

Oxfam and International Procurement & Logistics Ltd

EXPLORING THE LINKS BETWEEN INTERNATIONAL BUSINESS AND POVERTY REDUCTION

Bouquets and beans from Kenya

Summary



IPL™



OXFAM

FOREWORD BY NICK SCRASE, GROUP MANAGING DIRECTOR, IPL

IPL was purchased by ASDA in 2009 and has grown rapidly since that point. The company has very recently changed its name from International Produce Limited to International Procurement & Logistics Ltd. During this period of growth we have become increasingly conscious of the impact we might have on communities in the many countries that we import from, and in particular how our business impacts upon the lives of poor people.

On a trip to South Africa I met Barbara Stocking, the CEO of Oxfam GB, and we discussed Oxfam's 'Poverty Footprint' methodology. Further detailed discussions between the Oxfam GB and IPL teams convinced us that the Poverty Footprint's structured approach to investigating company impacts in developing countries was an approach that would help us better understand the impacts of the produce industry.

IPL's aim throughout this project has been to improve how we work with the exporters, growers, and workers with whom we deal in developing countries. IPL has always been convinced that our unique business model, managing the produce supply chain from the grower to the consumer, gives us an opportunity to lead the industry in both social and environmental sustainability. The work carried out with Oxfam has provided the opportunity to focus on how we can change our policies, processes, and incentives to work towards supporting the most responsible growers and exporters, and we are pleased to make a number of commitments on how we will improve the business over the next few years to address the three most important areas of poverty, which we see as:

- Livelihoods of small-scale producers
- Empowerment of women
- Standards of living for workers.

IPL has made a series of commitments to drive a positive impact for small-scale producers and workers through its operating practices and policies (see Executive summary). Oxfam believes that these commitments, which could affect workers and their families and communities directly within the supply chain, are of considerable importance in themselves. However, the publication of this report does not mark the end of the project. IPL will continue to seek the input of Oxfam and other external stakeholders as it develops its approach and implements its commitments. From the outset, both parties have agreed that progress against these commitments will be independently reviewed in three years' time based on a study terms of reference agreed with Oxfam.

We have taken important learnings from this work and are committed to ensuring that the value that we create is shared across our supply chain, especially benefitting standards of living for farm and packhouse workers and livelihoods of smallholders.

I look forward to us making a real difference.

FOREWORD BY BARBARA STOCKING, CEO, OXFAM GB

The world food system is a topic of enormous importance to Oxfam and forms a core piece of our work across our humanitarian, campaigning, advocacy, and development work. A new approach is urgently required because the current food system is not fit for the purpose of feeding the projected nine billion-plus people the planet needs to support by 2050.

Large corporations play an important role in that system, and one that continues to grow. Understanding better how that role can support sustainable and inclusive development, and encouraging companies to do so, are key objectives for Oxfam. I am therefore pleased to introduce this joint report with IPL, the largest produce buyer in the UK and a business unit within ASDA and, ultimately, Walmart, the largest food retailer in the world.

At Oxfam we believe that companies, with the right policies and practices, can be part of sustainable and inclusive development. However, we are also clear that they can get it badly wrong and can inflict substantial damage on the environment and on the rights of workers, farmers, and communities. We have for some time been developing tools to assist companies in better understanding their impacts, including our Poverty Footprint methodology.

This report looks at the influence of UK retailers and consumers on the produce export sector in Kenya. The export of high-value horticulture from developing countries into developed economies is a significant opportunity for economic development, albeit one that has raised concerns about worker exploitation, very low wages, sexual harassment, and lack of freedom of association.

This report is of importance to Oxfam in three respects:

- Firstly, and most importantly, to prompt positive change at the largest produce importer in the UK and, by extension at its peers, competitors, and suppliers;
- Secondly, it is an exercise in corporate transparency which we hope will encourage other companies (indeed industries) to be more open about their operations and the challenges they face; and
- Thirdly, it has provided Oxfam with an opportunity to investigate in practical detail how changes can occur within major players in the world food system.

We hope that readers will learn from this report, and consider how the issues raised affect their own businesses and supply chains. The Poverty Footprint methodology can provide a framework for them to investigate, and improve, their own impacts in developing countries.

We look forward to returning in two to three years' time to report on the progress made by IPL in meeting its commitments.

EXECUTIVE SUMMARY

This summary provides an overview of the main findings of a study carried out jointly by Oxfam, the international development organisation, and IPL, the biggest importer of fresh produce into the UK, which is owned by ASDA, the UK's second largest supermarket. Much more detail on the study, its context, and its findings is set out in the main report, and this summary signposts these for readers who wish to explore the issues further.

BACKGROUND

A large amount of the fresh produce sold in UK supermarkets is imported from developing countries. Millions of individuals supply into them as small-scale producer/growers or find employment in horticulture farms and packhouses. The workforce is often marginalised and vulnerable, with a high proportion of economic migrants leading a precarious existence.

This study was undertaken to gain an insight into poverty issues in farms that supply most major UK retailers and to identify how best IPL can integrate pro-poor strategies into its business practices. IPL has been looking at how to improve its core business practices with poverty reduction and development goals in mind.

The study and report were joint undertakings, but the report includes separate Oxfam recommendations and IPL learning points and commitments. The report was written by Oxfam with support from Accenture Development Partnerships (ADP), then commented on by IPL with some input from ASDA and Walmart, and the final text was negotiated and approved for publication by all.

What can be said of the export horticulture industry with regards to development? Does it present an opportunity for people to work their way out of poverty? Or does it merely exploit their vulnerability, or even create poverty and insecurity in the communities involved? How does the environmental impact compare with the social value created? This report represents an attempt to answer these and related questions and tease out under what conditions the industry can play a full and positive role in sustainable development.

Poverty from an Oxfam perspective

Poverty is about more than monetary income. In Oxfam's experience it is a 'state of relative powerlessness in which people are denied the ability to control crucial aspects of their lives'.¹

Poverty has a range of different socio-economic dimensions, including the ability to access services and social networks, and to express opinions and choice; the power to negotiate; and social status, income, and opportunities. People experience poverty when they are denied the right to livelihoods, water, education and health, protection and security, a voice in public life, or freedom from discrimination.

SCOPE AND PURPOSE

This joint study used Oxfam's Poverty Footprint methodology (see section 3) as a framework to look at IPL's influence. This builds on the approach developed in projects undertaken by Oxfam with Unilever in Indonesia (2005) and with The Coca-Cola Company and SABMiller in Zambia and El Salvador (2010).

Conducting a Poverty Footprint study provides a process through which a business can develop an understanding of its current development impact, and how this could be enhanced in the future; it is, therefore, intended to be a learning and improvement process for the company. The transparent approach enables wide stakeholder engagement. From Oxfam's perspective the collaborative process provides an insight into how a business operates and what opportunities exist to promote best practice in a company's supply chain and more widely.

Poverty Footprint overview	
<p>Purpose</p> <ul style="list-style-type: none"> • Engage companies in integrating pro-poor strategies into sustainable business models; • Improve the transparency of corporate impacts on workers, small-scale producers, and communities in developing countries; • Provide lessons for Oxfam, corporations, workers, small scale producers, and communities. 	
<p>Five business activities</p> <ol style="list-style-type: none"> 1. Value chain 2. Policies and institutions 3. Macro-economy 4. Local environmental practices 5. Product development and marketing 	<p>Five dimensions of poverty</p> <ol style="list-style-type: none"> 1. Livelihoods 2. Diversity and gender equality 3. Security and stability 4. Empowerment 5. Health and well-being

The purpose of the study was to

- Examine how UK retailer purchases of produce affect workers, small-scale producers and communities in Kenya;
- Highlight areas where, as IPL enters Kenya, there are positive social impact opportunities in the context of its commercial objectives;
- Look at the IPL business, business model and a classic retail value chain.

The parties agreed that the business practices of ASDA’s parent company, Walmart, would be outside the research scope of the study. Lessons were nevertheless identified that have wider applications both across the developing countries in which IPL operates and across the other UK retailers and importers which purchase produce from developing countries.

Limitations of the study are

- The country analysed, Kenya, was not part of an active IPL supply chain at the time of the research;
- This report is not intended as an audit of corporate activities;
- Statistical analysis of wages, contract terms, etc. was limited to the study of two supply sectors, so cannot be taken as representative of the horticultural industry as a whole;
- Limited consideration of the role and effect of public policy changes.

Kenya was chosen for a range of reasons. It has an important and well-developed horticulture sector, but almost half the population still lives below the international extreme poverty line, defined as an income of \$1.25 (approximately £0.75) per day. The country is urbanising rapidly, but most people are still dependent on agriculture for their livelihoods. There is a substantial volume of existing research on Kenya, particularly in relation to flowers.

The research looked at both green beans and cut flowers in order to study industries which have different structures and which differ in terms of history, capital investment, productivity, product lifespan, and growth infrastructure.

The study looked at the context in which the horticultural supply chains operate and at the associated players involved. It considered the factors that influence the business environment and reviewed the mechanisms for promoting industry standards through product certification and standards, as well as through national regulation. Within Kenya the project team investigated the reality on the ground for workers and small-scale producers and sought to reflect the active input and priorities of community stakeholders.

METHODOLOGY

The diagram below summarises the methodology and approach of the study.

FOCUS	LEVEL	METHOD
Assessment of high-level IPL operations to focus study	GLOBAL LEVEL	Discussions with IPL & ASDA leadership
Review of Kenyan industry against Poverty Footprint to highlight key study areas	NATIONAL CONTEXT	UK-based secondary research; interviews with 21 government staff, 10 industry experts, UK importers and farms, Dutch flower auction and IPL grower
Flowers & green beans industry: overview of past and present suppliers' sourcing processes	KENYA INDUSTRY	Two field research trips; qualitative & quantitative focus groups and individual interviews with 136 farm workers, 51 small-scale producers, 80 management
Review of additional impacts within local communities	KENYA COMMUNITY	Two field research trips; qualitative and quantitative focus groups and individual interviews with 54 community and 26 civil society members
Review of additional existing IPL market with focus on IPL impact on suppliers	MOROCCO CONTEXT	Week in Morocco interviewing IPL and ASDA suppliers
In total, 419 individuals were interviewed during the Poverty Footprint study		

The Kenya-based research was conducted between May and September 2011 with a follow-up visit in March 2012; interview locations included Gatanga, Mount Kenya, Muranga, Nairobi, Naivasha and Thika. IPL was not importing from Kenya when the main part of this research was carried out, but it took on the flower category in January 2012, establishing direct programmes with Kenyan exporters on the same model that it operates in other regions. The vegetable category, however, remains based on the 'traditional' model in which ASDA holds primary supply relationships with UK-based importers. For this reason the study was not an assessment of IPL's current poverty footprint, but rather the footprint of the Kenyan cut flowers and green beans sectors themselves. The recommendations looked at how IPL, and the fresh produce industry more generally, can integrate pro-poor strategies into their sourcing from these sectors in the future.

A visit was also made to Morocco for discussions with horticultural suppliers who have been working with IPL for over a year as part of its 'direct' sourcing model. This enabled the research team to review the company's business model in an existing market.

About IPL and ASDA

ASDA is the UK's second largest grocery retailer, with a 17.6 per cent market share in April 2012 and with 524 stores and 185,000 employees. ASDA was acquired by Walmart in 1999.

IPL was created under the direction of ASDA in 2004 to supply the retailer exclusively with certain categories of fresh produce, and in 2009 it became a wholly owned subsidiary of ASDA. Today, IPL is the largest single importer of fresh produce in the UK grocery industry, handling £935m of goods globally each year. Operating principally within fresh produce, it has recently extended its purchasing model to cheese, fresh pasta, pâté, canned and cooked meats, and wine, as well as houseplants and flowers. It continues to work exclusively for Walmart, with ASDA in the UK as its main focus, but it has growing international sales to other Walmart markets in the USA, Japan, Mexico, and Canada.

The IPL business is designed to improve quality and to lower prices for ASDA and Walmart customers by controlling supply chains and removing unnecessary margin-takers (such as importers), buying as directly as possible and controlling logistics itself. It does not own production or processing facilities in the source countries, but operates a number of 'country offices' around the world, whose role is to source products and provide technical and logistics management.

It should be noted that the ASDA/IPL business model is different from that of almost all other supermarket chains procuring produce, in that IPL manages the whole process, from consumer-facing decisions (such as which products to sell in how much shelf space) to buying from exporters/growers directly and arranging freight. With a few emerging exceptions, almost all other supermarkets buy from importers who source the produce and organise logistics. IPL's 'direct' procurement model therefore has the potential for greater control of the supply chain and more direct influence on conditions for agricultural workers and small-scale producers. Following the study, IPL moved into the flower category in January 2012 in Kenya, establishing direct programmes with Kenyan exporters on the same model it operates in other regions.

ASDA is a member of the Ethical Trading Initiative and IPL uses the ETI Base Code as a baseline requirement for its suppliers and growers. IPL also supports Global Good Agricultural Practice (GlobalG.A.P.) and Global Food Safety Initiative (GFSI) standards in its supply chain and sits on GlobalG.A.P.'s governance body.



About Oxfam

Oxfam is an international confederation of 17 organisations networked together in 94 countries, as part of a global movement for change, to build a future free from the injustice of poverty. For over 70 years Oxfam GB has been working globally to overcome poverty, and in the last year alone, reached 17 million people in over 60 countries. Oxfam works in three ways:

- Development: working with local partner organisations, Oxfam helps people to work their way out of poverty – and stay out of it. Oxfam supports people in realising their rights, for example to education and healthcare;
- Emergency response: providing life-saving humanitarian aid during emergencies, and helping people prepare for future crises;
- Campaigning: tackling the underlying policies and practices that keep people in poverty, and putting pressure on leaders to make real and lasting change.

INDUSTRY CONTEXT

The economic and commercial reality governing the horticulture industry cannot be overlooked and must be acknowledged as a major driving force that influences and constrains what is possible. Ultimately it is about money and power. The industry operates in an extremely competitive environment. Consumer price sensitivity leads to extreme competitiveness on price between supermarkets and resistance to increasing retail prices in order not to lose sales and market share.

This price war at retail level has a knock-on effect throughout the supply chain, with ever increasing pressures on profitability and productivity driving competition not only between suppliers within a country or region, but also between countries and regions. 'Lowest cost to operate' is seen as the only way to survive. For producers of agricultural goods, labour represents a significant proportion of costs at farm and packhouse levels, and also one of the few that can be controlled (unlike freight costs, for example), resulting in downward pressure on wages and the increased use of short-term casual employment, while also affecting working conditions in other ways, such as health and safety.

To make a real impact, issues around sustainability, both social and environmental, cannot be looked at outside of the commercial reality. Recommendations need to be realistic and opportunities found within these realities. However, business operators across the supply chain should understand the cost of social and environmental responsibility and sustainability and, together, devise a system that protects these responsibilities from commercial pressures. In other words, no business should gain a competitive advantage by undercutting competitors on social and environmental standards. Bringing about this level playing field may require national and/or global policy change to ensure that companies, as well as governments, fulfil their responsibilities.

'ASDA Mum'

The current ASDA customer segmentation consists of 79% women, and at 49% ASDA has the highest percentage of shoppers within the UK who have dependent children at home. In addition, ASDA has a higher percentage of customers in lower income brackets (demographic groups C2, D and E) than the average of the 'big four' (Tesco, ASDA, Sainsbury's, and Morrisons) with internal company research highlighting the following messages from a consumer perspective:

- 'Budgeting is now a way of life.'
- 'Parents will go without in order to ensure their children receive a proper diet and are properly clothed.'
- 'The family is everything and they feel guilty if they are unable to give their children their time or the occasional treat.'

As such, pricing is of acute relevance to the company's target consumer, with the typical ASDA shopper representing a 'Mum' who has little cash or spare time, but strives to provide for her family within the current economic climate.

FINDINGS AND CONCLUSIONS

The importance of horticulture to Kenya

For Kenya, export horticulture (covering vegetables and flowers) is one of the major earners of foreign exchange and provides up to two million jobs, in a country where unemployment runs at over 25 per cent.

Small-scale producer participation provides livelihoods options and strengthens rural economies. These benefits were found by the study to outweigh the negative impact of the 'food miles' incurred in air-freighting the produce and the concerns about whether a country with significant food insecurity in some regions should be exporting food and indeed, flowers, at all.

Of those workers and community members interviewed, most regarded the industry as beneficial, offering employment and economic opportunities. But this is often against a backdrop of very limited alternatives, and employment provided by the industry is characterised by very low wages and a multitude of other issues around conditions of employment. Similarly, small-scale producers face many challenges to selling consistently into export markets and are very exposed to the volatility and unpredictable demands of markets. They in turn hire farm labour on a casual basis and at low wages.

Industry structures

The production of green beans and of flowers differs in a number of important respects. Due to the relative capital intensity involved, the majority of flower growers are grower-exporters, though many also supply to other export companies as outgrowers.² Sales to importers have grown. The majority of flowers still pass through Dutch flower auctions, but these are rarely used now by UK supermarkets. A large proportion of green beans, on the other hand, is grown by small-scale producers who supply into exporter-owned packhouses, either directly as part of an exporter outgrower scheme or through a network of independent agents or 'brokers'.

The study's analysis of the green beans supply chain indicates that, of the final retail price to the consumer in the UK, only 40–55 per cent of the value stays in Kenya. Of this amount, 40 per cent is accounted for by airfreight, very little of which benefits the country. Wages account for around 16 per cent of the green bean exporter's costs, with other major elements being packing materials and either the purchase of raw material green beans from small-scale producers or the costs of own-farm production. In cut flowers, 35–40 per cent of the final retail price is retained in Kenya, but again a high proportion of this (about one-third) is spent on airfreight. Wages account for approximately one-eighth of the exporter's sales revenue, net of airfreight.

LIVELIHOODS

A series of issues was identified from interviews and focus group discussions with workers and small-scale producers, as well as members of their communities. These confirm the findings of previous studies on the agricultural sector, in Kenya and in other countries.

Wages

The level of wages was the most frequently cited poverty issue in our study.

The ETI Base Code, to which ASDA has signed up, states: 'Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income'.³

Wages were found to be low. The minimum wage regulations are defined according to occupation and region and vary from KES 3,765 to KES 9,815 per month in this sector.⁴ The median wage paid in the flower industry was found to be KES 6,480, and to be higher than wages paid in the green beans industry.⁵ Using the Asia Floor Wage methodology, the research team calculated that KES 12,035 (\$120) per month was the minimum needed to meet basic needs and provide some discretionary income within the Nairobi area. The team used this methodology as although based on factory workers in the garment industry, it has the greatest currency among civil society organizations. This is covered in more detail in section 6 of the main report. Eleven per cent of workers interviewed for the study were earning above this amount. Most workers in the supply chain, casual and permanent alike, are not paid enough to deliver their right to a decent living. The inflation of the past few years has worsened this situation, with increases in the legal minimum wage failing to keep pace.

The lowest wages found by the study were those paid to casual labourers working on small-scale producer farms.

The struggle to make ends meet

John, one of the workers interviewed for the study, is married and has a three-year-old child. He works an eight-hour day as a flower worker and earns KES 6,755 (\$67) per month, inclusive of a housing allowance. At the end of the year, he sometimes earns a bonus, such as in 2011 when he received KES 3,800 (\$38). Despite the combined wages of John and his wife, who herself earns KES 150 (\$1.50) a day, the family are not able to save money, and their monthly expenses, such as medical costs (neither John's wife nor their child are covered by the farm's clinic) and monthly school fees of KES 500 (\$5), exceed their income. Indeed, John spends approximately KES 5,000 (\$50) a month on food alone, and although the couple lease half an acre of land to grow maize, beans, and potatoes for their own consumption, they restrict themselves to two meals a day to ensure that their child is able to eat three times a day.

Source: Primary research from the Kenya research team

The research highlighted that the introduction of ETI standards by retailers as requirements for supply has had a major positive impact on levels of awareness about labour rights and gender issues among local industry representatives, and in clarifying expectations of social standards by international buyers. Daily wages on farms that supply ETI members were found, in interviews with farm management, to be up to 43 per cent higher than elsewhere,⁶ and all human resources (HR) managers at farm level reported more professional processes in place for tracking employment.

Some farms and packhouses maintain low unit labour costs to deal with fluctuations in demand, but enhanced standards can lead to lower worker turnover, which reduces the cost of recruitment, training and management.⁷ There is increasing interest in what it would take to achieve a virtuous circle, in which improved wages and working hours have a positive reinforcing effect on productivity, quality, worker satisfaction and retention.⁸ Employers around the world report that difficulty in attracting and retaining skilled workers is a key business problem; a loyal and productive workforce will help the economic sustainability of businesses in the longer term.⁹

The priority issue emerging from the study was that wages are insufficient to enable a decent standard of living for workers and their dependants. The study therefore concluded that improvements in wage levels can play a key role in improving the poverty impacts of UK retailers in the Kenyan horticulture industry, and that investment in smallholder agriculture can help improve the livelihoods of both smallholders and their workers.

Health and safety

Research confirmed that concern about pesticide exposure remains one of the most important health and safety issues identified, particularly on smaller farms. However, the study found that health and safety standards have significantly improved on many large farms, with progress attributed to standards such as GlobalG.A.P., social auditing processes, and the presence of health and safety committees, which were found on all ten of the large farms visited. The study found a positive cultural shift in attitudes towards pesticides, especially on larger farms, such that careless handling and storage are no longer considered acceptable and more farms are considering alternative control strategies such as integrated pest management.

Smaller farms face greater barriers to achieving the health and safety standards required by retailers which need to be addressed if they are to secure the benefits of international trade.

The study concluded that, given similar priority and investment, the positive changes achieved in health and safety standards could be replicated in improving employment conditions and attitudes to what is acceptable here.



Community green bean field. Photo: Gerry Boyle/Oxfam

Workers

Oxfam recommendations

- Develop an industry-wide approach to calculating a living wage in relevant industries and work with others – especially civil society and Southern governments – to achieve it in practice.
- The industry as a whole needs to step up investment of effort and urgency into ETI processes to address labour issues including low wages.
- Develop a transition plan to buy only from suppliers paying a living wage. Set out clear expectations of suppliers (importers, exporters) that they start planning to pay a living wage, and reward those with the most credible plans with bigger and longer supply commitments.
- Supermarkets, at the end of a lengthy supply chain, must accept their responsibility for ensuring workers can earn a living wage and shoulder a fair share of the cost through business processes and commercial terms, including pricing.
- Commit to continue sourcing from Kenya and other countries where improvement in working conditions is being achieved.
- No business should gain a cost advantage by underpaying small-scale producers or denying workers their human rights.
- Sourcing companies should advocate for effective inspection and enforcement of standards by government.

IPL learning and commitments

While suppliers were largely found to be paying equal to or in excess of Kenya's minimum wage, we acknowledge that in many cases wages are insufficient to enable a decent standard of living for workers and their dependants as the priority issue emerging from this study. IPL will require suppliers to build strategies that achieve improved living standards for workers, and at the same time assist and enable in this.

Commitments:

- Acknowledge the issue within this study of low wages paid to workers and address this as a priority.
- Set the expectations for minimum employment standards, and procure from compliant suppliers or those who have a mapped out a timeframe to achieve the company's minimum ETI base code standards. Devise a system of monitoring compliance.
- Level the playing field, so that suppliers who do not adhere to these minimum standards do not have a competitive advantage over those that do when it comes to price negotiations.
- Create a system where each supplier's positive impact can be measured beyond minimum compliance, and reward those suppliers who out-perform with price premiums and/or programme commitments.
- Choose its sourcing countries and regions as well as individual suppliers with strategic long-term business plans in mind.
- Work on longer term visibilities in demand fluctuations and translate this for suppliers into more stable programmes with commitment to enable better planning.

IPL commitment to community development

IPL understands that the horticultural industry, though not responsible *per se* for socio-economic conditions, can contribute to their exacerbation, for instance by causing an influx of migrants into an area because of perceived employment opportunities, resulting in infrastructure and services that cannot keep up with demand for basic needs, e.g. water and sanitation, healthcare, child care for working mothers, education, training and skills development. The opportunity is there for IPL to contribute through community projects in the areas from which it sources products.

Commitments:

- Create a CSR strategy and support this strategy through business and community activity;
- Work with worker committees and communities to identify their greatest needs, and focus on these;
- Engage with existing effective government, NGO and suppliers' initiatives.

Small-scale producers

The study found that small-scale producers who are engaged in growing for export generally have a higher level of income and therefore higher living standards than most waged workers. However, there are many challenges to selling into export markets: certification requirements, affordability and availability of inputs, the variable and unpredictable demand of markets, and lack of access to finance. Further, it was highlighted that export companies normally expect small-scale producers to be members of a group, to make them easier to deal with.



A group of farmers discuss their green bean crop. Photo: Gerry Boyle/Oxfam

The study concluded that researching opportunities for small-scale producers in new supply chains, and also supporting moves to organise, train and capitalise them better, are vital in the long term. Supermarkets can diversify and secure future supplies by bringing new small-scale producers into appropriate supply chains.

Small-scale producers	
<p>Oxfam recommendations</p> <p>While all commercial relationships carry an element of risk, supermarkets, importers and exporters should aim to:</p> <ul style="list-style-type: none"> • Understand where small-scale producers play a role in their current supply chains, and the concerns of these small-scale growers; • Look for opportunities for supply from small-scale growers; • Require joint access to support, including finance, inputs and technical services; • Ensure that any new small-scale producers that enter the supply chain are not entering relationships of risky commercial dependence; • Develop more equitable sharing of costs and risks. Reconfigure cash flows to reduce small-scale producer risks and improve their ability to invest in crops; • Develop strategies to enhance and communicate demand forecasts and reduce risks borne by small-scale producers, e.g. bad weather, transport losses, last minute changes in customer demand; • Increase transparency in relation to criteria for quality-based rejections of products; • Conduct trading relationship surveys; • Develop confidential grievance mechanisms; • Provide technical assistance on local food and subsistence crops; • Apply ETI standards when reviewing wage labour on smallholdings. 	<p>IPL learning and commitments</p> <p>We recognize the development contribution of small-scale producers to local economies, and actively aim to have them included in the supply chain on the products and regions where it makes commercial sense.</p> <p>Commitments:</p> <ul style="list-style-type: none"> • Carry out a survey of the international supply base and product ranges to identify where small-scale producers have a role to play; • Create an enabling environment for exporters who aggregate supply from small-scale producers to overcome challenges faced by them e.g. more consistent and regular volume demands and better payment terms; • Partner with suppliers to create an environment that includes small-scale producers in the supply chain e.g. group organisation, training in certification requirements, input provision etc. to develop their ability to meet export demand (quantity, quality and legality).

DIVERSITY AND GENDER EQUALITY

The study found that women form over 60 per cent of the horticulture industry workforce, as small-scale producers, employees and in some cases unpaid labour; some estimates put the proportion of women labouring on large-scale cut flower farms as high as 75 per cent. The sector provides women with substantial job opportunities and the potential to achieve financial independence, but the roles on offer tend to be strongly demarcated by gender. Horticultural work is also not always compatible with taking care of the family, a burden which in Kenya falls primarily on women. The following were highlighted as the key challenges faced.

Discrimination and sexual harassment

The study found that temporary employment on casual and short-term contracts opens up opportunities for these forms of abuse, particularly during the recruitment process. Preventing and addressing sexual harassment is an area of compliance requiring technical expertise that site managers often do not possess.

Child care

The study found that the horticulture industry employs as waged workers a large number of single women with dependent families. In the settlements that have sprung up around areas of intensive horticulture, the quality of child care available is often very poor, with reliance on informal makeshift child-care providers, resulting in high rates of negligence and abuse of children.

The study concluded that women are highly disempowered, keeping many in poverty, and child care is often poor. However, the horticulture sector in Kenya can empower women by providing them with income and financial security. Improving wages and conditions for horticulture jobs can be the most important way for the industry to empower women. Aside from this, there remain some key areas where exporters as well as IPL and its peers can take steps to empower women.

Diversity and gender equality	
<p>Oxfam recommendations</p> <ul style="list-style-type: none"> • Understand the position of women workers in the supply chain; • Reduce and raise awareness of sexual harassment, particularly during hiring of casuals by increasing the percentage of workers on permanent contracts; • Monitor quantity and quality of child-care provision; • Provide management opportunities to women; • Support access to financial services; • Provide technical support to women small-scale producers; • Ensure ongoing access to confidential complaint mechanisms. 	<p>IPL learning and commitments</p> <p>It was confirmed through this study that women make up a disproportionate part of the labour force involved in export horticulture, and therefore will benefit from any positive changes that come from IPL's commitments. They do however face gender-specific challenges and tend to bear a disproportionately greater burden of poverty because they have to care for the sick, the elderly, and children as well as find ways of fending for themselves. A specific women's empowerment agenda should be kept in mind to specifically address challenges faced by women.</p> <p>Commitments:</p> <ul style="list-style-type: none"> • Monitor and support progress towards improved gender balance across pay and grades; • Monitor and support reducing levels of discrimination and harassment women face; • Monitor and support improving the provision of child care; • Monitor and support access to bank accounts.

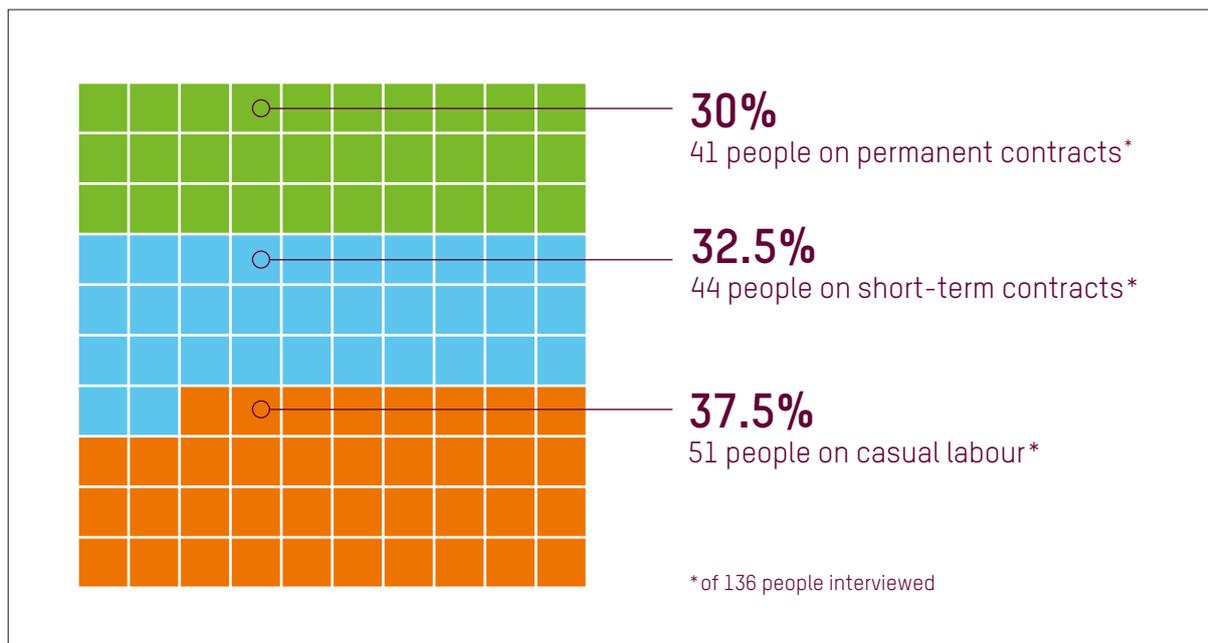
SECURITY AND STABILITY

Stability for small-scale producers

The study confirmed that demand and prices fluctuate a great deal. While some fluctuation is inevitable in a weather-dependent industry, fluctuation due to seasonal events, such as Easter and Mothers' Day, is entirely predictable and need not contribute to livelihood instability of growers or their workers.

Stability for workers

There is a very high prevalence of temporary employment in the horticulture industry. Casual contracts on a daily, three-month, six-month, or twelve-month basis currently result in job insecurity and vulnerability. Of 136 workers interviewed, only 41 (30 per cent) were found to be on permanent contracts, with 51 employed on a casual basis; the rest were on short-term contracts.



Employment contracts in the horticulture sector

The ETI Base Code states that: 'To every extent possible work performed must be on the basis of a recognised employment relationship established through national law and practice. Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting, sub-contracting, or home-working arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed-term contracts of employment.'¹⁰

The study found that packhouse workers are more likely to have a permanent contract than farm labourers because of the higher degree of skill required. Some farm managers recognised that high worker turnover can harm productivity and incur repeat costs for recruitment and training. Every manager interviewed agreed that if demand was more stable, more workers would have permanent jobs.

Conditions of employment

The study found that working hours can be irregular, driven by weather-dependent fluctuations in production, seasonal variations in orders, and calendar events such as Christmas and Valentine’s Day. In 11 of the 12 large production and packing sites visited, workers said that overtime was not flexible, negotiable, or properly compensated. Benefits are highly variable across farms.

The study concluded that there is a need to move towards a fairer and more stable supply chain. While it may not be feasible to ‘single source’ from pre-determined territories, predictable demand across a range of geographical locations should allow retailers to mitigate risks, while providing growers and exporters with more stable demand. The industry therefore should strive to source from specific suppliers for lengthy periods and avoid ‘spot’ trading practices, which involve selecting producer countries at short notice, based on short-run price differences. Changes to address poor job security will not occur unless there is collective action and acceptance that prices will be higher.

Security and stability	
<p>Oxfam recommendations</p> <ul style="list-style-type: none"> • Where possible use consumer pricing and special offers to stabilise demand; • Improve supply chain transparency by publishing retailer programmes and prices; • Incentivise exporters and growers to employ more staff on permanent contracts and improve social impacts; • Supermarkets, importers, exporters and growers should work together through the existing channels of the Ethical Trading Initiative to implement the necessary changes to remove the payment of low wages from the sphere of competitive advantage. 	<p>IPL learning and commitments</p> <p>IPL is committed to sustainable development and will:</p> <ul style="list-style-type: none"> • Continue to offer a market for produce grown in developing countries to ensure long-term livelihoods for those who are involved in the industry. By continuing to take unnecessary costs out of the supply chain, the business model offers scope to generate funds to be shared more equitably with suppliers and workers; • Establish preferred relationships with suppliers (exporters, farms and packhouses we deal directly with) who emphasize an economically sustainable approach to their own business, as well as the livelihoods of workers and small-scale producers; • Demand visibility needed to improve working conditions from our primary suppliers into the conditions of employment at farm and packhouse level and dealings with small-scale producers where applicable; • Use our influential position in the industry to support and drive industry-wide initiatives for social and environmental sustainability, working with global and local initiatives to support and strengthen attempts at industry improvement.

EMPOWERMENT

Small-scale producers

The study found that small-scale producers often lack the power to bargain collectively with those with the greatest influence over prices: the global buyers. Those at the margins of the value chain may be risk averse to new technologies that could benefit them and sourcing companies. Greater organisation of small-scale producers could increase their bargaining power and make it easier for companies such as IPL to engage with large numbers of individuals, while acting as a channel for provision of technical support.

Joining an outgrower scheme provides a guaranteed income and technical support to growers, but mixed results were experienced with regards to a positive impact for women. Of the ten large export companies visited, between 20 and 30 per cent of packhouse supervisors were women. In addition it was found that small-scale female producers felt empowered by the reliance of companies on them to produce their supplies. However, on five of the farms visited, all technical support was provided solely to men. More could be done to give women growers the same opportunities as men.

Workers

The study found the power of workers was generally weak. Freedom of association is protected in law, but limited in practice. Collective bargaining agreements (CBAs) are becoming more common in the cut flower sector; of 135 farms, 60 have implemented CBAs, but only on farms where both flowers and vegetables are grown do vegetable workers benefit from organisation.

The ETI Base Code states: 'Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively.'

There was low awareness by workers of the role unions can play in improving pay and conditions and increasing productivity, and concern about lack of choice of union and mandatory union fees.

Women have very low representation in the workplace, despite forming the majority of the workforce. Only one national leader of the Kenya Plantation and Agricultural Workers Union (KPAWU) is female.

The study concluded that, under the right conditions, the horticulture sector in Kenya can empower individuals by providing them with training, income, financial security and voice. Giving a greater voice to women all the way through from hiring practices to promotion would allow their concerns to be represented in decision making, provide women workers with role models and bring new talent into the sector.

Empowerment	
<p>Oxfam recommendations</p> <ul style="list-style-type: none"> • Where initiatives are taken to organise small-scale producers into co-operatives or producer organisations, provide practical or financial support to this process; • Set targets for the provision of technical support for women farmers; • Support an environment in which industrial relations can develop such that workers' representatives can negotiate wage increases towards a living wage through collective bargaining, and improve job quality; • Increase workers' skills and champion talented women to take technical and management roles; • Ensure training on employment rights is provided to workers and management. 	<p>IPL learning and commitments</p> <p>In order to encourage empowerment, IPL will encourage an environment in which industrial relations can develop and where possible, support training of local workers.</p> <ul style="list-style-type: none"> • Provide training to workers and workers' committees to empower them to secure workers' rights and to be full partners in achieving business objectives; • Work with existing small-scale producer exporters to develop mechanisms that improve relationships with small-scale growers; • In reviewing the potential role of small-scale producers, investigate the specific challenges women face in terms of access to land, input and credit, and the role they play; • Develop strategies with each supplier for improvements against the ETI baseline standards; • Provide skills-based training to workers.

MACRO-ECONOMIC ENVIRONMENT

The UK industry has enormous influence over local Kenyan companies. They do not directly set the conditions of employment for workers at farm and packhouse levels, nor the prices received by small-scale producers (or large-scale growers) for their produce. But at the level of local companies, the issues discussed above become apparent. It is therefore important to recognise the difficulties that they face, taking into account that the way these manifest themselves varies across the flower and green bean sectors.

Challenges faced by growers/exporters

- Rising input costs (fuel/transport, chemicals, labour)
- Capital only available at high cost, if at all
- Downward price and margin pressure from international buyers, including ASDA, IPL, and other supermarkets
- Volatility of programmes and orders from these international buyers
- Lack of transparency with intermediaries
- Lack of long-term planning/programmes
- Restrictive UK product specifications
- Cost and complexity of audits and compliance with standards
- Possible double standards of customers when applying certification requirements
- Unreliable supply from outgrowers/small-scale producers
- Sustainability of natural resources, e.g. water
- Intensified competition, including from other African countries and other continents

The clear message from research with local business owners and management was that business pressures result in fewer resources being available to invest in core business sustainability or to meet social or environmental responsibilities, and specifically they create resistance to wage increases. Businesses accept the competitive challenge, but feel that social and environmental responsibility comes at a cost, which should be acknowledged and shared. If greater social and environmental standards are to become market requirements, a greater understanding of the economic benefits of upgrading them is needed.

Taxation is a vital part of the obligations of all businesses, including the companies which are the focus of this study; however it was not chosen as a focus of this study by the research team and therefore no clear findings or conclusions are provided.

Industry challenges and the positive role supermarkets can play

The study found that in all of this, supermarkets and importers have become extremely important and influential players. They are the key links between the producer/supplier and the consumer, controlling whole supply chains through their buying power and exercising enormous influence. Through their action or inaction, their strategies and practices, they shape the environment in which business is conducted, and ultimately influence the lives and conditions of the most vulnerable people in the supply chain: workers, small-scale producers, and their communities.

The study concluded that export horticulture, in its closeness to areas where needs are considerable, has enormous potential to contribute to poverty reduction and the achievement of development goals. However, it is very clear that this potential is not fully being delivered on: many issues and challenges remain, which, when left unresolved, aggravate poverty and constrain development.

Policies and institutions

Key informants with whom the research team spoke in Kenya felt that the labour laws passed in 2007 were generally adequate: horticultural workers are entitled to annual leave, sickness benefits, pension contributions, and other benefits. Further, even ‘permanent casuals’ who are on the payroll for more than two months are entitled to *pro rata* benefits. However, enforcement of these laws and understanding by farm managers of how to implement them properly appear weak. Other regulatory bodies also came in for criticism with a number of key informants asserting that inadequate child-care centres are escaping sanction and frequent illegal water abstraction is not addressed.

The research also confirmed that the absence of a robust and enforced regulatory environment has resulted in an uneven playing field for producers and exporters, with pressures on productivity and profitability pushing players towards a race to the bottom. To counter this, many private initiatives have sprung up over the years to address issues affecting food safety and quality, labour conditions, and trading. These standards are developed and administered by non-government entities (thus not legally required) that fall under the umbrella of Private Voluntary Standards (PVS) but the fact that they are required by many retailers makes them an unofficial mandatory requirement to gain market access.

The study concluded that in Kenya these standards have played a major role in creating awareness of issues, such as health and safety standards, but they have not solved the issues themselves. The cost and complexity involved in administering some of them were also identified as a major barrier for entry, especially for small-scale producers. There is a lack of evidence that they impact positively on the incomes of waged workers.

Regulatory and private standards requirements to supply markets in the developed world have led to information transfer on good agricultural practices as well as safer and more responsible use of chemicals. These factors are also positively influencing production practices for produce grown for farmers’ own consumption or for domestic markets.

Local environmental practices

Fertilisers and pesticide use, water abstraction and irrigation systems, land and waste management practices, and water pollution are all having a direct effect on the immediate environment in horticultural export areas, but the social implications of these are hard to identify. There is evidence of water stress and poor water, sanitation, and hygiene for local communities. While environmental management is improving in the large commercial farms, due to the imposition of international standards and by joint work through industry bodies, the environmental practices of small-scale producers remain a concern. Rapid increases in population in horticultural areas are also having an impact on the environment, particularly water resources, primarily due to inadequate infrastructure.

While export horticulture operates across several regions in Kenya, the environmental situation around Lake Naivasha is the best documented and publicised.¹¹ There has been less focus on the environmental practices and associated risks of small producers of vegetables, or of large farms in other growing regions such as Mount Kenya and Thika. But there are similar pressures in these horticultural areas in relation to adequate water resources for users and water conservation.

IPL’S APPROACH AND BUSINESS MODEL

IPL operates a more ‘direct’ business model than other supermarket buyers of produce. Its business model is to remove unnecessary margin-takers and control the supply chain from merchandising to consumers by buying directly from exporters and, where possible, the packhouse and growers, while removing the role of importers.

Findings from the visit to Morocco included that buyers are incentivised on price, availability and quality metrics. UK and in-country technical staff have a set of incentives directed towards food safety, quality and legality including social compliance. Ethical standards are communicated as ‘minimum standards’ and compliance is tested through social risk assessments carried out by technical staff. There are currently no incentives for buyers on socio-environmental metrics and these do not come into play in price and volume negotiations.

The study found mixed results on the sharing of value of the ‘freed up’ importers’ margin, with two of the four suppliers reporting no improvements on the price they received after the removal of importers, one received a slightly higher

price and one claimed substantially higher prices. Of course, once IPL takes over the importer role it may take some time for them to operate as efficiently as the importers did. For the producers in Morocco who were included in this study, no evidence was found to show that increased benefits have been experienced by small-scale producers or workers following the removal of costs by IPL.

The placement of IPL technical experts in Morocco, who become familiar with farms, was seen as having great value by informants. It has helped alleviate technical and quality issues, seems to have improved stability in demand, and provides an opportunity for IPL to perform more frequent and direct ethical checks on the exporters and growers.

How IPL will build commitments into its operations

IPL has committed to reviewing its existing company processes to incorporate these recommendations into its way of working, and also into its sustainability strategy. IPL will draw up an action plan for how this will be achieved over a specified timeframe.

Seasonal Reviews are of great importance and are highlighted as the key tool for IPL to use to translate high-level recommendations into actions on the ground. This is an existing process to review the performance of every supplier for each product and source country against key performance indicators in the areas of Technical, Commercial, and New Product Development. IPL is committing to strengthen the existing Seasonal Review process to enable strong supplier partnerships and to reward those suppliers who develop social and environmental standards. It will:

- Apply Seasonal Reviews consistently across all products and countries;
- Upgrade the review to include sustainability metrics covering social, environmental, and economic considerations, ensuring that a focus remains on quantifiably measuring impacts on poverty;
- Train in-country technical teams and commercial staff on sustainability metrics and on the revised standards expected of suppliers;
- Improve the reliability of Seasonal Reviews and thus of the programming, forecasting, and ordering that they generate;
- Upgrade the GlobalG.A.P. risk assessment tool 'GRASP' used for each supplier/crop/country to reflect the requirements of progress towards improved standards of living for workers;
- Where it is no longer commercially viable to source from a named country, develop an exit plan that helps growers to tackle the impact of withdrawal;
- Monitor progress on a continuing basis, via in-country technical staff, including regular contacts with workers and small-scale producers, and direct audits;
- Through the Seasonal Review process, reward suppliers who commit to improving their social and environmental performance;
 - Establish baseline data for each supplier/country;
 - Develop strategies with each supplier for improvement against the baseline and towards clear targets on key issues;
 - Set expectations and communicate clearly with suppliers on what it considers to be good practice.

Furthermore, IPL will work closely with suppliers to ensure that workers, small-scale producers, and communities derive a poverty-reduction impact from its involvement in export horticulture.

Delivery of IPL's commitments

To realise these commitments, as well as remodelling company processes, IPL will initiate a first phase of pilot studies in East Africa. The success of this whole project will be measured by improvements in sustainable development and poverty alleviation in the four areas of: standards of living for workers; livelihoods of small-scale producers; community development; and empowerment of women. Following this report, IPL will produce a detailed plan for resolving the key issues highlighted and will implement the defined commitments. IPL will continue to seek the input of Oxfam GB and other external stakeholders as it develops its approach and implements its commitments. Progress against these commitments will be independently reviewed in two to three years' time.

ASDA commits to supporting IPL's obligations under the research collaboration agreement, and commits to the same obligations regarding the ASDA activities covered by the study.

IN CONCLUSION

This report reflects the positive attempts of Oxfam and IPL to provide insights into the impacts of the company's existing and planned future operations in developing countries. It seeks to put the people affected at the centre of this process and to forge a new partnership between the private sector and civil society in order to share expertise and to build a common agenda on these issues, while highlighting critical poverty issues that both business and civil society audiences want to understand better. IPL has reviewed the joint study and has defined a set of commitments that form a plan of action for the next three years.

Oxfam's three key recommendations relating to these impacts

- 1. Workers:** reward suppliers providing decent wages and employment terms with longer supply commitments and work with the industry to remove low wages from the sphere of competitive advantage; ensure effective representation and grievance mechanisms in the workplace.
- 2. Small-scale producers:** invest in collectives that increase the bargaining power of small-scale growers and enable new people to enter the market, including women. Demand should be forecast better; risks from poor weather and late changes should be reduced; and criteria for rejecting products should be more transparent.
- 3. Women:** offer women farmers access to training and technical inputs, enable more effective representation and opportunities in the workplace, tackle sexual harassment and improve child care.

In summary, IPL committed to take the following steps

- 1. Workers:** IPL will partner with committed suppliers to build strategies that achieve improved living standards for workers. To support this we will strengthen the seasonal review process under which IPL rates suppliers' performances and plans future growing programmes.
- 2. Small-scale producers:** IPL will create an enabling environment for exporters who aggregate supply from small-scale producers to overcome challenges faced by them e.g. more consistent and regular volume demands and better payment terms. IPL will also partner with suppliers to create an environment that includes small-scale producers in the supply chain e.g. group organisation, training in certification requirements, input provision etc. to develop their ability to meet export demand (quantity, quality, and legality).
- 3. Women:** empower women by monitoring suppliers' progress towards equal pay, reducing harassment and discrimination, providing access to financial services, and improving child-care provision.

Three interesting statistics

1. Up to two million workers are involved in the export horticulture sector of Kenya, 60 per cent of them women.
2. Oxfam calculated that the addition of 5p to a bouquet of flowers and 2p to a bag of green beans would cover the additional cost of paying workers a living wage in Nairobi, based on the calculation by the research team using Asia Floor Wage methodology:

Living wage calculation	Bouquet of flowers @ £4.00	200g bag of green beans @ £0.99
KES 12,000 (\$112) per month	Additional cost: £0.05p	Additional cost: £0.02p

3. The food miles impact of Kenyan fresh produce can be quantified :
 - Kenyan-grown flowers air-freighted to the UK are roughly six times less greenhouse gas-intensive than Netherlands-grown flowers shipped to the UK.¹²
 - 0.1 per cent of the UK's emissions is attributable to the transportation of fresh fruit and vegetables.¹³

An important unresolved issue is how to measure changes in a company's impact on poverty, whether positive or negative, over time. Oxfam and IPL are well aware that measurement and attribution of impact is difficult and time consuming. There is a need for a set of metrics, agreed by companies and civil society, which can be used in a consistent, efficient and effective way to measure social impacts of business activity.

Metrics suggested by Oxfam

- Percentage of exporters and small-scale producers who have a commercial contract and forecast demand
- Wage level for a standard work week relative to legal minimum wage, the international poverty line and best available estimate of a living wage
- Number of jobs provided and ratio of permanent to temporary jobs
- Percentage of small-scale producers who are women
- Number of women in management roles in packhouses and on farms
- Percentage of small-scale producers and workers with savings or average savings as percentage of income
- Percentage of workers testing positive for e.g. anaemia or other poverty-related illness

NB All data should be disaggregated by gender.

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Front cover photo: Preparing roses for export in a Kenyan packhouse. Photo: Gerry Boyle/Oxfam

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NOTES

Note: All URLs last accessed October 2012.

1 D. Green (2008) *From Poverty to Power: How active citizens and effective states can change the world*, Oxfam International.

2 Outgrower scheme: an exporter may make agreements with small-scale producers under which they grow an agreed volume of crops to be sold to the exporter at an agreed price (or range). The exporter may provide certain inputs (e.g. seeds, advice). Detailed arrangements vary widely.

3 <http://www.ethicaltrade.org/eti-base-code>

4 http://www.labour.go.ke/index.php?view=article&id=111:what-is-minimum-wage&option=com_content&Itemid=44

5 P. Gibbon and L. Riisgaard (forthcoming) 'A new system of labour management in African large-scale agriculture?'

6 Management interviews with farms F1.

7 <http://www.oxfam.org/en/policy/better-jobs-better-supply-chains>, and <http://www.sedexglobal.com/finding-the-sweet-spot-smarter-ethical-trade-that-delivers-more-for-all/>

8 For instance see <http://www.oxfam.org/en/policy/better-jobs-better-supply-chains> and R. Wilshaw, *et al.* (2013) 'Labour Rights in Unilever's Supply Chain', Oxfam.

9 For instance see http://www.impacttlimited.com/wp-content/uploads/2012/01/Impactt-15th-anniversary-report_finding-the-sweet-spot.pdf and <http://www.impacttlimited.com/resources/nice-work-are-workers-taking-the-strain-in-the-economic-downturn>

10 <http://www.ethicaltrade.org/eti-base-code>

11 For instance see <http://www.guardian.co.uk/environment/2011/apr/01/kenya-flower-industry-worker-conditions-water-tax>

12 A. Williams (2007), 'Comparative Study of Cut Roses for the British Market Produced in Kenya and the Netherlands', Précis Report for World Flowers, 12 February 2007.

13 UNDP (2011), <http://hdr.undp.org/en/statistics/data/climatechange/shares/> [accessed 25/5/12]



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Oxfam's Poverty Footprint methodology

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