

GREEN COMMODITIES FACILITY



Market players—brands, traders, retailers—have become increasingly engaged in sustainable value chains. This has brought significant business benefits and real change on the ground.

INTRODUCTION

This document introduces UNDP's Green Commodities Facility, explains the rationale and role of the Facility, describes its approach and highlights its added value and services

COMMODITIES IN THE GLOBAL ECONOMY

Agricultural commodities are the engine of economic growth in rural areas of many emerging markets. Rural populations contain 70 percent of the world's poor. Agricultural commodities account for 10 percent of developing countries' gross domestic products.

In the coming decades, economic growth, an increasing world population and changing diets

are expected to cause a sharp increase in the demand for agricultural commodities. Food production alone will need to double by 2050. Biofuels put further demand on production. Yet agriculture production is threatened by numerous factors such as climate change, water scarcity, soil degradation and competition for arable land.

Agriculture is also a major contributor of global carbon emissions (15 percent), and agricultural commodity production expansion constitutes one of the greatest threats to biodiversity—it is estimated that agriculture expansion causes an annual loss of 13 million hectares of forest cover (FAO). Commodity trading, whilst a billion dollar industry, relies on supply by low income small holder farmers. Cocoa has 5 million farmers, 90% are small holder with 40 million dependants (WCF). Cotton has approx



Global coffee production covers over 10 million hectares, generates US\$70 billion in annual retail sales and employs 25 million people. UNDP, with funding from Global Environment Facility, supports several national programmes that promote sustainable coffee production and builds capacity of the sector. A major partner for example is the National Coffee Federation of Colombia.



20 million farmers globally, 97% of those in developing countries are small holders (ISAAA).

Conventional production practices with these environmental and social impacts generate significant development and business risks for the public and private sector. Business risks include fewer and less predictable raw materials supplies, higher prices, higher costs of agrochemical inputs, diminished product quality, post harvest loss, reduced speed to market, and a large and growing group of concerned consumers.

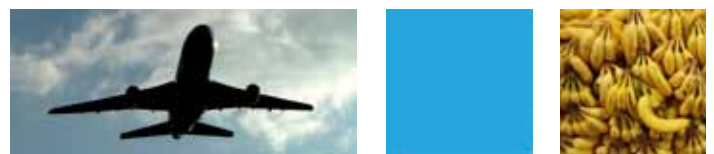
Taking a supply chain approach and supporting public-private partnership, to build sectoral capacity is key to improving production practices and reducing supply risk globally.

SCALING UP SUSTAINABLE PRODUCTION AND SUPPLY CHAINS

The increasing market demand for responsible agricultural products and the purchase of products certified to voluntary sustainable standards has already brought significant change on the

ground and benefits for agricultural communities. At the same time, it has brought significant marketing opportunities for global brands and retailers.

However, market-driven demand and development assistance are not structural alternatives for good local governance, well-functioning legal systems, effective local extension service systems, accessible formal credit structures, national tax and incentive schemes or other public services.



“UNDP has the mandate, experience and expertise to strengthen government capacity and bring market players into national policy dialogue and planning for sustainable production and supply chains.”

— Global Head, UNDP Green Commodities Facility

UNDP is the United Nations' global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. UNDP concentrates on four main focus areas of work: Democratic Governance, Poverty Reduction and Achievement of the MDGs, Crisis Prevention and Recovery, and Environment and Energy for Sustainable Development.

With offices in 166 countries, each with strong government relations, UNDP is in a unique position to act globally in a locally relevant context in order to advance and harmonize responsible and efficient commodity production and supply chains. This is achieved in partnership with national and local governments in order to ensure that the necessary institutional, policy, infrastructural and market support is provided to producers, processors and exporters.

UNDP offers:

- Country-level presence and technical expertise in sustainable development;
- Neutral interface between government, business and civil society;
- UN system coordination at the country level;
- Links to UN initiatives engaging with businesses—Business Call to Action and Global Compact; and
- Leveraging and accessing donor financing.

The largest commodity producing countries have over 1 million farmers each. To reach millions of farmers, small pilot approaches are not enough and national programmes are required. Farmer field schools cost US\$50-100 per farmer for a week of training. To scale up this means hundreds of millions of dollars required. New systems for financial sustainability of training are needed.

Meanwhile agriculture ministries are the main source of national funds to support farmers and promote productivity. For example, the Ministry of Agriculture in Indonesia has US\$1.4 billion and Mexico has US\$5.7 billion. Increased collaboration and planning can leverage these resources to support farmers and promote sustainable production and trade.

UNDP has extensive experience and a proven track record in rural development, governance, livelihoods, ecosystem management, capacity building and public-private partnerships. UNDP has an extensive team of regionally-based environment and development experts and policy advisers. UNDP has a substantial track record of managing multimillion-dollar projects according to the highest standards of transparency and accountability. Such experience is needed to systemize and scale up green commodity programmes and initiatives to mainstream levels, help shift markets towards the sale of sustainably produced commodities and institutionalize the conditions for sustainable production on a national level.



UNDP’S GREEN COMMODITIES FACILITY

UNDP launched the Green Commodities Facility in 2009. The Facility builds on over a decade of UNDP experience with commodities and ecosystem management. The Facility’s goal is for global markets, trade and governments to mainstream sustainability in the production and sale of agricultural commodities.

The objective of the Facility is to manage a global portfolio of national-level commodity-focused programmes and platforms, in key commodity producing countries, that remove barriers and institutionalize systemic approaches and resources for scaling up the production of sustainable commodities. This includes addressing environmental externalities within the supply chain, strengthening financial sustainability for technical assistance, reforming policy to level the production playing field and incentivizing

sustainability. Together with national governments, UNDP can link brands and retailers with national programmes to benefit businesses, rural farmers and supply chain actors.

There is a strong focus on climate change linkages—in terms of reducing emissions from reducing deforestation, increasing carbon sequestration from agroforestry and increasing ecosystem resilience.

At the country level, the Green Commodities Facility programmatically and comprehensively coordinates and facilitates the development and execution of national sustainable commodity and supply chain strategies. Multi-stakeholder project teams will implement programmes to improve the structural conditions under which producers can meet global standards and needs. These models for national reform can be replicated across producer countries.

UNDP GREEN COMMODITIES FACILITY MISSION:

To connect global markets with national governments and farmers and strengthen national capacity for scaling up sustainable agricultural production around the world.





Priority Commodities

The Facility focuses on highly traded commodities with substantial environmental and social impacts. These include beef, cocoa, coffee, cotton, palm oil, pineapple, rice, shrimp, sugar, tea, tuna and timber.

The targeted environmental and social impacts of the Facility include:

- Reduced natural habitat conversion to farmland;
- Increased biodiversity within agricultural landscapes;
- Improved water management in agriculture;
- Reduced net greenhouse gas emissions by commodity supply chains;
- Increased long-term income for poor farmers; and
- Increased food security.

Other aspects of farmer livelihoods - such as gender, labour standards, land rights - will also be addressed.

THE GREEN COMMODITIES FACILITY APPROACH

UNDP supports national policies and practices of commodity production and supply chains through its strong partnerships with relevant ministries (e.g., agriculture and environment) and local stakeholders, bringing them together with progressive and strategically committed brands, retailers and traders.

The Facility has thus developed a public private partnership approach to increase the provision of technical assistance and incentives to farmers to scale up sustainable production from pilots to sector level. This integrated approach can be represented by PPEMF: *Policy & Planning, Capacity Building, Market, and Finance*.

UNDP invests approximately US\$1 billion each year in fighting poverty and advancing progress towards the Millennium Development Goals (MDGs) through a variety of programmes.

1) Policy & Planning

An important contribution by the Facility to improve the enabling policy framework for commodities is supporting client governments redefine competitiveness. The Facility promotes to government the concept that by improving the environmental and social performance of agricultural commodity supply chains, countries will reduce risk to their exports which may drop due to damaged reputation amongst consumers and international commodity buyers as well as introducing the advantages of access to green markets and higher productivity from good agricultural practices (GAP).

The main areas UNDP assists to improve a national enabling environment include:

- Policies which promote sustainable farm practices such as GAP and certified product.
- Policies which influence ecosystem maintenance, adaptation to climate change, establishment of PES schemes and access to carbon markets.
- Land and tree tenure reform to promote land and resource ownership
- Fiscal policy instruments (taxes, fees, tax breaks and subsidies) to promote sustainable commodity production
- Land use planning and zoning to reduce habitat conversion.



15 percent of carbon emissions come from agriculture. Carbon loss from deforestation caused by agriculture expansion increases this carbon footprint. A main objective of the Facility is to reduce carbon emissions from commodity production and supply chains.

In order to achieve these reforms UNDP establishes with national governments, and then facilitates, long-term National Commodity Platforms. These Platforms regularly convene stakeholders across the supply chain that are involved in commodity production. This allows for policy makers and producers to hear first hand and understand the expectations by international commodity markets of continuous environmental and social performance improvement.

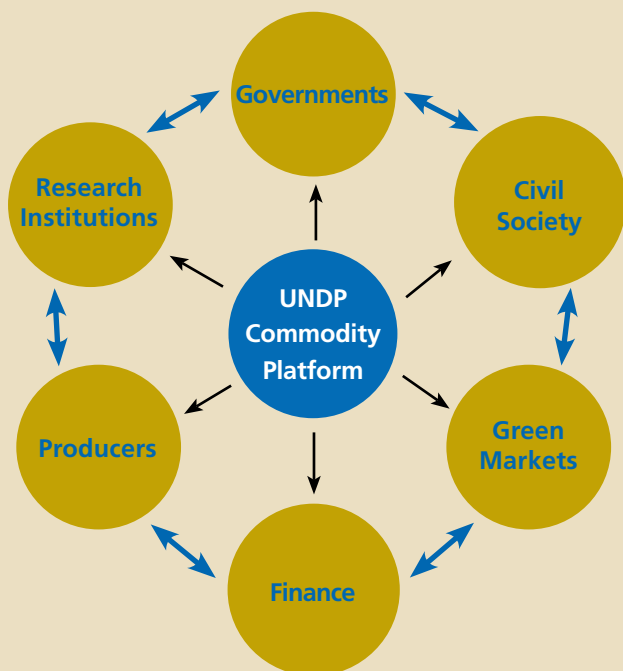


National Commodity Platforms: The Power of the Platform

Platforms create long-term space for defining commodity priorities and for developing national pre-competitive commodity support strategies. Platforms are long-term facilitated dialogues for the stakeholders directly involved with commodity supply chains, such as producers, traders, and buyers; to liaise and strategize with those stakeholders indirectly involved, such as the public and private extension services; certification bodies and roundtables; the financial institutions; national and local governmental entities and other institutions involved with land use planning; and finally, with rural communities and organizations that may be affected by the negative effects of commodity production in target countries.

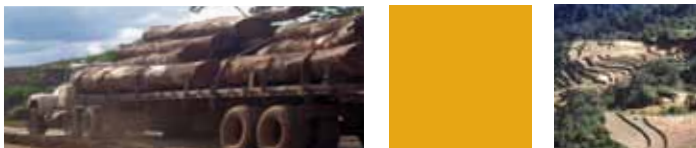
The Platforms are set up and facilitated by UNDP but are hosted and led by the relevant government authority such as the Ministry of Agriculture.

The Platforms accelerate scale up of the production of sustainable commodities by identifying and supporting suitable agricultural and fiscal policies, reviewing land use planning, strengthening agricultural extension services and infrastructure investment plans for the sector.



Platforms offer companies the opportunity to inform national stakeholders about increasing market preferences and demand for sustainable commodities, which will incentivize change. Platforms are also a tool to resolve conflicts of interest as they bring commodity supply chain members into dialogue to discuss the diverse thematic areas of commodity production and over time build trusting relationships.

Specifically, the facilitated multi-stakeholder dialogues generated by the Platforms lead to: i) a national strategy to achieve improved sustainability performance in production, ii) a work plan to implement the national strategy, and



iii) the set up a national programme for sustainability within the target commodities. Once the strategy is endorsed by government funds can be mobilized through the Platform to implement the developed programme.

The choice of which countries to create Facility platforms in depends on a country's production importance for the commodity and the interest and willingness of the government to address the needs and issues regarding scaling up sustainable commodity production.

COSTA RICA PINEAPPLE PLATFORM

The National Platform of Responsible Production and Trade of Costa Rican Pineapple is a 24 month-long multi-stakeholder and inter-institutional dialogue, implemented by the Vice-presidency of the Republic, and facilitated by UNDP's Green Commodities Facility, with financial support from the Dutch cooperation agency, ICCO.

It coordinates actions among all the major stakeholders of this supply chain, such as producers and companies involved in production and exports of pineapple from Costa Rica, national and international buyers, civil society organizations, and relevant ministries. The dialogue by these stakeholders will evolve around the definition of a model for *responsible production and trade of pineapple in Costa Rica*. The model is constructed through an inter-institutional and cross-sectoral definition of the main positive and negative impacts of pineapple production in Costa Rica.

This is through specialist thematic Task Forces, lead by volunteer parties of the Platform e.g., a task force on soil management led by Dole. These Task Forces feed information to the plenary in order to inform and develop a national strategy. This strategy will then be implemented by Platform partners to achieve sectoral reform.

“The credibility afforded by UNDP and its Green Commodities Facility has quickly brought the main players in the pineapple industry to the table, from growers and regulators to exporters and buyers. This provides a great opportunity for Costa Rica to not only improve management practices in agriculture, but to also to reestablish the country's reputation in sustainability”.

— Director, Quality, Environmental & Food Safety Affairs, Dole Fresh Fruit International Ltd.



2) Capacity Building of national and local institutions and producers

UNDP works with a variety of institutions in-country which need to work together to make change and provide long-term support to producers. This includes ministries, local government, traders, exporters, NGOs, research institutes, chambers of commerce, producer associations, cooperatives and the producers themselves.

The Facility focuses on systemic capacity building at government level to improve delivery systems to farmers and farmer organizations. This is through the following measures:

- Standards and training curricula updated with GAP, environmental sustainability measures, adaptation to climate change and basic business management

- Training extension service staff

- Private sector involvement to increase efficiency of extension services and company supported agronomic training

- Financial sustainability for enhanced extension services through increased commitments by government for extension budgets and cost recovery mechanisms

- GIS systems to assist with mapping production, traceability and monitoring impact

- Local government capacity building and engagement to provide trainers locally.



COUNTRY-LEVEL SUPPORT

In order to link markets to producers, UNDP commodity projects take a holistic approach and typically include four components: creating policy frameworks, building capacities for production systems, increasing access to finance and managing supply chains.

“UNDP’s access to and experience working with governments gives IKEA a unique opportunity to address the root causes of the problems linked to palm oil production. Through our collaboration with UNDP and the Indonesian government we aim at achieving improvements at a national scale that will affect the entire palm oil industry, beyond certification and our purchasing power.”

— Project Manager, Sustainable Raw Materials, Candles, IKEA

INDONESIAN SUSTAINABLE PALM OIL INITIATIVE

The Facility, in collaboration with the Ministry of Agriculture, Kraft and IKEA has initiated a major public-private partnership to support reform and improvement of the palm oil sector in Indonesia. The Initiative is establishing within the Ministry a national Palm Oil Platform, supported by Provincial level Platforms. The Platforms will provide the space to share lessons and build on the successes to-date of NGOs and companies.

The Initiative serves to remove national barriers limiting adoption of sustainable practice by producers, governments and buyers. There will be a strong focus on improving the capacity, productivity and rights of small producers, whilst conserving forest habitat and peatlands. The Initiative will build Ministry capacity at the District level. It also links to the REDD+ programmes in Indonesia.

3) Connecting to Green Markets

UNDP, through its global corporate partnerships and national platforms, strengthens the links between buyers and producers to facilitate improved terms and conditions to farmers supplying sustainable product. This includes support for certification, sourcing relationships, outgrower schemes and traceability. Companies which represent major global purchasing power for the world’s agricultural commodities, such as Kraft, Walmart, IKEA and Dole, are engaged with the Facility. UNDP builds positive relations with leading companies, joint strategies, advises on sourcing policy, across countries and commodities, helping the companies connect to the governments and in turn assisting the farmers to access the emerging green markets.

UNDP also supports the development of markets for environmental services – water, biodiversity and carbon. This includes provision of technical expertise for the valuation of ecosystem services to determine the need for environmental markets and institutional arrangements to establish and operate the market mechanisms.

GREENING COCOA IN GHANA

In 2008, Cadbury (now owned by Kraft) launched the Cadbury Cocoa Partnership (CCP), in order to secure the economic, social and environmental sustainability of a million cocoa farmers. This project is carried out in with leadership from Kraft and in partnership with leading development NGOs and the Government of Ghana, and is focused on: improving incomes (by helping farmers increase their yields and produce top quality beans); introducing new sources of rural income (through microfinance and support to kick-start new rural businesses); and government capacity-building (e.g. extension services) and policy reform.

At the global level, the Facility participates in the global Cocoa Partnership Board, providing strategic advice on programme development and capacity building. In Ghana, the Facility acts as special advisor to the National Board and leads the national environment component. The Facility developed Ghana's first ever environmental strategy for the cocoa sector, which has been adopted by the Ghanaian Cocoa Board, creating a major step to addressing the root environmental and social problems with the cocoa sector in Ghana.



4) Finance for Producers

There is often an initial cost involved in shifting from conventional to sustainable practices. This may take the form of planting trees on farm, cost of certification, water treatment, training etc. These investment costs need financing. UNDP works with the national financial sector building local lending capacity for farmer financing. The Facility partners with national development banks, commercial banks and rural credit and saving cooperatives to provide credit to farmers for sustainable practices.

Prior to the provision of credit and also after loan approval many farmer enterprises need assistance to build their managerial capacity, business plans and their ability to adopt best practices within their business for biodiversity conservation.

“Working with UNDP has supported truly effective relationships with policy makers, enabling the Cocoa Partnership to operate effectively and to develop a framework for future success in delivering environmentally, socially and economically sustainable cocoa production.”

— Director, Conformance & Sustainability, Kraft



Therefore UNDP structures the provision of financial services to farmers as part of a package of technical assistance and development of green markets. The Facility's model to support farmer business is based on the following approach:

- Strengthen national financial institutions to provide their credit to farmer organizations.
- Reduce risk to the partner financial institutions through providing partial credit risk guarantees, training credit officers in green investing and strengthening the enterprises applying for loans.
- Outreach to farmer organizations to strengthen and empower them so that they connect with, apply and can secure loans from the domestic financial sector. This ranges from administrative and financial management to business plans and assistance with cost of certification.
- Facilitate interaction between farmer organizations and the financial institutions to increase possibility of lending.

CENTRAL AMERICAN MARKETS FOR BIODIVERSITY

The CAMBio project supports the growth and financing of biodiversity friendly SMMEs across Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. CAMBio operates with \$10m in grants from the GEF combined with a \$17m dedicated credit line from the Central American Bank for Economic Integration (CABEI).

The project's main objective is to remove financial barriers associated with business growth in the region. This is achieved by working through CABEI's network of financial partners and by connecting them to suitable biodiversity friendly micro, small and medium enterprises (BD-SMME) investments. The project operates a technical assistance programme to support the improvement of technical and business capacities to those SMMEs that incorporate the conservation and sustainable use of biodiversity in their businesses, products and services. Technical assistance is also provided to FIs financing BD-SMMEs. FIs are trained in green markets and assessing risks of green investments. The project has national coordinators to identify potential investments and facilitate the loan transactions to reduce the transaction costs and risks to the FIs and SMMEs.

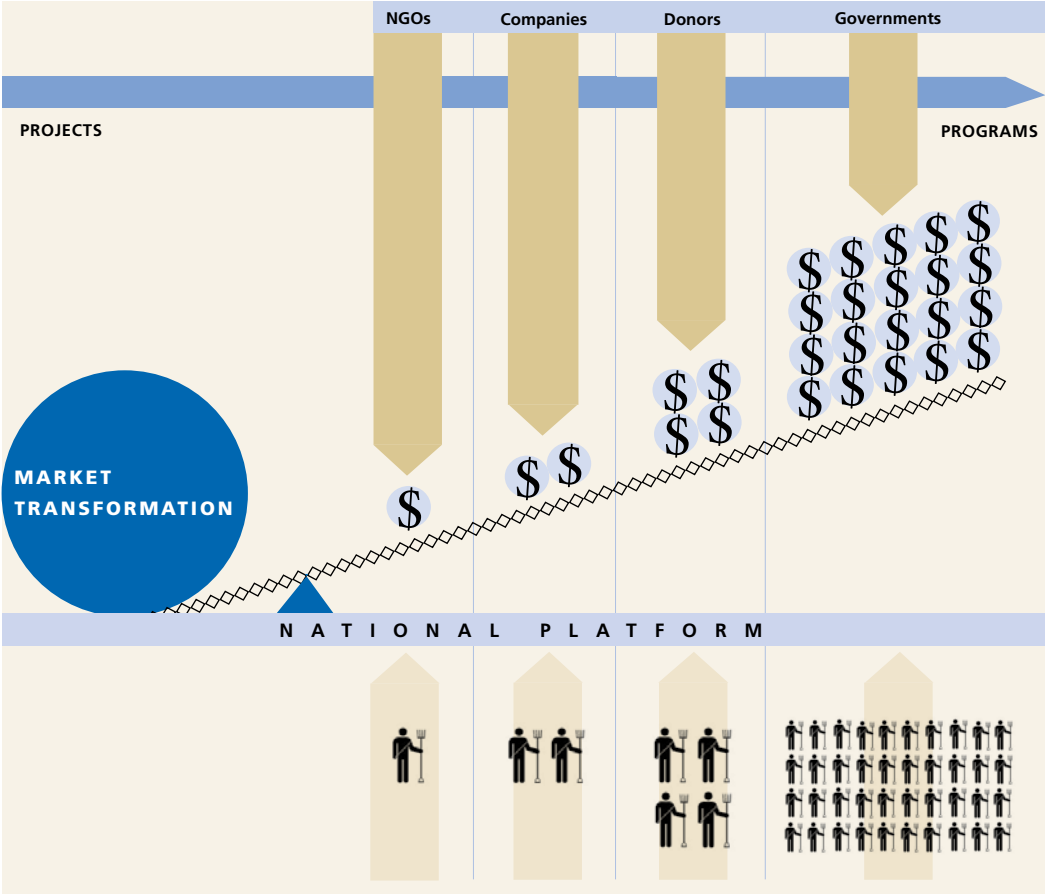
The project also provides partial credit risk guarantees to FIs for financing eligible SMMEs. This allows the FIs to reduce their level of exposed risk of a loan, enabling the generation of new business. *To date, the project has given out more than 1,000 loans, benefitting more than 3,700 people from SMMEs, totalling US\$11.5m.*

BENEFITS OF PARTNERING WITH THE GREEN COMMODITIES FACILITY

Efforts to stimulate sustainable agriculture production processes, and build supportive supply chains face the challenge of creating a model that is self-sustaining in the long term. The Facility is well-positioned to overcome this challenge by creating commodity platforms that leverage government resources—from agriculture extension services and research, to infrastructural improvements and supporting policies—and level the playing field to provide a sufficient and sustainable volume of product.

By partnering with the Facility, companies can complement their voluntary standards initiatives and engage government and participate in the long-term institutionalization, scaling up and integration of recognized sustainable commodity practices into supply chain structures. This reduces supply chain risk. Once programmes are successfully implemented, participating companies will be well-placed to purchase the increased supply of sustainable product.

BENEFITS OF GOVERNMENT ENGAGEMENT FOR SUSTAINABLE COMMODITY PRODUCTION





FACILITY TEAM:

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Africa: Nathan Leibel

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Guatemala: Ana Lucia Orozco

Honduras: Juan Ferrando

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Indonesia: Tomoyuki Uno

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TECHNICAL ADVISORS:

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production demand supply government consumers environmental+sustainability extension+services trade market standards capacity support certification platform commodities deforestation UNDP quality facility community development policy agriculture partnerships