Ministry of Foreign Affairs

IOB Review

Riding the wave of sustainable commodity sourcing

Review of the Sustainable Trade Initiative IDH 2008-2013

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August 2014

Foreword

The Sustainable Trade Initiative IDH (Initiatief Duurzame Handel) was set up in 2008 as a multi-stakeholder initiative of private companies, non-governmental organisations (NGOs), trade unions and the Dutch government with the aim of improving smallholder production systems, market integration and enhancing sustainable sourcing from developing countries. The activities undertaken by IDH focused on improving and transforming the supply chain performance of internationally traded commodities (such as coffee, tea, cotton, cocoa, timber, palm oil and fish). They rely on promoting good agricultural practice, farmers' training and certification as key activities.

This review looks at where IDH stands after six years of support (2008-2013) from the Netherlands Ministry of Foreign Affairs (hereafter referred to as the Ministry). The review was conducted by the Policy and Operations Evaluation department (IOB) to enable the assessment of progress, acknowledge the results achieved and to appreciate IDH's potential. Given the limitations of fully registering the outcomes and net impacts of IDH-supported activities at the primary producer level, IOB decided to focus the review on (a) the aim, strategy, organisation and operational management of IDH activities, and (b) the characteristics of public-private cooperation against the backdrop of wider evidence on the added value of supply chain certification efforts, thus contributing to greater transparency related to the prospects for reaching effectiveness, efficiency and sustainability in sustainable commodity sourcing programmes.

IOB's findings from the review emphasise IDH's active role in promoting public-private cooperation, the positive – albeit modest – impact for smallholder producers and workers and the prospects for moving the work beyond certification. Due attention is given to the procedures for guaranteeing the 'additionality' of public funding, the requirements for pre-competitive support and the criteria for rightly assessing private sector contributions.

Given IDH's dynamic and innovative character, this report outlines several options for deepening current sustainable sourcing activities (including attention for gender), broadening the knowledge and dissemination programmes, and upgrading the public role vis-à-vis IDH.

The review was conducted by IOB inspectors Jan Klugkist and Ferko Bodnár, with support from IOB researcher Bart Woelders and financial controller Albert Stuijfzand. The review is based on 70 interviews with key stakeholders, extensive literature analysis regarding the results base of value chain programmes, analysis of IDH's financial statements, and input from an international expert workshop (organised together with the Environmental Policy Group of Wageningen University) on the evidence on and perspectives for enhancing sustainable sourcing and reducing poverty.

The reference group for this review consisted of two external specialists – Professor Onno Omta (WUR) and Bo van Elzakker (Agro Eco-Louis Bolk Institute) – and Paul Schoenmakers on behalf of the Ministry of Foreign Affairs/DDE. They provided valuable comments on the Terms of Reference and on earlier versions of the report.

As part of IOB quality assurance, IOB inspectors Piet de Lange and Jan Bade acted as co-readers and provided comments on the outputs of the review team.

IOB would like to thank the IDH staff – and in particular Dave Boselie and Esther Bosgra – for the excellent support they provided for conducting this study.

The final responsibility for the review rests with IOB.

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List of acronyms and abbreviations

4C Association	The Common Code for the Coffee Community Association
ADR	Central Audit Service
ASC	Aquaculture Stewardship Council
BC	Better Cotton
BCI	Better Cotton Initiative
CEN	European Committee for Standardisation
CIP	Cocoa Improvement Programme
CmiA	Cotton made in Africa
COSA	Committee on Sustainability Assessment
CPQP	Cocoa Productivity and Quality Program
DANIDA	Danish International Development Agency
DDE	Sustainable Economic Development Department
DGIS	Directorate General for International Cooperation
DG-norm	Director General norm
DME	Environment, Water, Climate and Energy Department
EUR	Euro (€)
FFS	Farmer Field Schools
FIT Fund	Farmers in Transition Fund
FLO	Fairtrade Labelling Organisations International
FMO	Dutch Entrepreneurial Development Bank
FOB	Free on Board
FTE	Full Time Equivalent
FTP	Fast Track Programme
GlobalGAP	Global Good Agricultural Practices
ICT	Information and Communication Technology
IDH	Sustainable Trade Initiative (*Initiatief Duurzame Handel*)
IFOAM	International Federation of Organic Agriculture Movements
ILO	International Labour Organisation
IP	Implementing Partner
ISEAL Alliance	International Social and Environmental Accreditation and Labelling Alliance
ITC	International Trade Centre
KPI	Key Performance Indicator
KTDA	Kenya Tea Development Agency
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MFO	Co-financing Organisation
MFS	Co-financing System
MSC	Marine Stewardship Council
MT	Metric tonnes
NGO	Non-Governmental Organisation

ODA	Official Development Assistance
ODI	Overseas Development Institute
PEFC	Programme for the Endorsement of Forest Certification
PPP	Public-Private Partnership
PSD	Private Sector Development
RA	Rainforest Alliance
RSB	Roundtable on Sustainable Biomaterials
RSP	Responsible Stone Programme
RSPO	Roundtable on Sustainable Palm Oil
RTRS	Roundtable on Responsible Soy
SECO	State Secretariat for Economic Affairs (Switzerland)
TFT	Tropical Forest Trust
US	United States
UTZ	UTZ Certified
VSS	Voluntary Supply Chain Standards
WEF	World Economic Forum
WGDN	Working Group on Sustainable Natural Stone (*Werkgroep Duurzame Natuursteen*)
WWF	World Wildlife Fund

Summary and conclusions

Introduction

The Sustainable Trade Initiative IDH (Initiatief Duurzame Handel) was set up in 2008 on the initiative of the Dutch government, private companies, NGOs and trade unions. The aim was to improve the economic, social and environmental sustainability of production systems in developing countries, focussing on internationally traded commodities like cotton, coffee, tea, cocoa, timber and fish. IDH would work in particular with committed private sector companies in the value chain of these products, ranging from Adidas and Mars to Unilever and Zeeman. Public-private coalitions were to develop sector improvement plans built around voluntary sector-wide sustainability standards such as UTZ Certified and Better Cotton. IDH aimed for a transformation to sustainable commodity markets by bringing public funding and private financial commitments together in large-scale projects for improving production methods and boosting certification of primary producers. This transformation would contribute to the millennium development goals on poverty reduction (MDG1), environmental sustainability (MDG7) and fair trade (MDG8).

This review looks at where IDH stands after six years of support from the Ministry of Foreign Affairs. For the period 2008-2015, the Ministry committed EUR 123 million in official development assistance (ODA) to build and run the IDH organisation and to co-finance commodity programmes with the private sector. A new subsidy for the period 2016-2020 is currently being considered at IDH's request. The purpose of this IOB review is therefore to provide an assessment of the progress, results and potential of the initiative, thus enabling the Ministry to make an informed decision about appropriate modalities for further supporting IDH.[1]

IOB prepared the report on the basis of desk research, some 70 interviews and a workshop with experts and stakeholders on the prospects for sustainable commodity sourcing. A broad range of academic literature, evaluations and impact studies was consulted, in addition to primary sources such as IDH baseline and feasibility studies, annual reports, financial statements, monitoring reports and data on key performance indicators. IOB's research and interviews focussed in particular on five commodities in IDH's programme: cocoa, cotton, tea, aquaculture and natural stone.

A limitation encountered was that outcomes and impacts of the new generation of sustainability standards and initiatives have often not been studied deeply enough over longer periods of time. This is also the case for IDH's own impact studies that started in 2012.[2] Another difficulty is attributing results in global supply chains to a single actor: as IDH generally works in partnerships with multiple stakeholders and often supports pre-existing initiatives in strongly changing market settings, it is difficult to isolate the effects to which IDH contributed effectively.

1 A fully-fledged evaluation was considered premature in view of the limited evidence so far from impact evaluations that IDH had commissioned at the request of the Ministry in 2011-2012.

2 The exception was the tea programme in Kenya, for which evidence over a longer period (2010-2014) was available.

Findings

Based on currently available evidence, IOB presents the following main findings.

1. IDH has become a key player in advancing coalitions of companies and other stakeholders for sustainable commodity sourcing. IDH's combination of funding and convening activities have given a strong boost to certification of primary producers on mainstream sustainability standards, achieving concrete outputs.
Backed by sizeable funding from the Ministry, IDH has within a few years become a key player in boosting public-private partnerships for sustainable international commodity sourcing. It has built on the wave of interest in more sustainable business models that had emerged among private sector companies in the new millennium.

IDH has given a strong impulse to several pre-existing or nascent commodity initiatives. In several cases, the combination of its funding capacity and its role as convener of stakeholders was effective in building or strengthening results-oriented coalitions and scaling up sustainability programmes. Some typical examples of IDH's accomplishments are:

- The Better Cotton Initiative (BCI) was a small capacity building effort for cotton farmers initiated by IKEA, WWF and ICCO until the IDH-led Fast Track Programme was launched in 2009. Within three years over 200,000 cotton farmers were trained and licensed, while Better Cotton became the dominant sustainability product on the cotton market, surpassing the combined market share of Organic, Fairtrade and Cotton-made-in-Africa. Brands like H&M, Levi's and Adidas are involved in the initiative, provide it with funding and use Better Cotton lint to fulfil their commitments on sustainable sourcing.

- In cocoa, UTZ, Solidaridad, Mars and Cargill had started a coalition just before IDH was set up and joined the initiative. All stakeholders indicated that without the funding and IDH's active engagement via the Cocoa Improvement Programme 2008-2012 (implemented by Solidaridad), and the subsequent Cocoa Productivity and Quality Program, the training of 277,000 cocoa farmers and the certification to UTZ Certified of about 267,000 cocoa farmers in West-Africa and Indonesia would have taken far longer to mature.

- In tea, IDH contributed to the training and certification of more than 0.5 million tea smallholders in Kenya (on the Rainforest Alliance tea standard) in a programme initiated by Unilever with the Kenya Tea Development Agency (KTDA). IDH also played a useful convening role in bringing the global competitors Tata Global Beverages and Unilever together in the Indian 'trustea' initiative, a promising national standard for tea production, which was initiated by Solidaridad and other players.

- When the Aquaculture Sustainability Council (ASC) was founded in 2009 by WWF, IDH provided immediate financial and administrative support to make it operational. Also, IDH set up the ASC Accelerator Program in Vietnam (implemented by SNV) to provide technical assistance to pangasius farmers. This contributed to 350,000 tonnes of fish being produced under the ASC label by 2013.

From its inception, IDH aimed to work towards concrete outputs and outcomes in the sector improvement programmes. At the output level, the larger programmes achieved practically all the targets set for the period up to 2013, or surpassed them. Smaller programmes like natural stone, electronics, spices and tourism did not meet some of their performance indicators.

IDH is recognised by all stakeholders for its active contribution to sustainable commodity sourcing and for bringing companies together in a pre-competitive setting. The strong drive and commitment of senior staff in the organisation has contributed to the results. Companies consider IDH a useful partner that is well-positioned for fostering pre-competitive collaboration, and can bring along funding and (sometimes) expertise to help them deliver on their sustainability challenges. The combination of convening and funding capacity is seen as a core asset of IDH. Likewise, NGOs recognise and value IDH's work. Some expressed concerns that IDH was recently working more exclusively through companies, making less use of experience and knowledge available in the not-for-profit sector.

As part of its role as knowledge broker (in addition to its role as convener and funder), IDH has commissioned a range of useful programme-specific studies, the development of training curricula, and has contracted reliable impact studies. It has also engaged with some NGOs and institutes to address specific issues (such as child labour) in value chains. It appears, however, that there is still room for developing a broader knowledge strategy with a strategic agenda for generating and disseminating knowledge on sustainable value chains and sharing this widely among stakeholders. The effectiveness of IDH's learning programmes for reaching market transformation deserves attention.

2. Evidence from both wider literature and specific field studies on IDH-work indicate that the outcomes and impacts for primary producers of standards and certification are likely to be positive, albeit rather modest. As such, these efforts will not be sufficient to accomplish IDH's goal of sustainable market transformation.
Evidence so far suggests that the new generation of voluntary standards has positive, albeit rather modest effects on the ground in developing countries. Mainstream standards like Better Cotton, RA and UTZ Certified accomplish bigger market shares than Fairtrade and have positive effects related to their scale, but they appear to lack the substance to be a major influence on local poverty and the environment in developing countries.

Concerning income and poverty, studies indicate that certification on mainstream standards leads to modest positive effects. Production volumes and yields often increase as a result of the accompanying training in good agricultural practice. However, the costs of input use like labour and fertiliser tend to rise as well; the net effect depends on the balance between costs and benefits. In Kenyan tea production, Rainforest Alliance certified smallholders trained in an IDH programme achieved a 30% yield increase, compared to a

15% yield increase achieved by non-trained farmers.[3] However, because of increased costs for hired labour for more frequent tea plucking the effect on the farmer's net income was far smaller. Cocoa farmers in an IDH programme for UTZ certification in West-Africa were found to receive an almost 5% better price (because of an UTZ premium) and produced 6% more cocoa. While positive, the resulting 10% net farm income increase would not be nearly enough to lift the average Ghanaian cocoa farmer's family of five – with a total farm income of USD 1,000 – out of their extreme poverty. A meta-analysis of data on certified and non-certified coffee and cocoa farmers – not specifically related to IDH programmes – indicates average differences in yield of 14% and in net-income of 7%.

Premiums for certified produce in new standards are – if available at all – limited or temporary, and are only partly passed on to farmers or used for covering the cost of certification. Unilever offered a 'sustainability premium' for RA-certified tea in Kenya as an incentive when the IDH programme started, but skipped the fixed premium once all half-a-million smallholders became certified. In UTZ cocoa there is a price premium negotiated between producers and traders, but traders use part of it to recover costs of certification and auditing. In Better Cotton there are no premiums for a licensed cotton farmer; the training on better practices is expected to deliver benefits (higher yield, less pesticide use and related costs) that would keep the farmer in the scheme. In ASC certification of pangasius fish farms in Vietnam, a sector with relatively large-scale and well-off producers, the main benefit appears to be secure access to the Western European market.

Concerning the business case for primary producers, IOB noted benefits of *becoming certified* for smallholders: they receive free training, learn about better agricultural practice, may experience a certain improvement in yield as a result and can possibly economise on pesticide use, while the starting costs of certification and auditing are often borne by others (like IDH). However, the benefits of *staying certified* may be far smaller: recurrent costs of certification are often to be borne by the producer, while premiums are phased out or evaporate as certified production becomes more abundant. Moreover, producers can benefit from lessons learned regardless of whether they remain licensed/certified, or not. Unless market access would be at stake, the incentives to stay certified appear rather small in several schemes.

In the environmental dimension, there are some indications of small positive effects of standards and certification, but the evidence base is still very narrow. Plausible improvements include less use of harmful agrochemicals (cotton), better soil conservation methods (coffee, cocoa), and improved management schemes for forests and fish stocks (FSC, MSC). Standards on soy and palm oil (RTRS, RSPO) include criteria to halt further deforestation, but there is no evidence yet that this works beyond the certified production unit.

[3] This may partly be a spill-over effect of the trainings.

In the social dimension, the evidence base is similarly small. Gender has received remarkably little attention in most value chain studies. In IDH programmes, gender issues occasionally surfaced and led to some specific actions. All standards aim to keep out bad practices – child labour, forced labour, human rights violations – and demand compliance with national legislation and labour standards. Incidental reports on child labour (West-African cocoa) and abuse of women workers (Kenya tea) illustrate that certification cannot fully exclude bad practices. Yet setting standards does often contribute to more debate and action by local government and industry on such issues. When there is regular auditing for compliance to standards, existing health and safety regulations will be applied more frequently. The emergence of national standards and better implementation of existing national legislation can be important indirect effects of standards and certification. This adds to the overall picture of positive results.

While IDH programmes reached many poor farmers (for instance in cocoa and cotton), several certification efforts have so far focussed on 'low-hanging fruit'. The work on ASC has covered the relatively large-scale and well-off producers of pangasius and tilapia, while the standard for the far more dispersed and generally poorer smallholder production of shrimp was launched only in April 2014. Over 50% of the dramatic growth of Better Cotton production was the result of the inclusion of 100 large-scale Brazilian farmers in 2012, who produced more cotton than all the 140,000 Pakistani and Indian smallholders involved in the BC-scheme.

Despite growing market shares, uptake in the market of the quickly growing supply of certified produce is a major challenge. Certified sales of cocoa, coffee, tea and cotton are less than a third of what farmers currently produce. Dozens of major companies have committed to buy 'sustainable products', but their combined uptake of certified products currently doesn't keep up with the sharp increase in supply. This increases costs on the production side, because certification and auditing costs often fall to the producer. IDH works in some value chains with other stakeholders to promote market uptake.

In its external communications, IDH sometimes presents an overly rosy picture of the 'impact' of its efforts. IOB analysed underlying documents for IDH's recent claims of 'impact' in cocoa, tea and cotton and had to conclude that several of the claims were not well founded. Nevertheless, IDH's work on (impact) evaluation is generally of good quality and can be expected to deliver proper indications of the net effects of IDH's supported interventions over the coming years.

In summary, it can be concluded that there are likely positive and important outcomes in IDH-supported certification schemes, also in view of the large-scale and broad reach of these initiatives. However, the level of sustainability improvement is still shallow. Current voluntary standards and certification, even when accompanied by the IDH-supported Farmer Field Schools, are not sufficient for producers and workers to escape chronic poverty. Nor do these actions successfully de-link deforestation and loss of biodiversity from commodity production. Structural transformation towards sustainable commodity markets, the lofty ambition with which IDH started, is therefore unlikely to happen only as a result of the standards and certification schemes currently operating. IDH has become aware of these limitations and has over the years added other activities to its interventions in supply chains.

3. In recent years, IDH has moved into broader areas of work 'beyond certification'. While this is certainly opportune, IDH should take care not to lose focus.

Realism with respect to the results of current certification efforts and opportunities in working with private sector companies and governments have led IDH in new directions, in particular in its cocoa and tea programmes. Building on its network around standards and certification, IDH is aiming to achieve more impact with activities beyond certification.

In the cocoa programme, which is IDH's biggest sector programme in terms of grant funding, it has developed a strong focus on improving productivity. IDH is supporting a range of new projects with companies such as confectionary producer Mars and cocoa trader Armajaro aimed at providing cheaper fertiliser and credit to cocoa smallholders in West-Africa. In tea, the IDH programme with Unilever and the KTDA in Kenya already combined the trainings for Rainforest Alliance certification with broader Farmer Field School trainings (about more than tea) to achieve better results for farmers. Issues such as living wages and sexual harassment are now also taken up in close collaboration with the private sector and non-governmental stakeholders in tea production. In countries such as Ivory Coast (cocoa), Vietnam and Brazil (coffee), IDH is active in national platforms in which the private sector and government discuss policies and regulations to prioritise sustainability issues in commodity production.

Furthermore, IDH is considering an active role in supporting the inclusion of smallholders in certain international companies' investment plans related to the Grow Africa initiative (an offspring of the World Economic Forum in which African governments and private companies aim to work together to boost investment in agriculture). IDH has suggested linking a blended finance component to its partnership options, in order to be able to provide guarantees related to high-risk greenfield investments in African smallholder production.

While there are good reasons for exploring opportunities beyond certification in supply chains, IDH will have to ensure that it is not taking on board too many different activities and work streams. This could undermine its useful focus and the unique position that it currently occupies in the spectrum of development organisations.

4. IDH's recent work is more engaged with individual companies, which can raise questions about the appropriateness of public support and puts 'additionality' at risk.[4]

IDH started its work in the pre-competitive area, convening companies by sector and supporting joint programmes on the sector level. Specialised development organisations (like SNV or Solidaridad) led the implementation of the programmes in the field on behalf of the coalition.

IDH's key work is still convening company commitments towards sector-wide change agendas, but in several programmes the project applicants are now individual companies that have been selected in calls for proposals. In cocoa, the project applicants are often cocoa traders and chocolate manufacturers. The work that IDH foresees with respect to the inclusion of smallholders in greenfield investments is with individual companies.

IDH sees the emergence of individual companies as project applicants as a logical step towards 'business-driven development'. The private sector parties would now be better equipped to 'embed' sustainability efforts in their activities.

While this may be relevant, IOB notes that these developments may lead to several dilemmas. By making a trader the implementer of a cocoa productivity improvement project, IDH facilitates with public funds that this trader builds a more or less exclusive relationship with cocoa farmers. There can be benefits for farmers (like bypassing local middlemen and more secure market access), but this could also reduce their competitive environment, limiting their bargaining power and making them more dependent on a single outlet. By supporting a single trader's efforts, the public funding intervenes in the market structure and may restrict competition.

Similarly, the question is whether public funds should be used to support a single company's commercial investments in which development goals are 'embedded'. An investment in expansion of smallholder production surrounding a private estate could basically be considered core business for the private enterprise, in view of anticipated scarcity of supply. The use of public funding through IDH to support such strategies may surpass the confines of proper ODA resource allocation.

If IDH is moving towards actions in the competitive area – linking with and supporting interventions of single companies – then the requirements of the 'additionality' of public funding deserve due attention.

[4] Additionality can be defined as the net positive difference that is expected to result from a donor-business partnership (DCED, 2014). It is the extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all, as a result of a donor intervention related to a private sector intervention. To establish whether donor support is additional, agencies have to consider the counterfactual: would the activity happen anyway, and would it happen in the same way, without donor support?

Moreover, concerning the balance of public and private goals in the partnerships, relevant questions are raised in several interviews whether in IDH's cocoa programme the strong focus on increasing production – scarcity of supply is a major concern for the cocoa industry – is sufficiently addressing the wider goals of reducing poverty and improving environmental sustainability in the West-African cocoa sector.

5. Private sector contributions to IDH programmes have reached the agreed target, but cover a wide variety of cost items.

The target set by the Ministry in 2011 of attracting at least 1.2 private Euros for every public Euro was reached in the sector programmes as of 2012, and increased to 1.8 in 2013. Over the period 2008-2013, public funding for sector improvement programmes to the amount of EUR 43 million was matched by EUR 56 million in private contributions. The ratio of private versus public contributions varied in individual programmes: private contributions were relatively high in cocoa, cotton, electronics and tourism, and low in timber, aquaculture, stone and cashew. The contributions are audited by auditors hired in projects. IDH's auditor KPMG is responsible for IDH's annual financial statement. No major irregularities have been found. IDH correctly reports to the Ministry the audited total contributions per programme; it does not report on the character or details of the private contributions to a project, as it has not been asked to do so.

IOB noted that a very wide variety of contributions has been accepted by the Ministry as private sector match funding, based on a proposal submitted by IDH in 2010. The contributions vary from cash grants and in-kind contributions to a project (calculated as time spent by company staff at a maximum rate of EUR 500 per day), to the costs of investments in, for instance, protective gear for farmers (in tea), treatment ponds and pumps for water or sludge (in aquaculture), additional costs of 'responsible' fish feed, the cost of auditing and certification, and even the premiums paid for certified products during the project (in aquaculture, cocoa and soy). The private contributions can thus be from the international companies that are partners in or lead the programme, but also costs and investments made by the target groups (the farmers). Reconstruction at the request of IOB indicated that in-kind contributions varied from 0% of total project expenditure in the cotton programme, to 22% in tea and 29% in natural stone.

Now that PPPs are more prominent in development cooperation, the government's audit service ADR has advised the Ministry to devise more precise guidelines for such contributions in PPPs.

6. Planned increases in expenditures for sector programmes have lagged behind. The IDH organisation has grown and become more professional.

By the end of 2013, IDH had spent slightly less than half of the available MFA funding for the 2008-2015 period. In particular, the spending in sector programmes lagged behind ambitions and projections. The level of new commitments in the last two years suggests that setting up new agreements requires more time than foreseen, given the scrutiny that IDH wants to apply. For the period 2013-2016, SECO (Switzerland) and Danida (Denmark) have also made available significant amounts of public funding for the sector programmes.

IDH would have to commit and spend substantially more funds in its sector programmes in 2014 and 2015 than it did over the past two years in order to deplete the public funding at its disposal. IDH has indicated that the pipeline of new projects is large enough to ensure proper spending and that the level of contracting is picking up in 2014.

The operational costs of the IDH organisation have grown steadily and are substantial compared to the programme spending realised. Until 2013, the ministry paid the full cost of the IDH organisation, the learning and innovation programme and the programme outreach. As of 2013, SECO and Danida also cover an agreed (small) proportion of these costs. IDH has set a 7.9% target – as of 2011 – for the ratio of 'IDH office costs' (personnel, housing & ICT, organisational cost, communication, and congresses) to total annual expenditure (which includes private sector contributions in programmes). So far, it only achieved this target in 2012.

Increased costs are primarily related to growth in operational capacity, in particular by hiring more programme officers, administrative and financial support and legal officers. Whereas initially IDH transferred complete sector programmes to implementing partners such as Solidaridad and SNV, project funding practice has shifted towards more in-house operational management. IDH wanted to increase its influence in programmes and benefit more in terms of learning.

Costs are also related to IDH's role as a convenor, for which it needs a secretariat with sufficient professionals to interact with the businesses and other stakeholders in the value chains. Indeed, IDH appears to have a relatively heavy senior management structure with six directors in an organisation of about 40 staff. Consultants have been hired to work more or less permanently at the local level on key programmes for IDH, while also part of IDH staff is effectively stationed most of their time in developing countries. IDH is setting up legal entities in Vietnam and Indonesia with a view to strengthening its local/regional convening work.

IOB noted that IDH's administrative and financial practices have become more professional over the years. IDH now has a solid internal control and management information system in place.

7. The public commitment in the partnership facility has been largely limited to providing funding; the public partner role has been fulfilled too much at a distance.

While IDH was set up as an entity for public-private-partnerships (PPPs), the public role in the initiative has been confined largely to providing the finance to facilitate IDH to build and run the organisation and to set up the programmes with private partners. In the first years, the Ministry of Foreign Affairs took a position as observer on the interim board. When IDH became a foundation with a supervisory board in 2011, the Ministry stepped down. In view of the innovative character of the initiative, IDH was given much leeway to develop the organisation and its way of working. Cooperation with IDH in Dutch embassy programmes is still limited, as is collaboration between IDH and other instruments of the Dutch private sector development programme (except with FMO). Few efforts were made to combine economic diplomacy and IDH interventions. IOB suggests that more intensive coordination would be possible in this area.

Issues for consideration

With a view to the Ministry's decision on funding for a next phase in IDH's work, IOB gives the following issues for consideration.

1. Sustainable sourcing in value chains is still unfinished business and IDH is well positioned to continue and deepen its work on standards, certification and related activities beyond certification. It would be better to focus the scope of the work on critical issues, and to not broaden activities too widely.

IDH's position and role would best be judged against the backdrop of the broader PSD programme that the Ministry supports, and the wider perspective of what kinds of organisations are active globally, and in Europe in particular. IDH is a unique organisation in as far as it works closely - in a pre-competitive setting - with companies and other stakeholders on building coalitions for sustainable sourcing in value chains and translating commitments into effective sector programmes that combine public and private funding. However, would it be given the opportunity to take on board wider goals and ways of working, it would enter an area in which many more development organisations are active. Retaining focus is part of the strength of an organisation like IDH.

Moreover, sustainable commodity sourcing is still *unfinished business*. While the first wave of mainstream certification may have reached its peak, the supply chain approach with committed companies offers plentiful opportunities for further work. The challenge appears to be identifying how such standards and related private sector commitments can work as *stepping stones towards deeper market transformation* efforts that offer prospects for reaching more substantial societal and development impacts.

While the full market potential of standards, certification and partnerships for sustainable sourcing is not clear, there is ample space at this stage to continue along this line and IDH is well positioned to play a role in its further development. Recent literature, seminars and interviews suggest the following opportunities that could further increase the relevance and effectiveness of sustainable commodity sourcing initiatives.

- *Extending the reach of current schemes, beyond 'low-hanging fruit'*
  Much low-hanging fruit has been harvested in the certification schemes, such as the relatively large-scale Vietnamese pangasius and tilapia farmers, organised tea smallholders in Kenya, and modern Brazilian cotton farmers. Moving to the next phase of certification will be more difficult. This would entail including more smallholders and more vulnerable producers into the schemes. IDH's recent work on including shrimp farming in ASC is a good example. Similarly, keeping the focus on smallholder production would be important in the Better Cotton initiative. Much of this is ongoing IDH work, which deserves further support.

- *Working on higher uptake of certified products in the market*
  Since in many cases less than half or a third of certified produce is used as such in consumer markets, uptake is a key challenge for anyone involved in sustainable commodity sourcing. Reputation and brand management are generally seen as key drivers for uptake, which suggests the importance of public campaigns and awareness building. While this may not be the central area of work for IDH, it could be important for IDH to work with NGOs and companies on strategies to renew and increase public attention to the sustainability issues that stood at the cradle of the wave of new standards.

- *Stepping up the substance of the standards*
  The standards could be further developed as programmes for continuous improvement, including thorny issues such as living wages/income (already in debate concerning tea). Far more attention needs to be devoted to strengthening the gender dimension. In addition, the issue of premium payments to primary producers needs further debate, in view of the apparently limited viability of the business cases for farmers of certification without premium. IDH is not a body that sets standards, but from its position as key player in sustainable sourcing initiatives it could stimulate further debate on higher standards.

- *Stimulating local/national standards in developing countries*
  An indirect effect of standards and certification in Western markets is a growing interest in developing countries of devising national standards (and sometimes legislation), partly aligned with international standards. Trustea in India is a typical example. This offers new perspectives, in particular in developing countries with substantial local markets, or with high commodity exports to other than Western markets. Working on these standards requires closer involvement with governments and other authorities in developing countries (IDH's local convening ambition), whereas developed countries' governments could also play a facilitating role.

- *Supply chain work beyond certification*
  This could include finding ways of ensuring better access to (short- and long-term) credits for producers, providing additional support for improving productivity, working on better links with (development) organisations providing longer-term investment finance for upgrading production in the supply chain. While such activities can be very important, the question always needs to be asked as to which role IDH should play in view of the expertise of other organisations supported by the Ministry (such as FMO, IFC and AfDB in finance, and IFDC, Agriterra in areas of local value chains and producer organisation, et cetera).

- *Increasing transparency of the distribution of value added along the value chain*
  Value chain work has focussed mainly on sustainability issues at the primary producer level. However, the trade margins are often defined further downstream in the value chain. In several commodities (like cocoa), prices paid to primary producers are not reflecting actual or future scarcity of supply. IDH would be well placed to analyse and

discuss such matters with all stakeholders in the value chain, to help provide more transparency and to suggest possible remedies that would empower primary producers. This could be part of its knowledge strategy.

2. Upgrade the public role vis-a-vis IDH in terms of closer guidance on behalf of the Ministry, paying attention to the balance between public and private goals in the programmes, exploring options for synergies with other programmes, and updating guidelines for private sector match funding and the 'additionality' of public support.

The Ministry should define its role in the initiative more clearly, given the importance of IDH in the Dutch private sector development programme. Combining public and private goals in development activities is a relatively new area of work in international cooperation. Whereas this is a promising business and core to the Dutch government's mission, this review (and the recent IOB report on Private Sector Development) suggests that the Ministry could strengthen its policies, presence and operational guidelines.

- Firstly, appointing a qualified representative for the ministry in the IDH supervisory board is recommended. This individual should have a clear task and an arrangement for regular feedback. It is not uncommon for a funder to keep an eye on the development of the organisation that it is supporting in this way. Such a commissioner would, among other tasks, have to oversee the balance between the private goals and public goals in programme development. This would include ensuring that voices from the not-for-profit sector, local producers and authorities are heard and acknowledged when devising IDH's sector strategies and project interventions.

- Benefitting from the public-private partnership character of IDH would also require the Ministry to take on more pro-active role at an operational level. In response to IOB's evaluation of the Dutch Private Sector Support policy, the minister has underlined the call for more synergy and coordination between the different instruments that it supports. IOB realises that the capacity within the Ministry to actively engage in development cooperation efforts has been reduced over the years. Yet, given the importance of IDH in the ministries' programme, promoting synergy between IDH work and that of other PSD organisations could be assigned greater priority. Options to combine economic diplomacy efforts and IDH work could be explored further.

- This review also suggests that the Ministry's current guidelines for private sector match funding are very wide. The Ministry should consider, in consultation with the government's audit service ADR, how the guidelines currently applied could be specified in more detail to guide IDH's (and other PPPs') match funding provisions and lead to more transparent reporting as to their use.

- In order to provide more clarity on when public finance can be considered 'additional' to private contributions, it is recommended that the Ministry uses the guidelines that the DECD (of which the Ministry is an active member) has developed recently.[5] These criteria provide closer guidance to IDH and other PPP programmes on what can and cannot be considered appropriate use of public funding in combined programmes.

5 Demonstrating Additionality in Private Sector Development Initiatives: A Practical Exploration of Good Practice for Challenge Funds and other Cost-Sharing Mechanisms; DCED, 2014.

1

Introduction and methodology

This chapter describes the review's purpose and methodology.

Purpose and review questions
IDH has received financial support from the Ministry of Foreign Affairs for its organisation and programmes up to the end of 2015. The Ministry intends to take a new funding decision in the second half of 2014 concerning IDH's forthcoming strategy for the years 2016-2020. The Ministry asked IOB to conduct an evaluation, to be completed by mid-2014.

In early 2014, IOB agreed to set up a review of IDH. A fully-fledged evaluation was considered somewhat premature, in view of the limited evidence so far as to the impact evaluations that IDH set up on the Ministry's request in 2011-2012.

The purpose of the IOB review is therefore to provide an independent assessment of the progress, results and potential of the initiative to date, in order to assist the Ministry in making an informed and strategic decision about further support to IDH.

The review addresses the period 2008-2013 and is structured around the question: To what extent is IDH a relevant, effective and efficient organisation in view of the Dutch government's policy on aid and trade? This includes the following key issues.[6]

On general knowledge about the field of work in which IDH is active (covering aspects of relevance and potential effectiveness):
- What is known about whether and how promoting sustainability through voluntary standards in supply chains is effective in delivering impact on MDGs 1, 7 and 8?
- What is known about the role and magnitude of public funding as compared to private sector funding in promoting market transformation towards sustainable value chains?
- What is the perception of stakeholders and experts on the prospects of public-private partnerships for making value chains more sustainable?

On the available evidence on IDH's effectiveness to date:
- To what extent has IDH's role as convener, funder and knowledge broker contributed to improvements in commodity markets?
- To what extent have IDH's programmes contributed to increased yields, higher incomes, better working conditions, and environmental improvements in commodity production?
- What is known about the financial sustainability of the product-specific business cases (for primary producers/farmers) in IDH programmes?

On the organisational and financial aspects of IDH:
- How has IDH developed in terms of organisational capacity and financial efficiency?
- To what extent is IDH's financial contribution from public funds matched by additional private sector contributions, and how does the balance evolve over the different phases

[6] The review questions are shown in simplified form. The full review questions are provided in the terms of reference of this review, which can be found at www.iob-evaluatie.nl.

of market transformation? What part of public funding is spent at the level of the farmer or primary producer?

Methodology and approach

The review was conducted on the basis of desk research and interviews with stakeholders and experts. In addition, a workshop was organised to discuss general prospects for sustainable commodity sourcing.[7] The desk research draws on various types of secondary sources, including academic literature, impact studies and annual reports. It also analysed primary sources such as IDH financial statements, IDH's paper trail on specific commodities, and data on key performance indicators.

The review was centred on five commodity-specific case studies that provide more in-depth knowledge with respect to IDH's work. These case studies have been complemented with a general analysis of IDH's work and approach, which includes all commodities. The commodities selected are: cocoa, cotton, tea, aquaculture and stone. The first three commodities were selected because baseline and impact studies have been conducted or commissioned for these commodities. This permits a preliminary analysis of the (potential) impact of IDH's work. These three commodities account for almost half of IDH's expenditure of DGIS funding during the review period. Aquaculture has been added because IDH was involved early on and played a role in establishing the Aquaculture Stewardship Council. Finally, natural stone was selected in view of the exit strategy that IDH was preparing and because it was one of the first four commodities for which IDH initiated a programme after its foundation in 2008.

The interviews were used to collect and compare views from different angles (triangulation). A total of 70 interviews were conducted with IDH directors and programme officers, representatives from the Dutch government, implementing organisations, NGOs and a large number of companies. A small number of representatives from local governments or producer organisations were also interviewed. The full list of persons interviewed is provided in Annex 3. Most interviews were conducted within the framework of one of the case studies. These interviews were semi-structured.[8] About twenty interviews had a more general nature and can be characterised as open interviews.

In addition, IOB and the Environmental Policy Group of Wageningen University organised a workshop to take stock of current sustainable value chain practices and to look forward to new ways of increasing sustainability. Around 30 international and Dutch experts and stakeholders participated in the debate, for which seven international experts provided

[7] An additional literature review that IOB had commissioned did not provide sufficient evidence to function as a relevant input for the review of IDH.

[8] Standard questions in the semi-structured interviews covered an appraisal of developments in the commodity chain; the role of IDH in the sector sustainability initiative; whether the emphasis in IDH's role was on convening, funding or knowledge; what if there had been no IDH support; future role of IDH in the initiative. The relatively small number of interviews per sector, with great differences between sectors and the phase of the initiatives, did not allow for aggregation of the answers to the questions (for instance on the exact role of IDH) on a more quantitative basis.

written contributions. The input provided within the framework of this meeting was used to deepen understanding of the prospects for sustainable sourcing initiatives. The report of the meeting has been published separately on the IOB website.[9]

Limitations
A fully-fledged *evaluation* of IDH was not feasible, given the short time available and in view of the limited information available so far as to the effectiveness of IDH-supported interventions in the producer countries; such an evaluation would be more appropriate by 2016-17 when the results of the impact studies started in 2012 become available.

The review character of this study implies limitations. IOB is not able to fully judge IDH with respect to the classic OECD evaluation criteria (efficiency, effectiveness, impact, relevance and sustainability). However, the review does provide an overview of *available evidence* on the relevance (ex-ante) and effectiveness of IDH. Part of the reporting is more descriptive, rather than judgmental, for instance on several efficiency aspects and cost indicators. In this way, the review aims to contribute to transparency and informed decision-making at the Ministry concerning further funding to IDH.

Layout of the report
Chapter 2 sketches the general theory and practice of promoting sustainability through commodity supply chains. This is based mainly on a study of available literature, while IOB added some of its own research on issues such as on profits and margins along the cocoa value chain.

Chapter 3 looks back at how IDH started, what it intended to accomplish and how its interventions were supposed to deliver impact. It describes IDH's theory of change related to market transformation, and the intervention logic and results chain, as presented in IDH's funding proposal 2011-2015.

Chapter 4 describes IDH's organisational and financial development and assesses aspects of the organisation's operational efficiency. It also looks at the role of the Dutch government in the development of the organisation and its programmes.

Chapter 5 is the main chapter in the report. It analyses IDH's accomplishments, in particular in cotton, tea, cocoa, aquaculture and natural stone (outputs, outcomes and impact, as far as available evidence goes).[10] It looks at IDH's role as convenor, funder and knowledge broker.

[9] http://www.iob-evaluatie.nl/sites/iob-evaluatie.nl/files/Chains%20for%20Change%20workshop%20report.pdf.

[10] The annex contains basic information on IDH's sector programmes for aquaculture and natural stone. For more background information on coco, tea and cotton we refer to the IDH website: http://www.idhsustainabletrade.com/.

2

Fostering sustainable commodity production through value chains

This chapter sketches the theory and practice of promoting sustainability through commodity supply chains. It analyses general evidence as to whether and how standards and certification can deliver positive impacts on poverty and the environment in developing countries. Evidence related to specific IDH interventions are dealt with in chapter 5.

The booming business of standards and certification

The pursuit of sustainable production, manufacturing and trade in global value chains has gained momentum over the past decade.[11] Certified products claiming some aspect of sustainability are penetrating mainstream markets in Western industrialised countries. Companies running global brands, major retailers and non-governmental organisations work together in partnerships to expand supply and demand of products certified by voluntary standards such as UTZ and Rainforest Alliance certified, RSPO (palm oil) and MSC (fish). There are currently 447 registered labels claiming some aspect of sustainability.[12] These initiatives have in particular taken root in food and beverage production, but also in non-food products like tropical timber and cotton. Most operate on a business-to-consumer level, while others are business-to-business standards, such as 4C, Bonsucro and GlobalGAP. For an overview, see IISD & IIED (2014) or PBL (2013).

The earlier standards and certification schemes on sustainability – Organic and Fairtrade – did not have the ambition to involve actors in the mainstream supply chains, at least not initially. They emerged as a sort of 'niche chains', in the case of Fairtrade initiated by an alternative movement providing direct trade relations between third world producers and conscious consumers in Europe.[13] While their ambition became to reach a larger group of consumers through uptake by major retailers, market shares remained fairly limited.[14]

Most of the more recent standards emerged as a result of public campaigns and advocacy efforts by NGOs (such as WWF, Solidaridad, Oxfam-Novib and Rainforest Alliance) aimed at engaging key private sector players on sustainability issues related to their supply chains. This coincided with a growing debate and consciousness about corporate social responsibility. Retailers and manufactures came to the negotiating table to discuss possibilities for reducing environmental and social harm in production and trade (RESOLVE,

11 In this context, *standards* are a defined set of social, environmental, and/or economic criteria that are to be translated into concrete practices by producers/enterprises. *Certification* is a means of providing assurance that products or services comply with the criteria (RESOLVE, 2012).

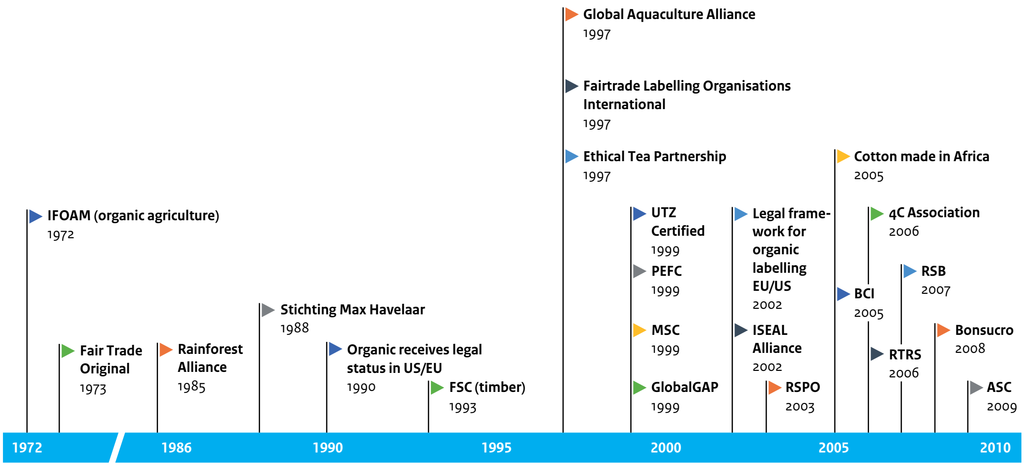
12 Website http://www.ecolabelindex.com/ecolabels/ (accessed 29 May 2014).

13 The standard for organic agriculture came up in the early 1920s to harmonise existing growing practices. The members of the organic agriculture movement established the International Federation of Organic Agriculture Movements (IFOAM) in 1972 to have a communication network for the various initiatives. The Fairtrade standard evolved in the 1980-90s from direct trading relations of European Third World shops and was built in particular on coffee. The Fairtrade Labelling Organisations International (FLO) was set up in 1997 to bring different national initiatives (like Max Havelaar) under one roof (RESOLVE, 2012).

14 UTZ started in 2002 as a deal between a coffee producer in Guatemala and a coffee roaster in the Netherlands who believed that a new simpler standard promoting good practice in coffee production could reach out to a broader market of consumers than Fairtrade could.

2012). While some NGOs continued the 'naming and shaming' of free riders, other NGOs became cooperative partners in developing standards with front-running companies such as IKEA, Douwe Egberts and Unilever. FSC, MSC and RA/SAN-Certified emerged in the 1990s, UTZ in 2002. In the second half of the 2000s, round tables on palm oil, soy and sugar were set up with participation of major industry players. Figure 1 sketches the timeline of the emergence of key voluntary standards.

Figure 1 *Timeline of sustainability standards and organisations (starting dates)*



Source: composed by IOB.

The theory of combining public and private goals for development

In developing countries, the production, processing and trade of commodities can be related to various sustainability issues: poverty induced by low (farm) prices and low productivity; poor labour conditions, including child labour; and negative environmental effects such as deforestation, soil degradation and water pollution.

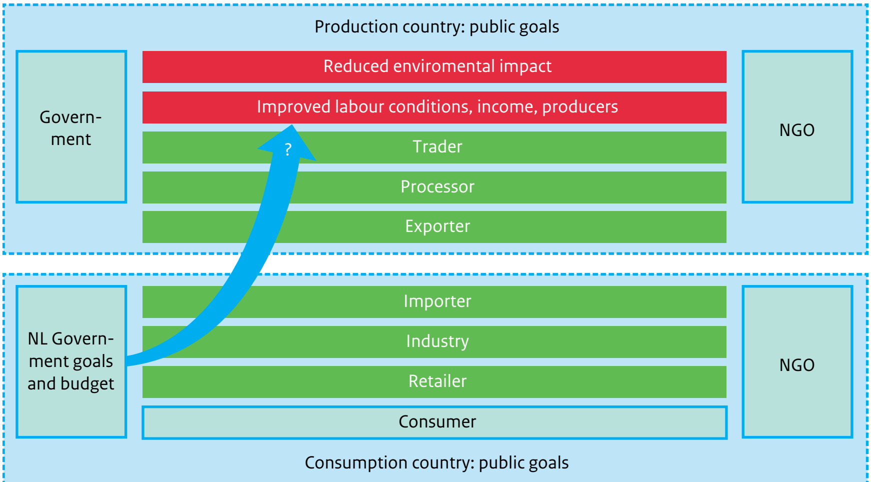
In conventional commodity markets (often: spot markets), there is no backward market integration or traceability system. This implies that the final buyer or consumer has no means to know about the labour, income or environmental conditions in the country of origin. By transforming the supply chain into an integrated and traceable supply chain, buyers and consumers in developed countries would be able to influence the sustainability issues in production countries. The key assumption is that social, economic or environmental sustainability issues related to production can be effectively addressed via supply chains, in particular in countries where these issues are not sufficiently dealt with by government or other local organisations (RESOLVE, 2012).

The basic logic behind certification against sustainability standards is that this would provide credible information to consumers about sustainability aspects of products, while offering companies the means to communicate and work on their corporate social responsibility commitments (Dragusanu, Giovannucci, & Nunn, 2014). With growing market share for certified produce and more private stakeholders entering the scheme, commodity markets could gradually transform from conventional to sustainable (PBL, 2013).

The process of market transformation in supply chains would serve both private and public objectives. Apart from working on brand reputation and corporate social responsibility, private sector goals include securing access to resources in the long-term: with limited arable land surface and growing global demand, particularly from emerging economies in the South, assuring continuity of supply has become an issue for many companies. Public objectives include reducing poverty and negative environmental impact related, for instance, to the UN Millennium Development Goals (MDGs). The overlap between the private sector sustainable sourcing objectives and the public poverty alleviation and environmental objectives would create the possibilities for fruitful public-private partnerships.

Transformation to an integrated sustainable supply chain requires a range of actions. These include creating a network and a critical mass of market players; developing a product-specific code or sustainability standard (if this is not yet in place); setting up a traceability system; providing support to producers and other actors to work according to the new standard; and certification of producers. Voluntary sustainability standards will have their limit in terms of market share, and government policies and regulations in production countries would eventually be needed to address all production (PBL, 2013).

Figure 2 *Supply chains as a channel for public funding to achieve goals in production countries*



During market transformation, public support (ODA) can bridge the period between investment and (visible) benefits and motivate private actors and producers in the short term. Public support can be needed for convening stakeholders, standard development, to pilot fieldwork, and for supporting local governments with policies. Once a certain market share of sustainable produce is reached, other companies would follow, and less or no external support would be required any more. Eventually, a voluntary standard may become the norm among buyers and retailers: 'a license to operate'. Also, governments, both in producing and importing countries, may adopt the norm in national programmes or even in legislation to promote compliance by market players that lag behind (PBL, 2013).

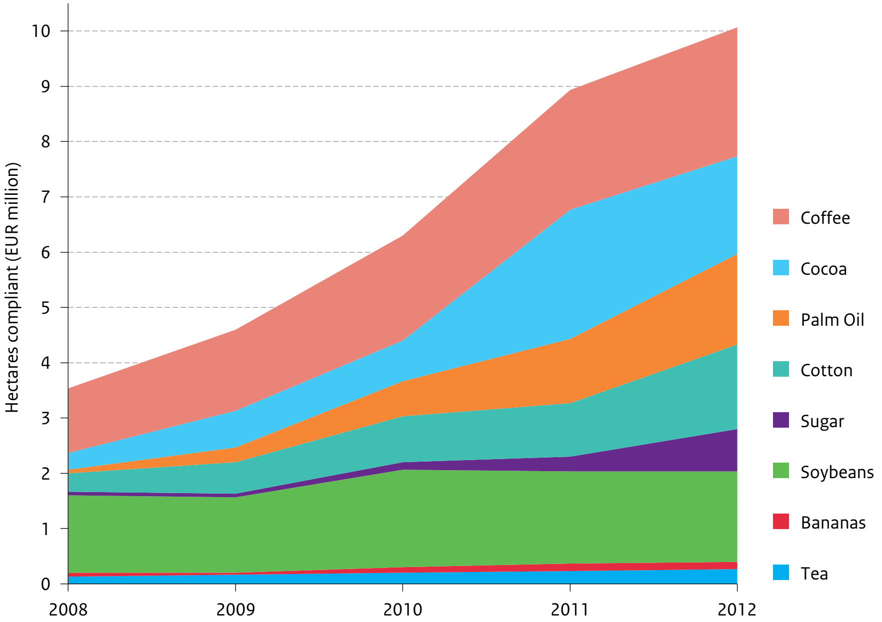
Public support could be justified if the funding would be crucial for initiating the transformation or if certain public objectives would not be achieved when market transformation would be driven by the private sector alone. Through public-private partnerships, temporary ODA would be able to leverage long-term private sector investment in development (PBL, 2013). Once the market is well integrated and a long-term relationship and trust are built along the supply chain, buyers, processors and producers will be more motivated to further invest in, for example, productivity and product quality.

Basically, the rationale for public funding of standard development is that, without it, the public objectives – reducing poverty, improving labour conditions and reducing negative environmental impact – would not be achieved to the same extent or in the same rhythm. This is either because such objectives would be less anchored in the sustainable supply chains, or because market transformation would not take place at the same pace or on the same scale.

The roles that governments or government funding in developed countries can play varies per commodity and depends on the phase of market transformation (niche market, mainstream). This ranges from subsidising pilot programmes, convening frontrunner market players and NGOs, creating networks and exchanging knowledge of mainstream players, strengthening transparency and competition, to putting legislation in place.

Market shares and commitments of brands and retailers
The supply of certified produce has expanded dramatically over the past decade. As figure 3 shows, the area of certified production of major sustainably produced crops practically tripled to 10 million hectares in five years' time (IISD & IIED, 2014).

Figure 3 *Growth of certified production 2008-2012 in hectares*

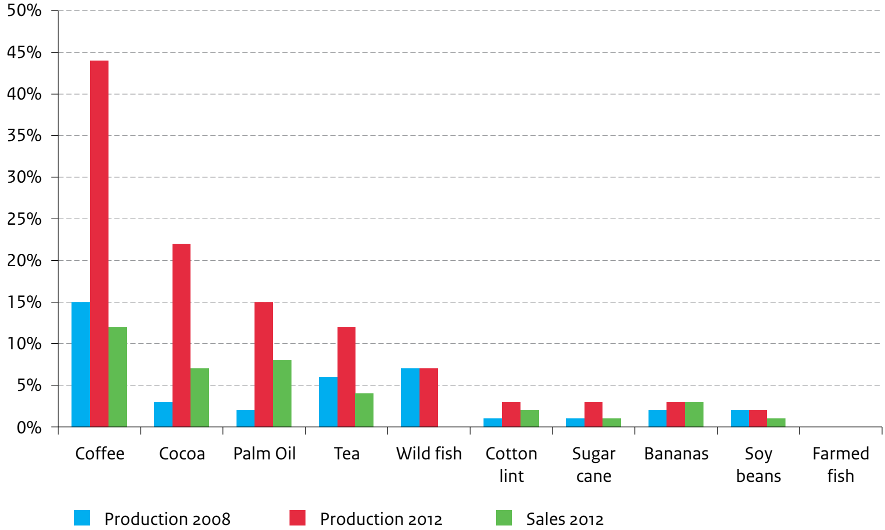


Source: State of Sustainability Initiatives Review 2014 (IISD & IIED, 2014).

However, uptake in the market lags behind (see figure 4). For most products except bananas, certified sales are just a third or half of what is currently available (KPMG, 2013a; IISD & IIED, 2014). Oversupply might lead to a downward pressure on prices for such certified products.

In the Netherlands, market shares for several sustainably sourced products are significantly higher than global averages. This is in particular the case for wood products (around 60% sustainably sourced in 2011), palm oil, coffee, fish and tropical timber (around 40% in 2011) (PBL, 2013). The Netherlands is a frontrunner even within Europe in this regard. Several recent sector-wide initiatives with global ambitions, such as the round tables for soy (dating back to 2006) and palm oil (2004), were set up by Dutch stakeholders.

Figure 4 *Volume of certified commodity production (2008 and 2012) and sales of certified products (2012), as a percentage of global production*



Source: State of Sustainability Initiatives Review 2014 (IISD & IIED, 2014) and IOB calculations.

Some of the gap between production and uptake of certified produce may well be transitional. Many leading brands and retailers have made commitments to sustainable sourcing, often targeting a certain percentage by 2015 or 2020 (see Table 1). However, the full potential is not known. Much will depend on how the interaction between consumer demand, NGO advocacy and public campaigning, and brand and retailer commitment develops in western consumer markets over the coming years.

Table 1 **Examples of company commitments on sustainable sourcing**

Company	Commitments or current status
Adidas	100% sustainable cotton by 2018
Ahold	100% sustainable cocoa, coffee, tea, palm oil, soy and seafood by 2015
Anova	60% sustainable seafood by 2016
Cargill	100% sustainable palm oil by 2020
DE Master Blenders	25% sustainable coffee by 2015
Ferrero Rocher	100% sustainable coffee by 2013, palm oil and sugar by 2014, cocoa by 2020
Friesland Campina	100% sustainable cocoa, palm oil and paper by 2014
H&M	100% sustainable cotton by 2020
Hershey's	100% sustainable cocoa by 2020
Ikea	100% sustainable cotton by 2014 and 50% sustainable wood by 2017

Jumbo	100% sustainable cocoa, coffee and paper as of 2012 and palm oil as of 2013
Marks & Spencer	100% sustainable cotton, palm oil, seafood and paper by 2020
Mars	100% sustainable coffee as of 2013, palm oil by 2015 and cocoa and seafood by 2020
Migros	100% sustainable paper and 90% sustainable soy by 2014, 100% sustainable palm oil by 2015 and seafood by 2020
Nestlé	100% sustainable palm oil as of 2013 and 40% sustainable cocoa, coffee, soy, sugar and seafood by 2015
Olam	100% sustainable cocoa, cotton, coffee and paper by 2020
Procter & Gamble	100% sustainable palm oil by 2015 and paper by 2020
Sainsbury's	20% sustainable cotton by 2014
Tchibo	70% sustainable cotton and 35% sustainable coffee by 2014
Tesco	100% sustainable palm oil by 2015
Unilever	100% sustainable palm oil by 2015 and cocoa, tea, wood, palm soy and sugar by 2020
Verkade	100% Fairtrade cocoa as of 2009, palm oil as of 2010 and coffee as of 2013
Zeeman	10% sustainable cotton as of 2020

Source: company annual reports and websites. Compiled by IOB.

Indications of limited positive effects of certified standards on sustainability

While the literature on this subject is expanding, it is still early to pass judgement as to whether the wave of standards and certification is actually creating impact on the ground. The evidence base is relatively new and small. Potential impacts of the new generation of standards have often not been studied over longer periods of time. Fairtrade has been the subject of far more research, but early studies in particular were anecdotal rather than systematic and more focussed on outputs (training, prices) than on outcomes (net-income, use of harmful pesticides) or impact (livelihoods, health). Robust studies that compare certified producers with comparable non-certified producers over a period of time are scarce.

Drawing from a range of overviews and specific commodity studies, the following picture emerges on the effects of voluntary standards.

In general, studies indicate that standards and certification are limited instruments for the purpose of making production sustainable and improving the livelihoods of small and vulnerable producers. In a 2010 review of the small number of methodologically credible studies available (14), Blackman and Rivera concluded that the 'empirical evidence that sustainable certification has significant benefits is limited' (2010). Recent overviews point to 'mixed results' with evidence of 'positive impacts' (Molenaar et al., 2013), 'plausible positive effects' (Kessler et al., 2012) or are 'cautiously positive' about the effects of standards on producers in developing countries (International Trade Centre, 2011b).

Concerning economic aspects, there is some evidence of increased farmer productivity and of moderate improvements in net income. Training for farmers required to enter the certification schemes can help to improve yields (and in some cases product quality), in particular in smallholder production where education in good agricultural practices has so far been lacking (Kessler et al., 2012). Resulting higher yields can translate into limited income improvements, depending on other factors such as changes in input cost as a result of better practice (more/different fertiliser use, hired labour instead of child labour, etc.) and the cost of certification as such.[15]

Moderate improvements in income are also associated with the floor price and price premiums paid in Fairtrade schemes (Ruben, 2008). A recent overview concludes that 'studies generally find that Fairtrade farmers receive higher prices, have greater access to credit, perceive their economic environment as being more stable, and are more likely to engage in environmentally friendly farming practices' (Dragusanu, Giovannucci, & Nunn, 2014). The effects on livelihoods remain, however, small: most studies emphasise that Fairtrade producer families are still only surviving and covering basic needs (Nelson & Pound, 2009).

Limited uptake in the market and over-certification are factors that reduce the potential economic benefits of Fairtrade production. Coffee cooperatives are generally unable to sell more than a fifth to a third of their Fairtrade certified coffee (Hoebink et al., 2014). The costs of certification, however, fall on the full production of the cooperative and so reduce benefits from the certified sales.

Premiums and price guarantees are generally not part of mainstream standards such as Rainforest Alliance Certified and FSC. Yet some premium payments occur in the market, often based on the (perceived) quality of certified produce.[16] Any premium paid is small compared to price fluctuations in the market. A main economic benefit to producers of the recent certification schemes could well be the indirect effects of their relationships with buyers and marketing guarantees, contributing to more secure market access (RESOLVE, 2012; International Trade Centre, 2011b).

On the environmental dimension there are also indications of some limited positive effects, often situation- and case- specific. Standards specifically require adoption of more environmentally friendly practices in fisheries (MSC and ASC), forestry and timber extraction (FSC, PEFC), appropriate use of agro-chemicals, soil conservation practices and better waste management. According to Molenaar et al. 'it is plausible that these practices will lead to improved ecosystem quality and biodiversity, but the evidence on this point is inadequate, and the relative contribution of these measures is uncertain' (Molenaar, et al., 2013).

15 Certification costs are sometimes (temporarily) subsidised by NGOs or donors, which can obscure the cost/benefit picture.

16 UTZ allows for negotiation between buyer and seller on a premium. Current premiums paid are monitored and published on the UTZ website.

There are some indications of better soil management methods related to certification of specific crops (Dragusanu, Giovannucci, & Nunn, 2014; COSA, 2013). This is related to training in good agricultural practices, which can also help to reduce the use of (harmful) agro-chemicals, in particular in crops and in situations where use was relatively high. There is hardly any proof of increased fixed investments, for instance in tree renovation or soil structure improvements, also because access to long-term finance is usually lacking.

Several standards for tropical crops - such as the recent RTRS for soy and RSPO for palm oil - include criteria to stop further deforestation and forbid expansion of production by the certified unit into surrounding primary forest. There is still no evidence as to whether this has an effect on ongoing deforestation in major palm oil and soy producing countries such as Indonesia and Brazil. FSC and MSC certification are associated with improved management of forests and fish stocks, but mainly in developed countries. Studies on FSC certification found limited additional effects, largely because the certified forests were already relatively well managed (Blackman, Raimondi, & Cubbage, 2014). In general, securing forests and biodiversity requires broader efforts than certification programmes alone can provide (International Trade Centre, 2011b).

On the social dimension, the evidence base is similarly small to date. All sustainability standards aim to keep bad practices off the market, such as child labour, forced labour and human rights violations, while demanding compliance with national social legislation and labour standards. Incidental media reports on child labour (like in Ivory Coast cocoa production) and the abuse of female workers (as in Kenya tea production) illustrate that certification cannot fully exclude bad practices. Yet there is some evidence of reduced child labour practices in certified production (Tulane University, 2011). The gender dimension has received remarkably little attention in many studies (Nelson & Pound, 2009).

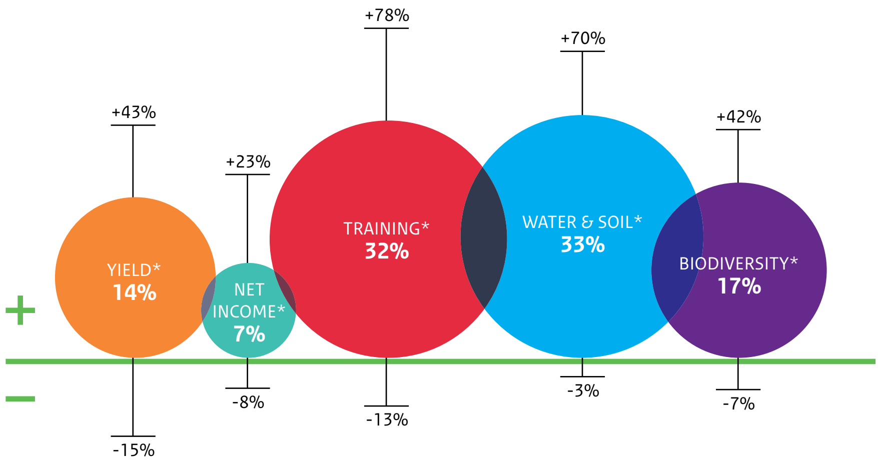
The Fairtrade premium is to be used for social or economic development programmes within the producer community or estate, to be selected democratically by a representative fund committee.[17] Studies find a broad range of uses, such as building classrooms and housing for teachers, dormitories for workers, fellowship funds, latrines for girls, water wells, road improvement, as well as individual bonuses for producers (Ruben, 2008; Nelson & Pound, 2009; Stathers & Gathuthi, 2013). One study reports the partial purchase of a tea-processing factory by smallholders in Kenya (Stathers & Gathuthi, 2013). There are also reports that suggest incidental misuse and distrust of members concerning the use of the funds (Dragusanu, Giovannucci, & Nunn, 2014; Stathers & Gathuthi, 2013).

[17] Prior to 2008, the premium for Fairtrade coffee was 10 dollar cents per pound. Now it stands at 20 cents per pound. In 2013, world prices for coffee stood at about 120-150 dollar cents per pound for Arabica, depending on type and quality. This is around the current Fairtrade Minimum Price of 140 to 170 cents/lb for different qualities types of Arabica. The 20 cents Premium is additional. In 2012, Transfair USA alone paid over 35 million USD in premiums to Fairtrade producer organisations, the bulk of which related to coffee (Dragusanu, Giovannucci, & Nunn, 2014).

Recent studies indicate that the benefits of Fairtrade for smallholders are not necessarily passed on to the workers they hire. In East African production of tea and coffee at certified farms, poor farm workers (often female) got very low pay and had to work under difficult conditions (SOAS, 2014). Another study showed that the income increases in Fairtrade coffee production in Costa Rica over the past decade were confined to farm owners and skilled labour, and were not extended to unskilled workers on the coffee farms (Dragusanu, Giovannucci, & Nunn, 2014).

As part of a broad ongoing effort to document the effects of voluntary standards, the Committee on Sustainability Assessment produced a meta-analysis of observed differences between certified and non-certified coffee and cocoa farmers in 12 countries (COSA, 2013). The study noted a substantially higher number of farmers trained, improved farm practices (soil and water conservation, conserving biodiversity), higher yield (+14%) and a modest but significant difference in net income (+7%).[18] See figure 5.

Figure 5 *Certified coffee and cocoa producers compared to uncertified producers*



Source: The COSA Measuring Sustainability Report; Coffee and Cocoa in 12 Countries (COSA, 2013).

[18] The data points derived from 3,500 to 16,000 farm surveys, undertaken in 12 countries in Latin America, Africa and Asia, comparing certified producers of coffee and cocoa to control group farmers. Certification included Organic, Fairtrade, Rainforest Alliance, UTZ Certified, Starbucks CAFE Practices, Nespresso AAA, and 4C. Please note in particular that part of the data represent only an initial difference, and not an outcome over time. Moreover, certified farmers and control group farmers were not sufficiently matched on all potentially relevant characteristics in all studies, creating the possibility of selection bias. The difference presented can therefore not be attributed to certification as such with certainty. The aggregated data obviously hide detailed and context-specific differences. The variation found among certified producers is presented by the range lines in the graph. The significance level is indicated in the chart by means of asterisk: * = 90% level of confidence; ** = 95% level of confidence; *** = 99% level of confidence.

Several authors note indirect effects of sustainability standards in producer countries (Kessler et al., 2012). Indirect effects would include more policy dialogue on minimum standards, stimulating better enforcement of national legal frameworks on social and environmental issues (like child labour), and supporting the emergence of local standards (as in tea, soy, aquaculture and palm oil). Spill-over effects of certification are well documented: studies in East-African coffee production for instance find that yield/quality improvements after training soon enter non-certified production, reducing visible net effects of joining a standard scheme in just a few years (Hoebink et al., 2014). Effects at the regional or landscape level are not indicated (Molenaar et al., 2013). In addition, there are indirect effects of VSS in global value chains, such as increased transparency and traceability, enhanced brand and market value, et cetera.

Could current standards and certification make the difference?

The role that sustainable sourcing of commodities can play in addressing poverty in developing countries should not be overestimated. Apart from the evidence of the limited positive effects on the ground described in the previous paragraph, there are a number of reasons why sustainable sourcing – as it is developing up to now – is an important but modest instrument for change, given the challenges at stake.

1. There are important limitations in the way current schemes have been set up and operate:
   - The poorest producers are often not engaged in the latest generation of certification schemes. While Fairtrade works more often with poorer farmers (Hoebink et al., 2014), the large majority of certified soy, palm oil, coffee and tea comes either from estates or well-organised producer organisations (Molenaar et al., 2013). Many of these producers are poor, but the very poor or often not part of the schemes.
   - Certification schemes tend to start with 'low-hanging fruit'. The supply of sustainable products is concentrated in regions with more developed production capacity: within developing countries, sustainable production is concentrated in Latin America (IISD & IIED, 2014).[19] In countries like Vietnam or Ivory Coast, the most organised, well-connected and capitalised farmers are more likely to be included than others. Some observers point therefore to the danger that certification leads to the exclusion of the most vulnerable farmers from the market, while others show that new production arrangements such as out-grower schemes can include also smallholder producers in certified supply chains (WUR / IOB, 2014).
   - Newer, mainstream-oriented standards tend to apply criteria of reduced depth and breadth to allow for more rapid uptake (IISD & IIED, 2014). Most initiatives contain few criteria related to economic sustainability, reflecting a general belief that economic benefits will follow automatically upon reaching compliance. ILO core labour standards, as well as environmental practices with direct quality and yield outcomes, show the greatest degree of coverage in these mainstream standards.

[19] When developed countries can supply sustainable markets (as in the forestry sector), they tend to dominate supply (IISD & IIED, 2014).

Box 1 *Inclusion and exclusion of smallholders in certification schemes*

Voluntary standards are not necessarily inclusive. The group of commodity producers is not homogeneous and not all producers can access certification. A KPMG study for IDH on cocoa farmers in West-Africa noted that 90-95% of these farmers are smallholders and relatively poor. They can be classified in four segments. The first, small segment is already certified. The second, small segment is not yet certified, but with little effort they can be certified, mainly because they are already organised in producer organisations or cooperatives. A third, larger segment is more difficult to reach because they are remote and not yet organised. Certification will require larger investment costs. A fourth large segment cannot be reached at all with certification: farmers live too remote and their production is too small to cover the annual costs for certification (KPMG, 2011b).

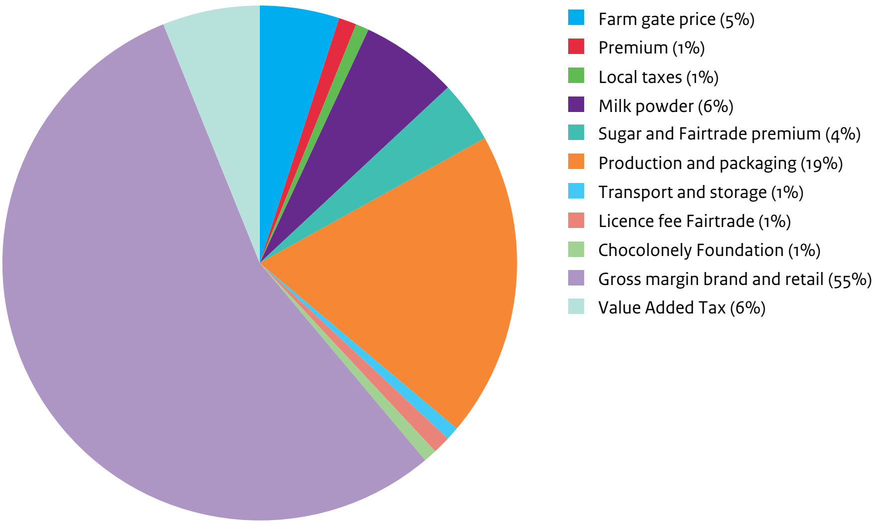
2. Factors related to economic structures in developing countries reduce potential impact:
   - The potential impact of certified production on poverty and livelihoods is limited by the simple fact that, often, smallholders do not depend solely on the certified crop. In Kenyan coffee production, for instance, coffee makes up a quarter to a third of the coffee producer's income (Hoebink et al., 2014). In West-African cocoa production the percentage is larger, around two-thirds of total income (IDS and University of Ghana, 2008).
   - A growing part of commodity production in developing countries does not enter Western consumer markets. It is either consumed nationally, or exported to expanding markets such as China and other emerging economies. While sustainability concerns may increase in such major economies also (see examples in tea in chapter 5), it is unlikely that this will happen soon on a very large scale.
   - In smallholder production of commodities like cocoa, cotton and coffee, there is also a deeper structural factor that influences the potential of certified production: the size of the farm of some smallholders is too small to provide a decent income in the longer run (International Trade Centre, 2011a). It would require a structural transformation of the economy to alleviate their poverty: a process by which the smallest farmers leave the primary sector to take up wage- or self-employment in other growing sectors, facilitating the scaling-up and intensification of the remaining smallholder farm production. While this process is ongoing or has already taken place in Latin America and many parts of Asia, this is not (yet) the case in most parts of Africa, where recent growth has largely been fuelled by commodity extraction (and price increase) rather than structural growth in the non-agrarian economy (Timmer & Akkus, 2013).

3. The allocation of costs and benefits across the value chain does, generally, not work to the benefit of primary producers:
   - The producer's share in the end value of many commodities is often remarkably small. A kilogram of made tea leaves Kenya for around EUR 2 (FOB Mombasa, RA Certified or not), while after repacking and distribution it is sold in Dutch

supermarkets for kilo prices of EUR 5 (for low-end low quality packs) to EUR 50 (for high end teabags). Of a chocolate bar that contains 34% cocoa, only 3-5% is paid to the cocoa farmer (Oxfam-Novib, 2009).

- The distribution of value added remains largely unaffected by certification.[20] The share of the price paid by the final consumer that accrues to the producer is very small, even in Fairtrade schemes. According to an ITC literature review, additional revenues for Fairtrade products were distributed unevenly along the value chain, mainly to the benefit of the retailer.[21] However, they also noted that logistics, inventory and marketing costs could be higher for the retailer in view of the limited volumes of such products (International Trade Centre, 2011a). Figure 6 presents the price structure of a Tony Chocolonely Fairtrade chocolate bar, which suggests that the farm gate price plus premium represent only 6% of the chocolate bar, just about a tenth of the gross margin for brand and retailers (Tony Chocolonely, 2014). The price structure of mainstream certified chocolate bars will be similar, with more limited premiums.

Figure 6 *Price structure of a fairtrade chocolate bar*



Source: Tony Chocolonely, 2014.

[20] The recent (Dutch) FairChain coffee initiative aims to change the tendency that a decreasing percentage of the consumer price ends up at the primary producer level by supporting local processing of high quality coffee in Ethiopia. See: http://www.moyeecoffee.com/.

[21] A study on Finnish coffee consumption found that consumers (in average and across coffees) paid 55% more for Fairtrade certified coffee from Nicaragua in 2006 and 58% more in 2008. The average (gross) price received by farmers in Nicaragua (excluding the Fairtrade social premium!) was found to be only 7% higher compared to the price paid by one of the largest local coffee export companies. Source: Valkila et al. (2010) 'Empowering Coffee Traders? The Coffee Value Chain from Nicaraguan Fairtrade Farmers to Finnish Consumers'.

- While growing scarcity of cocoa is seen as a major threat to continuity of sourcing in the chocolate industry – and is a reason for the strong industry involvement in standards and productivity projects in cocoa producing regions – prices for cocoa have hardly increased (in Ghana basically at the same pace as food prices). It appears that mechanisms downstream in the supply chain (role of traders, stock keeping for speculative purposes) can reduce the translation of growing scarcity into higher prices for primary commodities. In cocoa, for instance, there is a large stock (34% of annual grinding) hanging above the market, which implies that prices may not increase in the short run (Hardman & Co, 2014). Many of the certified commodities – with the exception of palm oil – continue to have low economic value while their (potential) scarcity is increasing.
- It can also be noted that private sector inputs into sustainable chain development with smallholder producers have grown substantially, but remain fairly marginal compared to margins and profits downstream in the value chain. The net confectionary sales of the top-4 chocolate manufacturers (Mars, Mondelez, Nestlé and Ferrero – all involved in IDH programmes) added up to USD 41 billion in 2013 (Hardman & Co, 2014). Table 2 presents the annual turnover of global chocolate confectionary sales, the turnover and estimated profit of the chocolate industry, the total cocoa trade, the value of premiums paid for certified product, and the annual private sector and ODA budget of the IDH cocoa programme. This overview suggests that the input from the private sector (in cash and in kind) towards a major sustainability programme in cocoa – the IDH-led programme – is still very modest compared to the profits in the industry (see also Box 2). Weak or non-existing farmers' organisations, dispersed production, limited information and transparency on price structures and concentration of trade in a few hands are factors that contribute to this situation.

Table 2 Turnover, profits and premiums in chocolate production

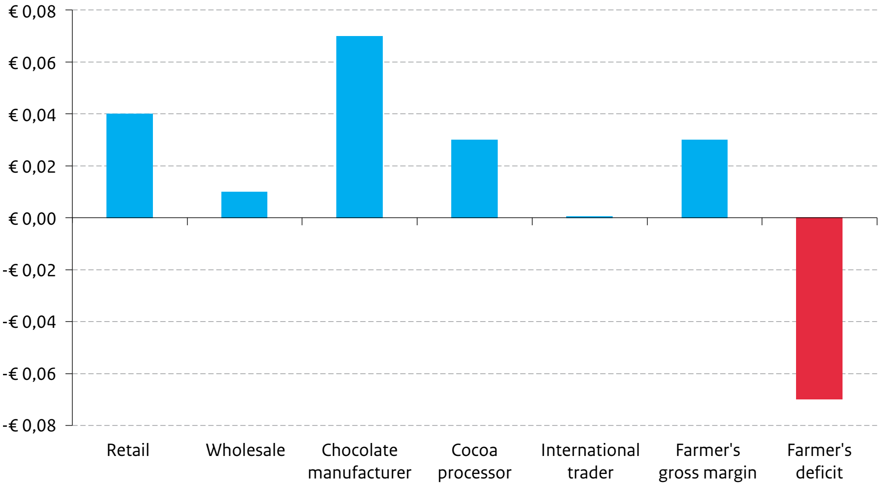
Annual turnover, profit, premium, budget	million €
Chocolate market (est. 2014) [1]	85,000
Chocolate manufacturers sales (est. 2012) [1]	62,000
Manufacturers own profit estimate (4%) [2]	2,500
Total cocoa trade (2012) [3]	8,400
Premium paid for certified cocoa, (2011, 2012) [4,5]	40
IDH cocoa programme 2012: Private sector contribution [6]	9
IDH cocoa programme 2012: ODA contribution [6]	5

Sources: [1] Candy industry Jan 2014 cited in Hardman & co, 2014; [2] No profit data available, own estimate; others estimate 8% profit. [3] IISD&IIED, 2014, 2014. [4] IISD&IIES 2014 estimates 300.000 t cocoa sold as certified; [5] 180$/t average premium (IDH, 2013f); [6] IDH, 2013f.

Box 2 *Profits and poverty reduction along the cocoa supply chain*

Until recently, little was known about the profits along the cocoa value chain. What is the farmers' share of the profit made on a chocolate bar, and how does this relate to farmers' income and poverty? The Cocoa Barometer Consortium has recently drafted discussion papers on the cocoa value distribution (Fountain, Elshof, De Graaf, & Hütz-Adams, in press) and on living income for cocoa farmers (Fountain & Hütz-Adams, in press) based on studies and interviews. The consortium estimated profit margins of 34% for cocoa traders, 3% for cocoa processors, 8% for the chocolate industry, 1.5% for wholesale and 3.4% for retail (no profit estimate was made for local traders). Using their estimates on value addition and profits, and combining this with results from the IDH cocoa baseline study in Ghana (Waarts, Ge, Ton & Van der Mheen, 2013a), IOB calculated the profit made along the value chain of a 100g chocolate bar with 33% cocoa, for which 36g of cocoa is needed (Figure 7). IOB used data of an average cocoa farmer in Ghana with 5.5 members per household, where 66% of household income comes from cocoa. The resulting gross margin for such a farmer – farm gate price minus cost – would be about EUR 0.03 for the chocolate bar. The average cocoa farmer's household in Ghana and Ivory Coast lives on about EUR 0.45 per person per day. In order to move beyond the extreme poverty line of USD 1.25 per person per day (all other factors remaining the same), the farmer would need a gross margin of about EUR 10. In other words: the farmer has a 'deficit' of almost EUR 0.07 per bar, if he/she were to escape extreme poverty. If the farm gate price for cocoa would double, the farmer could 'break even' and just escape extreme poverty. Assuming this higher farm gate price was transferred through the chain, this would make the chocolate bar about EUR 0.07 more expensive. The figure also shows that a more equal distribution of profit would as such hardly be sufficient to make up the 'deficit' for cocoa farmers.

Figure 7 *Profit along the chocolate value chain and what a cocoa farmer would need to escape extreme poverty*[22]



Source: Fountain, Elshof, De Graaf & Hütz-Adams (in press) plus calculations IOB.

The main conclusion that can be drawn from the evidence in this chapter is that efforts to achieve sustainable commodity sourcing have to date produced positive but fairly limited effects on poverty and the environment. Standards and certification as we know them are useful but limited instruments for this purpose. Promoting sustainable commodity sourcing through public-private coalitions is delivering positive effects, but the full potential of this rather new area of work is not yet clear.

22 The margin and profit of international traders is small compared to the large volumes traded, so this doesn’t show up in the figure (34% profit over a EUR 37 added value per ton cocoa).

3

Origins and strategy of IDH

This chapter looks back at how the initiative started, what it intended to accomplish and how its interventions were supposed to deliver impact.

Origins of IDH and initial programme

The idea to initiate an organisation like IDH arose early 2007 within the Ministry of Foreign Affairs. Companies like Unilever were putting forward proposals for public-private cooperation in developing countries. However, there was no adequate public funding programme available to accommodate such initiatives, taking into account that direct public support to individual companies was not considered appropriate.[23] Setting up a dedicated public-private partnership facility that would build on the growing interest in sustainable sourcing within the private sector resonated well with Minister Koenders' (development cooperation) efforts to reinforce support for development by engaging new actors, beyond the traditional aid constituency.

On 30 June 2007 on the former island of Schokland, a number of companies, NGOs and three ministers – Koenders (development cooperation), Verburg (agriculture) and Heemskerk (foreign trade) – signed an agreement that initiated IDH as a public-private partnership facility.[24] The Ministry contracted consultants to further explore the potential partnerships in a range of commodity sectors and to prepare the initial programme. One year after the Schokland event, 37 companies, 24 NGOs and 2 trade unions had expressed their commitment to the initiative. End 2008, the Ministry provided a 5-year subsidy of EUR 31 million (2008-2013) to a total IDH budget of EUR 58 million; the balance was to be contributed by other partners in the initiative, in particular the private sector.

The starting subsidy for IDH was related to the government's intention of up-scaling support for the Millennium Development Goals (MDGs). Its purpose was 'to improve the sustainability of international trade and production chains, addressing social, environmental and economic aspects in developing countries, with a view to contribute to MDGs 1 (poverty reduction), 7 (sustainability) and 8 (fair trade)' (Ministry of Foreign Affairs, 2008).

IDH would contribute to these goals by setting up sector programmes in four sectors: cocoa, soy, tropical timber and natural stone. Up to 10 programmes were to be developed in total. Working within the supply chain with all stakeholders towards more sustainable and (often) certified production by primary producers would be a key element in the programmes. IDH would also facilitate the exchange of knowledge between international value chain actors and explore ways of addressing cross-cutting issues such as child labour, living wages, reduced use of chemicals and conservation of biodiversity (Ministry of Foreign Affairs, 2008).

23 The AIV (the government's Advisory Council for International Affairs) had in 2006 advised in favour of support for private sector development in Dutch development cooperation, but cautioned against ODA targeted at individual firms.

24 On 30 June 2007, in a massive public event in support of the Dutch development cooperation policy of the newly elected government coalition (Balkenende-IV 2007-2010), over 50 'Schokland Agreements' were signed by a wide range of public, private and non-governmental organisations.

IDH Action Plan 2011-2015

Once the initiative was formally started and the secretariat was recruited, IDH quickly gained momentum. In Autumn 2010, IDH submitted an additional and ambitious ‘match funding proposal’, inspired by the new government coalition’s focus on private sector development and by a growing appetite among private companies for sustainable sourcing.[25] This ‘Action Plan Sustainable Trade 2011-2015’ was presented as a ‘public-private sustainability investment portfolio’ from a coalition of more than 70 companies (many international and not of Dutch origin – see figure 8), civil society organisations, labour unions and trade associations, coordinated through IDH. The Action Plan was presented as ‘a unique opportunity to transform commodity markets into engines of sustainable economic growth and global welfare’ (IDH, 2010b).

Figure 8 *Logos of companies and organisations working with IDH in 2010*

Source: IDH, 2010b.

The proposal contained plans for scaling up programmes in eight sectors: cocoa, tropical timber, tea, natural stone, soy, tourism, cotton and aquaculture. For a further 10 products IDH would lead scoping exercises and the development of new programmes focused on market transformation: cashew nuts, electronics, spices, fruit & vegetables, sugar cane, shoes & sporting goods, beef, flowers & plants, fishery and palm oil.

In the original set-up agreed in 2008, the Ministry was to finance the IDH secretariat and up to a maximum of 50% of individual sector programmes. The remaining 50% of the sector programmes had to be contributed by other partners, of which at least 25% from the private sector. This was changed in the second subsidy arrangement agreed in 2010: the funding contributed by IDH to a sector programme would not be more than the contribution from the private sector.[26] In this way, the commitment from the private sector would influence

[25] Cabinet Rutte- I, 2010-2012.

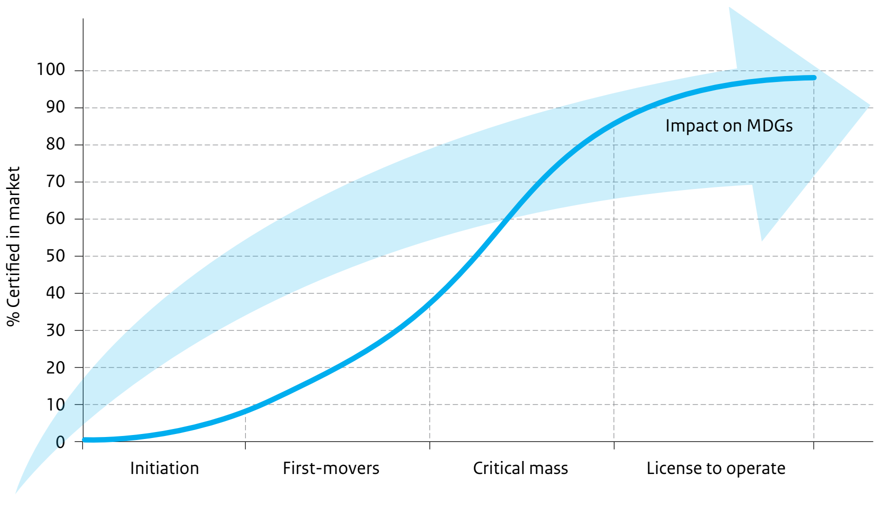
[26] In 2012 the requirement of 50/50 match funding was extended to the whole IDH budget.

the public contribution in a sector. Both cash contributions and contributions in kind would be accepted. The contributions would have to be validated by means of an auditor's certificate.

In 2010, the Ministry provided an additional subsidy to IDH based on this proposal, bringing the total subsidy available to IDH for the period 2008-2015 to EUR 123.2 million.

IDH theory of change and intervention logic
Market transformation is the key word in IDH's approach. The essence of market transformation would be that (lead) companies (together with supply chain partners) internalise the socio-economic and environmental externalities of production and trade and change their business practices accordingly. Certification of products to a sustainability standard would be the main first tool of this transformation. Growing scarcity of supply would stimulate global commercial players to invest in their ultimate supply base: the millions of farmers and enterprises in developing countries. This win-win proposition (supported by increased attention to issues of corporate social responsibility and protecting brand value) would drive the move towards market transformation, creating new possibilities for making global market chains more sustainable on all three dimensions (socially, environmentally, economically). Once a critical mass of companies and consumers used certified sustainable produce, a tipping point would be reached and the market would gradually transform from traditional to sustainable, according to IDH. Using the certified products would then become 'a license to operate' for companies along the value chain and the market would become fully based on sustainable production. Figure 9 sketches the S-curve and the different phases that IDH saw as typical for this process of market transformation.

Figure 9 *The four phases of market transformation, as presented by IDH in 2010*



Source: IDH, 2010b.

In this model, IDH would work as a catalyst in the first phases of market transformation. It would play several roles, in particular as a convenor, funder and knowledge broker. As a convenor, IDH would bring relevant stakeholders – including front-running companies – together to facilitate pre-competitive collaboration and create broad coalitions also with NGOs to address sustainability issues in the value chain. As a funder, IDH would finance activities (such as scoping papers, feasibility studies and conferences) to get coalitions off the ground and moving and then to co-finance large-scale sector improvement plans together with private companies and NGOs. In its role as knowledge broker, IDH aimed to expand and deepen the knowledge base and learning capacity on sustainable commodity sourcing, both within specific sectors and across sectors.

The exact role IDH would take depends on the degree of development already achieved in a particular value chain, along the supposed S-curve. When the initial base was still small, IDH would commission research to identify the potential for market transformation and explore possibilities with private and other stakeholders. This scoping phase would be followed by development of an implementation plan together with stakeholders for sectors that showed good potential. When there would be enough support across the sector for collaboration and up-scaling the production and trade in sustainably produced products, IDH would work towards joint implementation plans, bringing private and public funding together in ambitious plans.

These sector programmes, 'powered' by IDH, would focus on primary producers in developing countries – generally farmers producing commodities like tea, coffee, cocoa, cotton, soy or palm oil for international markets. The programmes introduce the sustainability standard to producers not yet certified and support their entry into the scheme, in particular by providing training on the (agricultural) practices required for compliance to the standard. Becoming certified would potentially improve the demand and possibly the value of the product (quality or price premiums), creating better opportunities for the producer on the market. The training of the producers in good agricultural practices would in many cases (in particular when traditional smallholders were involved) also contribute to higher yields, creating possibilities for improved income.

In particular in the last years of the programme, IDH also set up additional programmes with private sector actors to further improve productivity and quality compliance, beyond the direct requirements for certification. These programmes focus mainly on providing inputs and credits to smallholders (based on commercial funding).

By dovetailing its funding and expertise with private sector interest in sustainable sourcing in this way, IDH aimed to promote and support large-scale sector initiatives to train, certify and support producers in developing countries in order to increase their production while reducing environmental side-effects. By doing so, lasting positive impacts on poverty, livelihoods and environmental sustainability were to be achieved, contributing in particular to MDG 1 and 7.

IDH worked towards concrete outputs and outcomes in its sector improvement programmes, with specific Key Performance Indicators (KPIs) identified for programmes in four results areas:

- improvements in conditions of production in countries of origin (such as number of farmers trained, hectares certified);
- improvement in sustainable markets (such as market share for a certified product);
- effective collaboration and institutionalisation at sector level (such as number of partnerships, coalitions); and
- knowledge and sustainability & supply chain approaches developed and shared (such as the number of studies).

Figure 10 sketches IDH's intervention logic and results chain. In chapter 5, IOB reviews to what extent IDH has been able to achieve outputs, outcomes and impacts as intended.[27]

Figure 10 *IDH intervention logic*

Impact	Poverty reduction & sustainable livelihoods (MDG 1)	Environmentally sustainable production (MDG 7)	Sustainable trade (MDG 8)
	Gradual market transformation		
Outcomes supply chain level	Increased yields – Higher income – Better working conditions – Less child labour – Access to credit	Less pollution and soil degradation – Less pesticide and water use – Less deforestation	Sustainable sourcing commitments – Uptake of certified commodities – Value chain efficiency and traceability
Outcomes primary producer level	Farmers and producers trained – Producers and products certified – Credit and inputs programmes provided – Producers linked tot sustainable buyers		
Outputs primary producer level	Establishment of farmer field schools and other training activities – Initiation and scaling-up of certificartion and traceability systems – Establishment of credit and input programmes – Market linkages		
Direct outputs IDH	Coalitions and company commitments to programmes – Sector transformation agendas and programmes – Studies and reports		
Activities IDH	Convening – Coalition building – Programme development – Commissioning studies		
Inputs IDH	Public Funds – Human Resources - Expertise		

Source: adapted by IOB from IDH Match Funding Proposal 2011-2015 (IDH, 2010b).

[27] In response to IOB's draft findings, IDH has argued that its approach to market transformation is now more based on 'the convening of company commitments to integrating sustainability into the business', in which certification is only a tool. However, in practice, the use of standards and certification has been the dominant tool in practically all major sector programmes. Moreover, IDH's funding proposal 2011-2015 described standards and certification as the means through which the transformation was supposed to take place – see for instance figure 9 in this review, taken from IDH's funding proposal.

4

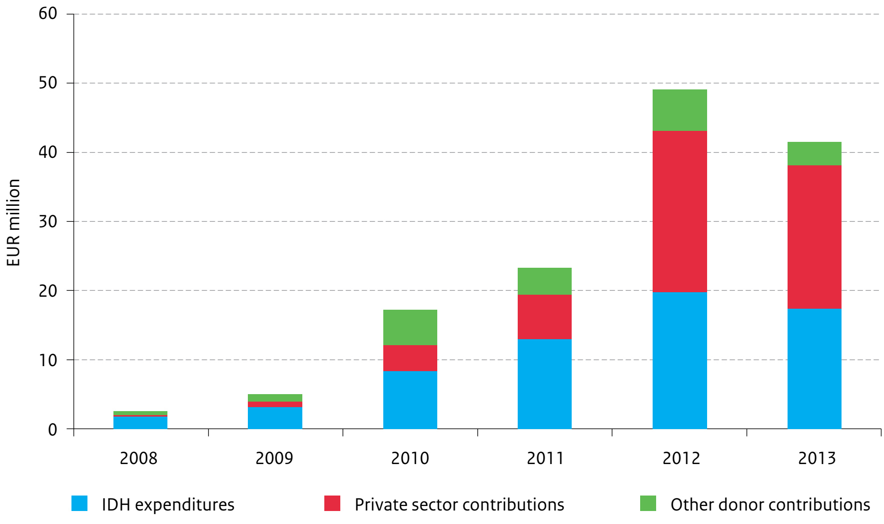
Organisational and financial development of IDH

This chapter describes IDH's organisational and financial development and assesses aspects of the organisation's operational efficiency. It also looks at the role of the Dutch government in the development of the organisation and its programmes.

Rapid expansion of budget, programmes and personnel

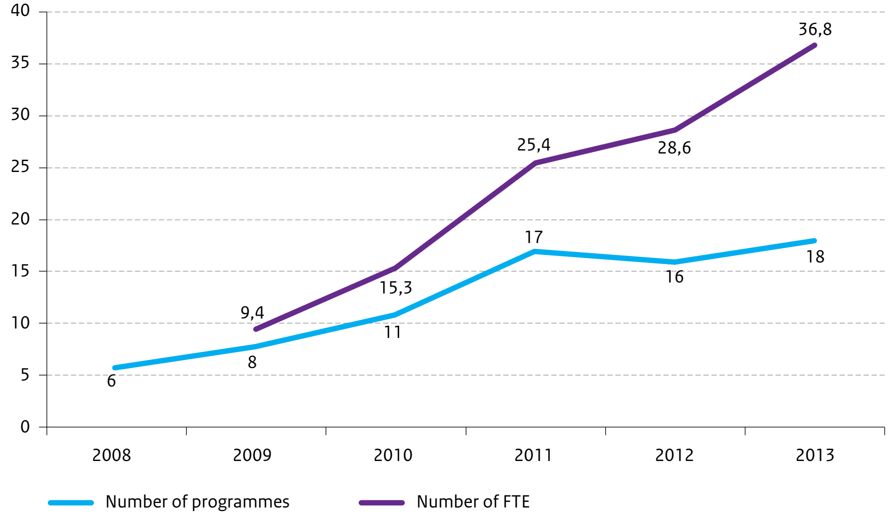
Within a few years, IDH has become a full blown development organisation with an annual budget of EUR 40-50 million (including private sector contributions in programmes) and over 40 core staff, running programmes in 18 sectors in many developing countries. IDH's expenditures increased from EUR 5 million in 2009 to almost EUR 50 million in 2012, before falling back to just over EUR 40 million in 2013 (see figure 11). Figure 12 illustrates the development of the number of sector programmes and personnel working in IDH office.

Figure 11 *IDH budget expenditure 2008-2013, including private sector and other public and NGO contributions*



Source: data provided by IDH, adapted by IOB.

Figure 12 *Increase in number of programmes and personnel*[28]



Source: data provided by IDH, adapted by IOB.

Starting as an offspring of MVO-Nederland (an institution promoting corporate social responsibility), IDH became a separate foundation (stichting) based in Utrecht in 2011. An external Supervisory Board oversees IDH's policy and operations, supervises the Executive Board and signs off annual plans and (financial) reports.[29] The Executive Board, composed of the Executive Director and one of the Programme Directors, is responsible for managing the organisation. The tasks of the Executive Board include preparing a long-term strategy and executing IDH's Annual Plan and the accompanying budget. The Executive Board is accountable to the Supervisory Board.[30]

New public donors entered in 2013

IDH managed to broaden its sources of public funding by attracting substantial support from the Swiss State Secretariat for Economic Affairs SECO and a small commodity-specific grant from Danida, Denmark's official development cooperation. At the end of 2013, the environmental department of the Netherlands Ministry of Foreign Affairs (DME) also approved an additional subsidy for environmental activities of IDH at landscape level.[31]

28 Excludes personnel hired for learning and innovation.

29 The Supervisory Board is composed of members from internationally operating businesses, NGOs and labour unions (although there is no union representative on the Board currently). Meetings of the Supervisory Board take place three times a year. The Board appoints and selects its own members. The Supervisory Board has established an Audit Committee, a Nomination and Remuneration Committee and an Impact Committee.

30 In March 2014, the IDH Supervisory Board agreed a Governance Code that can be found at http://www.idhsustainabletrade.com/organization.

31 As this programme became operational in the course of 2014, it has not been reviewed in this IOB study.

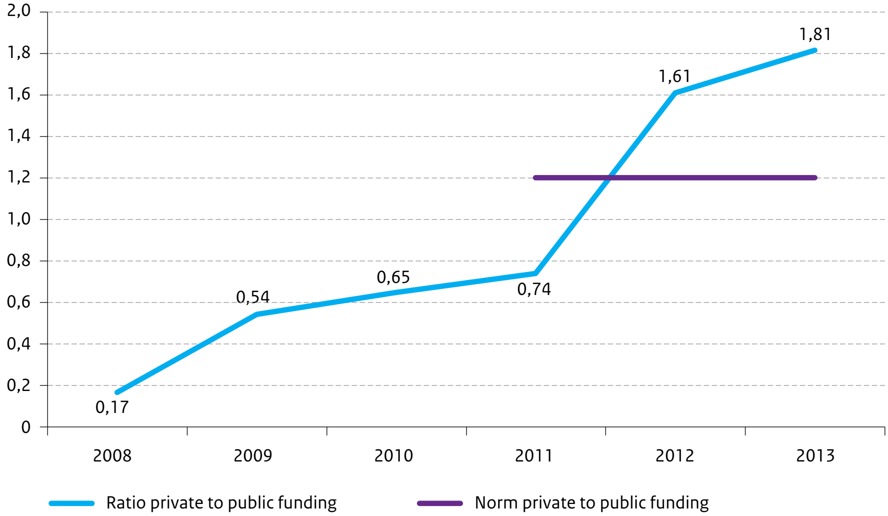
Table 3	Current public sector funding arrangements for IDH
Public sector funding arrangements for IDH	**Committed funding for the period (in EUR million)**
MFA/DDE 2008-2015 Core funding and sector programmes	123.2
MFA/DME 2013-2019 SLWP (Sustainable Land & Water Programme)	20.0
SECO 2013-2017	23.8
Danida 2013-2016 Coffee & cotton	1.4

Source: data compiled by IOB.

Private sector contributions in programmes have increased, covering very diverse inputs. The goal of leveraging private sector contributions with public funding has generally been achieved in the sector programmes. The private sector contributions have been accompanied by audited statements, as agreed with the Ministry. The target set by the Ministry in 2011 of attracting at least 1.2 private Euro for every public Euro has been achieved. As of 2012, the overall ratio in the programmes was above this target, reaching 1.8 in 2013 (see figure 13).

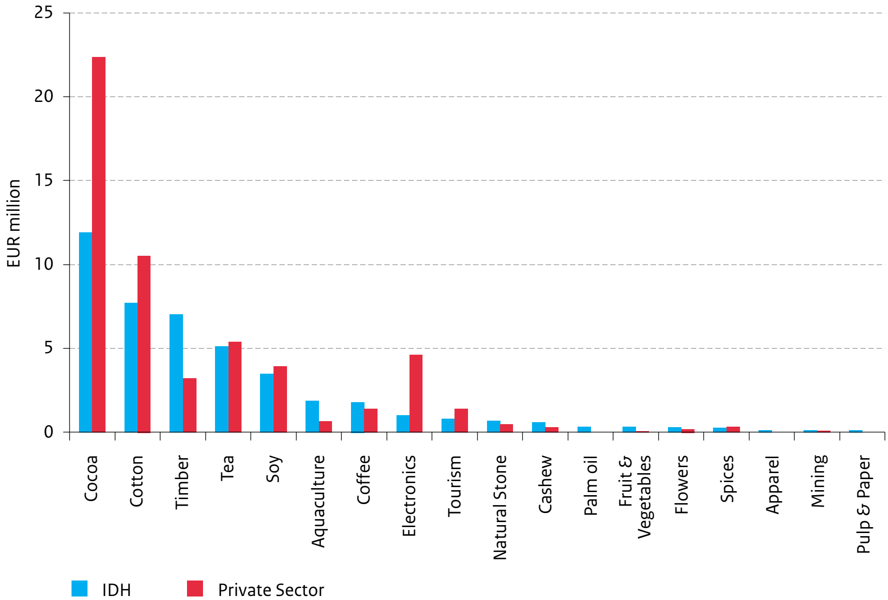
The ratio of private versus public contributions in individual programmes varied (see figure 14). Looking at the period 2008-2013, private contributions were relatively high in cocoa, cotton, electronics and tourism, while they were low in timber, aquaculture, stone and cashew. As there is no programme-specific benchmark, a higher private sector contribution in one programme can compensate for a lower one in another programme. IDH has indicated that, in general, private co-funding increases when a sector programme matures. In the roll out of the coffee programme, IDH applies a minimum of 70% private contribution for the field level projects, while in the new activities in floriculture a 50% contribution is required.

Figure 13 *Ratio private to public funds in IDH sector programmes 2008-2013*



Source: data provided by IDH, adapted by IOB.

Figure 14 *Public (IDH) and private contributions to sector programmes 2008-2013*



Source: data provided by IDH, adapted by IOB.

A wide range of different types of actions, inputs and expenditures has been accepted as private sector contributions in IDH programmes. The Ministry agreed in 2010 to an IDH proposal to distinguish five categories:

- Monetary (cash) contributions, either to the implementing partner, via IDH, or directly to the project in the field;
- In-kind contributions, counted as time spent in providing services to the programme, at a maximum daily rate of EUR 500 (excluding VAT) for companies based in the North, or actual costs of staff, to achieve agreed results;
- Purchasing contracts, to a maximum of 5%, depending on the character of the programme;
- Capital investments for infrastructure, machinery and equipment, all related to the objectives of the programme; and
- Monitoring, evaluation and learning related to the programme.

Inputs accepted as private sector contributions are sector-specific and specified in calls for proposals. For instance, in the aquaculture programme (Farmers in Transition fund), a broad range of investments and running costs in fish or shrimp farming can count as the private contribution: establishing new treatment ponds for water, raising dikes to prevent escape, pumps, oxygen meters, testing costs and laboratory equipment, probiotics or water disinfectants, insurance for labourers, sceptic toilets, the price difference between responsible feed and conventional feed and between high-quality fish seed and conventional seed, et cetera. Remarkably, the premium paid by traders to producers for the certified or responsible fish/shrimp or the running costs for maintaining certification or responsible production are also counted as a private sector contribution. Also in cocoa and soy, premiums for certified produce have been accepted as private contributions to IDH programmes. IDH excludes certification costs in more 'mature' commodity initiatives, such as in coffee.[32]

It should be noted that the match funding is not limited to contributions of the international companies that are IDH's direct partners in a programme. In fact there appear to be at least three categories: the international companies; local private sector actors at the intermediary level; and the beneficiary primary producers/farmers themselves. In the aquaculture programme, the investments by the fish farmers themselves can make up the bulk of the private sector contributions to the programme. IDH accepts all auditable private sector contributions directly related to a project objective, which is in line with the guidelines agreed with the Ministry.

IDH does not administrate what proportion of the private sector contributions is cash or in-kind, nor what the character is of the cash or in-kind contributions. IDH argues that providing flexibility is important in a results-oriented approach with the private sector.

[32] Fairtrade premiums are not accepted as private sector contributions. According to Max Havelaar, this implies that sector improvement projects based on a Fairtrade scheme would have little or no chance of leveraging enough private resources to meet the criteria in IDH's calls for proposals.

Moreover, the contract that IDH agreed with the Ministry does not oblige IDH to report on this matter, as long as the contributions as such have been properly audited at the programme level. In short: IDH acts fully within the guidelines of the Ministry, but these guidelines are quite wide and do not require much reporting.

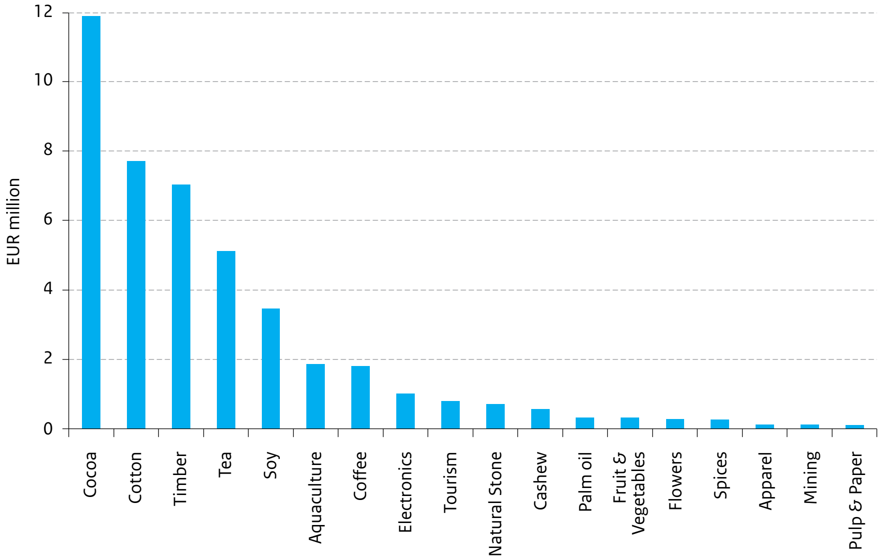
IOB has worked with IDH to reconstruct the proportion of in-kind contributions to the programmes. In cotton, there were no in-kind private sector contributions. In the tea programme, in-kind contributions reached 22% of the total costs (including the public contribution), while in natural stone in-kind contributions came to 29%. IDH indicated that brand companies further down the supply chain contribute more often in cash, whereas traders and other companies working directly with smallholders (sometimes as implementing partners of IDH) tend to contribute a mixture of cash and increased in-kind contributions.

IOB believes that the Ministry should take a closer look at the current use of private sector contributions in PPP activities (like the IDH programmes) and consider more strict guidelines on what can and what cannot be accepted as genuine private sector contributions. Also, the requirements for reporting on these contributions could be better elaborated, in order to provide a reasonable level of transparency. The ADR, the government's internal accountancy agency, argued in 2012 that the Ministry should develop clearer guidelines in view of the increasing use of match funding and in-kind contributions in PPPs and the lack of clarity concerning the valuation bases. The ADR argued, for instance, that both cash and in-kind contributions should be calculated in advance and be made verifiable in the private partners' administration.

The Ministry's subsidy was concentrated on cocoa, cotton, timber and tea

Apart from covering almost the full cost of the IDH secretariat and the learning programme (about EUR 19 million over 2008-2013), most of the MFA subsidy was used in four sector programmes: cocoa, cotton, timber and tea took almost three-quarters of the Ministry's contribution to IDH sector improvement programmes (see figure 15).

Figure 15 *IDH's use of MFA subsidy in sector programmes 2008-2013*



Source: data provided by IDH, adapted by IOB.

Project funding practice is shifting towards more in-house operational management

IDH has gradually changed its way of working concerning the funding of sector projects. In the first years, IDH generally transferred the full management of complete sector programmes to selected Implementing Partners (IP) like Solidaridad and SNV.[33] This IP was contracted and funded to coordinate the projects and work with firms, NGOs and other organisations in implementing the programme. This way of working implied that the operational management and the administration of projects was largely the task of the IP. The IP reported to an IDH programme manager, who could run several programmes at a time.

Now IDH has become more directly involved in running an increased number of sector activities. IDH argued that by contracting out complete programmes, its sphere of influence was sometimes too limited to be sufficiently effective and to be able to – for instance – redirect programmes during implementation. Also learning, sharing best practice and data collection and use would benefit from closer involvement in programme management. IDH still uses IPs in all programmes, which, generally after a call for proposal, are contracted for specific tasks, but programme coordination and management by IDH is now more intensive. Three funds – cotton, coffee and timber – are now fully managed 'in-house'.

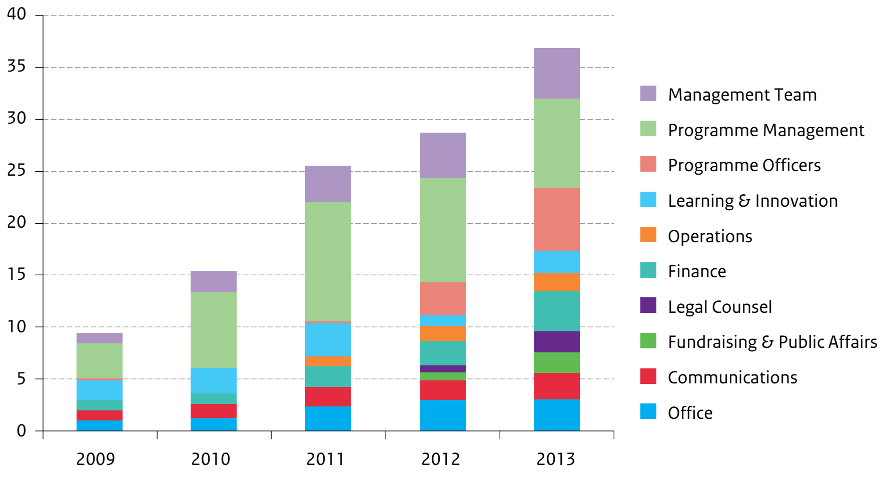
[33] Some of these arrangements (as with Solidaridad in cocoa in West-Africa) were set up before IDH was officially launched.

Consequently, IDH has gradually expanded its operational capacity, in particular by hiring additional programme officers, administrative and financial support and legal officers (see Figure 16). Also, IDH hires external consultants for a longer period in several sector programmes to support implementation and the facilitating/convening role that IDH intends to play.

IDH has no real field structure in place, unlike implementing partners such as SNV or Solidaridad, and has confirmed that it does not have the intention to build one. However, some consultants have been hired to work more or less permanently at the local level on key programmes for IDH, while at the same time part of IDH staff is effectively stationed most of their time in developing countries. IDH is setting up legal entities in Vietnam and Indonesia.

By building up this limited capacity in developing countries, IDH aims to strengthen its local/regional convening work. IDH considers a presence in key producing regions to be a requirement for working with procurement officers of major companies (who often operate regionally), with national governments and with the embassies of its donor countries.

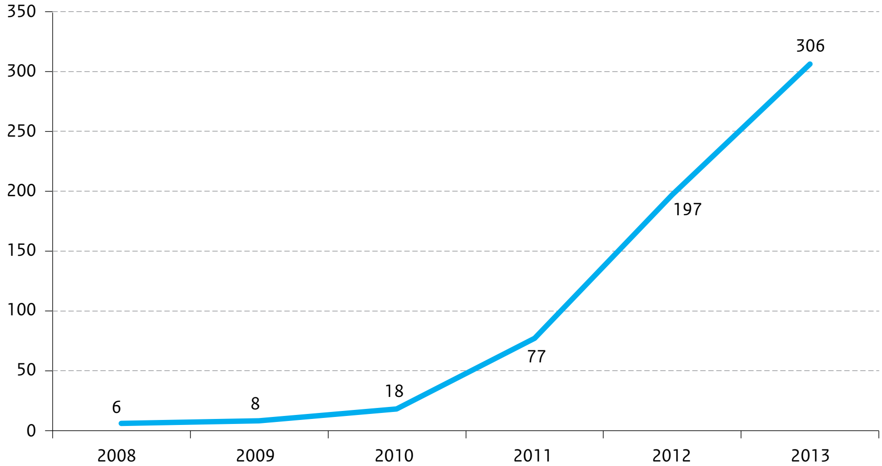
Figure 16 *Development of IDH staff numbers (FTE) and positions 2009-2013*



Source: data provided by IDH, adapted by IOB.

Closer project management by IDH is reflected in the sharp increase in the number of contracts agreed in recent years (see figure 17). In 2013, IDH signed over 300 contracts with consultants or implementers for aspects of sector programmes. In the last three years, the number of contracts has increased faster than the financial volume of the contracts, which suggests a growing project management burden. A large proportion of these contracts is related to the three programmes in which IDH has assumed the role of fund manager.

Figure 17 *Number of contracts signed by IDH per annum 2008-2013*



Source: data provided by IDH, adapted by IOB.

A recent development is that the public IDH funding is directly provided to a programme or project run by a private company. This is in particular the case in cocoa and coffee. In cocoa, private companies like Mars, Cemoi and Barry Callebout are implementing partners in the sector improvement programme, each running a project supported by IDH funding. IDH sees this as a next step in encouraging companies to work on their commitments to sustainable sourcing and market transformation. Also, this could reduce overhead in the programmes because a separate implementing organisation is no longer required. These developments are discussed further in Chapter 5.

Expenditures in sector programmes are lagging behind

In 2013, less than half of the MFA budget available for that year for sector programmes was spent.[34] Cocoa, cotton, apparel and tourism were the only programmes that came close to (or above) the anticipated expenditure in that year. All other programmes showed significant underspending, including large ones like aquaculture, coffee, soy and timber.

The reasons for underspending in 2013 mentioned by IDH include delays in putting programmes together, while sometimes less IDH funding was required because needs were lower (e.g. in the ASC pangasius programme) or others could fund it (as in a large vanilla project in the spices programme). In general, IDH appears to be overoptimistic about spending rhythms in the programmes.

[34] The original 2013 budget indicated that EUR 22.7 million of the MFA grant would be used in sector programmes, whereas eventually only EUR 9.6 million (43%) was spent in the programmes by using the MFA funding. In addition, EUR 1.8 million of SECO/Danida funding was spent in the programmes (budgeted originally at EUR 2.4 million).

Over the past two years, the financial volume of new contracts in the sector programmes was also relatively small compared to available funding. While in 2011 an exceptional amount of EUR 29 million was contracted on the MFA-grant for sector programmes, this figure dropped to just over EUR 5 million in 2012 and EUR 9.5 million in 2013.

By the end of 2013, IDH had spent in total slightly less than half (49%) of the available MFA funding for 2008-2015 (see Table 4 and Annex). While spending on organisational costs increased steadily over the years, spending in programmes lagged behind ambitions. Cumulative programme expenditure on the MFA grant reached EUR 42 million by the end of 2013, leaving 54% of the MFA funding available for IDH sector programmes still to be spent in the two years up to 2016. Moreover, by the end of 2013, IDH still had EUR 27 million (30%) of the MFA grant left for new programme commitments. Also, SECO and Danida have made available significant amounts of funding for the sector programmes (around EUR 13 million for 2014-2016).

Table 4 Overview of the use of the MFA grant IDH 2008-2015 up to end 2013 (in EUR million)

Funding available from MFA for IDH 2008-2015		Contracted MFA-funding for Sector Programmes by end 2013	Percen-tage	Expenditure on MFA-fund ing by end 2013	Percen-tage	MFA funds still to be contracted on Sector Programmes 2014-2015
Sector Programmes	90.5	63.5	70.1%	41.7	46.0%	27.0
2013		9.5		9.6		
2012		5.3		14.5		
2011		29.2		8.7		
2008-2010		19.5		8.9		
Learning & Innovation, Evaluation, Outreach	10.5			5.3	50.4%	
Office costs (Personnel, Organisation, Communica-tion)	22.1			13.8	62.4%	
Other (receiving interest, contingency)	0.1			- 0.4		
Total MFA for IDH 2008-2015	**123.2**			**60.4**	**49.0%**	**27.0**

Source: data provided by IDH, adapted by IOB.

This implies that, in 2014 and 2015, IDH would have to commit and spend more than double the amount of funds in its sector programmes than it did over the past two years in order to deplete the public funding at its deposal. IDH has indicated that the pipeline of new projects would be big enough to ensure proper spending and that the level of contracting is picking up in 2014 (to around EUR 10 million in the first half year). Also, IDH has proposed to postpone spending of EUR 10 million MFA funding to 2016 (by making it part of the next contract).

Costs of the IDH organisation are substantial

Until 2013, the Ministry paid the full cost of the IDH organisation, the learning and innovation programme and programme outreach (including staff). As of 2013, SECO and Danida also cover an agreed (small) part of these costs (see Table 5 for details).

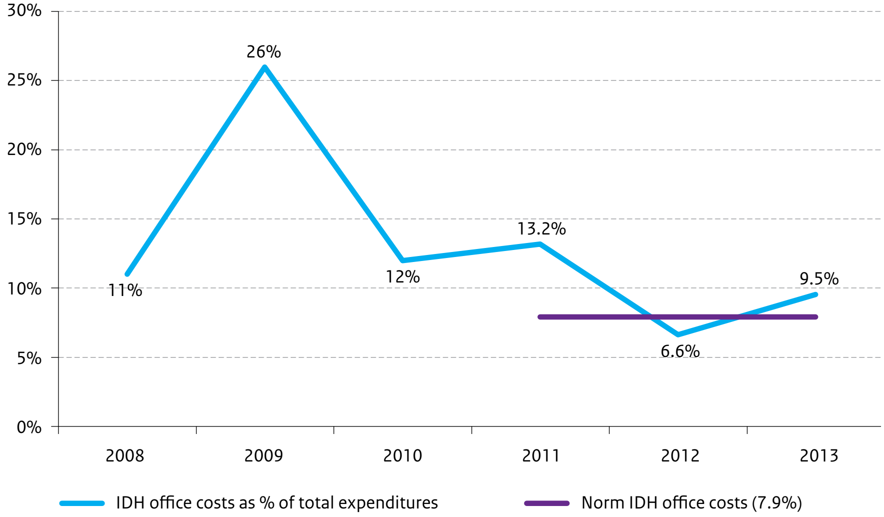
The so-called 'IDH office costs' include personnel, housing & ICT, organisational cost, communication and congresses. Expenditure on this cost item added up to EUR 13.8 million, which is equal to 23% of the MFA contribution and 10% of total expenditure over 2008-2013. IDH has set a target for the ratio of 'IDH office costs' of 7.9% of annual expenditure as of 2011. IDH achieved this target only in 2012 (see figure 18).

Table 5 IDH organisational costs (in EUR thousand)

	2008	2009	2010	2011	2012	2013				Total MFA 2008 - 2013	Grand Total 2008 - 2013
						MFA	SECO	DANIDA	Total		
Learning: staff	-	-	-	304	219	29	-	-	298	821	**821**
Learning: other	-	118	102	-	522	46	145	-	608	1,205	**1,350**
Program Outreach	8	207	260	488	912	823	145	-	968	2,697	**2,842**
Mid-term evaluations	-	52	-	50	277	150	-	-	150	528	**528**
Communi-cation	3	113	96	412	199	256	-	-	256	1,080	**1,080**
Congresses	82	83	124	170	94	74	80	-	154	628	**708**
Personnel	119	745	1,424	2,013	2,305	2,398	170	47	2,615	9,004	**9,221**
Housing and ICT	11	94	162	295	225	400	-	-	400	1,187	**1,187**
Organisa-tion	55	250	270	425	417	467	45	-	512	1,883	**1,928**
Total Expenditure	**280**	**1,661**	**2,437**	**4,157**	**5,170**	**5,329**	**585**	**47**	**5,961**	**19,033**	**19,665**

Source: data provided by IDH, adapted by IOB.

Figure 18 *Ratio IDH office costs to total expenditure 2008-2013*



Source: data provided by IDH, adapted by IOB.

The costs of the IDH organisation have grown steadily over the past six years and are substantial compared to the size of programme spending. Increased costs are related to the growth in operational capacity with a view of being more on top of the sector programmes (see above). Moreover, for its role as convenor, IDH needs a well-equipped secretariat with sufficient professionals to interact with the businesses and other stakeholders in the value chains. IDH appears to have a relatively heavy senior management structure with six directors (including one regional director for Asia) in an organisation of about 40 staff and an annual budget of EUR 40-60 million (including the private sector contributions in programmes, most of which does not go through IDH's accounts).[35] The remuneration of the two executive directors is just below the so-called DG-norm that the Ministry uses when providing subsidies to non-governmental organisations.[36] In interviews, it was forwarded that this salary level for senior management at IDH was required to attract qualified personnel from the business community, in order to be able to interact properly with boardroom level executives and top senior level in government and civil society, as part of the convening role.

[35] IDH has twice the number of personnel (four in total) with gross salaries above EUR 100,000, compared to the department at the Ministry that provides the subsidy and which runs a budget 10 times larger than IDH.

[36] Remuneration in 2013 was EUR 129,470 gross (plus EUR 25,966 pension and other insurance, total EUR 155,826) respectively EUR 120,970 (plus EUR 22,655 pension and other, total EUR 145,780) for the executive directors (based on 40 hrs/week), while two other directors received in total about EUR 125,000-130,000, including each about EUR 25,000 in pension insurances. These levels are below the WNT norm (Wet Normering Topinkomens) applied by the Dutch government, which is 130% of the salary of a Minister. The DG-norm applied by the Ministry for NGOs (under MFS-II) is EUR 129,500 gross (excl. employers pension contribution), the maximum salary level of a Director-General at the Ministry.

Administrative organisation, financial procedures and M&E have improved
IOB notes that IDH's administrative and financial practices have become more professional over the years. IDH now has a fairly solid internal control and management information system in place.[37] Also the demands in the calls for proposal – that IDH uses to identify implementing agencies for projects – have become more precise over the years. It has recently added a standard template for financial reporting that would facilitate better and more uniform reporting of implementing partners to IDH (see also Box 5).

The Supervisory Board has appointed KPMG as the external independent auditor of IDH.[38] KPMG conducts its audit throughout the year (several interim audits and a year-end audit on the financial statements of IDH). This audit is executed according to the guidelines established by the Ministry and is in line with international auditing standards (IAS). In addition, the total budget for programmes (including IDH co-funding and private sector funding) is subject to project audits under the final responsibility of KPMG Netherlands. This means that (local) audit firms hired to audit, for instance, a cocoa programme, report their findings to KPMG. The audit instructions are part of IDH's Guidelines for Planning, Monitoring and Reporting. KPMG's management letter over 2012 and 2013 did not require any major improvements on the administrative or financial organisation. IDH's financial statements are prepared in accordance with the guidelines for annual reporting 640 'not for profit organisations' of the Dutch Accounting Standards Board.

IDH's monitoring and evaluation mechanisms have clearly improved. In 2011, IDH picked up on the Ministry's demands to provide more in-depth evaluation of the impact of private sector development programmes by commissioning a series of impact studies on its key programmes on cocoa, tea and cotton. The IDH Supervisory Board set up an Impact Committee with external experts to oversee the impact of IDH's activities. Its four members (from scientific community, private sector, NGO, public sector) come together twice a year to assess progress and value impact reports from the IDH organisation (based on progress reports and 3rd party impact studies).

37 This includes up to date Administrative Organisation / Internal Control Framework; monthly reconciliation of the financial administration; monthly management reporting, including operational, financial and legal risk and issue flagging and documented follow-up by the management team and Executive Board; quarterly Programme Reviews, attended by full Management Team, Executive Board, Operations and relevant programme team members (topics include e.g. programme progress, strategy, risks, issues and pipeline). Also the demands in the call for proposals – that IDH uses to identify implementing agencies for projects – have become more precise over the years. It has recently added a standard template for financial reporting that would facilitate better and more uniform reporting to IDH. To support the financial administrative organisation and the internal control, IDH uses two software systems: Exact Globe for the financial administration and Compiere Project Management System (ORION).

38 KPMG has also been awarded some other contracts for commissioned studies.

Box 3 *What part of public programme funding reaches target groups?*

IOB's question 'what part of the public funding in sector programmes actually reaches farmers/producers on the ground?' provided a challenge to IDH's financial/ administrative reporting system. Until recently, IDH did not use any standard cost categories in the projects it supports. Also, IDH sometimes uses a call for proposals that stipulates that private sector contributions should be at least, say, 60%, but this does not indicate which activities are to be funded with public or with private funds. This implies that it is not possible to indicate which activities the public euro is actually funding in such projects.
However, based on estimations by project managers and contracts, IDH and IOB reconstructed that in the tea programme 69% of the Ministry's contribution (of about EUR 5 million) was spent on training and organising farmers, while about 10% was used for building demand and markets for certified tea, 8% was used for learning studies and 11% was used for coordination by Solidaridad and for covering other costs. In cotton, 78% (of almost EUR 8 million) was spent on training farmers and strengthening local organisations, while the remainder was used to support the BCI-secretariat, improvement of the standard, traceability systems, building demand, etc.

Public role in IDH largely confined to funding
While IDH was set up as a public-private-partnership (PPP) under the Schokland agreements, the public role in the initiative has been largely confined to providing the finance to facilitate IDH to build and run the organisation and set up the programmes with private partners.

In the first years, the government took a position as observer in the interim-board of the initiative. It was represented by the director of the department within the Ministry of Foreign Affairs responsible for financing IDH (DDE). When IDH became a separate foundation in 2011, the Ministry stepped down. The argument was that combining roles of finance-provider and of supervisor would be complex and could be conflicting (for instance: when the supervisory board approves the annual report to the Ministry). The current supervisory board is composed of two persons working in the NGO sector (WWF and Oxfam-Novib) and six members from the Dutch private sector. One of the private sector board members (Mr Gosse Boom, CFO of Nutreco) was nominated by the Ministry and has occasionally met with the Ministry's department DDE to discuss IDH matters. At the Ministry, one (half-time) programme manager is responsible for overseeing the development of the IDH programme and day-to-day communication between IDH and the Ministry.

IDH was over the years given substantial leeway to develop. The idea behind this approach was that – as an innovative initiative – IDH would need time and space to set up the organisation and develop its own way of working. The multi-annual subsidy agreed in 2010 provided flexibility to IDH to move funds between sector programmes, depending on opportunities for scaling up the collaboration with private partners. Changes were generally accepted by the Ministry on the occasion of the annual budget allocation. Around IDH's annual report 2011, the Ministry pushed IDH to improve procedures and reporting. A significant difference in spending - such as in 2013 - was discussed, but the Ministry did not require changes in IDH's annual plan. IDH was allowed to expand the organisation and take a bigger role in operating programmes because this could contribute to tighter management of the sector activities. The Ministry welcomed and promoted IDH's efforts beyond certification.

There are examples of incidental collaboration between Dutch embassies and IDH, including collaboration in Indonesia, South-Africa, Colombia, Rwanda and Vietnam. Closer cooperation took place in Ghana where the embassy is involved in a cocoa programme. There was also incidental interaction between IDH programmes and other interventions that the Ministry supports directly or indirectly, such as CBI and IFC. Recently, IDH has sought closer collaboration with FMO on the provision of credits in a cocoa programme in Nigeria. It is IDH's ambition to add a blending finance component to its instruments in the next funding period: using IDH grant funding as a first loss guarantee for a concessional credit (from FMO's MASSIF programme for instance) in order to facilitate high-risk private sector investments in sustainable sourcing (for an appraisal: see next chapter).

5

IDH's contribution to sustainability initiatives in commodity sourcing

This chapter focuses on the accomplishments of IDH activities, building in particular on IOB's case studies of IDH's work in cotton, tea, cocoa, aquaculture and natural stone. Has IDH been successful in its role as convenor, funder and knowledge broker? Have the intended outputs at producer level been achieved? What do we know so far about the outcomes and impact of the sector programmes in which IDH played an important role? What does this imply for the overall goal of market transformation and supporting the achievement of the MDGs?

Building coalitions and setting up support structures
IDH has played an important convening role in several commodity chain initiatives and is recognised for these efforts by stakeholders. IDH has in some cases contributed substantially to the emergence of new coalitions.

A good example is the trustea initiative in India. Trustea is a recent effort of major players in the Indian tea sector – in particular Hindustan Unilever, Tata Global Beverages and the Tea Board of India – to develop a national tea sustainability code 'based on Indian realities but without compromising on globally accepted sustainability principles'.[39] While Solidaridad and others (Rainforest Alliance, Ethical Tea Partnership) were important actors in shaping the framework for the domestic standard, stakeholders from all sides indicated that IDH had played a positive role in getting the initiative going. They pointed in particular to IDH's role in facilitating the entry of Tata into an initiative that was on the private company side dominated at first by Tata's main competitor Unilever. IDH's more neutral position in-between private competitors and backed by official funding and recognition appears to have been conducive for this achievement.

Box 4 *The trustea standard in India*[40]

Trustea has the potential of becoming a ground-breaking national standard for a commodity produced primarily (80%) for domestic consumption in a major emerging economy. The official launch of the trustea initiative took place in July 2013. The influential Tea Board chairs the initiative. IDH acts as programme coordinator and provides financial support to the programme, alongside Unilever and Tata.[40] Solidaridad is the main implementing agency. Pilots have been set up to test the code, which resembles UTZ and Rainforest Alliance certified. Revision and further rollout is foreseen in the coming year. The aim is to reach 600 factories, 500,000 tea plantation workers and 40,000 smallholders by 2017. For further information: http://www.trustea.org.

39 Website trustea: http://www.trustea.org/ (accessed on 13 June 2014).

40 IDH has hired a former Unilever tea manager to work on its behalf on a part-time basis on the trustea initiative.

IDH has also played an important role in facilitating the establishment of the Aquaculture Stewardship Council (ASC). IDH has provided substantial funding, office space and administrative support to the ASC since 2009, when the organisation was formally established in the context of the WWF Aquaculture Dialogues, but still lacked an institutional body. In addition, IDH played a role in increasing support for the ASC both in Vietnam and in Europe.

In Vietnam, IDH founded the ASC Accelerator Program (implemented by SNV), which provided co-funding for technical assistance to pangasius farmers. At the same time SNV provided training to a pool of local consultants to provide future consultancy and accreditation services (SNV, 2014). This contributed to the acceptance of the new standard by Vietnamese farmers, adding to a number of other stimuli. For instance, acceptance had been fostered during the Pangasius Aquaculture Dialogues in which the ASC pangasius standard was developed, and which were all held in Vietnam (WWF, 2010a). Moreover, in 2010, the WWF had signed an ambitious cooperation agreement with the main sector organisations and the Vietnamese government, in which all parties pledged to work towards 50% ASC-certified pangasius exports in 2015 (WWF, 2010b). In 2012 IDH became a partner to this agreement under a memorandum of understanding agreed by all parties (IDH, 2012b).

In Europe, IDH contributed to making traders and retail enthusiastic for ASC fish. Most traders indicated, however, that they moved towards ASC certification due to customer or retailer demand for more sustainable fish. Dutch retailers already agreed in 2011 to have all farmed fish ASC-certified or equivalent, mirroring an earlier commitment regarding wild-caught fish and MSC certification (CBL, 2011). IDH was itself a nascent organisation at the time the ASC was founded and was not yet well-known to most companies. IDH is currently envisaging how to increase uptake of ASC fish in less sustainability-orientated countries such as Italy, Spain and France. This should ensure that demand in Europe does not fall back on rapidly increasing production in Vietnam.

Regarding natural stone, stakeholders agreed that the pre-existing Working Group on Natural Stone would have ceased to exist if IDH had not provided funding as of late 2008. IDH provided (co-)funding for hiring a consultant and implementing a number of pilot projects. A considerable number of outputs were generated, including pilot studies and a common approach to improving working conditions. The programme's objectives proved difficult to attain due to a fragmented market, initial underestimation of the difficulties involved and a lack of genuine commitment by a substantial number of working group members. Moreover, expected government policies on sustainable sourcing and the inclusion of sustainability criteria in tender procedures did not materialise. None of the quantitative objectives set by IDH have been fully attained (see table 6) and it is at this stage still uncertain whether substantial results will materialise in the future. According to those interviewed, the main contribution of the programme has been to raise awareness and a sense of responsibility among a number of persons and companies participating in the programme. This has led to continued participation of these companies in the new TFT Responsible Stone Programme.

It should be mentioned that IDH did not itself decide to run a programme on natural stone; the programme was assigned to IDH by IDH's quartermasters and the Ministry (Ministry of Foreign Affairs, 2008). According to interviewees, IDH made a wise decision when it sought to accommodate the working group members within the infrastructure provided by the UK organisation TFT and to make the programme self-sustaining. At the same time, criticism has been expressed regarding the amount of funding provided by IDH in the period 2008-2012 and the balance between in-kind and in-cash contributions required from the participating companies. According to several interviewees, the low level of in-cash contributions made by the participating companies (only 15% of the overall budget) sustained the 'participation' of uncommitted companies who wanted to appear more sustainable. This problem was corrected after the programme was located within TFT. In 2013, the Dutch and Belgian members carried half of the financial burden while the other half was carried by IDH. As of 2016, participating companies will have to carry full financial responsibility.

In the cocoa sector, UTZ, Solidaridad, Mars and Cargill had started planning the Cocoa Improvement Programme (CIP) in 2007-2008, which included the development of a new UTZ standard for cocoa.[41] In 2008, IDH joined the initiative and became the main public funder for CIP 2008-2012, implemented by Solidaridad. IDH funded about EUR 1.3 million in developing the new UTZ cocoa standard. There was a desire from industry for a standard that better reflected their productivity concerns than the environmental concerns covered in the Rainforest Alliance standard. Developing the UTZ standard involved many discussions with industry and boosted their efforts to invest in sustainable cocoa. Also, IDH picked up on an initiative of the Dutch Ministries of Foreign Affairs, Agriculture, Nature and Food Quality, and Economic Affairs, and facilitated the drafting and signing of a letter of intent on sustainable cocoa by 25 Dutch cocoa industries, retailers and NGOs in 2010. In this letter, these stakeholders confirmed their intent to import, process and sell 100% sustainable cocoa by 2025. In 2013, IDH convened the cocoa industry, West African governments, fertiliser traders and other stakeholders to develop a cocoa fertiliser strategy.

Accelerating sustainability programmes
IDH-funded programmes have convincingly and effectively accelerated several emerging commodity sustainability initiatives and supported the consolidation of other ongoing certification programmes.

IDH's funding and convening capacities were important for boosting the Better Cotton Initiative and making it the leading sustainability initiative in cotton that it is today. BCI was initiated in 2005 by IKEA, WWF and ICCO. It remained a small-capacity building effort for

[41] Before IDH started, there was already wide recognition in the cocoa sector of the sustainability challenges in cocoa. Ageing cocoa farms and farmers were undermining longer-term production prospects. There had also been negative publicity about forced child labour in cocoa plantations in West-Africa, and there was concern about deforestation. The underlying problem was poverty among cocoa farmers, which made it difficult for farmers to invest in production. Low farm prices deterred young farmers from engaging in cocoa production.

cotton farming until the IDH-led coalition for the BCI-Fast Track Program (FTP) was launched.[42] In 2009, IDH agreed with BCI to work on scaling-up the initiative with the aim of training many more farmers and expanding Better Cotton production in several countries. IKEA facilitated the entry of four other private partners: H&M, Levi's, M&S, and ECOM, which also triggered the interest of the Rabobank Foundation. After several meetings at IKEA and Rabobank headquarters, the coalition of private companies, NGOs and funders launched the Fast Track Program. IDH manages the programme, brought in most of the public funding and is commended for playing a useful proactive role in keeping the initiative focussed on results and engaging new private partners. Over the past four years, IDH provided about EUR 7 million to the FTP, while private partners contributed EUR 8.6 million. Better Cotton production increased from 34,000 tons in 2010 to over 800,000 tons in 2013, of which over 90% stems from FTP projects. While IDH's role as funder may have been crucial for starting up the Fast Track Program, several BCI stakeholders indicated that its main role is now more that of a convener/knowledge broker, bringing in expertise based on work in other sectors and helping to devise strategies to keep the initiative going.

Stakeholders in the cocoa initiative confirmed that without the funding and active engagement of IDH via the collective Cocoa Improvement Programme 2008-2012, the large-scale certification of West-African and Indonesian cocoa production would have taken far longer to mature. In this CIP programme, at least 113,000 farmers have been trained and 149,000 farmers have been certified, producing 441,000 tonnes of certified cocoa (cumulative results, IDH calculations 2014).[43] The follow-up programme that started in 2012 – the Cocoa Productivity and Quality Program – consists of field programmes that are implemented by the private sector (traders and industry), working in over 12 projects in which 164,000 farmers have been trained and 118,000 farmers were certified in 2012 and 2013 (IDH calculations 2014).[44] Some of the cocoa industry partners involved emphasise that the strategic convening role – all moving in the same direction – was more important than the funding role. This is seen as the relative strength of IDH compared to other funders such as the Gates Foundation and USAID.

IDH's approach to work with a selection of frontrunners made it possible to move fast, which is acknowledged in many interviews. A downside of this approach, however, is that some actors felt excluded. They argued that existing expertise and networks in sustainable

[42] As one interviewee put it: 'Around 2009 Better Cotton was on life-support. IDH put a jet engine on, the Fast Track Program. Without IDH, Better Cotton would probably still be a tiny initiative, struggling to survive.'

[43] The presented number of trained farmers is lower than presented as the number of certified farmers for CIP 1, which is probably a reporting error (IOB-IDH discussions 2014).

[44] These figures differ from (are higher than) the results presented in the KPMG evaluation of 2013 and the IDH annual reports, and have been recalculated by IDH and explained to the IOB evaluation team.

supply chains were underutilised.[45] On the other hand, whereas the cocoa programme started off with only a few actors, the recent cocoa programme with its open call for proposals is now in principle accessible to any private sector actor.

IDH's tea programme was also helpful in scaling up certification in tea and providing additional ('beyond certification') training through Farmers' Field Schools to several hundred thousands of smallholders entering certification schemes, in particular in Kenya. The boost in certification in the tea sector was, however, led by Unilever's strategic decisions on sustainable sourcing.[46] In early 2007, Unilever had announced that by 2010 the tea in all Unilever mainstream teabags in Western Europe (Lipton, PG Tips, Lyons) would be sourced from Rainforest Alliance Certified farms or estates, while by 2015 the tea in all Lipton teabags sold globally would have to be RA certified. Within a few years, other global brands followed their example. Unilever found that sustainable tea was a useful tool in consumer communication and a driver of market growth in several countries.[47] Mainstream certification in tea was thus primarily a market-led process, in which IDH played a facilitating role, bringing brands together and in particular co-financing initiatives to reach out to smallholders.

The number of pangasius and tilapia farms reached and the volume of ASC-certified fish in just two years are impressive (see table 6). The most important drivers of ASC-certification are a long-standing consumer demand for more sustainable fish and a previous consolidation and professionalisation of aquaculture production. Producers wanted to consolidate and preserve market access in Europe and North America and were generally able to make the necessary improvements. The reported results are partially attributable to IDH, in so far as IDH has facilitated the expedient establishment of the ASC, has promoted farmers' acceptance of the new standard through the ASC Accelerator, and has continued to promote the ASC amongst traders and retailers.

Outputs in IDH programmes are sizeable and generally according to plan

In the programmes on aquaculture, tea, cotton and cocoa, output targets set by IDH for 2013 were largely achieved. Smaller programmes like natural stone, electronics, spices and tourism missed out on some of their performance indicators (see Table 6).

[45] Especially interviewed people in the organic and Fairtrade sector felt excluded, but also some of the NGOs, certifiers, a small chocolate producer and independent experts that were important at the startup of some of the sector programmes felt that IDH gave them less room later on. One of the disappointments of Fairtrade was that the Fairtrade premium did not qualify as private sector contribution in a proposal to IDH, while in other programmes IDH did accept premiums as private sector contribution. (Seven interviews mentioned insufficient use of existing expertise and networks).

[46] The public debate in the media about sustainable sourcing had previously been fuelled by NGO activism, such as the Dutch Tea Initiative (including Oxfam-Novib and SOMO), formed in 2004.

[47] See analyses of Henderson and Nelleman 'Sustainable Tea at Unilever', Harvard Business School, 2011.

Table 6 Achievement by 2013 of IDH targets for sector programmes by 2013

Commodity	KPI	Denominator	Target 2008-2013	Result by 2013	%
Aquaculture	Volume Produced	MT	117,000	349,000	298%
	Feed Compliant	MT	50,000	353,000	706%
	Private Partners	No.	20	31	155%
Cashew	Farmers Involved	No.	13,000	19,600	151%
	Capture Rate	%	N/A	83	-
	Traceable Volume	MT	6,900	9,700	141%
Cocoa	Producers Trained	No.	209,000	277,000	133%
	Certified volume sold	MT	275,000	522,000	190%
	Credit offered (2013)	million US$	1	8	830%
Coffee	Farmers Trained	No.	N/A	12,700	-
	Market Share	%	15	16	107%
	Stakeholder Structures	No.	N/A	3	-
Cotton	Farmers licensed	No.	766,000	743,000	97%
	Volume Licensed	MT	1,685,000	1,605,000	95%
	New Investors	No.	11	10	91%
Electronics	Dialogue Forums	No.	70	24	34%
	Work Plans	No.	70	51	73%
Flowers	EU Trade Involved	%	15	15	100%
	Other Trade Involved	%	15	10	67%
	Standards Included	No.	7	10	143%
Natural Stone	Workers Benefitting	No.	5,000	4,134	83%
	Commited Suppliers	No.	90	50	56%
	Private Partners	No.	38	25	66%
Soy	Volume Produced	MT	1,500,000	1,579,200	105%
	Hectares Certified	Ha.	250,000	265,100	106%
	Volume Purchased	MT	626,000	510,000	81%
Spices	Smallholders Trained	No.	5,000	1,300	26%
	Volume Purchased	MT	300	200	67%
	Private Partners	No.	10	13	130%
Tea	Producers Trained	No.	492,800	495,400	101%
	Volume Available	MT	107,500	224,600	209%
	Farmer Field Schools	No.	1,600	1,500	94%
Timber	Hectares Certified	Ha.	2,300,000	2,300,000	100%
	Partners Commited	No.	48	48	100%
	Market Share	%	25	39	156%
Tourism	Accomm. Certified	No.	884	619	70%

Source: IDH 2014 and additional data provided by IDH.

It should be noted that 'results in IDH programmes' are not equivalent to 'results of IDH'. Because IDH works in partnerships with several stakeholders and often supports pre-existing initiatives, it is not easily possible to isolate results that could be fully attributed to the IDH foundation as such. Reading IDH's annual reports and other publications, one may get the impression that all accomplishments in programmes are results of IDH, albeit with help of partner organisations.[48] Some partner organisations however argued that at least a part of the results would also have been achieved if there was no IDH. That being said, practically everyone recognises that IDH's drive, funding and (sometimes) experience and knowledge have contributed significantly to results in several programmes, particularly in the convening phase, for getting coalitions moving on a change agenda, and for up-scaling activities.

Programmes boosted supply of certified products, but market uptake lags behind

In just three years, Better Cotton has become the dominant sustainability product on the cotton market, covering some 3% of cotton production. Other initiatives failed to expand while BC accelerated, supported by IDH funding. The share of Organic and Fairtrade cotton peaked at just over 1% of production in 2009-10, before falling back to around 0.5% in 2011-12. The German Cotton-made-in-Africa initiative (CmiA) reached a similar volume in 2011-12, but did not achieve much growth in recent years. In 2013, CmiA and BCI agreed on a partnership that allows CmiA cotton to be sold as Better Cotton.[49]

Effective market uptake of Better Cotton remains a challenge, despite growing market shares in main Western consumer markets. Only an estimated 10% of Better Cotton produced by farmers is actually taken up by the end users.[50] Several constraints can be mentioned. First, just about 40% of cotton grown by BC-licensed farmers finds its way to a ginnery that processes the seed cotton into Better Cotton lint for the market. Licensed farmers often sell their cotton to other ginneries that offer better prices. This is, for instance, the case in countries like India, where smallholders have no fixed relation with a ginnery. Since, in principle, there is no premium available for BC cotton lint, the incentives for both farmers and ginneries to work through the Better Cotton procedures appear limited (see also the paragraph below on the business case for farmers).

Second, of all Better Cotton lint entering the market, only about a quarter is now purchased by retailers/brands. The explosion of available BC-lint from 35,000 to approximately

[48] Several interviewees (NGOs and private sector project implementers) expressed some irritation about IDH's style of communication, which sometimes gives the impression that the supply chain results are basically IDH results, even in cases where IDH's contribution or role had been modest.

[49] The other way round would not be possible, because CmiA works exclusively with African smallholders (BCI licenses farmers of all sizes and regions, including industrialised countries) and doesn't accept GMO crops. The partnership implies that with the inclusion of CmiA, the total number of BC licensed farmers would practically triple (to 690,000), the area almost doubled (to 1.3 million ha), while production would increase with some 15% (BCI, 2014).

[50] About 25% of BC cotton lint produced is taken up by retailers/brands. BC cotton lint produced is 40% of cotton production by BC-licensed farmers. These data are taken from several sources, including the BCI website, and were confirmed by IDH. The data cover 2010-2013, with 2013 data being preliminary.

800,000 tonnes in 2013 (equal to some 3% of world production) is obviously challenging for uptake. Some of the lagging procurement by retailers may therefore be transitional. The ten brands now active in the Better Cotton initiative purchase about 10% of global cotton production. Several have substantive commitments on sustainable sourcing (see Table 1), which would suggest that higher uptake would be possible in coming years. Also, it could be argued that uptake is not a prerequisite for improved production: if cotton is produced more sustainably, then the effect is real, regardless of whether the product is used as better cotton or mingled with regular production. Retailer uptake is therefore not one of the programme's primary objectives. Nevertheless, the limited uptake is seen as a priority issue by stakeholders in the Better Cotton initiative and IDH is working with BCI on strategies to improve this. The target that IDH envisions for 2020 – 25% of global market to be Better Cotton – seems rather ambitious in view of the fact that the current market uptake represents only 1%.

In cocoa, only about 30% of the total volume of certified cocoa at farmer level finds its way to certified chocolate products (IISD & IIED, 2014).[51] In the IDH CIP1 programme 2008-2012, the figure is more positive: 46% (KPMG, 2013b).

Uptake of ASC-certified fish (pangasius and tilapia) already exceeded the targets set for 2015 by 2013. Nonetheless, uptake was just 36% of available responsibly produced fish (IDH, 2014; SNV, 2014). Again, transitional issues and very rapidly increasing production may be part of the explanation.

Indications of positive effects on the ground in IDH-supported programmes

While the impact studies that IDH commissioned for its cocoa, tea and cotton programmes are still ongoing, the first reports – in particular on tea – give some indications of what could be expected. Combined with what we already know about this type of activity (see chapter 2), the picture that emerges is positive, but also cautions for predictions that are too optimistic.

In the Kenya tea programme, LEI and ODI studies conducted over the period 2010-2014 find generally positive outcomes of the combination of RA certification training and additional Farmer Field Schools (FFS), the core intervention supported by IDH. The FFS trainings not only covered tea, but included also learning on good agricultural practices in other crops, general skills such as bookkeeping and how to diversify into other crops or set up livestock production. About three-quarters of the learning curriculum focussed on good agricultural practice in tea production, building on knowledge available at the KTDA on existing practices of smallholders. Promoting higher plucking frequencies (once a week instead of twice per month) and more efficient use of fertiliser were key elements. Training for RA certification also included specific RA issues, such as proper storage facilities for agro-chemicals and use of water.

[51] Uptake in 2012 varied per standard: Organic: 75%; Fairtrade: 38%; Rainforest Alliance: 36%; UTZ: 22% (IISD & IIED, 2014).

The trainings had some significant effects on tea production and productivity. Tea yields in Kenya were increasing for practically all tea farmers (spill-over effects from trained farmers to non-trained farmers could well be part of the explanation), but were highest among farmers who received both RA and FFS training (Waarts, Ge, Ton, & Jansen, 2012; ODI, 2012). RA or FFS trained farmers used significantly more hired labour for plucking and applying fertiliser in the post-training situation than farmers in the comparison group. In its latest study, LEI found that over a four-year period and corrected for other influences, participants in a FFS had significantly more improved their green leaf yield compared to non-participants: 30% compared to 15% for non-participants (Waarts, Ge, & Puister, 2014).[52] Part of the 15% yield increase among non-participants could be due to spill-over effects. The FFS participants had also diversified their income sources more into other income-generating activities, like livestock production.

While the increases in tea yields found in studies are certainly relevant, it should be noted that higher yield comes with additional costs for hired labour and fertiliser. The net effects on income from tea will therefore be smaller (but could not be distilled from the LEI study).

In cotton, LEI compared Better Cotton Fast Track farmers in India, Mali and Pakistan to other cotton farmers in these countries looking at BCI datasets in the 2011-12 season (Ge & Waarts, 2014). They found significant differences, including higher yields, more organic fertiliser use, and less pesticide use. However, it was too early for LEI to assess whether these differences were the result of the Better Cotton trainings or due to selection bias (i.e. better farmers joining the Better Cotton initiative). Such possible bias can be assessed during future measurements.

In aquaculture, the direct effect of certification of fish farms in Vietnam has remained quite small. This is due to the fact that most producers involved operate large-scale, well-capitalised and export-orientated farms that already produced according to high environmental standards - whether certified or not (also see SNV, 2014). This partially explains the swift adoption of the ASC pangasius and tilapia standards. Interviewees agree that the impact on wages and the environment is limited. They do not support claims that ASC-certification has contributed to better working conditions. In sum, the process has largely been one of certification of existing practices. That being said, the ASC standard is now firmly embedded in Vietnam and can serve as a reference for both producers and policymakers. In June 2014 the Vietnam government adopted a regulation that stipulates that all pangasius exports should be certified either ASC or VietGAP by the end of 2015 (Government of Vietnam, 2011; Vietnam News, 2014). The latter standard has lower requirements than ASC on the environment and social welfare in order to accommodate smallholders and mid-sized farms, but is still to a large extent inspired by the ASC standard.

[52] LEI did a longitudinal impact evaluation on the effects of Farmer Field Schools sampling 240 FFS participants and 120 control farmers. The baseline study was done in 2010, with follow-up studies in 2012 and 2014. The study combined a difference-in-difference approach, propensity score matching, and regression analysis to net out the impacts of other factors.

Out of 20 available impact studies on sustainable cocoa, including studies to which IDH and UTZ refer in their ‘impact reports’ (IDH, 2013; UTZ Certified, 2014), IOB identified only one proper impact evaluation with a valid and reliable design (Bennet, Giovannucci, Rue, Ayerakwa, & Agyei-Holmes, 2013).[53] That study compares UTZ-certified farmers with similar non-certified farmers, in 2010 before certification and in 2012 after certification in the IDH-supported Solidaridad programme in Ghana. The study finds a significant difference in price of 4.6% due to the UTZ premium, an additional increase in production of 6% compared to the increase obtained by control farmers, and related to this an increase in net cocoa income (revenue minus costs) of USD 186 per hectare for a farmer with 2 ha, which is equivalent to 16%. The additional production and income increases are both not statistically significant but worth mentioning here. Assuming that cocoa income is about 65% of total farm-household income, as found in another study in Ghana (IDS and University of Ghana, 2008), the additional family income would be about 10%. With 2 ha cocoa, total farm income of certified farmers is about EUR 1000 per year. With on average five household members this is EUR 0.55 per person per day. In spite of a 10% income increase, this is still well below the extreme poverty line of USD 1.25 per person per day. A known saying among stakeholders in the cocoa sector is whether the certification efforts are not ‘certifying poverty’.

An increase in production does not lead to an equal increase in net household income. First of all, increased production is often accompanied by higher costs in labour and inputs. A study by McKinsey estimated that doubling cocoa yields would increase income by 22%.[54] Moreover, as one of the interviewed cocoa traders pointed out: structurally higher production at scale can decrease prices, reducing income effects (depending on other factors, such as consumer demand). In addition, substitution effects might occur, where higher income from certified commodities is accompanied by lower returns from other cropping activities or decreasing off-farm income, thus affecting net household welfare.

Much less is known about the environmental effects of certified cocoa. This element is often lacking in good impact surveys on certified cocoa (Blackman & Rivera, 2010; Molenaar et al., 2013). Evidence stems mainly from more qualitative studies or from studies with a less valid survey design. These find plausible evidence that adoption of certain practices at field level had improved modestly: good agricultural practices, reduced and better use of agro chemicals (Hafid et al., 2013; Dengerink, 2013). The consensus seems to be that farmers do adopt some practices that have a positive effect on the environment but that major environmental problems remain largely unaddressed. For example, some Rainforest Alliance cocoa farmers do use compost pits and plant shade trees, but not up to the

[53] IDH has commissioned good baseline studies with a valid design, but these cannot yet be used to assess impact at this stage. The baseline studies will be complemented by impact studies in 2015. Note that robust and reliable impact studies on coffee certification are better available (Ruben, 2008; Hoebink et al., 2014).

[54] BMGF 2008. Exploration of opportunities West African Cocoa. Summary of analysis and workshop outputs cited in a discussion paper by Antonie Fountain on Cocoa CONNECT. http://www.cocoaconnect.org/sites/default/files/chocoa2014/Profit%20Session%20-%20Voice%20Network.pdf.

Rainforest Alliance standard (N'Dao, 2012). The majority of UTZ-certified and non-certified farmers continued to clear forest for cocoa expansion (Dengerink, 2013).

Box 5 *Unfounded impact claims in IDH communication*

The limited evidence of field-level effects so far contrasts with the 'impact report' that IDH presented in 2013 (IDH, 2013d). IDH has let itself be tempted to selective use of data.

Concerning cocoa, IDH claims that "the introduction of good agricultural practices and responsible crop protection measures, – both components of certification programmes – have proven to increase cocoa yields by 20-30%". Two studies appear to be the source of this claim. The first (KPMG, 2011a) uses the assumption of a 23% yield increase in an ex-ante costs-benefit analysis, based on expert interviews and previous cocoa projects; this is not based on evaluations by IDH or other certification programmes. Moreover, this study acknowledges that this increased production is temporary and can only be sustained if combined with increased inputs. The second underlying study (KPMG, 2013b) is the evaluation of the IDH Cocoa Improvement Programme 2008-2012. However, this evaluation concludes that there is insufficient evidence for increased cocoa yields. In other words, these claims are premature, and we will have to wait for IDH's impact studies forthcoming in 2015.

In tea, IDH presents a 36% yield increase as impact of its interventions together with Unilever and the KTDA, in particular through Farmer Field Schools (FFS). In the first place higher yields come with costs (hired labour, fertiliser), which are not considered; the real effect of the IDH intervention would preferably be measured in terms of net-household income changes. Secondly, the yield increase figure is based on KTDA field trials with selected FFS-farmers in which the plucking frequency was increased to an optimal level (IDH, 2013b). It therefore shows what could potentially be the effect of more optimal practices. The most recent LEI study (commissioned by IDH as part of its impact evaluation work) provides valuable evidence of the real effects of the trainings: they found a yield increase of 30% among trained farmers, while non-trained farmers had increased their yield by 15% over the same multi-year period (Waarts, Ge, & Puister, 2014). The net 15% yield increase is positive and significant, but even if possible spill-over effects are taken into account (non-participants taking over the improved practices they see among trained farmers), it is less than what IDH claims.

While BCI itself is explicitly cautious on its website not to claim impact of Better Cotton until effects have been studied deep enough over a longer period (see Q&A on http://bettercotton.org/about-bci/qa/), IDH presents differences found in an LEI baseline study between BCI-licensed and non-licensed farmers in India, Pakistan and Mali as impact of the initiative. LEI confirmed to IOB that the farmers in the comparison group of the baseline study have not been matched with licensed farmers on relevant characteristics, which implies that selection bias is likely to play a role in the differences found. Also, IDH presents differences registered in a single country – up to 20% less water use in Pakistan, and 67% less pesticide use in Mali – as overall impacts of the Better Cotton initiative. This also disregards the fact that half of BCI cotton lint in 2012 was produced by just 100 modern Brazilian farmers who most probably didn't have to change anything in their production methods to live up to the BCI standard.

IDH has set up a series of good external impact studies in cocoa, cotton and tea, which will deliver reliable results in the near future. Meanwhile, IDH should remain prudent and fact-based when claiming impacts of its work in external communications.

The business case for the farmer in the certification schemes that IDH supports

In mainstream certification schemes supported by IDH in tea and cotton there are clear benefits for smallholders of becoming certified: they receive training for free, learn about better agricultural practices (in an environment where agriculture extension has often been lacking for decades), may experience some yield improvement as a result and can possibly economise on pesticide use. Also, there may be an initial price premium, while the starting costs of certification and auditing are often borne by others (like IDH). However, the benefits of staying certified may be far smaller: recurring costs of certification are often to be borne by the producer while premiums are phased out or evaporate as certified production becomes more abundant. And the producer can apply the lessons learned on good agricultural practice, regardless of whether he or she stays licensed or certified. Unless market access would be at stake, the incentives to stay certified appear rather small.

Consider Kenyan tea production: now that practically all 560,000 smallholders who deliver green leaf tea to the 65 tea factories of the collectively owned Kenya Tea Development Agency (KTDA) have been trained and certified, upholding the appetite for continued involvement in the RA scheme is becoming challenging. Unilever buys about 30% of KTDA's annual production and was the main driver behind the certification. In the first years of RA certification, Unilever applied a 'sustainability' premium of USD 10 cents per kilo of made tea, which in 2011 was around 2.6% of the Mombasa auction price (IDH, 2011b). Currently, Unilever no longer applies a standard premium for RA-certified tea. In the early days of certification, a certified KTDA tea factory would either sell directly to Unilever or via the Mombasa auction, in both cases collecting some premium. However, in 2013 direct sales fell to less than 3% of KTDA production. While Unilever says that its buyers are instructed to pay a good price for RA-certified tea at the Mombasa auction, KTDA argues that there is no longer any difference. Indeed, Unilever now considers any tea produced by KTDA to be RA-certified, which makes it unnecessary for tea buyers to negotiate directly with specific KTDA tea factories, which limits the bargaining power of the KTDA members. Meanwhile, the costs of RA-certification for KTDA, while reduced because of the increased scale, are still there. IDH estimates total recurrent costs of RA-certification per farmer to be about USD 10 per year (Q&A IDH 2014).[55]

Similarly, the business case for Asian and African smallholders to continue producing Better Cotton may not be very solid. There can be little doubt that the trainings offered in the IDH supported projects have positive effects for cotton farmers. But the key question is – as a study commissioned by IDH noted – 'how farmers will continue producing Better Cotton after the end of the projects', considering that 'there is no consensus on whether a positive business case is possible without continued subsidising of the farmer projects' (Steward Redqueen, 2013). The fact that, after five years, Pakistani cotton farmers are still part of the scheme suggests that there are positive incentives to stay engaged in Better Cotton.

Box 6 *Certifying poor smallholders versus high-end cotton farmers from Brazil, Australia and the USA*

Initially, the Better Cotton Fast Track Program (FTP) focused on smallholders in India, Pakistan, China and Mali, addressing key sustainability issues such as pesticide use, water management and decent work. Cotton farmers are trained and have to keep records. They get a one-year license to sell their crop as Better Cotton if they achieve the minimum production criteria of the BC standard. Licensed farmers are encouraged to work further on situation-specific improvement requirements, and if they do so, they can be rewarded by an extension of their license period to a maximum of 5 years.

In 2011, the FTP started working with large-scale cotton farmers in Brazil. The reasoning behind this step was that for BC to become a mainstream commodity, it would be important to cover key producer countries. Cotton is a global commodity and is often mixed from different sources and interwoven in factories. In Brazil there were also sustainability challenges, in particular high pesticide use; as a programme for continuous improvement, the Better Cotton standard could play a role. Also, there was a desire to quickly expand the availability of Better Cotton to make sure that traders who were buying the BC cotton lint from ginneries could not use scarcity to demand premiums (as they did: up to 25% was mentioned!) from the manufacturers and brands that were committed to use Better Cotton.

In 2012, just 100 licensed Brazilian farmers (cultivating each on average over 2000 ha of cotton) already produced about the same amount of Better Cotton as the over 150,000 smallholders in the four initial BC countries. In 2013, the local Brazilian standard (ABR) was successfully benchmarked with Better Cotton, meaning that all ABR cotton can now be sold as Better Cotton.

55 A 2012 LEI study for IDH compared business models for smallholder tea certification in Sri Lanka, Indonesia and Kenya. Their conclusion was that none of the certification programmes had developed business models that are self-sustaining. Each model would still be dependent on outside funding for operationalisation. Source: *Brewing business models for smallholder tea certification – A quick scan of models in Sri Lanka, Indonesia and Kenya*, Bart Doorneweert and Yuca Waarts, LEI 2012.

In the past two years, Better Cotton has expanded further into Mozambique, Turkey and Tajikistan. In these countries, a first BC harvest was achieved in 2013. Initial projects have started in Senegal and Kenya.

Moreover, cotton farmers' organisations in Australia and the USA have been approached to become part of the Better Cotton venture. An Australian standard (my BMP) is benchmarked against BC, which should soon allow Australian certified cotton to be sold as Better Cotton. In the USA, pilot projects have been set up with the aim of developing a full-scale programme later on (BCI, 2014).

The expansion of Better Cotton into rich and modern production areas in Brazil, Australia and the USA can raise some issues. The use of (public) funds for this purpose has however been quite limited: about 16% of the 2012 fund allocation of the FTP was used for setting up the Brazilian scheme (IDH, 2013d). The FTP will not contribute financially to farm-level capacity building in the USA or Australia. What could be more challenging is the question what Better Cotton stands for if all production areas in the world are included in the scheme. Even though BC is a business-to-business scheme (not a consumer label), the ultimate demand for Better Cotton from the brands may well be linked to the extent to which they can use the Better Cotton story in their corporate marketing.

The business case for pangasius farmers relies heavily on market access, rather than increased profitability, according to a LEI study commissioned by IDH. The study weighs mortality, juvenile costs, a price premium, feed costs, certification costs and other investments. On the basis of a comparison between two ASC-certified and two non-ASC-certified farms, the study suggests that there is either a small or no difference in profitability (LEI, 2013). A farmer's benefit of certification is best seen as the difference in turnover that he would have if his production was not certified.

In cocoa, there are different opinions about the role of the premium in sustaining the business case for the farmers. The variable UTZ premium – around USD 150-200 in addition to the conventional price of around USD 2000 per ton – is paid to the certificate holder, which in the case of cocoa is often a trader.[56] Most stakeholders interviewed by IOB acknowledge the motivating effect, especially at the start of a certification programme, but many in the private sector would rather see the premium gradually disappear and be replaced by other market-based benefits, such as better prices for better product quality, improved production and farm efficiency. On the other hand, some in the private sector, NGOs and representatives of the producers stress the importance of maintaining a premium. They consider the premium to be the main motivator for farmers and argue the

[56] While Fairtrade uses a minimum price of USD 2000 per ton and a fixed premium of USD 200 for a cooperative, UTZ encourages farmers to negotiate a premium. Over 2012 the average UTZ cocoa premium was EUR 112. The premium is often related to quality, such as longer/better-dried beans. Source: http://www.confectionerynews.com/Commodities/UTZ-Certification-is-our-weapon-against-cocoa-deficit.

need to be very transparent about premium conditions and use towards farmers and their organisations. Apparently, many cocoa farmers in Ivory Coast have been disappointed, receiving fewer premium payments than was expected.[57]

The certificate holders deduct certification costs from the premium. The evaluation of the IDH cocoa programme 2008-2012 suggested that between 10% (according to farmers in one case study) and 50% (according to interviews with certifiers) of the variable UTZ premium paid to the certificate holder was passed on as cash to farmers (KPMG 2013). The rest was used by the certificate holder to pay annual certification costs, training and in some cases even the reimbursement of the initial certification investment.[58] With 46% of the certified cocoa being sold as certified, the UTZ premium would in this case not cover the certification costs and efforts for farmers (KPMG 2013).

Box 7 *Kenyan tea farmers see benefits in certification, in particular fairtrade*

A study done for DFID (Stathers & Gathuthi, 2013) provides some insights into the views of tea farmers in Kenya on certification and the wider benefits of the schemes.

The study found clear recognition among tea farmers of the benefits of Fairtrade (FT). FT-certified smallholders were aware of the FT Premium payment arrangement and most knew which community projects had been funded using the FT Premium funds (USD 0.50/kg made tea). FT premiums had been invested in constructing school facilities like classrooms, roofs, latrines, kitchens, dormitories and teacher housing, in building new dispensaries and maternity wings, for secondary school bursaries for needy children, and water projects. Also, the smallholders' producer organisations had used the FT Premium for investments in processing units and collection centres, such as water and electricity, processing equipment such as boilers, dryers, pre-sorting machines, replacing wooden sorting benches by concrete sorting tables, etc. One producer organisation had used the FT premium for the partial purchase of a tea-processing factory. About 18% of KTDA smallholders were

57 Some interviewees (private sector, NGO, experts) expressed concerns about the cost and results of cocoa certification schemes: the costs are considered substantial and the effects in the field are not always sufficiently clear. In response to such concerns, some companies active in cocoa initiatives in Indonesia (in a Swiss Contact – IDH programme) are considering setting up their own traceability and sustainability programmes without the use of international standards like UTZ or Rainforest Alliance certified. This would be a more simple and cheap traceability system, with a tailor-made sustainability programme plus premiums for the farmers. Compliance would be validated externally. By skipping the cost related to an international standard, the costs for the first buyer would be reduced from about USD 150 to USD 50 per ton of cocoa. The cash payment to farmers would be similar to that under UTZ, around USD 40 per ton of cocoa.

58 Also in Fairtrade cocoa, where a fixed premium (USD 200/t) is paid to the cooperative (the certificate holder), part is used to cover the certification and operational costs. Most, however, is used for community development projects led by the cooperative, while perhaps a quarter is paid to individual farmers (Tony's Chocolonely, 2014).

FT-certified, but only a small part of their production can effectively be sold as FT tea, due to a lack of demand.

Farmers associated Rainforest Alliance (RA) certification with environmental conservation, proper waste management, rainwater harvesting, safe handling and storage of chemicals, and use of protective clothes, including a personal protective equipment kit. Many farmers found the kit they needed to buy unnecessarily expensive as there were cheaper alternatives such as old fertiliser sacks, which can be worn as aprons. Yet farmers felt the benefits of being certified outweighed the costs and they valued the trainings. Currently practically all 560,000 KTDA tea smallholders are RA-certified.

Managers of both RA- and FT-certified producer organisations indicated that due to certification they became more proactive on enforcing health and safety standards for workers in the tea factories. This included issues such as ear protection, dust masks, emergency stop switches, training for fire-fighting skills, typhoid vaccination and hand washing. Also, working conditions and employment terms, often already covered in existing legislation, were found to be more effectively implemented than prior to the regular auditing for compliance to the standards. The managers also reported that certification training had increased women's participation in producer organisations, with RA specifying that 30% of lead training farmers must be women, while the FT Premium Committee must have female members.

More IDH programmes work 'beyond certification'

Recent large-scale field programmes in cocoa and in tea (and others) go beyond training and support for farmers to become certified.

In the cocoa sector, IDH developed a number of follow-up activities 'beyond certification' as of mid-2012. The goal was to deepen the impact on the ground, after noticing that productivity and income had not improved as much as was hoped for.

The largest activity is the Cocoa Productivity and Quality Program (CPQP). Private companies – traders and chocolate industry – have become project applicants for the field projects. As project applicants, they have reacted to calls for proposal set out by IDH.[59] The programme started working in over 12 projects reaching 164,000 farmers in 2013. The role for the NGO Solidaridad – the implementing partner in the first phase – is now limited to monitoring and reporting. NGOs are not eligible for submitting proposals, but the private

59 Private sector partners in the first phase included: ADM, Ahold, Armajaro, Barry Callebaut, BT Cocoa, Cargill, Continaf, Ecom Euromar/Transmar, Friesland-Campina, Heinz Kraft, Mars, Nestlé, Olam, Petra Foods /Delfi, Ferrero. Additional partners in the 2nd phase of the cocoa programme are: OCP, Mondelez, Multi-Trex, Cemoi/PACTS, AFAF, FMO, Hersheys, Intertel, LDC, Lindt, OLAM, SEAP-CI, US global business group and Yara.

companies leading the CPQP projects do work with a large number of subcontracted NGOs and (semi-) government organisations.

The programme is reported to be on track in training, certification, and basic cocoa plantation management (pruning, cleaning). Farmers appear to have gained more knowledge about good agricultural, environmental and social practices. Not much has been achieved yet in rehabilitation (replanting and grafting new cocoa trees), inputs and credit, partly because of a mismatch between project plans and national policies. The government in Ghana has its own programme with subsidised inputs for cocoa production. Both Ghana and Ivory Coast have not yet authorised grafting activities, because they fear the spread of swollen root disease (Solidaridad, 2014). Farmers indicate that yields are improving, but systematic yield monitoring is not yet in place. Available data indicate that yields are still around 500 kg/ha.

Different private sector-led fieldwork projects in cocoa have varied relationships with the supported farmers. For example, Mars does not buy cocoa directly and supports the cocoa sector in a broad way through new extension service delivery models with the World Agroforestry Centre ICRAF. On the other hand, traders like Cemoi and Biopartenaire support farmers whom they buy from, and in that way reinforce their commercial link with the farmer (Marchal & Ruf, 2013).

In Ivory Coast, IDH has started a fertiliser initiative to make quality and affordable fertiliser better available for cocoa farmers. IDH facilitated the import of cocoa fertiliser. According to interviews and monitoring, effects on the ground are not yet clear (Solidaridad, 2014). IDH has indicated that its efforts contributed in Ivory Coast to a drop of fertiliser prices of 10-25% (IDH, 2014).

In tea, the IDH programme with Unilever and the KTDA has already combined the trainings for Rainforest Alliance certification with broader Farmer Field School (FFS) trainings to achieve better results for tea farmers. Thorny issues like living wages and sexual harassment are now also taken up in close collaboration with the private sector and non-governmental stakeholders in tea production.

Furthermore, IDH is considering an active role in supporting the inclusion of smallholders in some international companies' investment plans related to the Grow Africa initiative. Grow Africa is an offspring of the World Economic Forum (WEF) in which African governments and private companies aim to work together to boost investment in agriculture.[60] IDH has suggested adding a blending finance component to its funding options in order to be able to provide guarantees related to high-risk greenfield investments in African smallholder production.

[60] Unilever has, for instance, recently agreed with Tanzanian government to revitalise and invest in its Mufindi tea estates and to engage surrounding farmers in tea cultivation, with the aim of doubling tea production. Source: http://www.unilever.com/mediacentre/pressreleases/2013.

Some activities beyond certification raise questions about 'additionality'
The close collaboration with individual companies in the field as the ones responsible for implementing projects raises questions about the appropriateness of providing public funding.

IDH sees the emergence of individual companies as project applicants in IDH programmes as a logical step towards 'business-driven development'. The private sector parties would now be better equipped to 'embed' sustainability efforts in their activities. Instead of reinforcing public or NGO extension and support services, companies can provide private extension and support services to, for instance, cocoa farmers, building on their commercial relations.

IOB notes that there are dilemmas involved in such constructions. By making a trader the implementer of a cocoa-productivity improvement project in a certain region of, for example, Ghana, IDH facilitates, with public funds, that this trader builds a more or less exclusive relationship with the cocoa farmers in that region, bypassing local middlemen and other commercial buyers. While this may not be the purpose of the public funding, it is likely to be a side-effect. There can be benefits for farmers (if better prices are offered due to eliminating middlemen, there is greater assurance of market access, or access to credit or inputs is facilitated), but it would also constrain the competitive environment for the farmers, reducing their bargaining power and making them more dependent on one particular outlet. By supporting a single trader's efforts – even when this company has won an open call for proposals – the public funding intervenes in the market structure and may restrict competition.

The question is also whether public funds should be used to support a single company's commercial actions in which development goals are 'embedded'. An example raised in tea: Future scarcity of tea supply in a market in which demand grows by some 3% per annum is seen as a major challenge for global players like Unilever and Tata. Smallholder production is generally regarded as the preferred mode of production, and not necessarily the expansion of the classic tea estate. An investment in the expansion of smallholder tea production surrounding a private tea estate could basically be considered core business for an enterprise (like Unilever or Tata). The use of public funding through IDH to support such strategies may surpass the confines of proper ODA resource allocation.

One could argue that engaging poor smallholders in profitable tea production could be a public cause; there has not been much greenfield investment in smallholder inclusion on this scale by private entities before and this may include higher risks. However, if this also creates a relationship of dependence and is to the benefit of a single private company, questions could be asked as to whether such actions merit public funding.

IDH started its work in the pre-competitive area, convening companies per sector and supporting programmes on the sector level. If IDH is moving towards actions that could be in the competitive area – linking up with and supporting interventions of single companies – then the issue of 'additionality' of public funding would deserve greater attention.

The Donor Committee on Enterprise Development (DCED), of which the Netherlands is an active member, has recently provided valuable guidance to address the issue of 'additionality'. Box 8 describes the eight criteria DCED proposes to use.

Box 8 *Criteria for 'additionality' in private sector development initiatives*

The DCED has published a practical sourcebook on 'additionality' in private sector development initiatives, which presents the following criteria:
1. The company has insufficient funds to self-finance the project (within a reasonable timeframe).
2. The company lacks the knowledge or competencies to design and/or implement a business model in a way that maximises poverty-reducing or other development impact.
3. Without the public subsidy, the company would be unwilling to implement the proposed business model and/or changes in operational standards because of a perceived negative balance of costs/risks and benefits.
4. The company cannot access the services offered by the publicly funded agency on a commercial basis – whether this is commercial bank funding or advisory support of similar quality.
5. The cost-shared project does not displace other companies already operating in the market, or that are ready to undertake the same project without public support.
6. The cost-shared contribution does not duplicate other donor-funded support – whether grant, in-kind advice, loan or equity.
7. Public support leverages investment by other entities that would otherwise not be forthcoming.
8. Conditions attached to the cost-sharing project, or agency activities complementing it, are expected to have a positive influence on wider business operations, the business environment or other institutional factors.
(DCED, 2014)

Balancing public and private objectives in programmes

A fundamental component of public-private partnerships is that the public objectives and private objectives can be different, but that they show sufficient overlap. It can be useful to explicitly distinguish the public and the private objectives, rather than assuming a single shared objective.

In cocoa, for example, an important private sector objective is to ensure sufficient cocoa production, in view of the anticipated scarcity. The prospect of higher income and (temporary) cocoa price premiums are means of motivating farmers to increase cocoa production. The main public objective is poverty reduction; many cocoa farmers are extremely poor. Higher cocoa production can be just one of the means of achieving better incomes, alongside other means such as diversification or a reduction in production cost. Other public objectives include environmental sustainability – in particular reducing deforestation – and improved labour conditions such as eliminating forced labour and child labour. Brands in particular can share these objectives, in view of corporate responsibility and protecting brand reputation. However, achieving such objectives is not necessarily related to the private sector goal of higher cocoa production.

There has been a gradual shift in emphasis in the IDH cocoa programme: from a wider perspective on deforestation and forest degradation, productivity and income, and working conditions (IDH, 2010a), to a more narrow focus on a productivity package: training, fertiliser, planting material and credit (IDH, 2014). This is reflected in the monitoring in the CPQP projects, where information is collected on the number of farmers trained and certified, and on production achievements; farm income, environmental or social issues are not monitored (Solidaridad, 2014). Although the importance of increased productivity is recognised, many interviewees voiced concerns about the strong emphasis on fertiliser use and providing credit for fertiliser in particular.[61] The scientific and economic basis for the fertiliser recommendation is considered rather weak; farmers could benefit more from broader support for new planting material and training. Some even argue that focussing programmes on achieving a higher cocoa yield may be in the interest of traders and industry (in view of the forecasted scarcity of supply), while farmers could be better off if they could diversify their income base and start producing other remunerative crops like food crops, rubber or palm oil.[62]

These signals and the trend that new IDH cocoa and coffee programmes are implemented by private companies raise questions as to whether public objectives are ensured sufficiently. It is important to guarantee that IDH programmes not only increase production but also reduce poverty, and thus effectively contribute to MDG1.

From voluntary sustainability standards to national standards and regulations

In various production countries, national platforms are set up in which the private sector and the government discuss policies and regulations. IDH supports several of these platforms (see also Box 4 on trustea in India).

In Ivory Coast, for example, this platform discusses the cocoa programme, sets minimum prices for farmers, and develops a national standard on sustainable cocoa. The benefit of

[61] In December 2010, an IDH technical meeting on priorities for the future cocoa programme was held with a broad representation from industry, government, NGO and experts. This formed the basis for the subsequent cocoa programme of which the CPQP is the largest component. Several participants in the 2010 meeting now voice some doubts about the strong focus on production and fertiliser in the current IDH cocoa programme. These are either second thoughts, or there was possibly not a clear consensus in the meeting on the focus on production and fertiliser.

[62] Concerns about the narrow focus on cocoa fertiliser were expressed in seven of 13 interviews with cocoa stakeholders, both by private sector, NGOs, certifiers, experts and a southern organisation. Four interviewees had the opinion that a cocoa fertiliser programme does not need ODA support. One interviewee encouraged IDH to push fertiliser. The majority of interviewees, including a number from the private sector, found that IDH followed too much the path of cocoa production increase and did not give enough consideration to farmers' livelihood, diversification and environmental matters. Three interviewees, all private sector, encouraged IDH to keep the focus on production.

such a national binding standard is that it will cover all cocoa production in the whole country and can eventually have a far greater impact than the current voluntary standards, even if the sustainability bar of the national standard is lower than the bar of voluntary standards. Both types of standards are expected to coexist.

In its coffee programme, IDH is piloting the use of a National Sustainability Curriculum (NSC) in Vietnam and Brazil. The idea is that national and international stakeholders (both public and private) together identify and prioritise the key sustainability issues in local coffee production and help determine effective ways to address them. The resulting plan for implementation is the so-called NSC.

Another activity beyond certification is broadening the existing voluntary sustainability standards with a CEN/ISO standard on traceable and sustainable cocoa by industry, European governments and governments of production countries. This may also serve as an example for production country governments for developing national standards. Developing such a standard is an important but slow process; the standard is expected by 2016-2017.

These public-private efforts aimed at the national level are promising and have the potential to increase and deepen the reach of sustainability initiatives beyond the current certification schemes.

IDH knowledge work has produced relevant outputs, mainly focussed on the sector programmes

IDH had planned to work on sector-specific and cross-sector learning activities. The initial action plan (2008-2013) mentioned child labour, living wage and biodiversity as cross-sector issues. The action plan 2011-2015 added carbon funding, finance for smallholders, and sharing knowledge and impact studies on sustainable supply chains.

Most of the knowledge and learning activities have been related directly to IDH sector programmes. IDH has commissioned a broad range of in-depth studies to deepen its sector work. These studies include scoping studies, costs-benefit analyses, feasibility studies, baseline studies, etc. The reports are generally of good quality and available at the IDH website.

Concerning the cross-sector issues, IDH found that such issues were best addressed when linked to a specific supply chain, preferably with the involvement of private sector actors. The issue of living wages, for instance, was taken up in 2011 when low wages in tea production came under debate. IDH has recently facilitated a study on the 'true price' of tea. IDH worked with Nestlé on child labour in cocoa in Ghana and Ivory Coast, and with ICI, a private sector initiative, on child labour.

IOB has not reviewed to what extent the knowledge products contributed to market transformation and field level results. The effectiveness of IDH's learning programmes for reaching market transformation deserves attention.

IDH's more recent activities on the broader sustainability agenda include support for producing a 'Practitioner's Guide for Sustainable Sourcing of Agricultural Raw Materials' with a number of other international organisations.[63] IDH has supported institutes' efforts to bring information together on sustainable commodity sourcing financially, such as the State of Sustainability report (IISD & IIED, 2014) and the work of COSA on impact evaluation (COSA, 2013).

In interviews, IOB noted that IDH's role of knowledge broker was clearly seen as less important than its work as convenor and funder. Many persons interviewed did not quite understand or see what role IDH was taking in this respect and to what extent they could benefit. One or two interviewees mentioned that IDH's growing experience and knowledge of specific sectors was beneficial for developing strategies in other sectors. There were a few complaints that IDH was not making enough use of knowledge and experience available in related organisations (Fairtrade, certification organisations and NGOs).

Good impact studies, with baseline studies and control groups, have been set up in cocoa, tea and cotton by LEI, focussing on the effects of certification and related interventions by IDH. For tea, the first impact results have been reported; for cocoa and cotton, the impact studies are expected in 2015.

In view of the changing practices in sector programmes supported by IDH, these impact studies will need to be complemented by additional studies on new activities and programme components, e.g. the effect of new training methods, inputs, credits, etc. IDH has contracted AidEnvironment to assist IDH to improve its current M&E framework, indicators and preparing an impact evaluation plan for the period up to 2020.

Gender is not an explicit issue in IDH work
A desk review of reports on IDH's improvement programmes in cotton, tea, cocoa and coffee suggests that the gender dimension has not received much explicit attention in IDH's work.[64]

In principle, the relationship between certification and gender issues can be two-pronged. Certification and related training offer mechanisms for improving the position of women – if gender issues are addressed specifically – while improved gender dynamics can contribute to better farm performance in view of the important position of women farmers and workers in many production systems. Potential improvements could include a stronger position in producer associations and increased awareness about women workers' rights (KIT, Agri-Profocus, IIRR, 2012).

[63] See IMD website: http://www.imd.org/research-knowledge/global-centers/sustainability-leadership/practitioner-tool-kits/.
[64] This review was undertaken by IOB inspector Paul de Nooijer, as part of an evaluation of gender policies and practices in Dutch development cooperation.

Limited specific data is collected about the participation of women in certification and training programmes. Few activities specifically target women workers as key beneficiaries and their position is not considered a main priority (Usher, Newitt & Merouchi, 2013; Waarts, Ge, Ton & Jansen, 2012; Waarts, Ge & Ton, 2013b). This can be seen as a weakness of current programmes, since generic interventions are generally insufficient to secure meaningful improvements in gender roles (Riisgaard, Escobar Fibla, & Ponte, 2010).

As far as the (anecdotal) evidence suggests, female participation in training and participation in farmers' associations is limited. One report suggests that UTZ-certified female coffee farmers are more likely to participate in farmers' committees (UTZ, 2014), while a study on the Cocoa Improvement Programme finds that women of trained farmers are more likely to benefit from an overall increase in their household income (Waarts et al., 2013c). Some studies on cotton, tea and cocoa suggest that certification can contribute to pregnant women being prevented from applying agro-chemicals (Usher, Newitt & Merouchi, 2013; Waarts et al., 2013c; UTZ, 2014).

Recently, IDH has started a project under the tea portfolio with the KTDA and the Ethical Tea Partnership on social issues with smallholders in Kenya. This project focuses on gender discrimination and sexual harassment. IDH has agreed with DDE to integrate gender issues more systematically in its work.

In conclusion: positive effects, but genuine market transformation requires more

The evidence in this chapter indicates that IDH has played a very active role – both as convener and as funder – in bringing the private sector and other stakeholders together in sector improvement programmes that have boosted the use of sustainability standards and certification, achieving important positive results at the field level for a very large group of primary producers in developing countries.

In addition, the available evidence also indicates that the direct and indirect effects of these efforts are positive, but also rather modest compared to IDH's ambition of market transformation and delivering impact on MDGs 1, 7 and 8. Genuine market transformation and effective poverty reduction requires more than the current generation of standards and certification in which IDH is active can offer. A 'tipping point' has not been reached in any commodity chain and will probably require substantial deepening of the cooperation approach. Certification against mainstream standards is a useful step, but does not bring enough to deliver deep impact on poverty or the environment.

IDH has shown to be well aware of such limitations and has over the last years added additional project interventions to certification efforts, building in particular on its growing network with private companies. Farmer field schools covered more than what was strictly needed for certification. National standards and public-private sustainability initiatives in developing countries around specific crops have been set up or were supported. IDH has also initiated activities with companies beyond certification, such as the fertiliser and productivity programmes in cocoa. Recent plans for support to companies' greenfield development investments in smallholder inclusion, working with blended finance, explore even wider sustainability issues related to value chains.

IDH's more recent approach to sustainability work with individual companies can raise dilemmas about the organisation's focus, 'additionality' of public support and the balance between public and private goals in partnerships. If such issues are properly taken into account, IDH will be in a good position to further deepen its work on sustainable commodity sourcing. Sustainable commodity sourcing is still unfinished business and the supply chain approach with committed companies offers ample possibilities for further engagement.

Annexes

Annex 1 About IOB

Objectives

The remit of the Policy and Operations Evaluation Department (IOB) is to increase insight into the implementation and effects of Dutch foreign policy. IOB meets the need for the independent evaluation of policy and operations in all the policy fields of the Homogenous Budget for International Cooperation (HGIS). IOB also advises on the planning and implementation of evaluations that are the responsibility of policy departments of the Ministry of Foreign Affairs and embassies of the Kingdom of the Netherlands.

Its evaluations enable the Minister of Foreign Affairs and the Minister for Foreign Trade and Development Cooperation to account to parliament for policy and the allocation of resources. In addition, the evaluations aim to derive lessons for the future. To this end, efforts are made to incorporate the findings of evaluations of the Ministry of Foreign Affairs' policy cycle. Evaluation reports are used to provide targeted feedback, with a view to improving the formulation and implementation of policy. Insight into the outcomes of implemented policies allows policymakers to devise measures that are more effective and focused.

Organisation and quality assurance

IOB has a staff of experienced evaluators and its own budget. When carrying out evaluations it calls on assistance from external experts with specialised knowledge of the topic under investigation. To monitor the quality of its evaluations IOB sets up a reference group for each evaluation, which includes not only external experts but also interested parties from within the ministry and other stakeholders. In addition, an Advisory Panel of four independent experts provides feedback and advice on the usefulness and use made of evaluations. The panel's reports are made publicly available and also address topics requested by the ministry or selected by the panel.

Programming of evaluations

IOB consults with the policy departments to draw up a ministry-wide evaluation programme. This rolling multi-annual programme is adjusted annually and included in the Explanatory Memorandum to the ministry's budget. IOB bears final responsibility for the programming of evaluations in development cooperation and advises on the programming of foreign policy evaluations. The themes for evaluation are arrived at in response to requests from parliament and from the ministry, or are selected because they are issues of societal concern. IOB actively coordinates its evaluation programming with that of other donors and development organisations.

Approach and methodology

Initially IOB's activities took the form of separate project evaluations for the Minister for Development Cooperation. Since 1985, evaluations have become more comprehensive, covering sectors, themes and countries. Moreover, since then, IOB's reports have been submitted to parliament, thus entering the public domain. The review of foreign policy and a reorganisation of the Ministry of Foreign Affairs in 1996 resulted in IOB's remit being extended to cover the entire foreign policy of the Dutch government. In recent years it has extended its partnerships with similar departments in other countries, for instance through joint evaluations and evaluative activities undertaken under the auspices of the OECD-DAC Network on Development Evaluation.

IOB has continuously expanded its methodological repertoire. More emphasis is now given to robust impact evaluations implemented through an approach in which both quantitative and qualitative methods are applied. IOB also undertakes policy reviews as a type of evaluation. Finally, it conducts systematic reviews of available evaluative and research material relating to priority policy areas.

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Annex 3 List of persons interviewed

Name	Position	Organisation	Subject/case
IDH			
Flavio Corsin	Senior Programme Manager	IDH	Aquaculture
Roy van Daatselaar	Programme Officer	IDH	Aquaculture
Jonas Mva Mva	Senior Programme Manager	IDH	Cocoa
Renske Aarnoudse	Programme Officer	IDH	Cocoa
Anita Chester	Senior Programme Manager	IDH	Cotton
Barbara Visser	Financial Controller	IDH	General
Dave Boselie	Senior Manager Learning & Innovation	IDH	General
Esther Bosgra	Head of Operations	IDH	General
Joost Oorthuizen	Executive Director	IDH	General
Lucian Peppelenbos	Director Learning & Innovation	IDH	General
Ted van der Put	Programme Director	IDH	General
Tony Bruggink	Programme Director	IDH	General
Bas van den Brink	Senior Programme Manager	IDH	Natural Stone
Jordy van Honk	Senior Programme Manager	IDH	Tea
Judith Fraats	Programme Officer	IDH	Tea
Dutch government			
Thierry van Helden	First Secretary Food Security & Agriculture	Netherlands Embassy in Ghana	Cocoa
Ad Lansu	Controller	BZ / DDE	General
Gerbrand Haverkamp	Policy Officer CSR	EZ / ELV	General
Marcel Vernooij	Strategic Policy Advisor	BZ / DDE	General
Paul Schoenmakers	Senior Policy Officer	BZ / DDE	General
Peter Richtering Blenken	Controller	BZ / DDE	General
Robert-Jan Scheer	Strategic Policy Advisor	BZ / DAF	General
Private sector			
Aldin Hilbrands	Senior Manager Product Integrity	Royal Ahold	Aquaculture
Andrea Bolhuis	Specialist Product Sustainability	Royal Ahold	Aquaculture
Anne-Corine Vlaardingerbroek	CSR Manager	Jumbo Supermarkten	Aquaculture
Constant Mulder	Managing Director	Anova Seafood	Aquaculture
Harry Hoogendoorn	Managing Director	Queens Products	Aquaculture

Mark Nijhof	Director Production and Quality Assurance	Heiploeg	Aquaculture
Olivier Lugten	CSR Manager	Lenger Seafoods	Aquaculture
Tino Zeiske	Vice President International Affairs Asia-Pacific	Metro Group	Aquaculture
Arjen Boekhold	Chain Director	Tony's Chocolo-nely	Cocoa
Bart van der Linden	Associate Director	Supply Chain Integrity	Cocoa
Daudi Lelijveld	Vice President Sustainability	Barry Callebaut	Cocoa
Harold Poelma	Managing Director	Cargill Refined Oils Europe	Cocoa
Michiel Hendriksz	Director of Sustainability	ADM Cocoa	Cocoa
Peter van Grinsven	Manager Sustainable Cocoa Supply	Mars Incorpo-rated	Cocoa
Rahul Gopinath Nair	Head of Africa	Armajaro Holdings	Cocoa
Harsha Vardhan	Environment Responsible	H&M	Cotton
Sean Cady	Vice President Product Steward-ship and Sustainability	VF Corporation	Cotton
André Veneman	Corporate Director Sustainability & Chair IDH Supervisory Board	AkzoNobel	General
Jan Kees Vis	Director Sustainable Agriculture	Unilever	General
Bram Callewier	Partner	Beltrami NV	Natural Stone
Frans Papma	Consultant	Independent	Natural Stone
Toon Huijps	Commercial Director	Michel Oprey & Beisterveld	Natural Stone
Mark Birch	Sustainable Sourcing Manager	Unilever	Tea
Peter Mbadi	Sustainable Agriculture Project Manager	Kenya Tea Development Agency	Tea
Sebastian Michaelis	Tea Buyer and Blender	Tata Global Beverages	Tea
NGOs and Other			
Chris Ninnes	Chief Executive Officer	Aquaculture Stewardship Council	Aquaculture
Jose Villalon	Director of Aquaculture Programme	WWF US (formerly)	Aquaculture
Pham Anh Tuan	Deputy Director General	Directorate of Fisheries Vietnam	Aquaculture
Tom Derksen	Managing Director Agriculture	SNV	Aquaculture

Anna Laven	PhD Researcher	Royal Tropical Institute (KIT)	Cocoa
Bill Guyton	President	World Cocoa Foundation	Cocoa
Bo van Elzakker	Director	Louis Bolk Instituut	Cocoa
Hans Perk	International Programme Manager Cocoa	Solidaridad	Cocoa
Manfred Borer	Programme Director	Swisscontact	Cocoa
Robert Yapo Assamoi	Director Production and Sustainability	Conseil Café Cacao	Cocoa
Christoph Kaut	Managing Director	Aid by Trade Foundation (CmiA)	Cotton
Hammad Khan	Global Cotton Leader	WWF Interna-tional	Cotton
Patrick Laine	Chief Executive Officer	Better Cotton Initiative	Cotton
Frank Mechielsen	Lobbyist Private Sector	Oxfam Novib	General
Han de Groot	Executive Director	UTZ Certified	General
Johan Verburg	Senior Advisor Programme Development	Oxfam Novib	General
Nico Roozen	Director	Solidaridad	General
Peter d'Angremond	Executive Director	Fairtrade / Max Havelaar	General
Hannah Bruce	Category Leader Household and Hard Goods	Ethical Trading Initiative UK	Natural Stone
Hilary Thompson	Director	TFT	Natural Stone
Marijn Peepercamp	Programme Officer	India Committee of the Nether-lands	Natural Stone
Diya Sharma	Programme Manager India	Ethical Tea Partnership	Tea
Shatadru Chattopadhyay	Director South and South East Asia	Solidaridad	Tea

Annex 4 Overview of IDH expenditure 2008-2013

	2008	2009	2010	2011	2012	2013				Total MFA 2008-2013	Grand Total 2008-2013
						MFA	SECO	DANIDA	Total		
Programme contributions	1,429	1,454	5,870	8,742	14,520	9,639	1,361	411	11,411	41,654	**43,427**
Learning: staff				304	219	298			298	821	**821**
Learning: other		118	102		522	463	145		608	1,205	**1,350**
Programme outreach	8	207	260	488	912	823	145		968	2,697	**2,842**
Mid-term evaluations		52		50	277	150			150	528	**528**
Subtotal programme expenditures	**1,436**	**1,831**	**6,232**	**9,583**	**16,450**	**11,373**	**1,651**	**411**	**13,435**	**46,906**	**48,968**
Personnel	119	745	1,424	2,013	2,305	2,398	170	47	2,615	9,004	**9,221**
Housing and ICT	11	94	162	295	225	400			400	1,187	**1,187**
Organisational	55	250	270	425	417	467	45		512	1,883	**1,928**
Communication	3	113	96	412	199	256			256	1,080	**1,080**
Congresses	82	83	124	170	94	74	80		154	628	**708**
Subtotal IDH personnel and office costs	**272**	**1,285**	**2,075**	**3,315**	**3,240**	**3,595**	**295**	**47**	**3,937**	**13,781**	**14,123**
Total IDH budget	1,708	3,116	8,307	12,898	19,690	14,968	1,946	458	17,372	60,687	**63,092**
Received interest	18	51	32	49	97	69	0	0	69	315	**315**
Total IDH appropriated subsidy	1,691	3,065	8,275	12,850	19,593	14,899	1,946	458	17,303	60,372	**62,777**
Private contributions	236	787	3,794	6,781	23,377	20,696	0	0	20,696	55,670	**55,670**
Other donor contributions	527	1,044	5,047	3,900	5,967	3,330	0	0	3,330	19,813	**19,813**
Total expenditure IDH and other contributions	**2,453**	**4,895**	**17,116**	**23,531**	**48,936**	**38,924**	**1,946**	**458**	**41,329**	**135,856**	**138,260**

Source: data provided by IDH. Amounts in EUR thousand.

Annex 5 IDH's work on Natural Stone

Background

India and China are major producers of natural stone such as granite, sandstone and marble and are jointly responsible for 60 percent of EU imports of these stones (UN COMTRADE, 2014). Working conditions in these countries are dire. There is a high prevalence of bonded labour and child labour, workers are generally in a weak bargaining position and the quarrying and processing of stone can result in fatal accidents or in diseases such as lung disease (silicosis). Workers are also a victim of long working hours, poor housing and sanitation and a shortage of clean drinking water. In addition, mining usually results in considerable and permanent environmental damage due to the contamination of water and the dumping of rock and slurry (Centre for Education and Communication, 2009; Dhaatri Resource Centre for Women and Children, 2010; GRAVIS, 2010; India Committee of the Netherlands, 2005; 2006; 2007; Südwind, 2006).

To improve the performance of Indian and Chinese factories and quarries catering to the Dutch market, the India Committee of the Netherlands and a number of other NGOs, sector organisations and importers established the Working Group on Natural Stone (WGDN) in 2005-2006. The WGDN included a very limited number of large and mid-sized companies such as Michel Oprey-Beisterveld and Beltrami, and a somewhat larger number of small-sized companies such as RPM Grafmonumenten (IDH, 2010a; 2011; 2012a; 2013a; 2014; Werkgroep Duurzame Natuursteen, 2008b). IDH became involved in the project at the end of 2008: the project was one of four projects selected by IDH's quartermasters and the Ministry of Foreign Affairs (Ministry of Foreign Affairs, 2008).

IDH has invested some EUR 690,000 in this programme. EUR 170,000 was provided by other donors and EUR 450,000 was provided by the private sector. A large share (29 percent) of private contributions was provided in-kind.

Results

IDH aimed to establish a group of committed importers that would represent a sufficient percentage of the Northwest European market. Through these importers and their suppliers, IDH aimed to improve the working conditions of a substantial number of workers (Werkgroep Duurzame Natuursteen, 2008a). None of the targets have been met. The number of importers, suppliers and workers involved has remained far beyond what was hoped for, the market share of these importers is less than 5 percent and the percentage of stone imports that is sourced according to a code of conduct is currently zero (IDH, 2014). It is hoped that initial results will materialise in a number of factories and quarries before the end of 2014.

Activities

From 2008 until 2012, IDH supported the WGDN programme. Initially it was planned to introduce a label for sustainable stone by the end of 2010. In the process towards introducing a label, IDH focused on three efforts: (1) implementing a number of pilot projects in India and China, (2) stimulating market demand for natural stone, especially from the public sector, and (3) broadening private sector support and harmonising or integrating various European initiatives. IDH funding was used inter alia to hire a specialised consultant and to conduct various pilot projects. During the process, it was concluded that a national certificate or label was too costly and not achievable for the quarries. Moreover, implementing improvements in the producer countries proved more challenging than expected and public sector demand for sustainable stone did not materialise due to legal requirements (IDH, 2010a; 2011b; 2012a; 2013a; 2014).

In the course of 2011, it was decided to merge the WGDN with an existing verification or certification scheme, and in October 2012 the programme was merged with the TFT Quarry Working Group to form the TFT Responsible Stone Program (RSP). Under the RSP, participating companies seek to improve production along a three-level code of conduct. Level one addresses basic issues such as adhering to legal minimum wages and no use of child, bonded or forced labour. Level two addresses issues such as freedom of association and emissions to water and air. Level three requires a living wage and good relationships with neighbouring communities (TFT, 2012).

TFT acts as a consultant, which helps importers to 'clean up' their supply chain while concurrently improving their marketing. It has a local presence in eight different countries, including an office in China and two offices in India (TFT, 2014). Participating companies become a member and pay an annual membership fee of EUR 3,000 (EUR 1,250 before 2014) and about EUR 1,000 per work plan or audit. Due to the increase in the required size of their own contribution in 2012 and in 2014, a number of less-committed companies exited the programme in those years.

In May 2014, 11 Dutch companies participated in the RSP, among a total of 21 members (TFT, 2014). IDH has continued to provide funding to these companies in the form of a 40 percent compensation for overall expenditures, up to a certain maximum.

Prospects

IDH will stop funding the RSP as of 2016. By that time the programme should be self-sufficient. The increased membership fee of EUR 3,000 should contribute towards that aim. IDH and the participating companies estimate that the first suppliers will achieve level 1 or 2 in the course of 2014. In this way it is hoped to show that clear results can be attained. This should secure existing commitment to the RSP, as well as attract other European companies to join the programme.

Annex 6 IDH's work on Aquaculture

Background

Aquaculture provides an answer to the double challenge of maintaining marine biodiversity and meeting the increased demand for animal protein of a growing and more resourceful world population. At the same time, aquaculture can itself have different negative environmental impacts such as the use of fishmeal and fish-oil in feed, the discharge of untreated effluents containing faecal matter and chemicals from antibiotics, and the spreading of aquatic animal pathogens and invasive species. Moreover, many smallholders or employees have to subsist from a small wage and have to work under bad working conditions (WWF, 2014; Greenpeace, 2008).

To address these issues, the World Wildlife Foundation (WWF) initiated the Aquaculture Dialogues, a series of roundtables involving over 2,000 stakeholders, in which it was sought to develop a front-runner standard for the species that are most-traded and lead to the greatest burden. In 2009, WWF founded the Aquaculture Stewardship Council to manage the new standards (ASC, 2012b; WWF, 2014). IDH provided financial and administrative support. The first standards, for pangasius and tilapia, were launched in the second half of 2012, followed by salmon in January 2014 and shrimp in April 2014 (ASC, 2014). The ASC has an explicit focus on environmental and social objectives (ASC, 2012b). The standard presupposes that producers rely on other norms or standards concerning animal health and food safety, such as GlobalGAP.

In the period 2010-2013, IDH has spent EUR 1.9 million on this programme. Other donors spent EUR 1.3 million and the private sector contributed about EUR 0.7 million. IDH employed two persons who both spent about half of their time on this programme.

Results

IDH aims to increase the supply of responsibly-farmed fish and to reduce the negative impacts of aquaculture production (IDH, 2013e; 2014). The targets set on the volume of ASC-certified fish produced and purchased have been more than met. At the same time, the uptake of ASC-certified fish is only 36 percent of total production. This is largely due to the rapid acceptance of the ASC standard among producers. The number of farmers and the number of hectares of natural ecosystem that benefit from the programme have remained far below the target, reflecting the intensive and large-scale mode of production (IDH, 2014).

Activities

In the past years, the ASC, WWF and IDH have focused most of their efforts on the production of pangasius in Vietnam. Vietnam accounts for three quarters of global pangasius production and for virtually all EU imports of this species (UN COMTRADE, 2014). Vietnamese support for ASC-certification has been engendered through the involvement of many Vietnamese stakeholders in the Pangasius Aquaculture Dialogue (WWF, 2010a) and was further secured in 2010 through a Cooperation Agreement between WWF and the two dominant producers' and exporters' associations and the Vietnam government. In this cooperation agreement, the parties express their shared objective to have 100% of pangasius exports certified by 2015, half of which should be ASC-certified (WWF, 2010b).

In 2012, IDH launched the ASC Accelerator Program for Vietnam. Under this programme, SNV provided gap analyses, work plans and technical assistance to 37 pangasius farms. This was done via local consultants who were trained on the job on how to perform audits and to provide technical assistance. The programme was completed by the end of 2013 when a sufficient volume of pangasius was ASC-certified and a sufficiently large pool of local consultants had been trained. Currently 44 large-scale farms, representing 17 percent of annual production, are ASC-certified (ASC, 2012a; FAO, 2014; SNV, 2014).

In Northern Europe, IDH has invested some effort to secure retailers' and traders' commitment to the programme. Large traders purchasing ASC-certified seafood include METRO AG, Queens and Heiploeg. Not much effort was needed, since retailers and traders decided to shift to ASC-certified seafood out of their own sustainability- or marketing-related concerns. Dutch retailers signed a covenant in December 2011 in which they commit to move to 100 percent ASC-certified or equivalent farmed fish in 2016 (CBL, 2011). IDH is currently reflecting on how to increase demand for ASC-certified fish and shrimp in Southern European countries.

Prospects

In the coming years, IDH will focus on promoting improvement in shrimp farming in a step-by-step process towards ASC certification. In 2013, IDH established a Farmers In Transition (FIT) Fund from which co-funding can be provided both to large shrimp farms and to collectives of smallholders, albeit at different co-funding ratios (IDH, 2013c). The shrimp standard was launched in April 2014 (ASC, 2014). Considering Dutch retailers' commitment to ASC-certified fish and shrimp, uptake is likely to meet its target.

Evaluation and study reports of the Policy and Operations Evaluation Department (IOB) published 2009-2014

Evaluation reports published before 2009 can be found on the IOB website: www.government.nl/foreign-policy-evaluations or www.iob-evaluatie.nl.

IOB no.	Year	Title evaluation report	ISBN
397	2014	Riding the wave of sustainable commodity sourcing: Review of the Sustainable Trade Initiative IDH 2008-2013	978-90-5328-464-3
396	2014	Access to Energy in Rwanda. Impact evaluation of activities supported by the Dutch Promoting Renewable Energy Programme	978-90-5328-463-6
395	2014	Strategie bij benadering. Nederlandse coalitievorming en de multi-bi benadering in het kader van de EU-besluitvorming (2008-2012)	978-90-5328-462-9
394	2014	Autonomy, partnership and beyond: A counterfactual analysis of policy coherence for Ghana	978-90-5328-459-9
393	2014	Balanceren tussen koopmanschap en diplomatie. Evaluatie van de Netherlands Business Support Offices 2008-2013	978-90-5328-458-2
392	2014	Good things come to those who make them happen: Return on aid for Dutch exports	978-90-5328-456-8
391	2014	Useful Patchwork: Direct Funding of Local NGOs by Netherlands Embassies 2006-2012	978-90-5328-455-1
390	2014	Investeren in wereldburgerschap. Evaluatie van de Nationale Commissie voor Internationale Samenwerking en Duurzame Ontwikkeling (NCDO)	978-90-5328-454-4
389	2014	Op zoek naar focus en effectiviteit. Beleidsdoorlichting van de Nederlandse inzet voor Private Sector Ontwikkeling 2005-2012	978-90-5328-451-3
388	2013	Impact evaluation of improved cooking stoves in Burkina Faso: The impact of two activities supported by the Promoting Renewable Energy Programme	978-90-5328-449-0
387	2013	Between Ambitions and Ambivalence: Mid-term Evaluation SNV Programme 2007-2015	978-90-5328-448-3
386	2013	Evaluation issues in financing for development: Analysing effects of Dutch corporate tax policy on developing countries.	978-90-5328-447-6
385	2013	Economic diplomacy in practice: An evaluation of Dutch economic diplomacy in Latin America	978-90-5328-446-9

384	2013	Achieving universal access to sexual and reproductive health and rights: Synthesis of multilateral contribution to advancing sexual and reproductive health and rights (2006-2012)	978-90-5328-445-2
383	2013	NGOs in action: A study of activities in sexual and reproductive health and rights by Dutch NGOs	978-90-5328-444-5
382	2013	Buscando novas relações : Avaliação da política externa dos Países Baixos para a América Latina. Informe especial sobre o Brasil	978-90-5328-453-7
382	2013	En busca de nuevas relaciones: Evaluatión de la politica exterior de los Paísos Bajos en América Latina. Resumen del informe principal.	978-90-5328-450-6
382	2013	Op zoek naar nieuwe verhoudingen. Evaluatie van het Nederlandse buitenlandbeleid in Latijns-Amerika	978-90-5328-443-8
381	2013	Balancing Ideals with Practice: Policy evaluation of Dutch involvement in sexual and reproductive health and rights 2007-2012	978-90-5328-442-1
380	2013	Linking Relief and Development: More than old solutions for old problems?	978-90-5328-441-4
379	2013	Investeren in stabiliteit. Het Nederlandse fragiele statenbeleid doorgelicht	978-90-5328-440-7
378	2013	Public private partnerships in developing countries. A systematic literature review	978-90-5328-439-1
377	2013	Corporate Social Responsibility: the role of public policy. A systematic literature review of the effects of government supported interventions on the corporate social responsibility (CSR) behaviour of enterprises in developing countries	978-90-5328-438-4
376	2013	Renewable Energy: Access and Impact. A systematic literature review of the impact on livelihoods of interventions providing access to renewable energy in developing countries	978-90-5328-437-7
375	2013	The Netherlands and the European Development Fund – Principles and practices. Evaluation of Dutch involvement in EU development cooperation (1998-2012)	978-90-5328-436-0
374	2013	Working with the World Bank. Evaluation of Dutch World Bank policies and funding 2000-2011	978-90-5328-435-3
373	2012	Evaluation of Dutch support to human rights projects. (2008-2011)	978-90-5328-433-9
372	2012	Relations, résultats et rendement. Évaluation de la coopération au sein de l’Union Benelux du point de vue des Pays-Bas	978-90-5328-434-6
372	2012	Relaties, resultaten en rendement. Evaluatie van de Benelux Unie-samenwerking vanuit Nederlands perspectief	978-90-5328-431-5

371	2012	Convirtiendo un derecho en práctica. Evaluación de impacto del programa del cáncer cérvico-uterino del Centro de Mujeres Ixchen en Nicaragua (2005-2009)	978-90-5328-432-2
371	2012	Turning a right into practice. Impact evaluation of the Ixchen Centre for Women cervical cancer programme in Nicaragua (2005-2009)	978-90-5328-429-2
370	2012	Equity, accountability and effectiveness in decentralisation policies in Bolivia	978-90-5328-428-5
369	2012	Budgetsupport: Conditional results – Policy review (2000-2011)	978-90-5328-427-8
369	2012	Begrotingssteun: Resultaten onder voorwaarden – Doorli-chting van een instrument (2000-2011)	978-90-5328-426-1
368	2012	Civil Society, Aid, and Development: A Cross-Country Analysis	979-90-5328-425-4
367	2012	Energievoorzieningszekerheid en Buitenlandbeleid – Beleidsdoorlichting 2006-2010	979-90-5328-424-7
366	2012	Drinking water and Sanitation – Policy review of the Dutch Development Cooperation 1990-2011	978-90-5328-423-0
366	2012	Drinkwater en sanitaire voorzieningen – Beleidsdoorlichting van het OS-beleid 1990-2011	978-90-5328-420-9
365	2012	Tactische diplomatie voor een Strategisch Concept – De Nederlandse inzet voor het NAVO Strategisch Concept 2010	978-90-5328-421-6
364	2012	Effectiviteit van Economische Diplomatie: Methoden en Resultaten van onderzoek.	978-90-5328-420-9
363	2011	Improving food security: A systematic review of the impact of interventions in agricultural production, value chains, market regulation, and land security	978-90-5328-419-3
362	2011	Methodische kwaliteit van Programma-evaluaties in het Medefinancieringsstelsel-I 2007-2010	978-90-5328-418-6
361	2011	Evaluatie van de Twinningfaciliteit Suriname-Nederland	978-90-5328-417-9
360	2011	More than Water: Impact evaluation of drinking water supply and sanitation interventions in rural Mozambique	978-90-5328-414-8
359	2011	Regionaal en geïntegreerd beleid? Evaluatie van het Nederlandse beleid met betrekking tot de Westelijke Balkan 2004-2008	978-90-5328-416-2
358	2011	Assisting Earthquake victims: Evaluation of Dutch Cooperat-ing aid agencies (SHO) Support to Haiti in 2010	978-90-5328-413-1
357	2011	Le risque d'effets éphémères: Évaluation d'impact des programmes d'approvisionnement en eau potable et d'assainissement au Bénin	978-90-5328-415-5
357	2011	The risk of vanishing effects: Impact Evaluation of drinking water supply and sanitation programmes in rural Benin	978-90-5328-412-4
356	2011	Between High Expectations and Reality: An evaluation of budget support in Zambia	978-90-5328-411-7

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The Sustainable Trade Initiative IDH (Initiatief Duurzame Handel) was set up in 2008 on the initiative of the Dutch government, private companies, NGOs and trade unions. The aim was to improve the economic, social and environmental sustainability of production systems in developing countries. The focus would be on internationally traded commodities like cotton, coffee, tea, cocoa, timber and fish. Public-private coalitions were to develop sector improvement plans, initially built around voluntary sustainability standards such as UTZ Certified and Better Cotton.

This review looks at where IDH stands after six years of support from the Ministry of Foreign Affairs. Did the joint programmes agreed with private companies achieve the intended results? What was the private sector contribution in the projects? How did the IDH organisation evolve and what are the prospects for its work on sustainable commodity sourcing?

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