



Transparency and
traceability in service of
fair value distribution

FAIRFOOD

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Why it's in everyone's interest that small-scale farmers and food workers earn what they deserve

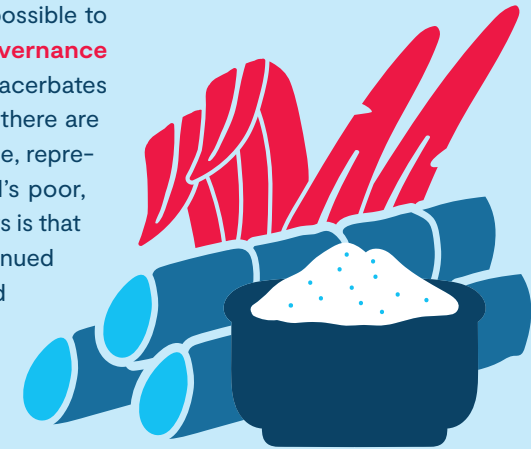
1. Intro	4
First, some terms:	6
What do we mean by (Un)Fair Value Distribution?	6
Where does transparency fit in?	9
Are transparency and traceability the same?	9
2. What's wrong with business as usual?	12
The intimate connection between supermarkets' increasing power and the worldwide decline of small-scale farmers	14
Race to the bottom	16
Could the race to the bottom be reversed?	16
Large players are starting to connect the dots	17
3. Working with companies to restructure the system	23
Our 3-step journey to value-added transparency	23
KNOW	24
GROW	26
SHOW	28
Conclusion	30



1.intro



cocoa
from
Ghana



sugar
from Brazil

A simple chocolate
bar tells the tale of
a globalised world



Complex, cross-border
supply chains obscure
many steps in the process
of making a chocolate bar

A simple chocolate bar tells the tale of a globalised world. Chocolate on a shelf in a Dutch supermarket is likely crafted by a Swiss company using cocoa from Ghana and sugar from Brazil. It's a beautiful journey, except for the fact that complex, cross-border supply chains obscure many steps in the process. The distribution of profit, cost, and risk across global supply chains is often a black box. In the information age, it remains normal to see billion-dollar companies professing to be unaware of where most of their raw materials originate.

hazelnut
from turkey

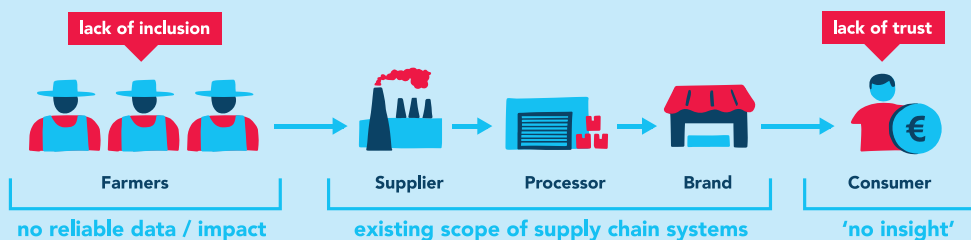


This disconnect makes it difficult to impossible to monitor **social, environmental** and **governance** performance in the food sector, and exacerbates poverty. The World Bank estimates that there are 500 million smallholder families worldwide, representing a large proportion of the world's poor, living on less than €2 a day. The good news is that change is on the horizon given the continued growth in demand for ethically sourced products, and proposed legislation in Europe that introduces corporate responsibility requirements for companies operating in the EU.

At Fairfood, we work to change practices that prevent food producers and workers at the beginning of the supply chain from thriving. This compels us to confront the unfair distribution of value that has confined rural food producers and workers in poverty as they struggle with external shocks, such as the COVID-19 pandemic, increasingly extreme climate events, and more recently, the invasion affecting one of the world's major food producers.

Transparency and traceability are inherent to fairer trade practices. We work to better connect and include farmers and food workers in global value chains and share the findings of our work. This paper starts with exploring the reasons why relatively few companies have yet to embrace sustainable business practices. Throughout this report, we review the common obstacles

to innovation in global supply chains and show how we have been able to overcome them with better informed, responsible practices. Finally, we present the three key steps that allow us to transform traceability from a simple tool for assessing risk into an enabler of more inclusive, future-proof business models – an enabler of Fair Value Distribution.



First, some terms:

What do we mean by (Un)Fair Value Distribution?

Fairness may sound like a simple concept, but it's extremely subjective in reality. For Fairfood, a fair distribution of value means that every actor in a supply chain receives what they need for a decent living. A number of factors, outside of price and profit, determine how value is distributed in supply chains, including buying power, access to information and market influence. We follow OXFAM's definition:

a fair distribution of value translates into business structures that seek to balance the interests of different stakeholder groups and offer an alternative to shareholder-based models.¹

There are alternative models, rooted in figures and facts, that can ensure a more equitable distribution of value. If these were scaled up, we could dramatically improve the livelihoods of the most marginalised women and men in the global food system.

¹ OXFAM: Fair Value.

Transparency and traceability are inherent to fairer trade practices





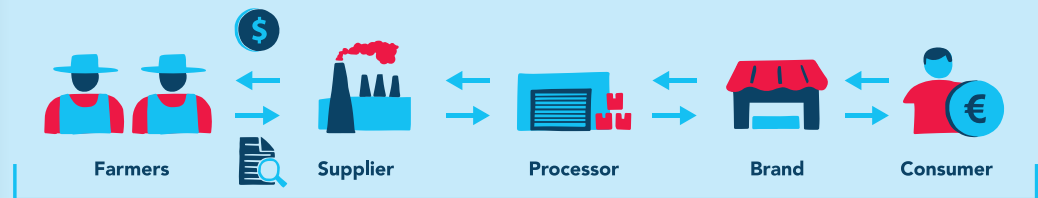
Transparency
allows **every**
actor to make the
best decision
in **their interest**

Where does transparency fit in?

Transparency is the open sharing of information among supply chain partners. It ensures that every actor is on the same page. The Accountability Framework Initiative (AFI)² provides a list of information sources that are critical to supply chain transparency, including:

- information about company **policies and commitments**;
- company **business structures, affiliates and financial interests**;
- **supplier lists**;
- **conflicts of interest**;
- **political action** (for example, lobbying or campaign contributions).

Supply chain transparency does not necessarily mean making every data point available to everyone, or widely disclosing competitive or proprietary information. **But it does provide adequate information that allows every actor to make the best decision in their interest.** Another important note: transparency also means providing information about the methods and definitions that support data collection and interpretation.



farm to fork traceability & verifiable brand promises

Are transparency and traceability the same?

In short, no. Traceability refers to the ability to follow a raw product from the beginning to the end, mapping its complete journey through the supply chain, but traceability alone does not result in better business practices. There are other needed mechanisms, such as verification, auditing and grievance policies to inform continuous improvement. Traceability is what allows a company to

assess their entire supply chain, and quickly recognise and address errors or unforeseen negative consequences when they occur. Regardless of the format – either on a physical notebook or through a modern blockchain platform – traceability is a strong ally in understanding the impacts of buying practices and contributes to better business performance.

² Operational Guidance on Reporting, Disclosure, and Claims, 2019, Accountability Framework Initiative.



2. What's wrong with business as usual?

We are all aware that external shocks do not affect every actor in a supply chain in the same way. Our beloved chocolate bar, again, is a good example. Farmers in West Africa produce 70% of the world's cocoa beans, which provides for 70% of the income of around 2 million small-holders. Yet, these producers see a paltry 5% of the chocolate industry revenue.³ As a result, most of them live on less than a dollar per day.



Most cocoa farmers live on less than a dollar per day

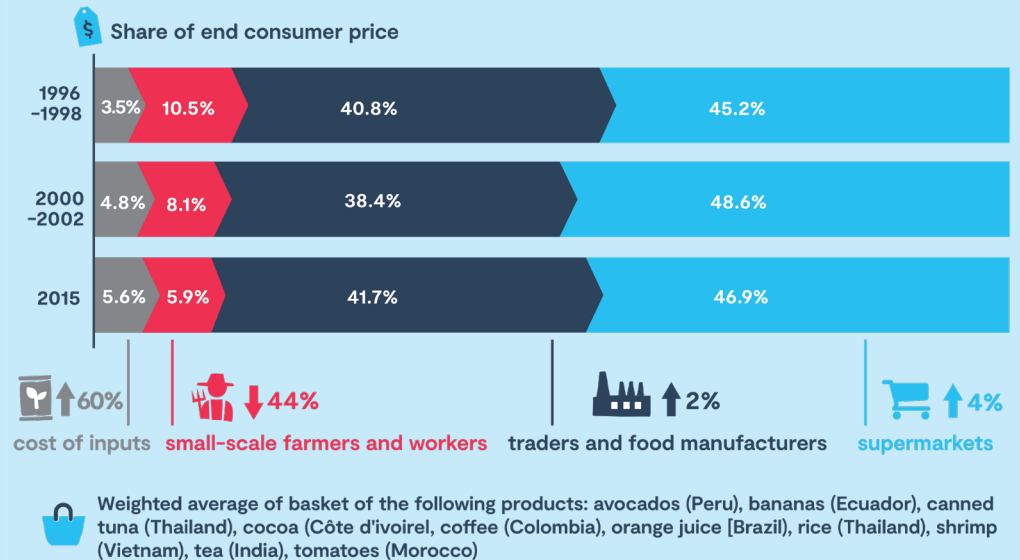
That's why commitments to socially sustainable supply chains begin with reviewing what we accept as business as usual. After all, if farmers and farm workers in today's value chains struggle to meet their basic needs, **where is all of that value actually going?**

→ Farmers' share of the price paid by the end consumer for most food products has decreased by **44 percent since 1998**, while input suppliers, traders, food manufacturers and supermarkets have all increased their share dramatically. The downward trend is forecast to continue.⁴

³ African Development Bank, 2019.

⁴ Not in this together, 2021. OXFAM.

Farmers' and workers' plummeting share of value:



This infographic is part of an [OXFAM research paper](#).

Where is all the **value actually going?**

→ The share of the end consumer price earned by farmers and farm workers is consistently low:

- ♦ Wine farmers earn around 1%, in tea the share is between 0.7% and 3% and shrimp producers see less than 1%
- ♦ In Brazil, the world's largest coffee producer, informal workers that make up the majority of the workforce on coffee plantations receive 2.2 times less than a living wage of \$464 (409 EUR)

→ Meanwhile, as farmers and workers struggled through the COVID-19 pandemic, total dividends distributed to supermarket shareholders increased by 123% between 2019 and 2020: from \$10bn to \$22.3bn.

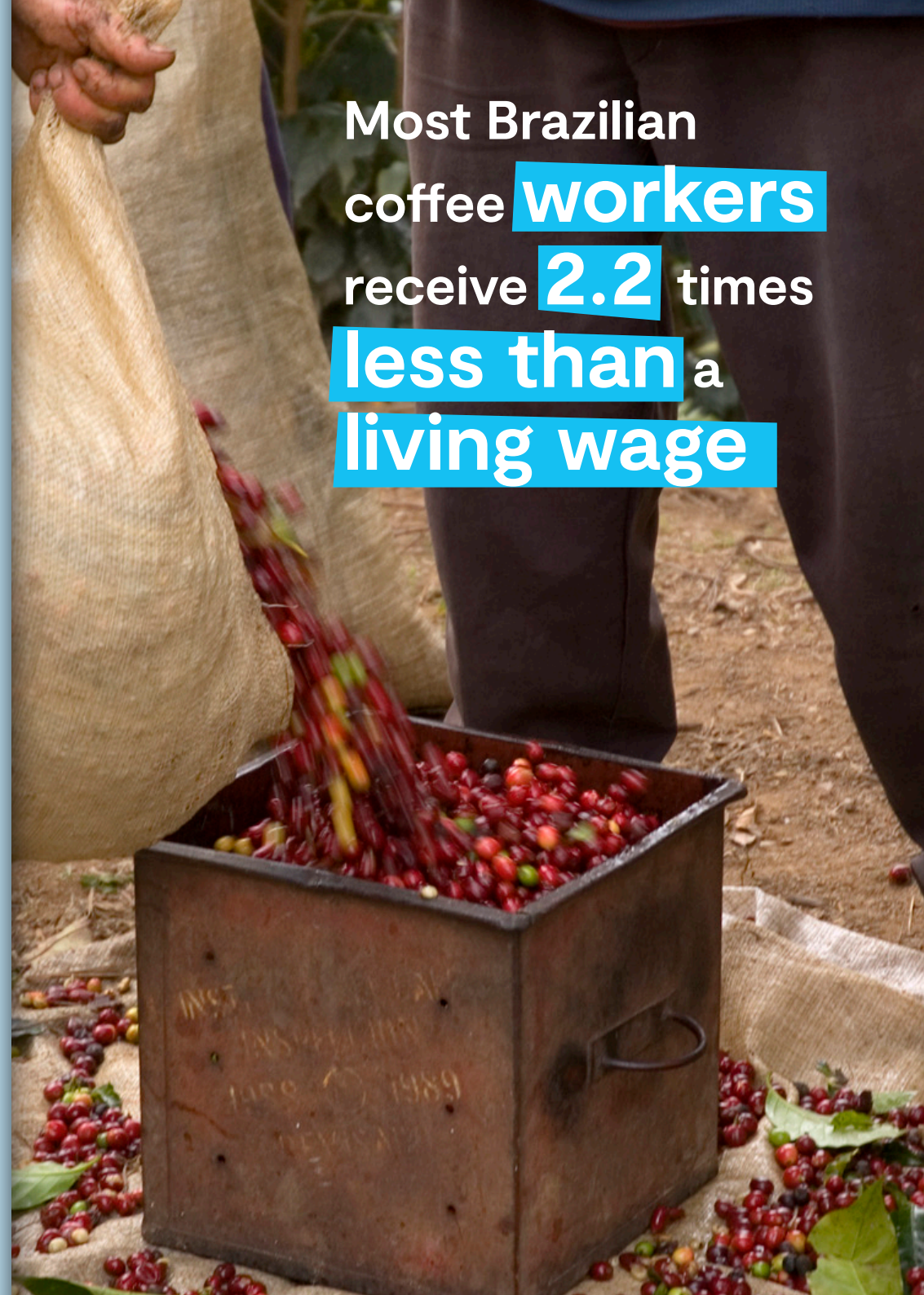
Some large-scale buyers consider smallholders inefficient



The intimate connection between supermarkets' increasing power and the worldwide decline of small-scale farmers

Small farmers worldwide are struggling to survive as large-scale buyers impose stringent demands for standardised quality. In their wake, large farms that employ rural workers on an informal basis are fuelling cross-border migration as people seek work in agriculture and food processing.⁵ For large-scale buyers, smallholders are generally considered inefficient due to their lack of scale, technical skills and assets.

The demand for mass-production endangers rural economies that depend on agriculture and inflicts a high environmental cost that threatens food security well into the future. As the sequence of the pandemic of COVID-19 followed by the Russian war on Ukraine showed, poverty in producing countries can quickly escalate into instability for all supply chain actors.



Most Brazilian coffee workers receive **2.2** times less than a living wage

⁵ Who's got the power, 2014. Fairtrade.

Race to the bottom

The outsize power of large retailers and buyers is a serious problem. Company margins are often built off the price pressure that retailers and supermarkets push through the supply chain all the way to farmers, who have little resources and few options for alternative income. In addition, traders and large roasters often take advantage of weaker protections in export countries and work continually to seek the best quality for the cheapest price.

The problem with that? It makes it impossible for businesses to live up to their Environmental, Social and Governance commitments. Let us illustrate with some facts:

- 40-70% of a food product's CO2 emissions occur at the farm level, and 51% of the global deforestation between 2001 and 2015 came at the expense of pasture and cropland expansion. Adequate resources to adopt sustainable agricultural practices are needed if we are to clean all food supply chains.
- Agriculture in low-income countries can amount to a third of their gross domestic product. Without effectively enforced regulations and limited monitoring, many violations are easily overlooked. Today, 29% of people in modern slavery, on top of 70% of all child labourers (almost 100 million) work in agriculture.⁶

Could the race to the bottom be reversed?

Well, yes. OXFAM puts a price tag on it: If supermarkets dedicated less than 1% of shareholder payouts from 2020, it would be enough to close the gap between current wages and a living wage for workers in Brazil's largest coffee producing state. This amount would enable workers to cover basic living costs, and weather external shocks like extreme weather events and supply chain disruptions.

⁶ Six research priorities to support corporate due-diligence policies, 2022, Nature.

1% of shareholder payouts would be enough to ensure a living wage for coffee workers

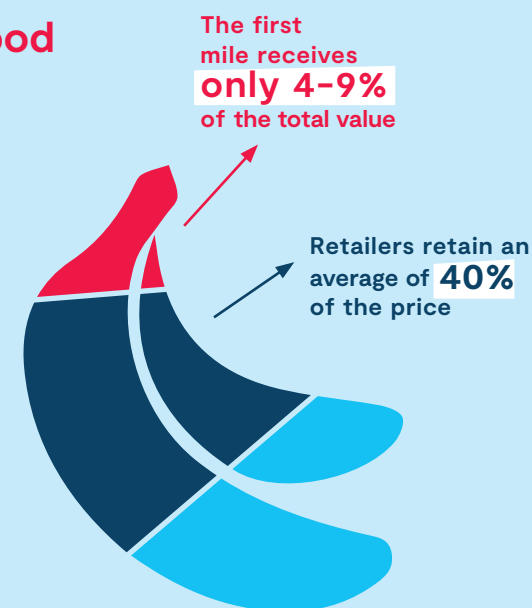
“ Enhancing the farmer's position within the chain goes hand in hand with making sure power is distributed in a way that allows for all actors to have an equal say in how the supply chain is governed. This can only be achieved through a deep look into the chain. Only then can partners have an equal voice to discuss where equity needs to be improved. Isa Miralles, Fairfood's Living Wage and Income Lead ”

Large players in the food sector are starting to connect the dots

In the banana sector, even though just a handful of multinational fruit companies dominate international trade, supermarkets are the most powerful actors in the supply chain. As in other industries, while the first mile receives 4-9% of the total value of bananas, retailers retain an average of 40% of the price paid by consumers.

The ultimate effect of this is low wages and a high environmental toll. An initial assessment carried out by IDH showed that 45% of Dutch retailers source from farms where labourers have a wage gap. The banana industry is also the global leader in the use of agrochemicals in the food sector, and these chemicals contaminate local water sources and soils, and affect workers' health.

Retailers and traders are beginning to realise the scale and scope of the problem, which recently resulted in inter-



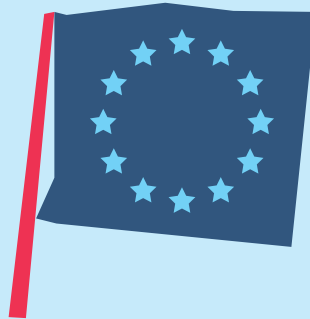
national retailers **across Europe** joining together to address the major issues, and led to legislation in countries where bananas are an important part of the economy, such as Ecuador and Costa Rica. Dutch supermarkets have pledged to guarantee a living wage for at least 75% of banana workers in their international supply chains by 2025.

A direct connection with farm workers enables transparency and inclusive buying practices that can benefit the entire supply chain.



For too long, cooperatives and unions representing millions of smallholders and food workers in producing countries were as deep as we could get in understanding where our food comes from. Workers are often an indirect part of supply chains, and what happens beyond farm gates can be easily kept off companies' radars and corporate responsibility reports.

Upcoming EU legislation on Corporate Responsibility and Due Diligence is positioned to change that, with a due diligence legal framework for companies operating in the EU. The initial draft of the directive calls for a risk analysis of indirect suppliers as a way to complement supply chain regulations on broader sustainability challenges such as human rights, climate change or decent wages. If approved, companies will have to act even before there are any indications of a breach.



The combination of legislation with rapidly advancing technology provides room for innovation and much more collaborative approaches in the food sector.

“

Does our food system allow for smallholder farmers to make pricing decisions? Not really. Today, a smallholder is nowhere near the level of bargaining power as other partners in the chain – say retailers, food brands or governments. Let alone, she or he may say “I do not accept the price you are offering to pay me”, or at least ask for the share that was once paid. Yet, they are the ones carrying the greatest risks.

**Dr. Bethule Nyamambi, Equitable Development
Program Officer at Trust Africa**

”







3. Working with companies to restructure the system

We understand *why* a direct connection with farm workers can make long, complex value chains more sustainable. Full traceability is the way we can reach the *how*.

At Fairfood we see traceability as a mechanism to map and identify risks, but also as a facilitator for transparent practices and fairer business arrangements. A **value chain approach** is what we use to unite different partners with different goals behind a shared vision. In

other words, fair value distribution through transparency and traceability. It's not just a roaster, retailer or trader that needs to do better, cooperatives and farmers groups also must be part of the solution.

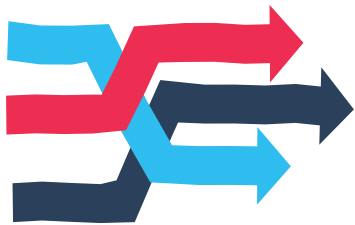
Our 3-step journey to value-added transparency – **Know, Grow, Show** – goes from finding new information to actually boosting farmer incomes while doing business. Below, we share common obstacles that can prevent projects from moving forward and the evidence-based strategies we use to overcome them.



Enhancing the farmer's position within the chain

KNOW

Knowing where you're sourcing from. Who are your partners? How are your products made? What are the working conditions?



Obstacle #1: Where to start, and what exactly to aim for?

Many companies lack a clear vision and desired outcome when putting a traceability system in place. And with no clear goal identified, the information gathered can become a dusty heap with nothing coming out of it.

Few companies really know their chain in-depth.

That's what we have learned. And if there is a generic outcome for the mapping process, it is to look at your organisation differently. Mapping increases the span of supply chain control. This allows you to analyse your relationships and reduce risks thanks to a better understanding of the number of suppliers, their geolocations, and volume collected. This can then evolve to collection of prices paid, certifications, and other traceable information that could be added to the system.

Robust data provides nodes, laying the groundwork for your transition process.

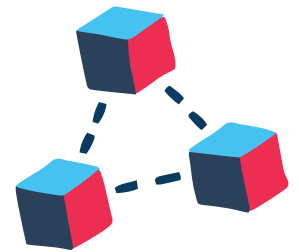
EXAMPLE: Dutch specialty coffee importer Trabocca used traceability to verify if the coffee growers in Ethiopia that they worked with were indeed benefiting from the premium paid for quality. Ethiopia is the company's most important source, responsible for about 70% of their coffee.

Based on cooperatives' and collectors' evidence of premiums paid and registered in Fairfood's tool, Trace, we concluded that even with a better price, smallholders in Trabocca's supply chain were unable to make a living income. This finding triggered a deep dive with partners to determine what a fair price would be. Securing a living income is a way of addressing poverty, which is strongly correlated with many challenges, including child labour, which is often directly related to insufficient household income.



From there, we commissioned the Global Living Wage Coalition to conduct a living income reference price study for the rural Guji zone of Ethiopia. The Royal Tropical Institute (KIT) will now define the income gap of Guji coffee farmers in Trabocca's supply chains. The idea of truly traceable coffee attracted Simon Lévelt, who joined the project as a retailer. Based on the results of the study, other companies working in the region will be able to evaluate living income gaps for their sourcing partners.

Blockchain: At Fairfood, blockchain adds value to our system and improves situations where the confidence level is medium or low. Our economic system is ill-equipped to simply pay farmers more, but our solutions can do just that. For one, it allows us to track farmers' premium payments. One may trust a trader or collector to pay the market price, but may question their ability or willingness to pay more. Increasing farmer income with a separate additional payment (outside of the initial purchase contract) and facilitated via blockchain can make a difference in these cases.



“When Fairfood launched a blockchain traceability platform 5 years ago, we heard from international agri-food companies that full traceability was a pipe dream. Now that transparency has become this buzzword, we hear the same group saying that this is very easy. Both statements concern me: food supply chains are complex systems that involve many actors, and impact entire communities. If mapping your chain is easy, it makes me question how rigorous or ambitious your project is.”

Derek Hardwick, Fairfood's solution architect

Traceability is a means, not an end. One side effect of doing the work is that your supply chain tends to grow, or more importantly, your awareness of it. **This knowledge increases the number of suppliers, and partners you will be dealing with.**



Knowing where you're sourcing from. Who are your partners? How are your products made? What are the working conditions?



GROW

Fostering new partnerships and backing your claims up.



Obstacle #2: Quality information

Mapping your supply means working through intermediaries, such as traders and collectors, who can be reluctant to share data due to a lack of trust. In some cases, details of upstream supply chain practices may not be collected or, if it does exist, it may be of low quality.

Solutions are specific to each market

Traceability depends on a continuous assessment of whether the approach fits the supplier perspective. After all, transparency only benefits a farmer if it results in a fairer price. That's why all aspects of the systems, services and tools deployed, must ensure they are being designed primarily for this.

Making evidence verifiable for stakeholders is our way of making compliance an integral part of any mechanism. Valid, accepted verification is key to building trust and establishing a level playing field among supply chain actors.

- When it comes to increasing a farmer's income, most strategies target boosting yields and/or farmgate prices. But a better understanding of your supply chain can also add value to farmers: What does the new data tell you?

What new opportunities does it bring?

- ♦ Moving from risk assessment to opportunity deployment: An innovative mind-set allows us to connect our traceability projects to solutions. For example, a redistribution of excess margins from companies towards improving working conditions in critical areas of the supply chain, or carbon credits in forest regions that can top up income for small-scale farmers.

To prove the business case for transparency, data can – and must – be treated as a commodity. In service of that goal, technology is an ally. As we add different partners and invite them to explore the mapping function, another layer of trust is added, and we are ready for the next steps.



EXAMPLE: Making the value of data tangible. To better connect farmers across agri-food value chains, we developed Farmer Cards so that smallholder farmers without access to a phone or the Internet can verify the transactions and payments they receive on the Trace platform. In Indonesia, 400 nutmeg farmers who supply our corporate partner, Verstegen Spices & Sauces, are the first to test this low-tech complementary solution to our blockchain platform. Farmer Cards allow anyone to verify that farmers are truly receiving premium payments for – say – providing quality products. And for this, farmers are compensated when they share their data.



Why a Data Premium? Verifying a company's sustainability claims and its storytelling opportunities add value to a product, and farmers should benefit from this. The data premium made available by our corporate partners is an incentive for farmers to help them assess their supply chains, as well as a way to better distribute value

among actors. During the first half of the Verstegen pilot, 97 Indonesian farmers have already actively used the card for a total of €1,377.90 in extra income. Despite some initial resistance and a need to build trust in the new solution – especially among older farmers unfamiliar with digital technologies – usage is continuously increasing.

New technologies can facilitate collaboration among partners, allowing for new ways to solve old issues. For this, farmers' concerns and needs must be included in the innovation loop.



Fostering new partnerships and backing your claims up

SHOW

Reporting your findings, alongside your plans to do things differently.

Obstacle #3: Overcoming hesitancy

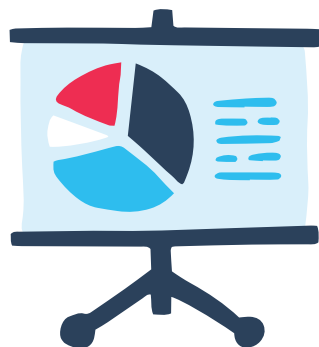
Supply chains are not necessarily designed to be transparent. Due to competitive pressures, companies and suppliers are still afraid to divulge too much information or expose themselves to criticism. Instead, most opt for doing nothing.

Supply chain transparency is only effective if all users have the capability and the interest in using it. Insights will inform companies on how to best improve their operations to become more sustainable and ensure the farmer livelihoods.

If the quality and reliability of information are key in the first two steps, the third step is about how information is packaged and presented. Though information has tremendous potential for empowerment, **its misuse can exacerbate power imbalances**. Whether inadvertent or purposeful, misuse can be convenient for actors that are the focus of any disclosure exercise, yet for whatever reason are reluctant to change their behaviour too fast. Openness in this path, will determine success on two key points:

Internal analysis

What can the new figures tell your employees about the work you are doing? What about business partners? Risk reduction, or de-risking, is the primary goal of this process. A clear view of the different origins of a supply chain has allowed some of our partners to easily identify what their politically sensitive regions are, as well as areas where environmental abuses are taking place.



Marketing and Storytelling: Being open about your journey to tackle imbalances in your chain shows vulnerability and attracts not only partners, but also gets consumers on board with your mission. If you have a need to justify a fair price to supply chain partners or consumers, evidence provides clarity.

EXAMPLE: Although most of Fairfood's work consists of deep dives into long and complex supply chains, the case of social-impact-driven company Social Vanilla was significantly simpler. The Danish-based enterprise devotes an extra 25% of their profit to small-scale farmers with the aim of uplifting their livelihoods and strengthening the cooperative's training capacity, especially among female vanilla farmers from Kibaale, Uganda.

Social Vanilla claims that by purchasing their products, consumers are contributing to a journey of making the vanilla industry more socially and environmentally sustainable. Although the sourcing is as direct as possible, when time came to work on the marketing and sales of the final product, the company didn't have an effective way of backing that claim up to customers. In this case, they just needed a traceability platform to automate the collection of evidence at every step of production until it reaches Europe, and making it available to those who need to verify.



In the end, being open and diligent adds credibility to your sustainability efforts, and also informs your partners on how you work, while opening up new opportunities among those already working for fair and sustainable supply chains.



Reporting your findings, alongside your plans to do things differently

Conclusion

In this paper, we showed how **supply chains are not complicated by necessity, but by design**. As long as we are unaware of what happens in the supply chain, there's nothing to solve. It's easier to claim ignorance than responsibility. But recent innovations in technology and the establishment of the European Corporate Responsibility Directive suggest that companies won't be able to rely on this opacity much longer.

This imposed extra lens allows us to see benefits of going beyond price-based negotiations to ensure more resilient networks and consumer trust. The same goes for responsible disclosure of information – why not put your cards on the table and encourage others to do the same?

It might seem naive at first, but this is how frontrunners are walking the sustainability talk. Well-informed purchasing decisions, as well as proper incentives for your supply chain partners can help you build a durable and dedicated pool of suppliers – a competitive advantage in itself. There is life beyond the strategy of maximising profits and the exhausting search for lower cost suppliers. Shorter, stronger supply chains are showing us. Transparency has been a buzzword for a while, but models based on trust, vulnerability and openness are beginning to gain scale.



A **value chain**
approach is what
we use to **unite**
different **partners**





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Additional contributions by:

Isa Miralles, Fairfood; Dr. Bethule
Nyamambi, Trust Africa.
Edited by: Channa Brunt

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