

Navigating the Realities of a Responsible Sourcing Plan

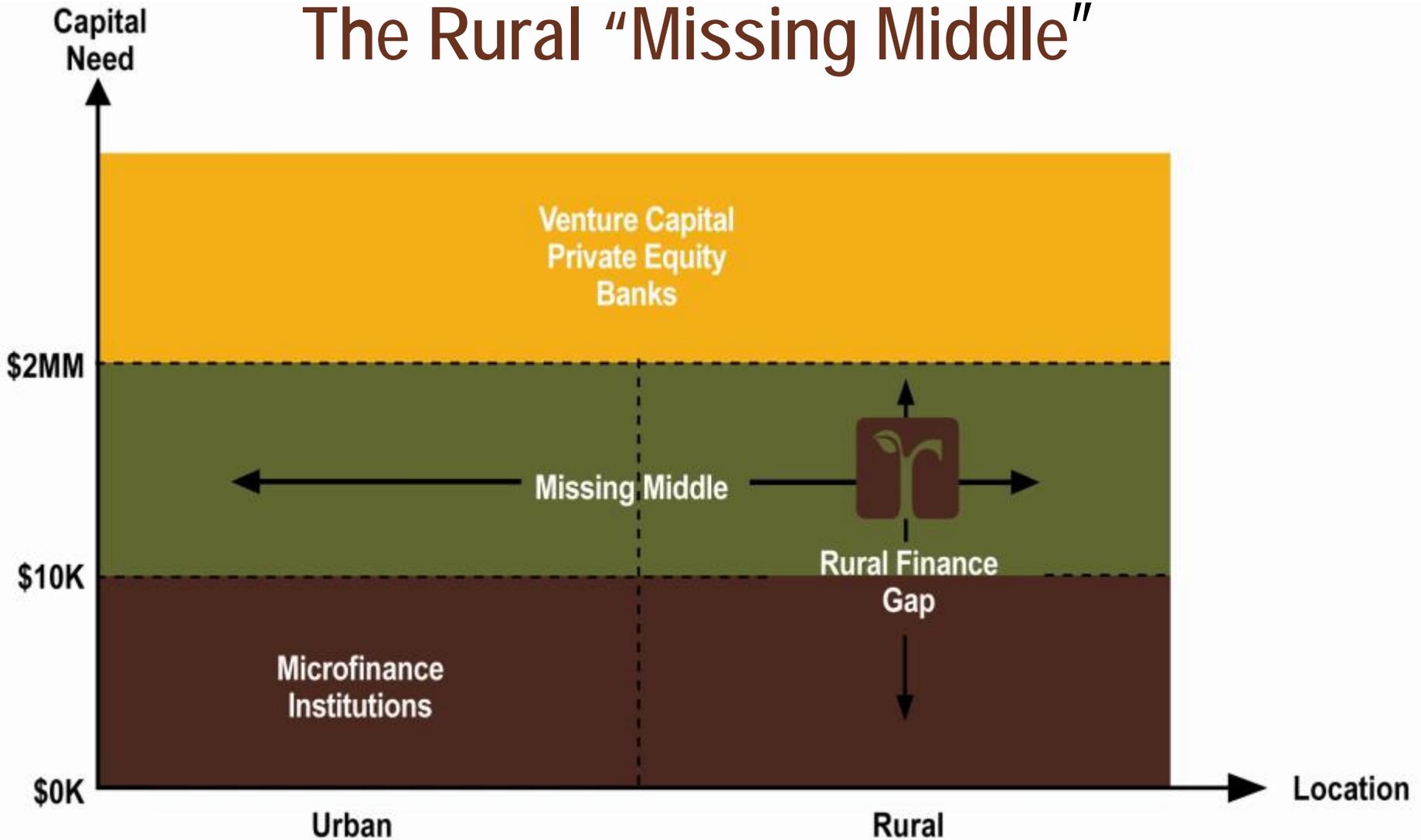
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Transforming Gray Areas into Shared Value

- Root Capital in Context
- Lessons Learned:
 - Mapping Stakeholder Priorities for Shared Value
 - Gray Area Examples: Palm and Basic Grains Sectors
 - Conducting Due Diligence & Building Context
 - Asserting Influence
 - Collaborations for Shared Value
- Resources



The Rural "Missing Middle"





Investing in Responsible Value Chains

Small and Growing Businesses (SGBs)

- 🌱 Aggregate hundreds to thousands of smallholder farmers in Africa, Latin America, and Indonesia creating economies of scale
- 🌱 Link farmers to stable value chains and pay them a higher share of the end price
- 🌱 Early-stage, high impact whose growth we can accompany over time
- 🌱 Financial needs are typically between \$50,000 and \$4M



Revenue	\$3.8M (\$1.8M median)
Number of Producers	1,000 Farmers/Artisans
Land ownership/ farmer	~1.8 hectares
Purchases per farmer	\$2,000



TCHO





Defining and measuring Root Capital's responsible sourcing impact:

- Social & environmental scorecards for *all clients*
- Deep dive case studies with *subset of clients*

Responsible → Strategic → Shared Value

- **Regulatory environment** (laws, established standards)
- **Board or owners** (risk mitigation, supply stability)
- **Consumer & brand** (food safety, child labor)
- **Employee** (ethical workplace, a greater good)
- **Supplier** (reliable buyers, fair prices)
- **Producer/laborer & community** (fair wages, humane conditions, environmental protection)

**Seek *shared value* by mapping constraints
and opportunities by stakeholder**



Deal-breakers

IFC Exclusion List (drugs, tobacco)
Root Capital Exclusion List (abuse, health risk)

Trigger Violations

Industry (forestry, palm oil, fisheries)
Practice (degradation of conservation land, banned agrochemicals, irresponsible waste disposal)

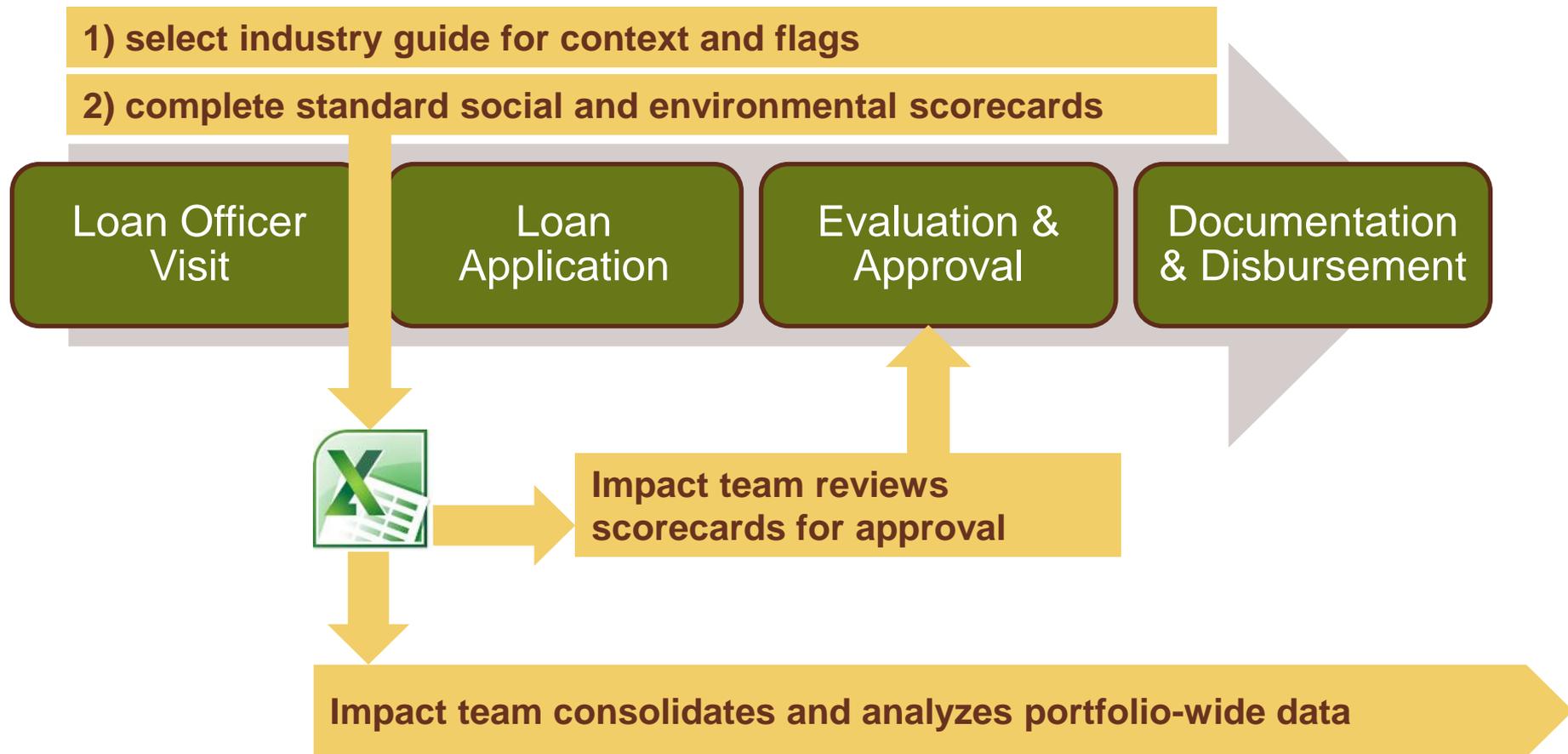
Due Diligence
Fast-Tracks

Certification (Organic, Rainforest, FLO)
Industry (agroforestry systems)

Gray Area
Considerations

Region (e.g. paraquat in Nicaragua v. Guatemala)
Industry (e.g. gender performance in coffee v. shea)

Root Capital's Diligence & Analysis



Social scorecard analysis: 39% of clients reached were gender inclusive

13% in
coffee

Woman-led	Average % women	Region
9%	30%	East Africa
24%	42%	West Africa
9%	21%	Central America
13%	19%	South America



Conducting Due Diligence

- Standardize data requirements & collection process
- Create internal review team
- Create incentives for flagging concerns
 - memo of month
- Train sourcing team, focusing on learning questions
 - “tell me about your environmental management system”
 - “what are your challenges in ensuring that all employees are over 15 years old?”
 - “what did you learn from your last fire drill?”
- Provide training materials that vary with context
 - industry guides
- Clearly define deal-breakers, triggers, and gray areas

Invest in training and accountability

Sesame: Environmental Due Diligence Guide

Due Diligence Categories and Best Management Practices:



Category	Policy	Risk Areas	Best Management Practice
Environmental Management Systems 	LOs should flag enterprises that show no interest in developing environmental management systems	As most enterprises are not certified, lack of management system	Systems identify aspects of cultivation and/or processing that have negative environmental impacts and include concrete plans for

Land Use, Ecosystem & Biodiversity Conservation 	Root Capital will not finance enterprises that degrade ecosystem with high conservation value for production or engages deforestation
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Agrochemicals 	Root Capital will not finance enterprises that distribute hazardous agrochemicals or applies agrochemicals in an unsafe manner
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Soil Management 	LOs should flag enterprises that show no interest in erosion control and soil fertility maintenance or actively cause soil erosion or soil degradation
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Coffee: Environmental Due Diligence Guide

Due Diligence Categories and Best Management Practices:

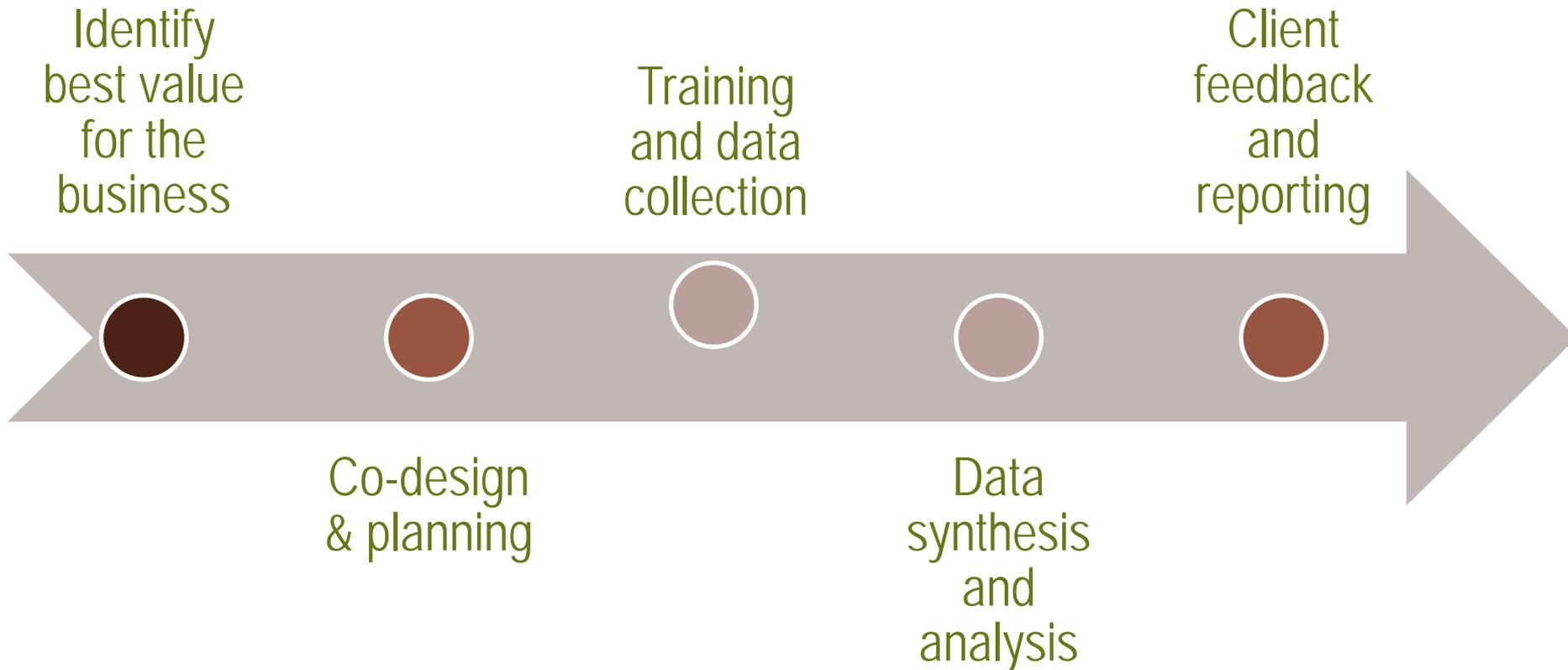
Category	Policy	Risk Areas	Best Management Practice
Environmental Management Systems 	LOs should flag enterprises that show no interest in developing environmental management systems	Most specialty coffee enterprises are certified and thus already have a management system	Identify aspects of cultivation and processing that have negative impacts and include concrete mitigation
Land Use, Ecosystem & Biodiversity Conservation 	Root Capital will not finance enterprises that degrade an ecosystem with high conservation value	Clearing of primary forest for production	Cultivate on existing coffee agroforestry system that maintains canopy and high floristic diversity
Agrochemicals 	Root Capital will not finance enterprises that distribute hazardous agrochemicals or apply agrochemicals in an unsafe manner	Use of chemical pesticides to control pests and diseases; use of pesticides classified as hazardous; contamination of local water bodies from untreated runoff	<ul style="list-style-type: none"> - Use organic (preferred) and ban the use of hazardous - If using pesticides, apply doses rather than in broad - Do not plant against the waterways, to avoid sedimentation and pollution of waterways

Seeking Shared Value

- Leverage internal expertise to create an offering for clients
 - Client-centric due diligence design
- Results desired:
 - Supplier compliance & risk management
 - Job satisfaction & brand pride
 - Long-term partnerships that increase supply stability

Seek win-win scenarios; dedicate unusual resources

Deep-dive client-centric engagement process



Providing strategic value for suppliers



Snapshot of performance

Data for decision-making

Material for marketing to buyers and funders

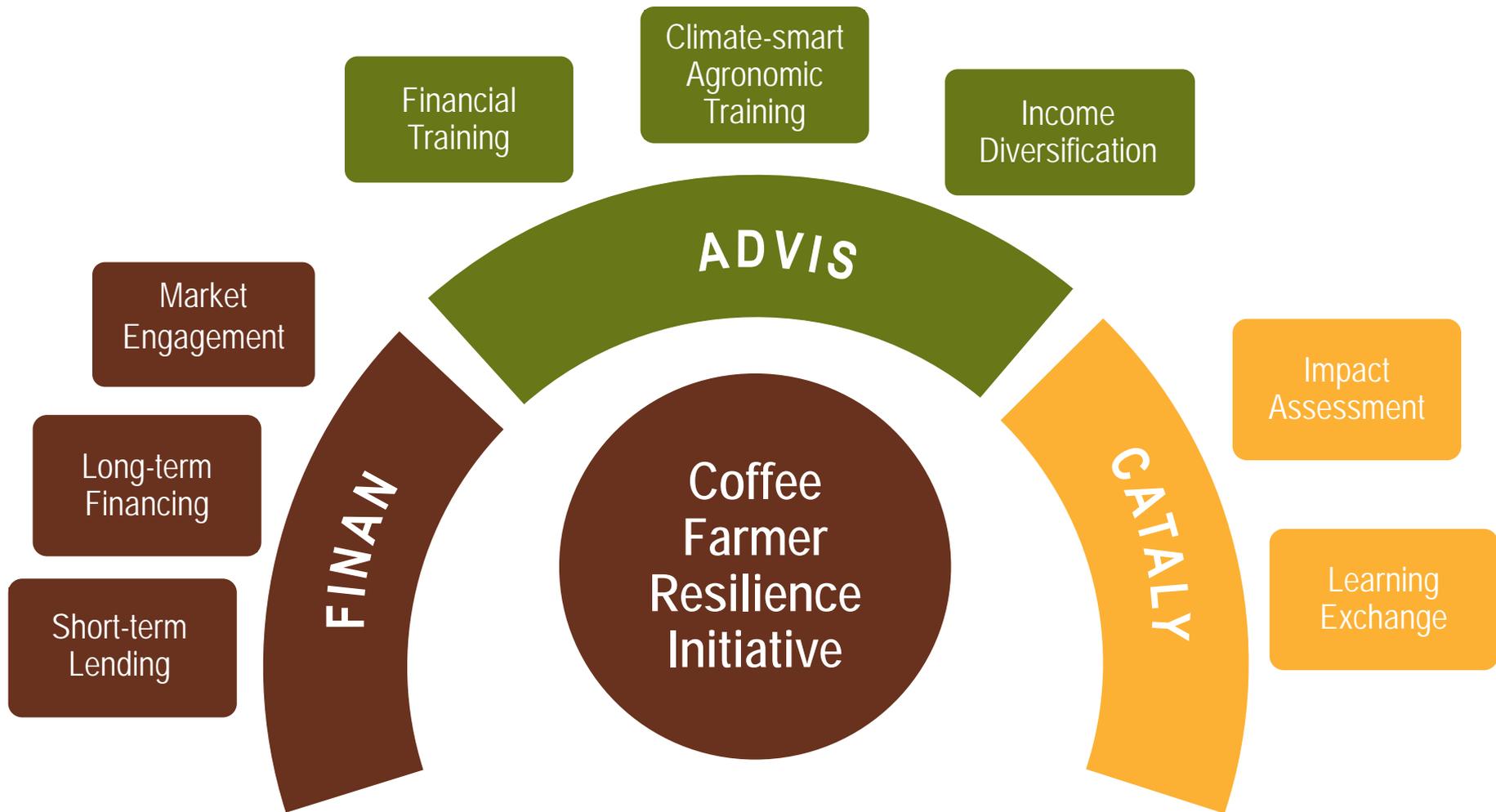
Idesa cooperative board, after the client-centric presentation and awarding of “Partner in Impact” certificate.

Lower left: Gildardo, FAS trainer; upper left: Yolanda, MIF liaison.

Exerting Influence

- Conduct baselines
- Assess owner/management trustworthiness & commitment
 - Learning questions
 - Conduct risk assessment
- Commit to long-term relationship
- Customize and document gray-area improvements by region or industry; support your front-line staff
 - Resources & tools for what-if scenarios (trigger policy)
 - Set grading ranges to measure improvement
 - Seek incremental, shared-value solutions
 - Seek third party expertise

Measure performance by context; consider risk versus trust



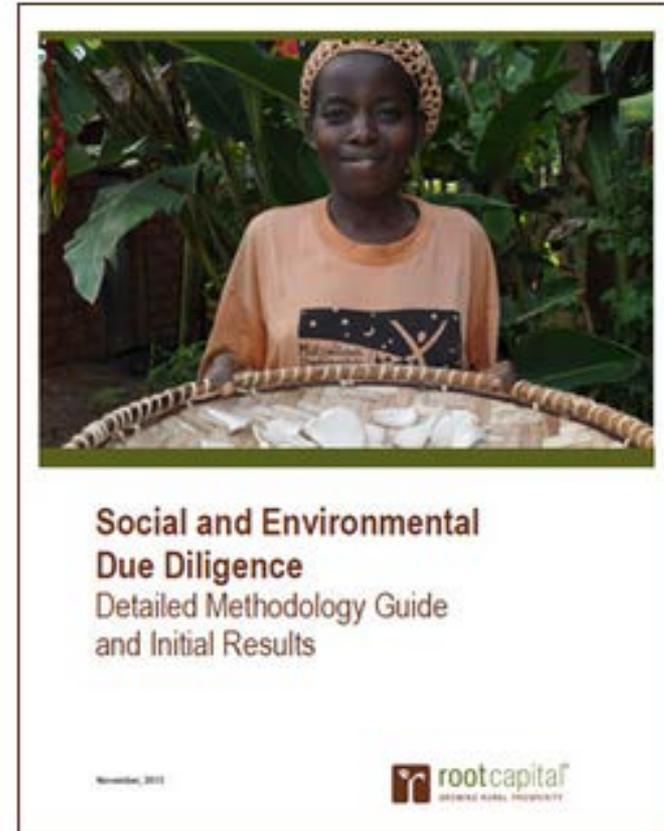
Value Chain Collaborations

- Leverage matching funds from multilaterals
- Engage experts who have something to gain
- Pre-competitive supply chain development benefits all
- Seek to separate charity from strategy (CFRI)

Communicating Outward

- Be as transparent as possible, state your deal-breakers, and acknowledge what you're still learning
- Share your challenges, invite support

Thank you. We invite you to learn with us.



<http://info.rootcapital.org/social-and-environmental-due-diligence>