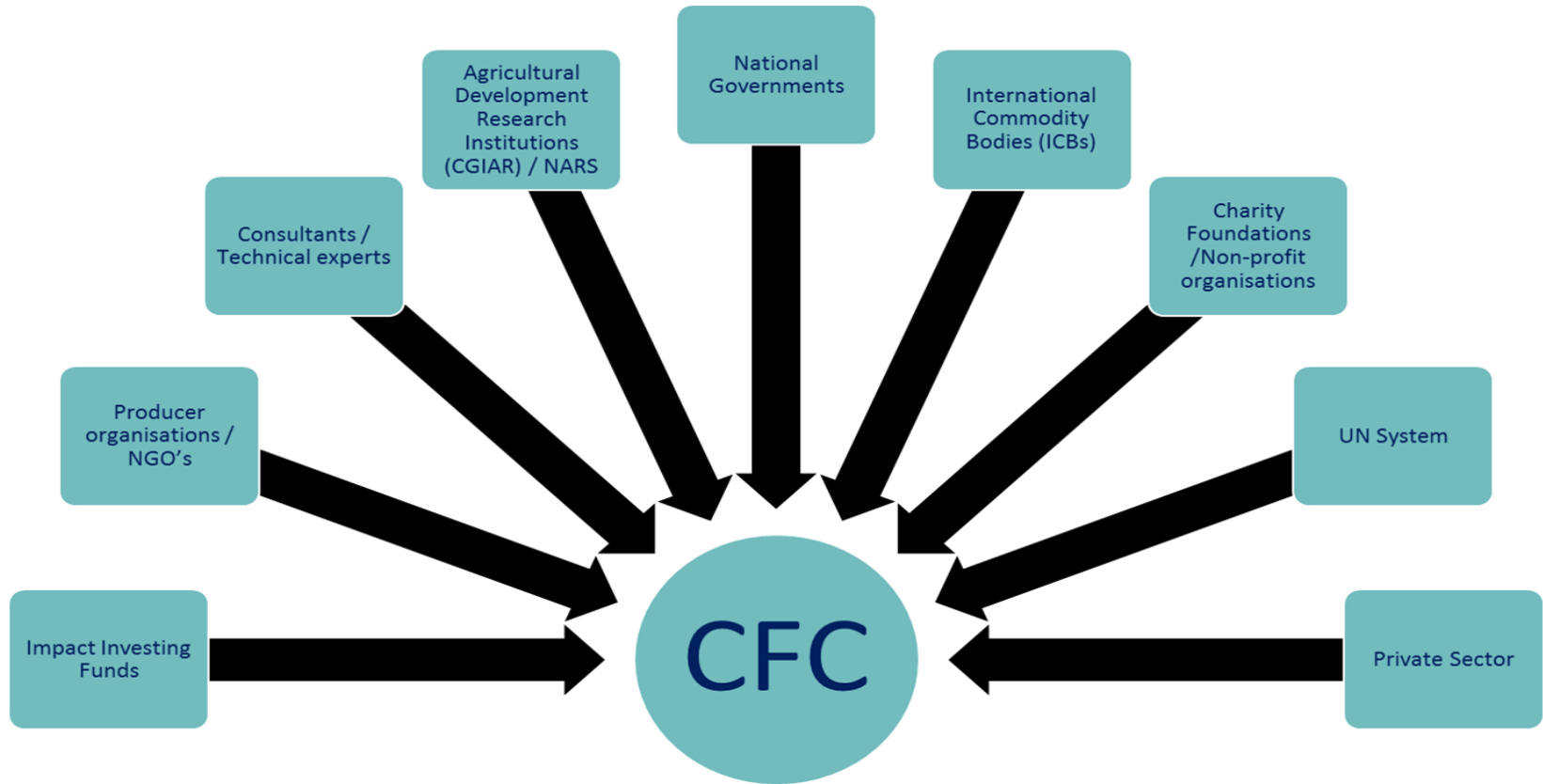


CFC's Approach

- In order to ensure sustainable growth, the CFC works closely with the private sector, Governments, farmers, and NGOs for developing a reliable farm-to-fork supply chain.
- Supply chain interventions are designed to "produce what consumer wants" rather than "sell whatever is produced".
- The intention is to production of "quality assured" and "identity preserved" commodities at globally competitive prices.



The CFC Network



Commodity Sector is interlinked

- Linkages across sectors
- Linkages across industries
- Linkages across Ministries
- Need for policy coherence to obtain maximum leverage from commodities
- National, regional and international cooperation



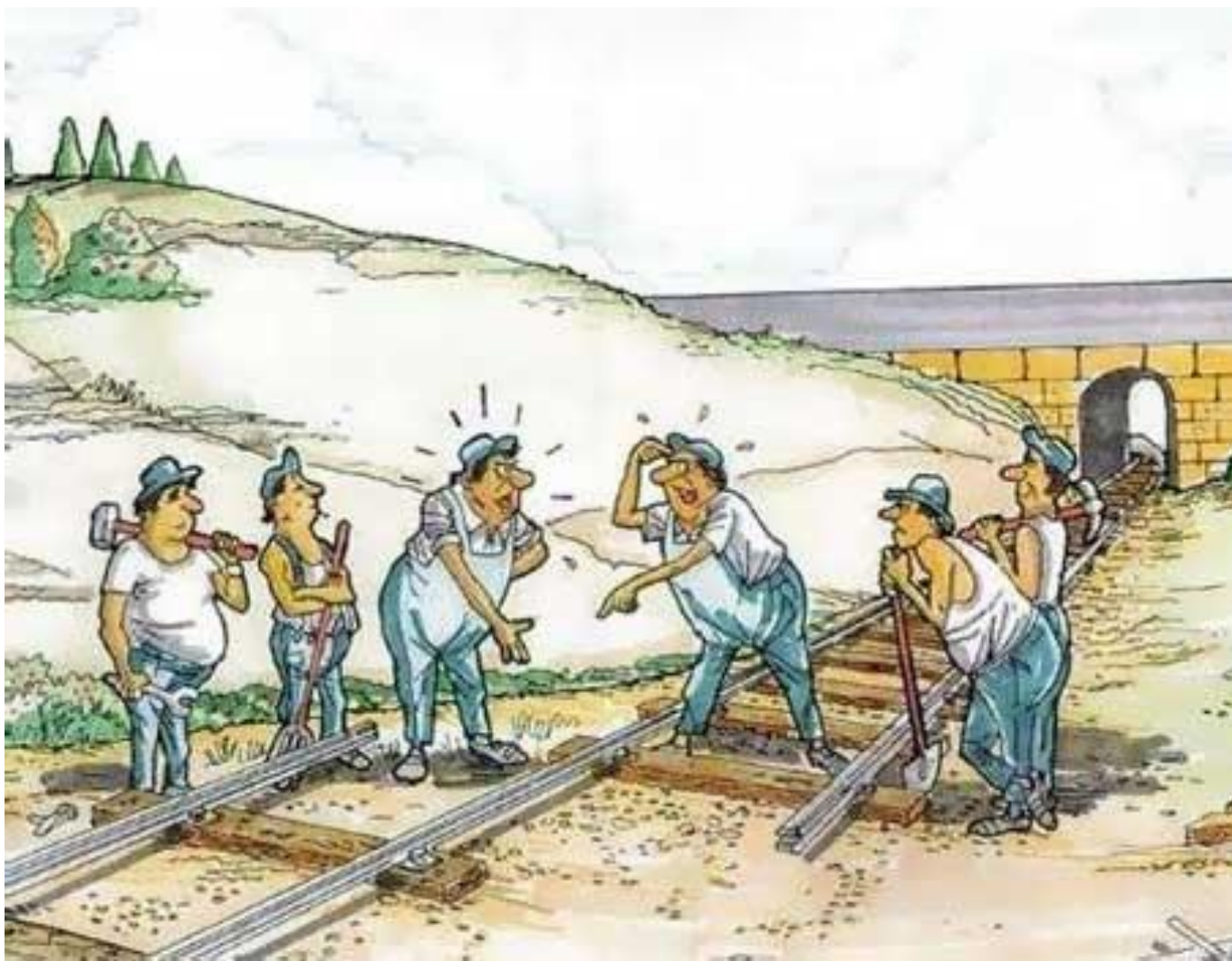
Working together for agreed outcomes

- Establish Collaboration and Partnerships with clearly delineated objectives, outcomes and responsibilities.
- Develop a common understanding and agree on a feasible implementation plan
- Support local leadership and initiatives

Gap between Rhetoric to Action – what CFC avoids



...working together?



Thank you for your attention

**For more information visit
www.common-fund.org**



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