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Procurement Forum: issues and background paper

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The Department for International Development (DFID) and Chatham House have decided to co-convene a Procurement Forum to consider food purchasing by retailers. The Forum will provide a setting where retailers and other stakeholders active in poverty reduction and sustainable development can explore ways to make purchasing help to reduce poverty in Africa. This Issues Paper provides a background to the work of the Forum. It examines the relationship between international development in Africa and the UK food business and outlines the case for private companies to manage their supply chains according to the principles of sustainable development. It proposes that procurement strategies can reflect the needs of the small producers, retailers and manufacturers and thereby contribute to corporate social responsibility.

1 Procurement and development

Procurement by UK-based food companies in Africa has been a significant driver of economic development in Africa. Agriculture is central to poverty reduction, and half of Africa's exports are agricultural. International supply chains bring Africa's agricultural products like fruit, vegetables, cocoa, tea and coffee to supermarkets shelves in the United Kingdom and other developed countries. The livelihoods of millions of producers depend on the opportunity of selling their products to international buyers. There are significant challenges associated with current agrifood procurement models, however, especially for small farmers. From the top to the bottom of the supply chain, a seemingly small change in a retailer's order can have extensive detrimental effects in a rural community. Although the supply chains can be organised in a way so that each part of the chain benefits those involved with it, in practice weaker economic players tend to be marginalised by current purchasing practices. Competitiveness pressures can inadvertently lead to reduced product quality, reduced income for suppliers and exploitative labour practices. These pressures are exacerbated by uncertainty for suppliers in contracts (since buyers need to be able to cancel or place orders quickly in response to consumer demand), which in turn makes forward planning difficult.³

1.1 The development context

The discussion about purchasing needs to be placed in the context of the Millennium Development Goals (MDGs), a set of internationally agreed targets to be achieved by 2015 that seek to reduce poverty and improve living conditions for the world's population. International donor agencies, including DFID, are seeking to engage the private sector to contribute to the achievements of these goals through the generation of wealth in developing countries.

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³ Traidcraft, "Buying matters. Consultation: sourcing fairly from developing countries". Responsible Purchasing Initiative, London, February 2006

1.2 Consumer preferences

Although price will remain the fundamental competitive issue for all food retailers, there is a shift in consumer priorities that has seen business ethics beginning to match other competitive issues like taste and quality. A survey by the Institute of Grocery Distribution in 2007 found that 35 percent of consumers said they had stopped buying a product after learning more about how it is produced from a television documentary. Consumers also believe that food retailers and manufacturers are responding to the challenge: 60 percent of shoppers thought that the food industry was the best UK industry on ethical issues, up from 35 percent in 2004.⁴ Consumers also consider their purchasing decisions to be important: Research by DFID in December 2007 showed that UK consumers rate purchasing power above occasional charitable giving as the best way to tackle world poverty.⁵

1.3 The business case for purchasing that helps the poor

The supply chains that link Africa and the UK and connect small, poor farmers with rich consumers are managed by some of the world's most discriminating branded food manufacturers and retailers. UK-based buyers have an increasing influence on African production through their purchasing practices, which can influence the way that products are grown, processed, packaged and sold. Pro-poor approaches to purchasing could help retailers enhance their reputation as responsible businesses.

Obstacles to purchasing practices that help the poor:

- **Detachment:** Development issues can appear detached from brand integrity. A brand owner can influence workers' pay and conditions in a factory but may have less influence over the production of the raw materials that are used in the factory. These factors are typically the responsibility of the relevant national government, the supplier, the manufacturer or the sub-contractor.
- **Lack of policy:** Retailers have not yet defined their policies on international development for their own private label products. Manufacturers like Cadburys and Unilever have made progress for certain commodity items and there are more Fairtrade products on the shelves. Core brands and the way they are purchased remain largely unaffected, however.
- **Invisibility:** The lack of data or even agreed definitions about the role and plight of small farmers makes it difficult to understand or manage the impact of purchasing decisions.
- **Mixed messages:** Although there has been some attention to rural development and their relationship with procurement practice, the term "ethical" is often equated with labour standards and "fair" is used interchangeably with "Fairtrade". For certain retailers, stocking of certain commodities under the "Fairtrade" label, combined with membership of the Ethical Trading Initiative (an initiative of companies, trade unions and NGOs to develop codes of practice on labour issues⁶), can become a proxy for a coherent policy on rural development in developing countries.
- **Prioritisation:** Environmental issues have overtaken social issues as the most important topics for a company's reputation, according to some surveys.⁷

A responsible buying model can offer a way around some of these obstacles. Generating real business in developing countries provides companies with a strong and credible approach to international development that also offers a counterpoint to negative public perceptions of "food miles" (a measure of the distance travelled by food up to the point of sale).

⁴ Source: <http://www.igd.com/CIR.asp>

⁵ <http://www.dfid.gov.uk/news/files/pressreleases/shopping-for-development.asp>

⁶ www.ethicaltrade.org

⁷ Covalence, "Ethical Ranking 2007", Geneva, 8 January 2008. Available on http://www.covalence.ch/docs/CovalenceEthicalRanking2007_PressRelease_02.01.2008.doc

2 Procurement stakeholders

There are three main categories of stakeholder in the procurement chain: retailers, governments and nongovernmental organisations.

Retailers' ability to serve their customers depends in part on managing their reputation and developing stable relations with their suppliers. Motivated in part by consumer concerns about such topical issues the environment, animal welfare and labour standards, UK retailers are pursuing various approaches to "responsible purchasing" and are beginning to ask questions about where and how the products they purchase are made, what ingredients they contain and what are the social and environmental risks associated with those products to producers and consumers. In addition to the benefit to a retailer's reputation, this is a response to the need for company policy to be reflected across the supply chain. Another important growth area has been in "private standards", which define good practice across an industry and set out compliance solutions to support policy implementation.

Governments' priority is to realise the MDGs through, for example, DFID's focus on small farmers in developing countries. DFID is interested in ways to "regovern" markets by examining the impact of dominant supermarket chains on cost structures and supply chains.⁸ It also seeks to channel the buying power of consumers, seen by many (as mentioned above) as a more effective way of helping development than giving to charity. Several new initiatives are being developed to encourage a positive influence, including the Food Retail Industry Challenge Fund (FRICH) established by DFID, which provides grants to partnerships that bring retailers and African farmers together to test new ways of increasing the market for food that has been sustainably produced by small-scale farmers in poor parts of Africa.

Nongovernmental organisations active in international development are increasingly linking their campaigns to a deeper engagement with businesses and policymakers. Examples include the Fairtrade Labelling Organization,⁹ a standards and certification body for the Fairtrade movement worldwide, and Traidcraft and the International Institute for Environment and Development, UK-based organisations active in raising awareness of procurement and trade issues and their developmental impacts.

⁸ More information on DFID's project "Regoverning markets: small-scale producers in modern agrifood markets" can be found at <http://www.regoverningmarkets.org/>

⁹ <http://www.fairtrade.net/>

3 The Procurement Forum

The Procurement Forum, co-convened by DFID and Chatham House, will provide a setting where business representatives and other stakeholders can learn about their potential contribution to African development and devise business models that operate in favour of the poor in developing countries. The Forum will provide a neutral space where retailers, manufacturers and specialist importers will be able to identify ways that food purchasing practices can do more to encourage sustainable development in rural Africa.

3.1 Governing principles of the Procurement Forum

The overall objectives of the Forum are the following:

- Raise awareness of the effect of current buying models on rural poverty reduction in developing countries
- Encourage experimentation in private-sector procurement systems that focus on poverty reduction

The specific objectives of the Forum are the following:

- Provide a forum for practical discussions on pro-poor procurement
- Generate research and policy innovations on pro-poor procurement
- Propose ways to implement and improve pro-poor initiatives, including those supported by DFID. Including development of business cases (e.g. for commodities (e.g. tea), produce
- Develop recommendations for industry practices and/or national policy;
- To publish a shared position in conclusion.

3.2 Participation

Participation in the Procurement Forum will comprise retailers, manufacturers, government representatives and invited experts (NGOs, consumer representatives, academics). The first meeting will involve company directors from the leading retailers, manufacturers and specialist importers. Participation is by invitation only.

3.3 Activities

The main activities of the Procurement Forum are the following:

- Roundtable meeting: first meeting scheduled for 11 March 2008
- Background papers (up to four pages) on selected topics to stimulate discussions following the first stakeholder roundtable meeting. Themes will be determined through the course of the project but may include:
 - Opportunities and challenges for small-scale producers in developing countries
 - Local reinvestment of commodity/produce revenues (building on work done by M&S and Oxfam)
 - Local market development
 - Barriers to development of export markets in more pro-poor direction
 - Supply chains: existing and potential
 - Livelihood analysis (similar to that being done by Unilever and Oxfam in the Philippines)
 - Opportunities for developing national markets (building on Regoverning Markets programme of DFID)