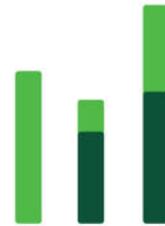
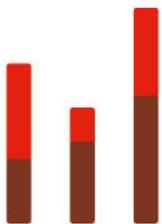


Annual Report 2012



Measuring impact & creating shared value



Executive Summary

IDH the Sustainable Trade Initiative¹ convenes coalitions of front-running companies, civil society organizations and governments to transform markets towards sustainable production and consumption worldwide. In 2012, IDH entered its second year as an independent foundation ('stichting') governed by an Executive Board and a Supervisory Board.

Due to the excellent collaboration with our key private and public partners, 2012 was a successful and productive year for IDH. It was the second year of implementation of the five-year Action Plan for Sustainable Production and Trade. Spending has increased significantly as the programs fully moved into implementation mode. Staffing levels have been brought up to strength in order to keep pace with the increased level of activity in operations and program management. In short, the organization is now in full swing. The Annual Report 2012 will provide you with both an overview of the achievements and the lessons learned in implementing our vision for innovative public - private partnerships that deliver mainstream impact.

Achievements

Since our start in mid 2008, we have come a long way. What started off as a small PPP facility is now increasingly recognized as an agile, resourceful and knowledgeable actor in the field of global sustainable production and trade. The work of IDH is seen as an example of modern, business-like international public-private cooperation. IDH investments demonstrated their impact in the field of economic empowerment of the world's poor and in ecological sustainability.

At the core of IDH's work are our sector programs for globally traded commodities. Our current portfolio comprises 18 commodity programs: 13 from the agro sector and 5 non-agro sector programs. We are now operating in over 50 countries, involving more than 200 internationally operating businesses, 35 civil society actors and many government agencies from both developed and emerging economies.

We aim high. IDH takes a sector-wide approach beyond fragmented CSR projects. We aim for what we call market transformation that creates commercial solutions for public good. By leveraging the combined power of front-running multinational companies, SMEs, international foundations, civil society organizations and Western and local governments, we believe that we are contributing

to lasting change to some of the core sustainability problems of this planet. By integrating sustainability solutions into the rules of the marketplace with committed support of front-running multinationals, we strive to create large-scale change that is self-perpetuating. This entails stimulating mainstream global market demand for sustainably produced products, as well as considerable efforts to create the needed supply through strong local private sector development in producing countries. Our programs aim for achieving this match between demand and supply. Our ability to be successful in this derives from four critical strengths:

First is our *convening power*. With the increasing complexity and volatility of global supply chains, competing companies are realizing that they need to cooperate with each other in order to benefit from faster market transformation. For most companies this is a new way of working. IDH is seen as a neutral and safe platform for companies to engage in (pre-competitive) collaboration. The same is true for cooperation between companies and NGOs. Although the distance is narrowing, there is, and will continue to be, a gap between the two. Increasingly, IDH is playing a role in tackling the challenges in the effective cooperation between business and governments of origin countries. In 2012 we stepped up our local convening and engagement role in emerging economies such as Vietnam, Indonesia, India, China and Brazil in commodities such as coffee, cocoa, cotton, tea and spices. This work is in line with the growing interest of leading companies to ensure sustainable growth in these countries. Our neutrality, our agility and our mandate from government and civil society is crucial in bringing parties together and aligning them around effective and ambitious programs.

The second strength is being a *knowledge broker*. Being involved in multiple commodities and transformative programs, the IDH team brings a lot of know-how to the table. This includes best practices in complicated issues such as standards, traceability, input finance, impact measurement, roundtables and effective public-private cooperation in origin countries.

Investment capacity is the third strength. IDH co-funds private sector investments. This brings funding into projects that are promising but would otherwise be considered too risky. Likewise, our budget for consultancy and learning is highly appreciated as it allows for program design support, effective reflection, identifying inefficiencies and disseminating best practices. An important inno-

1. IDH The Sustainable Trade Initiative is a foundation registered under Dutch law

vation we anticipate in the larger scope of market transformation relates to the development of PPP concepts that benefit most from public funds in a mix of grants and loans. In our Cocoa Program in West Africa we piloted such an approach. In 2013 we will further explore this strategic innovation in cooperation with organizations like FMO, and in line with the developing insights of the Ministry of Foreign Affairs in establishing a so-called revolving fund.

Finally, our *operational structures and processes* bring all elements together through contracts, monitoring & evaluation and other forms of operational support. These structures are essential to drive impact and results in large, complex programs. The promise of being agile and innovative in program management can only be realized with strong operational support and procedures.

The Annual Report 2012 provides an overview of the progress made and lessons learned. Here are some highlights of 2012 innovative approaches:

- In Flowers, the international membership organization 'Floriculture Sustainability Initiative (FSI)' was established under our leadership in only 12 months. It has global sector support and ambitious targets. A benchmarking process creates transparency and avoids duplication of the many existing standards.
- In Coffee, the Sustainable Coffee Program (SCP) was started. The SCP is the largest pre-competitive platform in the industry with a strong engagement of roasters, (international) trade and national authorities in countries such as Vietnam, Brazil, Ethiopia and Uganda. Steering committee members from Nestlé, Tchibo, DE Master Blenders 1753 and Mondelēz travel with us around the world as ambassadors for this program.
- In Cocoa, the upscaling of our earlier programs shifted into a higher gear with an innovative approach to make fertilizers available, leading to improved productivity and higher income. This process was orchestrated by IDH.
- In Tea, we built further on the impressive results of cooperation with local stakeholders in Kenya and started developing a structure for mainstream sustainable tea production in India. India is the largest domestic market for tea after China.
- In Fruits & Vegetables, we orchestrated a strong signal towards sustainability by Dutch retail and SME sector partners. These companies made a public commitment to 100% sustainable sourcing of fresh fruits and veg-

etables in 2020, and kicked off a program to support that ambition.

Our partners expect us to provide leadership and professionalism for the tasks at hand. Internally, we therefore focused in 2012 on more professional HRM processes for training, selection and performance review.

To ensure smooth operational support to a growing number of programs and contractual relations, we strengthened our capacity and started preparations of a dedicated program and contract management system, to be fully implemented in 2013.

One of the consequences of our growing visibility is that we need to explain more often and better to the outside world what IDH is doing. To address this knowledge gap, our communications team is developing a wide variety of instruments. These range from clearly worded factsheets on each program to the annual congress for over 1000 participants. A growing amount of communication is related to sharing our learning insights e.g. from business case analysis for sustainable production or the impact studies we conducted.

Next to this we attach considerable importance to public affairs and managing our relationships with key stakeholders. Within this framework we recognize the special position of governments as both complex stakeholders and public donors. This resulted in the hiring of a Public Affairs Director, who has been leading the design and implementation of our structured approach to risk management and a framework for International Corporate Social Responsibility. Another tangible result of this effort is increased interest from public donors in the growth of IDH, as well as a higher visibility among European public decision makers.

We feel privileged to work on the mandated issues for IDH and feel responsible for sharing the insights we gain from this work. Our learning team has developed a whole range of insights varying from business cases for sustainable production in different sectors to impact studies conducted by third parties. The team has also worked on innovation for next stage market transformation, such as the fertilizer approach in cocoa and the development of new financing instruments covering both grants and loans.

Financials

The presented financial statements ('jaarrekening') in this report have been subject to an audit by KPMG of which the auditor's report has been discussed between KPMG and the audit committee representing the Supervisory Board. The Executive Board of IDH conducts a monthly review of IDH's financial situation. This including: 1) all spending compared to forecast, 2) contract pipeline monitoring and 3) risks. A summary is also presented in every Supervisory Board meeting. Consistent with our policy for financial transparency, the annual reports are published on our website. In 2012 a risk management framework has been implemented covering financial, legal, reputational and operational risks on both IDH and Program level. The framework is published on our website.

Mid 2012 it became apparent that IDH spending patterns on organizational and program level as well as private sector co-funding ambitions developed differently than originally anticipated in 2010, as reflected in the five-year plan that was formally approved by the Ministry as part of the ruling ('beschikking'). As a result, the plan has been revised and formally approved by the Ministry and the Supervisory Board in 2012. Since then, the revised five-year plan has become the reference for our reporting.

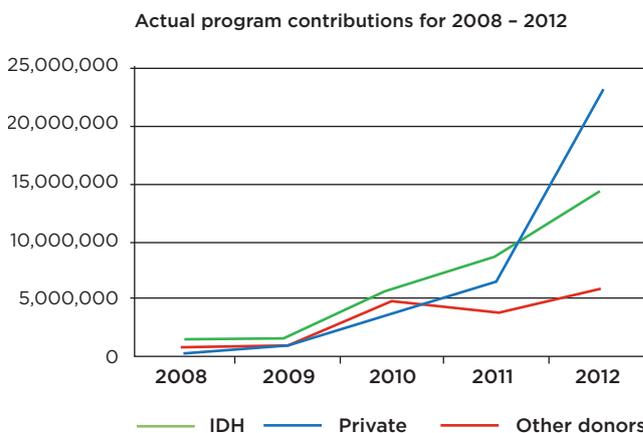
The following aspects are relevant as background for our financial statements:

- Co-funding principles: a fundamental aspect of IDH's work, we believe that co-funding from private sector partners and other donors is vital for the scale and commitment required to achieve real change in sustainable supply chains. It also forces us to develop the most cost effective interventions and it is a formal requirement in conditions linked with our ruling. In our reporting co-funding is split between 'private sector' and 'other donors' and can be in cash or in kind, however always in compliance with the IDH Guidelines and the issued Audit Protocol. As mentioned in our 2012 revised five-year plan we are pleased to see that next to direct program investments in technical assistance, the convening and learning activities in the scope of IDH's program objectives are also increasingly co-funded.
- IDH spending is in general fully related to the approved annual budgets of our implementing partners, which are based on their actual or committed spending for that year. We are increasingly aware of potential spending delays in the initial phase of a program that might occur at the level of our implementing partners and

have installed closer monitoring of this against actual activities and progress. The additional Program Officer capacity that has been installed and the so-called 'dashboard' monitoring tools for the larger programs have proven to be very instrumental in this respect.

- IDH does not perform any entrepreneurial activities. The Dutch tax authorities have ruled that IDH is exempted from VAT and from Corporate Income Tax. From 2012 onwards IDH has been recognized as a so called 'Public Benefit Institution'².

We are very pleased that, after the closing of our financial statements, on May 1, 2013 the Federal Council of Switzerland decided to allocate CHF 30 million (EUR 24.5 million) up to 2016 to a strategic partnership with IDH within the framework of the State Secretariat for Economic Affairs (SECO) economic development cooperation. The IDH deliverables related to this grant, are reflected in deepening and widening the reach of specific current IDH programs and follows existing M&E guidelines.



The IDH program expenditures in 2012 have been € 14,5 million compared to the planned € 16 million. The underspending compared to the budget is due to contracting delays in the Coffee, Aquaculture and Tea programs.

However, the private sector investment was € 23.3 million versus the planned € 17.4 million. During the review of the five-year budget in 2012 we already signaled this trend of delays in contracting and in our own spending, as a consequence of more ambitious intervention and co-funding approaches. However, private sector investments in the programs are gaining momentum, which is also indicated in the graphs and in line with last year's noted expectation.

2. IDH meets the Dutch criteria for 'Algemeen Nut Beogende Instelling':

The following table and graphs indicate the key financial figures over 2011 – 2013:

amounts in millions of Euros	actual	budget	actual	actual	budget
	2012	2012	2011	2011 - 2012	2013
Program Contributions:					
Private partners – via IDH	1.6	-	1	2.6	-
Private partners – directly to project	21.7	17.4	5.8	27.5	25
Total private partners	23.3	17.4	6.8	30.1	25
Other donors – via IDH	-	-	0.1	0.1	-
Other donors – directly to project	6	4.4	3.8	9.8	9.3
Total other donors	6	4.4	3.9	9.9	9.3
IDH	14.5	16	8.7	23.2	22.7
Total Program Contributions	43.8	37.8	19.4	63.2	57
IDH Budget:					
IDH Program Contributions	14.5	16	8.7	23.2	22.7
Total IDH Program Contributions	14.5	16	8.7	23.2	22.7
Learning, Innovation and Impact	1	1.2	0.4	1.4	1.2
Support and outreach	0.9	1	0.5	1.4	1
Total Program Related Costs	1.9	2.2	0.9	2.8	2.2
Congress and communication	0.3	0.4	0.6	0.9	0.4
Personnel	2.3	2.5	2	4.3	2.8
Organization	0.6	0.7	0.7	1.3	0.7
Total IDH Office	3.2	3.6	3.3	6.5	3.9
Total IDH Budget	19.6	21.8	12.9	32.5	28.8
Total incl. Partner Contributions	48.9	43.6	23.6	72.5	63.1
Ratio program contributions IDH: private	1 : 1.6	1 : 1.08	1 : 0.8	1 : 1.3	1 : 1.1
Percentage IDH Office: Total appropriated subsidies	16%	17%	25%	20%	14%
Percentage IDH Office: Total budget	7%	8%	14%	9%	6%

Note that the approved budget for 2013 does not yet include the grant from the Swiss State Secretariat for Economic Affairs.

At the same time our organizational costs (€ 3.3 million) have been below the budget of € 3.6 million as a result of more robust cost control processes. By the end of 2012 IDH employed 27.1 FTE.

Creating Impact at Scale

The year 2012 was an important year for assessing the impact of our work. Based on a methodology and plan approved by the Dutch Ministry of Development Affairs, our impact assessment focuses on the programs in three commodities: cocoa, cotton and tea. For each of these commodities, studies were carried out to assess impact at farmer level, in terms of income, sustainable production and the like. And the studies assessed the extent to which markets transformed by integrating sustainability considerations into the market rules of the game. The studies were conducted by independent academic institutes and international consultancy firms, such as the ODI, Lei Wageningen, Cosa, KPMG and Steward Redqueen in Kenya (tea), India, Mali, Pakistan, Brazil (cotton) and Ghana and Cote d'Ivoire (cocoa).

We are very pleased that the studies do show significant impact both at farmer level and in the transformation of markets. Significant improvements in farm productivity and ecological sustainability were attained. As businesses in the supply chains of these commodities started to act more sustainably, impact was created at scale. It proves that the IDH business model - linking public investments and convening private sector interests and investments - does indeed provide a powerful model for socio-economic development and ecological sustainability in developing countries.

All in all, the studies indicate that the source of livelihoods of over 700,000 farmers in cotton, cocoa and tea has significantly improved. Our programs have significantly increased the global market share of sustainable products: sustainable tea and cocoa are well on their way to becoming mainstream. Cooperation between companies, NGOs, governments and science is well established; the systems for market transformation are in place. Programs have triggered large scale private investments. For instance in cocoa, the industry started to invest over € 90 million a year into farm development and cocoa premiums. We also see that flanking and additional activities are necessary to address more complex issues related to child labor and gender inequality.

Good Agricultural Practices training by the KTDA (Kenyan Tea Development Agency) led smallholders to

generate an average yield improvement of 36%. Due to the training, yields of food crops (such as tomatoes and yams) increased too, adding to farmers' incomes and improving food security in the region. In cotton an average 20% higher yield (compared to control groups) was accomplished in Pakistan, India, Mali and Brazil, and the use of water and pesticides was significantly reduced. In cocoa, premiums and better quality of cocoa have led to higher incomes for cocoa farmers in Cote d'Ivoire and Ghana.

Creating impact at scale is at the heart of the IDH intervention model. The private sector - if aligned and focused on sustainability goals - does have the capacity to reach scale. Cotton is a good example. After only 2 years of implementation approximately 490,000 MT Better Cotton lint has been verified in the 2011/2012 season. This was more than all other sustainability initiatives in the sector together. It shows the power of a committed coalition of large brands, in close collaboration with strong NGOs. In 2013 all 560,000 KTDA tea small holders in Kenya will be certified. This is quite a unique achievement. On the market side, a coalition of companies with 40% of the global cocoa market share was built.

The studies also provided a wealth of information for further improvement of our interventions. For one, it showed the combination of farmer field schools and certification provides real change. Interventions closest to the core of the interests of private sector players - like investments in productivity and farmer organizing - gained the best results. Issues that are of less direct benefit to the private sector thus need other players - like NGOs or governments - to play a larger role. Secondly, the studies revealed the need for going beyond certification to attain real impact on the ground. Finally, we realized these studies are costly and do not allow for a more systematic approach towards impact measurement. Therefore, we will start to pilot-test methods that use the data gathering capacities of supply chain actors.

Thanks

We first would like to thank our staff for their great performance. IDH is a great place to be, first and foremost due to the energy, professionalism and drive of the IDH team. People realize that we have been given a great mandate, which puts high demands on quality, integrity and leadership. As a result, people work extremely hard and at the edges of their abilities and knowledge. We are proud to be among such a powerful team.

Second, we would like to thank our program partners for their high levels of energy, and their commitment to working with us. IDH itself is powerless. The beauty of the IDH concept is that its transformative powers crucially depend on the extent to which governments, multinational companies and international CSO's are prepared to align with us, each other and our programs. So, in the end it is all about building trust and collaboration.

We would like to conclude by thanking the IDH Supervisory Board members and the public servants and politicians in The Hague for all their time and energy to keep us sharp and to play their role as ambassadors for this young organization.

We are honored that we were given the trust needed to perform well in 2012, and we look forward to further improving ourselves to deliver even greater impact through the programs we have created with our partners for a more sustainable world.

Joost Oorthuizen

A handwritten signature in black ink, appearing to be 'J. Oorthuizen', written in a cursive style.

Chairman of the Executive Board
Executive Director

Ted van der Put

A handwritten signature in black ink, appearing to be 'T. van der Put', written in a cursive style.

Member of the Executive Board
Program Director

Report of the IDH Supervisory Board

We look back on a productive year for IDH, and are pleased with the performance of the Executive Board and the IDH staff. Three areas stand out particularly.

First, the organization produced its first round of impact reports. This is a crucial step, as IDH represents a novel approach to development work. This approach is based on private-sector driven progress toward the Millennium Development Goals, through effective PPP's of private and public actors. The central premise is that such an approach can create impact at scale, by leveraging the power of the private sector, in combination with the scrutiny and expertise of civil society actors and governments. This approach is new and thus deserves careful monitoring in order to be able to assess its real potential and to learn how to improve and optimize the approaches chosen.

As Supervisory Board, we established an Impact Committee, in order to give impact the central attention it deserves. Two Supervisory Board members, together with two external experts constitute our Impact Committee. The Committee is convened twice a year to discuss the results of the impact activities of the organization. The impact work focuses on three central programs (i.e. the cotton, tea and cocoa programs). We are satisfied with the rigor of these studies and the positive outcomes that these studies brought to light. This includes both the impact on the ground for farmers as well as the impact the programs have had on private sector participants' ways of doing business. The studies provide real proof for the premise that private-sector driven change through a PPP approach can create impact at scale. The studies also provide valuable lessons on how to further shape the intervention logic of IDH. Examples of this include the need to place more emphasis on impact creation 'beyond certification', the need for local/regional convening and a stronger involvement of local companies and authorities.

Second, the organization further improved its processes and back-office capacity. To keep pace with the growth of the organization, and to be ready for its future ambitions, the Executive Board led a thorough process of spelling out procedures, and implementing the use of these procedures throughout the organization. Existing processes and procedures were further improved and standardized for a wide range of activities. Areas addressed included program development and management, IMVO procedures, risk management, HR, financial control and decision-making. Furthermore, the back-office capacity (legal, control) was strengthened in order to effectively and efficiently manage the growing number

of contracts with implementing parties. As Supervisory Board we are pleased with the key focus on process quality and rigor of the Executive Board, and therefore are confident that the organization is ready for further growth in the near future.

An important back-office activity during the last year was the revision of the five year contract with the Dutch Ministry for Foreign Affairs - the major financial backer and strategic partner of IDH. To further strengthen the private sector driven approach of IDH, the contract increased the required private sector financial contribution to the programs of IDH. We are happy to conclude that the private sector does indeed invest in the different programs. The ratio of public versus private sector spending in the programs increased last year to 1:1.6, which is a healthy ratio, and exceeds the target.

The third major accomplishment last year was the development of IDH as a pan-European facility. With its mandate to mainstream the sustainability of globally traded commodities, IDH needs to be international. We are therefore very pleased with the decision of the Swiss Federal Council in the spring of 2013 to deploy IDH as a PPP facility for mainstreaming sustainable trade. Through SECO, the Swiss Ministry of Economic Affairs, IDH will execute a large program for sustainable trade in five different commodities. This decision visibly opens the way to broadening the European base of support for IDH. Likewise it is a positive sign that Danida, the Danish Ministry of Foreign Affairs, is financially supporting several IDH programs.

Discussions with the EC and different EC member states are on-going. It is encouraging that Minister Ploumen, the Dutch Minister for Foreign Trade and Development Cooperation is in full support of the European expansion of IDH. The Supervisory Board is committed to this process and will support the Executive Board in this important process for the years to come.

Meetings

The IDH Supervisory Board, which was installed upon the establishment of the IDH Foundation in September 2011, met in the presence of the Executive Board three times in 2012.

The Remuneration Committee engaged an external consultant to assess the compensation of the Executive Board members according to the applicable legal norms and good practices. The annual accounts were prepared

by the Executive Board and have been provided with an unqualified auditor's opinion from KPMG. In its new composition, the Audit Committee discussed the financial report and other external and internal (audit) reports. On recommendation of the Audit Committee the Supervisory Board approved the annual accounts. The Supervisory Board furthermore approved the budget and annual plan for 2013. Finally, in accordance with the by-laws, the Impact Committee reviewed the impact-measurement process and the impact assessments on three key programs.

Thanks to the team

Finally, we would like to thank the entire IDH team. It is with great respect that we see how the organization has evolved thanks to the efforts of everyone involved. We are aware that the enthusiasm and competencies of the staff are fundamental to the success of organizations such as IDH. The attention that the management has paid to competency development and team spirit which is shown in its report is something that we wholeheartedly endorse.

André Veneman

Chairman of the IDH Supervisory Board

Colophon

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Financials

Annex

Programs in Implementation **Pillar**

In 2012, IDH used the majority of its resources (finance and staff) for the eight pillar programs in implementation cocoa, tea, cotton, soy, aquaculture, tropical timber, coffee and electronics. These commodities have high impact on the global environment. And in these sectors, IDH and its public and private partners expect to realize a great impact through match funding, convening, learning and pushing for results. Coffee went into implementation in 2012 and therefore does not have KPIs yet.



Cocoa

Enabling 300,000 farmers to Improve their livelihood by 2015¹

The sustainability of the cocoa sector is under increasing pressure due to complex economic, social and environmental issues. The 2% increase in demand per year is not matched by current production levels, and mainstreaming sustainable sourcing is crucial at all stages of the supply chain. IDH is providing tools and means to increase productivity and thus farmer profitability, which will support social improvement, environment preservation and long term profitable cocoa production.

The IDH Cocoa Program brings together over 40% of the world-wide cocoa processing industry and 30% of chocolate manufacturing businesses. Together they agreed to upscale the cocoa certification model, upgrade farmers' skills and knowledge to increase cocoa quality and productivity, and raise livelihoods of cocoa farmers.

1. The figure 300,000 include indirect beneficiaries. 180,000 farmers are direct beneficiaries from the interventions by the IDH Cocoa Program

Main sustainability issues targeted

Low income of farmers; lack of professionalism, market access and transparency; environmental issues.

Partners

Private

Ahold, ADM, Armajaro, Barry-Callebaut, BT Cocoa, Cargill, Continaf, Ecom, Ferrero, Mondelēz, Mars, Nestlé, Multi-Trex, Petra Foods (Delfi), OCP, Cemoi/PACTS

Other partners

FLO, GIZ, ICCO, Oxfam Novib, Swisscontact, Rainforest Alliance, Solidaridad, UNDP, UTZ Certified, WCF, WWF, TechnoServe, Socodevi, a number of research institutes, banks and MFIs

Governments

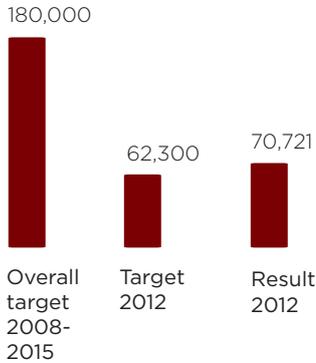
Cameroon, Côte d'Ivoire, Ghana, Nigeria, Indonesia, The Netherlands, Vietnam, Switzerland

Focus countries CÔTE D'IVOIRE, GHANA, NIGERIA, INDONESIA, CAMEROON, VIETNAM, SWITZERLAND, THE NETHERLANDS

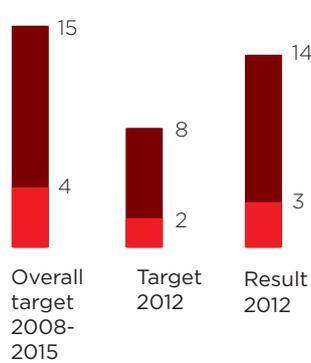


KPI Progress 2012

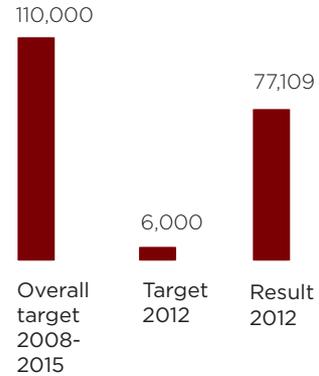
of producers trained in certification



of business partners committed to integrating sustainability into value chains (companies & financial institutions)

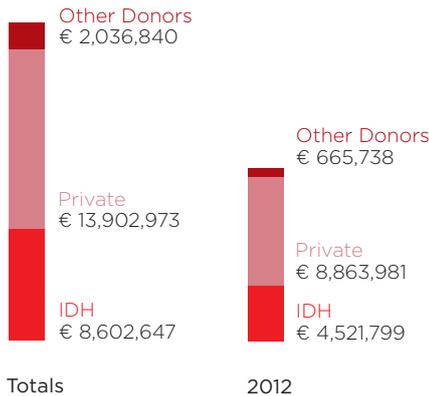


Volume in tons of certified cocoa purchased by IDH program partners



Financials 2012

Actual Public and Private contributions



Theory of Change

The aim of the Cocoa Program is to transform cocoa farming into sustainable business for farmers and to make it an attractive option for youth. By enhancing productivity and improving quality of their products, farmers are able to derive more revenue and thereby improve their livelihoods. Transforming the cocoa sector to a more sustainable one also includes reducing social issues related to cocoa farming.

The focus of the Cocoa Program is therefore on professionalization of cocoa farmers and their organizations. It also focuses on facilitating access to agricultural inputs such as fertilizers, crop protection, improved planting material and financing. Intensification in cocoa farming

can free more land for diversification into food crops and diversify the farmers' sources of income, as well as reducing negative impacts on the environment.

In the first years, IDH interventions focused on mainstreaming certification. Now that this goal has largely been reached and taken over by the market, new interventions focus on:

1. Institutionalization of the productivity package including good farming practices, input usage such as crop protection and fertilizer, and improved planting material.
2. Creating a political and business enabling environment

for cocoa farmers by engaging producer country governments and service provider institutions (financial institutions, input suppliers, other type of services, etc).

Farm certification as part of an integrated industry approach, combined with the productivity package will boost productivity.

Key accomplishments in 2012

- **The Cocoa Fertilizer Initiative** was launched, bringing together governments of Cote d'Ivoire and Nigeria, fertilizer suppliers and the biggest cocoa companies. Its objective is to explore ways to create awareness and promote soil fertility practices in the cocoa sector in Cote d'Ivoire and Nigeria.
- **Producing country engagement to certification**
 - Local government integrating certification in their national strategy. For instance Cote d'Ivoire, Ghana and Indonesia plan to develop their cocoa country standards.
 - Certification Capacity Enhancement (CCE) training material on GAP, GEP and GSP and a 'Common Guide for setting up an Internal Control system' is now available and has been adopted in Nigeria, Ghana and Cote d'Ivoire.
- **Professionalization of farmers** - so far the program has successfully trained 70,721 farmers in good agricultural, environmental, social and business practices (GAP, GEP, GSP, GBP).
- **Public-private platforms** are active in Cote d'Ivoire, Indonesia and Vietnam, and are becoming an arena for debates on defining countries' orientations and to exchange experiences on sustainability.
- **Companies' engagement towards sustainability**
- **Child labor** - IDH is a new member of the ICI board. A project with FLA and Nestle has been approved for Cote d'Ivoire.
- Targets set for production and certification of sustainable cocoa were overachieved, due to good performance as well as delays in the 2011 achievements.
- IDH delivered 3 valuable presentations at the November 2012 World Cocoa Conference in Cote d'Ivoire and signed the global cocoa agenda. IDH gave input on issues such as "Improving cocoa practices to ensure that sustainable supply meets demand growth"; "Delivering a sustainable cocoa supply chain" and "the structure and competition in the cocoa and chocolate industry". Furthermore IDH helped guide results of the conference towards further transformation of the cocoa supply chain to be more sustainable.

Deviations

- **Measuring productivity** - Not all partners were able to produce accurate figures on productivity improvements (yield/ha). Many different yield measurement techniques are used in the cocoa sector. Moreover, productivity depends on uncontrollable factors, including climate. Therefore, attributing progress on yield increase is a real challenge. IDH is working with its partners to improve the data collection and reporting.
- **Access to finance** - The program is not on track with helping farmers and their organizations getting access to finance, as initially defined. Private sector partners have not committed to risk-sharing agreements with financial institutions (banks, micro finance institutions, etc). IDH is looking for ways to bring financial institutions into the sector.
- **Access to and analysis of accurate data** on market, yield increase, farm size, etc, remains a challenge. When available at the partners' level, it is considered competitive and therefore difficult to access. Appropriate tools and approaches (GPS, farm mapping, measurement of yield increase, etc) should be acquired and/or developed to collect such information.

Lessons Learned

- Farmers are willing to apply improved technologies on farm rehabilitation in order to replace aging cocoa trees using grafting and improved varieties. This means that to increase availability of improved planting materials more effort needs to be made.
- It is urgent and important for companies to develop efficient delivery mechanisms/services for farmers to access the productivity package to achieve the productivity increase target of 1000kg/ha, in 2015.
- To boost productivity of the cocoa farm, stakeholders' awareness and investment in soil fertility need to be increased.
- As certification is becoming mainstream, the need for certification to be a credible and robust mechanism for tangible field impact is becoming vital. Although field results and studies show that certification is indeed a very powerful tool in linking consumer-facing companies to field realities, there is a large need for improvement. IDH is playing a key role in driving this change, being critical towards the certification bodies and industry, and being geared towards innovation.

KPI Table Cocoa

Key success indicators Cocoa Program

Overall Target (2008-2015)

Target (2012)

Result (2012)

Result Area 1: Tangible improvements in condition of production in countries of origin:

• No. of producers trained in certification	180,000	62,300	70,721
• No. of producers making certified use of agricultural inputs	180,000	45,000	43,071
• Volume in tons of certified cocoa produced	200,000	23,000	399,624
• No. of ha. managed using sustainable agricultural techniques (ha certified)	82,700	32,600	153,941
• Average yield per hectare per harvest (kg/ha)	1,000	700	368

Result area 2: Tangible improvements in sustainable markets:

• No. of business partners committed to integrating sustainability into value chains	15 companies 4 financial institutions	8 companies; 2 financial institutions	14 companies, 3 financial institutions
• No. of producers selling certified cocoa to program partners	200,000	20,800	43,071
• No. of SMEs/ private institutions offering business services to groups/organizations (MFIs, insurances, vocational training outside program, NGOs, input suppliers etc.)	TBD	TBD	N/A
• No of producers or producer organization with access to credit	11,500	4,500	375
• Volume in tons of certified cocoa purchased by IDH program partners	110,000	6,000	77,109
• Amounts in USD offered by institutions as financial products/credits to small scale farmers or farmers organizations	1,000,000	900,000	612,420

Result area 3: Effective collaboration and institutionalization at sector level:

• No. of trainers trained in producing countries	1,160	360	610
• No. of non-private partners involved in the program	10	3	64
• No. of pre-competitive country platforms set up	4	3	3 ²

Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:

• No. of studies into program effectiveness executed by an external evaluator	4	1	2 ³
• No. of learning trajectories started on key bottlenecks	5	1	2 ⁴
• No. of solutions for identified key bottlenecks developed and implemented	4	Key bottlenecks identified	1 ⁵

² PPP Vietnam, Cocoa Sustainability Partnership Indonesia and CEN

³ KPMG impact study on CIP1 program and CIRAD fertilizer study

⁴ CIRAD on fertilizer and WUR on service delivery models

⁵ Fertilizer as a key unlocking move to productivity increase



Tea

22% of the global tea export certified by 2013

An estimated eight million small-scale tea producers in Africa and Asia are working with outdated production methods. Not only do these methods harm the environment, they also result in low yields and low quality. Often working conditions are poor. At the same time in Western and Asian markets, there is a growing consumer demand for sustainable tea.

The Tea Program represents a consortium of the largest tea packers in Europe and Asia, and the most important certifiers and NGOs in the sector. The Tea Program promotes sustainable tea production in Africa and Asia, and sustainable procurement in Western Europe and Asia. The IDH Tea Program attributes first-hand experience with up scaling of both certification training and a farmer field school extension model. The objective of the program is to have 22% of global tea export certified by 2013 and to upscale sustainability in export and domestic markets by embedding sustainability in producing country strategies.

Focus countries KENYA, INDIA, RWANDA, UGANDA, MALAWI, INDONESIA, CHINA, SRI LANKA, VIETNAM, THE NETHERLANDS, UNITED KINGDOM



Main sustainability issues targeted

Improving good agricultural practices of smallholders, increase farmer net income, reverse deforestation and forest degradation, decrease water usage, better working conditions and analyze business case for sustainable tea production.

Partners

Private

Tata Global Beverages, DE Master Blenders 1753, Twinings, Unilever, Kenyan Tea Development Agency (KTDA), Ethical Tea Partnership (ETP), Royal Dutch Association for Coffee and Tea (KNVKT).

Other partners

Oxfam Novib, Oxfam GB, Solidaridad, Rainforest Alliance, UTZ Certified, World Economic Forum Vietnam, Business Watch Indonesia, LEI-Wageningen UR

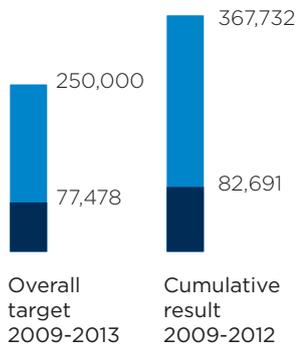
Governments

Kenya, India, Indonesia, Vietnam, China⁶

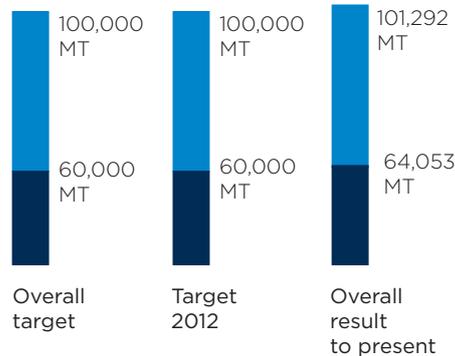
⁶ In China the interaction with the relevant tea institutions was done by Solidaridad under the Tea Improvement Program (TIP).

KPI Progress 2012⁷

No. producers (smallholders) trained in sustainable production practices (RA - UTZ)

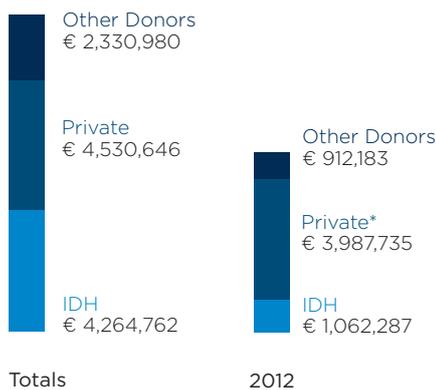


Volume (MT) of certified/verified tea available (RA - UTZ)



Financials 2012

Actual Public and Private contributions



* 2012 also includes 2011 private sector contribution, due to late receipt of 2011 report to be included in last years annual report

Theory of Change

The Tea Program concentrates on upscaling sustainability in tea, targeting both export and domestic markets by embedding sustainability in producing countries' strategies. The intervention logic is built on three components: the upscaling of technical assistance via lead farmer trainings and/or farmer field schools, mainstreaming certification of tea while strengthening its performance and development and implementation of 'stepping stone standards' for Asian domestic markets.

The farmer field school methodology has appeared to be a major driver for improvements at household level via improved yields (translating in higher incomes) and improved social coherence (improved relationships, less

side selling) in Kenya. Mainstreaming certification has a positive impact on smallholders' livelihoods by improving market access and farm management. Compliance with the standard also strengthens biodiversity and water management, and improves health and safety of smallholder tea production. Development and implementation of stepping stone standards are supported in the emerging Asian domestic markets, because international standards have not been able to penetrate these markets - which account for the majority of global tea production and consumption. Compliance to stepping stone standards allows producers to improve their practices according to their local circumstances.

⁷ The Tea Improvement Program (TIP) will be finalized in 2013. In 2012 IDH worked on the development of a new IDH Tea Program, of which the core lies in Kenya and India. The new programs are more deeply rooted in producing countries. Key achievements are included in the report and will be included in the KPIs from 2013 onwards.

Key accomplishments in 2012

- Over 400,000 smallholders have now been trained in sustainable production practices during the IDH Tea Improvement Program, and close to 300,000 achieved certification, both exceeding targets. The Rainforest Alliance program showed the greatest progress in 2012, with over 110,000 smallholders achieving certification. 54% of all RA certified tea farms globally are from the IDH program, over 10% of global tea production is RA certified⁸.
- In close collaboration with KTDA, IDH executed a cost/benefit analysis on certification and farmer field schools (FFS) in Kenya. KTDA offered access to its database on e.g. yield performance. On average, farmers who participate in a FFS achieve a 36% yield increase, resulting in the main value driver for sustainability investments.
- KTDA, IDH and Unilever started a multi-year program focused on further upscaling and embedding sustainable agricultural practices in KTDA small scale tea production. The target group consists of 560,000 KTDA smallholders. 3200 FFS will run in 2015. KTDA is driving the program, and Rainforest Alliance has become a service provider instead of lead implementer. A social issues program by KTDA, ETP and IDH will fit in to this bigger picture. Through the FFS, careful attention will be given to smallholder-worker relationships and other key social issues in the Kenyan tea industry.
- For the first time, IDH and Tata Global Beverages (TGB) entered into a partnership. A program focused on smallholder suppliers of TGB in Kenya, Malawi and Uganda was started. Another aim of this program is to introduce the proven FFS concept outside Kenya.
- The India Domestic Sustainable Tea Program started between Hindustan Unilever, IDH and Solidaridad. Rainforest Alliance agreed to technically support the program. Support was received from the Tea Board of India and other key Indian tea institutions. Dialogue with other key packers to join the program is ongoing. The development of the India domestic tea code, a locally developed and adopted sustainability standard for tea, was started.
- IDH and ETP have formed a strategic partnership to drive the sustainability agenda in tea. Agreement was reached on convening the international tea industry, donors and other stakeholders twice a year, in order to address cross-cutting sector-wide sustainability issues. A first workshop was organized during the annual IDH conference with high global attendance. Agenda items covered were impact, wages and domestic markets.
- The new programs developed in 2012 allow the Tea Program to reach 700,000 smallholders and 500,000 workers by the end of 2015.

Deviations

- On the percentage of farmers that use PPE: one of the requirements of RA is that no agrochemicals should be applied without protection. However tea in Kenya is not treated with agrochemicals, and therefore it is not always necessary for farmers to source a PPE set. In addition to this, PPE sets can also be shared among farmers, and there is no need for each farmer to have his own PPE set. The use of PPE has increased significantly in comparison to the baseline situation in 2010 (7% in 2010, 36% in 2012).
- The market uptake of UTZ certified tea has remained low, under 5%. UTZ is investing heavily in its tea program to raise the market uptake. The bigger tea brands so far committed to RA.
- Deviations from planned activities/country focus:
 - Opportunities for a strategic partnership with the Wood Family Trust and the Gatsby Charitable Foundation in Rwanda are being explored in 2013, instead of 2012.
 - A terms of reference for a program with Unilever under the WEF Vietnam is drafted and tendered. No concrete program is contracted so far.
 - We decided to postpone further investigations of a program in China because of prioritization and focus on Kenya and India.

Lessons Learned

- The impact study of LEI-Wageningen UR on the Rainforest Alliance, Unilever, KTDA program showed that the combination of farmer field Schools with RA certification delivers the highest positive change for smallholders in Kenya. At the same time, the ownership structure of KTDA allowed smallholders to benefit from the positive change. In other tea producing countries the situation is often very different.
- The Tea program encountered difficulties with contracting out new programs due to lengthy internal procedures in companies. At the same time this strengthened the relationships.
- The tea wage research led by Oxfam Novib and ETP triggered much debate in the tea industry on the level of wages of tea pluckers. Producer countries apparently have many different wage setting mechanisms and these must be carefully understood through dialogue.

⁸ Equals the amount of tea exported

KPI Table Tea

Key Success Indicators Tea program

Overall Target (2009 – 2013)

Cumulative target (2009 – 2012)

Cumulative result (2009 – 2012)

Result area 1: Tangible improvements in condition of production in countries of origin:

• No. producers (smallholders) trained in sustainable production practices ⁹	RA: 250,000 UTZ: 77,478	RA: 250,000 UTZ: 77,478	RA: 367,732 UTZ: 82,691
• No. producers (smallholders) certified or verified ⁹	RA: 250,000 UTZ: 60,000	RA: 250,000 UTZ: 36,000	RA: 249,910 UTZ: 46,134 ¹⁰
• No. ha managed under certified or verified production techniques	RA: 60,000 UTZ: 30,000	RA: 47,000 UTZ: 30,000	RA: 53,869 UTZ: 40,617
• Average yield improvements on smallholder farms in Kenya ¹¹ (based on FFS participants)	10%	10%	36%
• Percentage of farmers that use Personal Protective Equipment ¹²	100% RA farmers Kenya 50% UTZ farmers Malawi 95% UTZ Kenya	2 nd set of field data to be analyzed.	36% RA 42.1 % UTZ Malawi 97.2% UTZ Kenya

Result area 2: Tangible improvements in sustainable markets:

• No. of additional end buyers procure RA certified tea ¹³	3	3	9
• No. of additional end buyers that start producing UTZ certified tea ¹³	5	5	14
• Volume (MT) of certified/verified tea available ¹⁴	RA: 100,000 MT UTZ: 60,000 MT	RA: 100,000 MT UTZ: 60,000 MT	RA: 101,292 MT UTZ: 64,053 MT

Result area 3: Effective collaboration and institutionalization at sector level:

• No. successful collaboration projects between different standard setting bodies	3	3	4
• No. of national tea sustainability platforms set up	9	9	9
• No. Farmer Field Schools established (only Kenya)	600 FFS	500 FFS	798 FFS

Result area 4: Knowledge on sustainability, efficient and effective supply chain approaches developed & shared:

• No. learning trajectories started on key bottlenecks ¹⁵	4	3	9
• No. external studies into program effectiveness ¹⁶	4	4	4
• Institutionalization of local research in sustainable tea production	Research facility in Kenya	Contacts with local university	Action plan with KTDA developed, cost-benefit analysis executed.

⁹ Previously these KPIs were reported in one KPI.

¹⁰ This includes 11,654 smallholders which are Lestari.

¹¹ In comparison, the entire KTDA farmer population shows a yield increase of 7%.

¹² See deviations. The 36% of RA represent the farmers that needed and sourced PPE sets, which is equal to 52,000 PPE sets.

¹³ Previously these KPIs were reported in one KPI.

¹⁴ The target in the annual plan 2012 was set by the partners on available; therefore the KPI is changed into available instead of purchased. The volume RA certified purchased is 26,711 MT and for UTZ 3,074 MT.

¹⁵ This includes two cost-benefit analyses: involvement in TEA 2030, IDH workshop during congress in Dec. 2012.

¹⁶ LEI-Wageningen UR performed 3 impact studies on RA and UTZ certification and ODI impact study



Soy

10 to 15% of EU soy imports RTRS certified in 2015

Soybeans are one of the world's most important commodities for edible oil, animal feed and biofuels. Its production and expansion in Latin America is associated with deforestation and biodiversity loss, labor issues, land rights conflicts, and water, soil and crop protection issues. Since 2005, key actors from industry, retail, finance, producers and NGOs jointly formulated voluntary standards for responsible soy production (Round Table for Responsible Soy - RTRS).

Since 2011, a starting but growing volume is produced and traded to Europe, where commitment has been firmly expressed by a.o. Dutch, Belgian and Scandinavian actors to build up sourcing of responsible soy to 100% RTRS in 2015, and to anchor the use of responsible soy within current norms of the sector. IDH convenes and builds transition plans with committed market players and helps create supply at their sourcing bases through the Soy Fast Track Fund, which offers producers direct support to become RTRS compliant.

IDH aims to reach 10 to 15% of European trade (4-6 MT) at RTRS level or equivalent in 2015, corresponding to 1.3 to 2 million ha certified responsible land use by 2015.

Main sustainability issues targeted

Legal compliance on forestry and labor laws; conservation of High Conservation Value Areas; crop protection issues; good agricultural practices, community relations

Partners

Agrifirm, Amaggi, Ahold, SuperUnie, C1000, Centrico, Cefetra, De Heus, Friesland Campina, ForFarmers, Jumbo, Maveecom, Nidera, Nutreco, Lidl, Unilever, Vion, St. Ketentransitie Verantwoorde Soja, Nevedi, Product board MVO, COV, NZO, Product board PPE, CBL, LTO, Bemefa, Fapcen, Viluco, Los Grobo/Ceagro, Sindicato LEM, Kumagro, Aapresid, Kiñewen, Technocampo, DAP, and others

Other partners

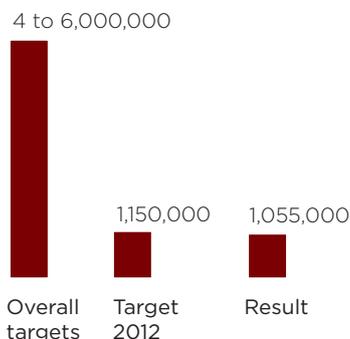
RTRS, Icone, KPMG, IFC, FMO, Solidaridad, WWF, Natuur & Milieu, Aliança da Terra, TNC, Dutch Embassies Brazil and Argentina, Dutch Soy Coalition, a.o.

Focus countries BRAZIL, ARGENTINA, PARAGUAY, BOLIVIA, NORTH-WEST EUROPE, SWITZERLAND

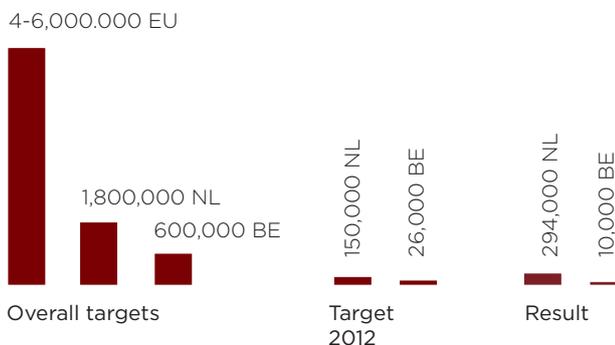


KPI Progress 2012

Volume in metric tons of certified soy RTRS or on the way to RTRS produced per year

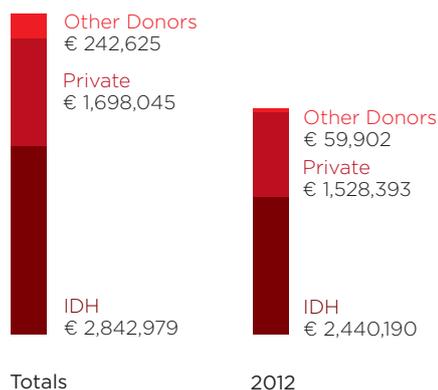


Volume in metric tons RTRS certified soy purchased by private partners in IDH program



Financials 2012

Actual Public and Private investment



Theory of Change

Certification to RTRS drives changes at farm level, enforcing legal compliance - the biggest challenge for producers - promoting good agricultural practices, improving labor and community relations, and controlling expansion into high value ecosystems.

Together with the private sector, producers and NGOs, IDH creates EU market commitments for certified responsible soy and co-invests in support for producers to comply with the standard. IDH made a strategic choice to work with mid - and large scale producers that create mainstream supply, set the market standard and show

the feasibility of sustainable production. IDH aims to create a higher density of responsible soy production in the strategic production areas for European markets, thus linking production with market pull.

IDH intervenes beyond producer support, looking for ways to increase cost efficiency in the certification system. Moreover, IDH engages with financial institutions, input providers and government to create the needed local incentives and support for producers.

Key accomplishments in 2012

Create more market demand for RTRS soy

- Consolidation of the 'Dutch Transition to Responsible Soy' Foundation, which gathers all actors of supply chain: Dutch soy feed and oil, farmers, animal processing and retail. IDH is co-founder and -funder. Dutch commitment: import 100% (1.8 million ton) RTRS or equivalent in 2015. The target for the first step in 2012 was 500,000 tons.
- The retail partners in the Netherlands have agreed on including RTRS (or equivalent) into their buying requirements.
- 1 new partnership was consolidated with a Scandinavian company on 73,000 tons up to 2013. Together with Belgium (600,000), a purchase commitment of approximately 2.5 million tons per year by 2015 was built.
- In 2012, 379,000 tons RTRS soy and 240,000 tons 'on the way to RTRS' soy were bought by Dutch, Belgium and Scandinavian sectors. The Dutch volume RTRS was 297,000 tons, equaling 60% of the Dutch target for 2012.

Create more RTRS supply

- The Soy Fast Track Fund (SFTF) started successfully, showing that it is possible to build sufficient supply for EU markets, produced by front-running producers, producer groups and traders.
- 15 field projects were approved; 7 in Argentina, 7 in Brazil and 1 in Paraguay, to train and support producers to improve practices and become RTRS certified. Total area contracted adds to 800,000 ha certifiable land, of which some 75% in challenging sourcing regions. Total production capacity built will be 2 million tons per year in 2015. Until 2015, 6 million tons of responsibly soy will be produced.
- In 2012, the produced volume building towards certification almost achieved its target, equaling 1,055,000 tons. A total area of 247,000 ha became fully RTRS certified, nearly all in challenging areas.
- The process of mapping high value conservation in Brazil was started, and is expected to finalize in Q2 of 2013.

Formulating the business case

1 cost-benefit study conducted by KPMG was published. The study concludes that there is a business case for responsible soy production for legally compliant farmers. Most farmers however, face challenges and high costs to become legal compliant first. These costs have to be borne by farmers, which poses a challenge to involve farmers who are still further away from certification. The study was well accepted and spread around the soy community. It triggered strategic discussions on the way forward, including strategic redirecting of IDH's program in 2013, with more attention to build support to help farmers (organizations) to solve legal compliance issues, generally the most impactful steps towards responsible soy production.

Lessons Learned

- Trader engagement in reaching out to producers proved to be more difficult than expected. During 2012, SFTF therefore engaged directly with local producer(s) (organizations) building density of supply in key sourcing areas for the European market.
- Legal compliance is a major step farmers have to make. At the same time, legal compliance means major improvements and adjustments in farming practice, with an impact on the ground. Farmers need support and guidance to adjust terms with government. The IDH program will redirect part of its strategy to guide farmers in adjustments to become legally compliant.
- In 2012, IDH and partners sensed that RTRS is under pressure, due to competition of biofuel standards, in general perceived as less credible but more practicable and cheaper for traders. RTRS could not offer a more cost-effective solution so far. As producers also perceive few incentives, the momentum of RTRS concerns all stakeholders. IDH and partners are looking into new strategies to build collaboration for the transition for responsible soy with RTRS as a reference, and reach leverage with EU industry and markets, including the large international traders and medium large producers, mainly in Brazil. Building a new dialogue, benchmarking, milestones and support in specific legal compliance issues are short term strategies that are probably necessary to unlock the sector.

KPI Table Soy

Key success indicators Soy Program

	Overall Target (2011-2015)	Cumulative result (2011 - 2012)	Target (2012)	Result (2012)
Result area 1: Tangible improvements in condition of production in countries of origin:				
• Volume in metric tons of certified soy RTRS or on the way to RTRS produced per year	4-6,000,000	1,055,000	1,150,000	1,055,000
• No. of hectares under RTRS certified responsible land use by program partners	1.3 to 2 M	247,715	95,000	247,715
• No. of hectares of certified farms in high deforestation rate program areas	260-400,000 (20%)	247,228	200,000	247,228
• No. of hectares of conserved forest/High Conservation Value Area on certified farms	150,000 to 250,000	86,700 (estimative) (*)	Inventory	86,700 (estimative)

Result area 2: Tangible improvements in sustainable markets:

• No. of EU business partners (groups) committed to purchasing sustainable soy	Total make up 10-15% of European market share	7 assoc. & boards (100% of NL sector, 100% of Belgian Feed) 4 indiv. companies	8 companies, new chains: 1 non-gm, 1 biofuel	4 assoc. & boards, (100% of NL sector, 100% of Belgian Feed) 2 indiv. companies
• Volume in metric tons certified soy imported/year (incl. other standards on the way to RTRS*) in Netherlands and Belgium	1,800,000 NL 600,000 BE	297,000 NL 250,000 BE 72,000 Scan	NL: 500,000 BE: 350,000	297,000 NL 250,000 BE 72,000 Scan
• Volume in metric tons RTRS certified soy purchased by private partners in IDH program	4-6,000,000 EU 1,800,000 NL 600,000 BE	297,000 NL 10,000 BE	NL: 150,000 BE: 26,000	297,000 NL 10,000 BE
• % of RTRS soy procured by NL/BE/UK/Scandinavian private partners out of total	100/100/30/50	8/3/1/tbd	17/2/0/35	8/3/1/tbd

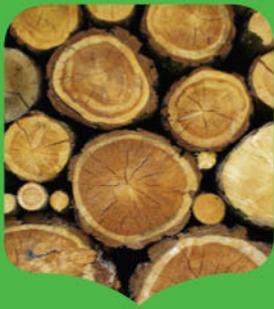
Result area 3: Effective collaboration and institutionalization at sector level:

• No. of partnerships between producer associations and private partners working towards responsible soy certification	5	2	2	2
• No. of effective instruments at RTRS to guide/help farmers and markets	3	2 outreach hubs, 1 HCVA mapping in process	1 HCVA mapping (Bra)	1 new outreach hun (Bra), 1 HCVA mapping process
• RTRS formally recognized by major chain actors in soy mainstream market	RTRS/responsible soy sector policies in NW EU, incl. procurement & sector control schemes	Commitment NL, BE, Scandinavia, CH, Fefac/EU	Commitment UK, Scan	Commitment Scandinavia

Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:

• Studies into strategic issues for mainstreaming sustainability in supply chain	4	2	1	1
• No. of solutions/contributions to key bottlenecks for market transformation	4	2	1	1

* overall pme definition delayed (expected in Q2 of 2013)



Tropical Timber

13 million ha of tropical forest sustainably managed by 2016

One of the key threats to tropical forests is conversion of land to for example agricultural land use. Deforestation - and the resulting ecological, social and economical degradation in the tropics - is taking place at an alarming rate. Sustainable Forest Management (SFM) - forestry undertaken in an economically, socially and environmentally sustainable way - has proven to play a key role in curbing deforestation. However, after twenty years, SFM is still far from mainstream in the tropics. The recently adopted legality regulation in the EU (and USA), which bans the import of illegally logged wood and wood products, presents us with a unique opportunity to move SFM into the mainstream. To seize this opportunity, the market needs to send a strong unanimous message that the market is demanding legal and sustainably produced tropical timber, which is especially important against the background of a global slowdown in construction and decrease of related timber demand.

Main sustainability issues targeted

Deforestation, decrease of biodiversity and carbon stock, improving the business case for sustainable forest management, land tenure insecurity and lack of local processing

Partners

Private

More than 90 private partners including: Concession Holders, - Retailers, Construction Companies, Timber Traders

Other partners

FSC, PEFC*, ICCO, WWF/GFTN, ICLEI, Copade*, ETTF*, Atibt*, GIZ*, CBI

Governments

The Netherlands, Germany*, Indonesia

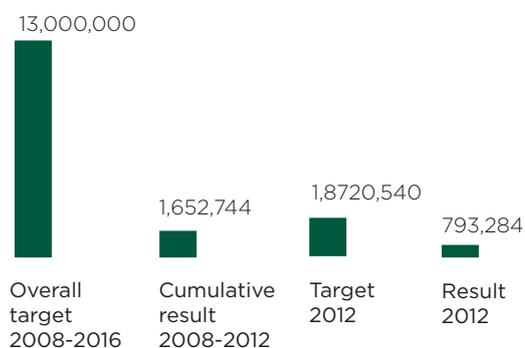
*Pending formalization.

Focus countries AMAZON (BRAZIL, PERU, BOLIVIA), BORNEO (INDONESIA), CONGO (CAMEROON, GABON, DRC, CONGO BRAZZAVILLE, GHANA), EU, SWITZERLAND



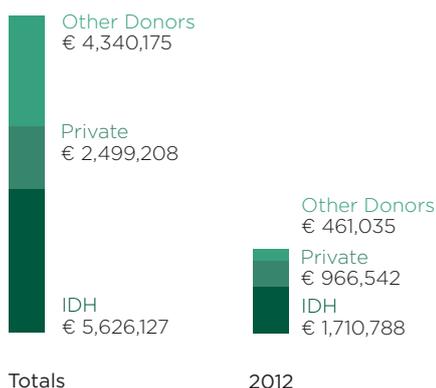
Progress 2012

of hectares of forest under FSC certified sustainable management



Financials 2012

Actual Public and Private contributions



Theory of Change

Contrary to popular belief that tropical timber should not be on the market at all, increasing demand for sustainable tropical timber is demonstrably¹ the key unlocking move for the tropical timber sector.

SFM can tackle deforestation, while at the same time encouraging local private sector engagement and responsible behavior in terms of local social issues. Studies have shown that through effective SFM around 90% of biodiversity and carbon can be conserved. The IDH program includes interventions on both production and demand side for tropical timber. This dual approach serves to improve the business case for SFM by lowering the

cost hurdle for compliance to SFM and by increasing the demand.

The program supports concession holders in their process towards achieving SFM certification. It also acts to mainstream demand for certified tropical timber in the EU by promoting demand for sustainable tropical timber among companies and authorities. By linking with local legality developments and building on the momentum created by legality regulation in the EU (and USA), the program expects to make sustainability the new norm for tropical timber.

¹ Hans Stout, Program Director Tropical Timber and Former President of Precious Woods Brazil

Key accomplishments in 2012

- Considerable progress has been made on accelerating sustainable forest management in producing countries: almost 800,000 ha of forest were certified in 2012. The total amount of tropical forest certified by the program has doubled since its initiation in 2008.
- The concept of the EU Sustainable Tropical Timber Coalition, aiming to increase European demand for sustainable tropical timber, was successfully launched together with the Dutch Ministry of Economic Affairs. Key organizations in the EU timber sector that have committed to participate in this initiative are: FSC, PEFC, WWF/GFTN, ICLEI, ETTF, Copade, and Atibt.
- FSC NL covenants have been signed by the majority of targeted companies. The total FSC market share for tropical timber in the Netherlands is now 39%.
- A consortium of companies in the Netherlands has selected 10 to 15 lesser known tropical timber species for research on application, improving the business case for sustainable tropical timber, and introduction to the EU market.
- With civil society (e.g. WWF) and the private sector, an innovative approach for land use mapping as a preparation for certification in the Democratic Republic of Congo has been prepared.
- A community group certification approach in Cameroon has been prepared.
- Scoping for a Peru program has started, in close cooperation with The Amazon Alternative team.

Deviations

- The total number of ha now actually certified is approximately 500,000 ha less than originally planned. This is due to the slow process towards actual certification. Nevertheless, certification gaining speed: by March 2013 an additional 400,000 ha had been certified.
- The actual number of cubic meters of certified sustainable timber available on the Dutch and EU markets is behind schedule, because of collapsed demand in the construction sector.

Lessons Learned

- The strategic review for tropical timber has taught us that the business case for tropical timber can significantly improve when the market unanimously demands both demonstrable legality and SFM from producing countries.
- Mapping and monitoring actual procurement behavior increases companies' and authorities' insights and increases their commitment to sustainability, and is greatly appreciated by companies and authorities.

KPI Table Tropical Timber

Key success indicators Timber Program	Overall Target (2008-2016)	Cumulative result (2008-2012)	Target (2012)	Result (2012)
Result area 1: Tangible improvements in condition of production in countries of origin:				
• Number of hectares of forest under FSC certified sustainable management	13,000,000***	1,652,744	1,870,540	793,284
• No. of existing FSC certified ha under improved Sustainable Forest Management (CBP)	1,500,000**	0	0	0
Result area 2: Tangible improvements in sustainable markets:				
• Volume in cubic meters of FSC certified sawn tropical timber and timber products available on the Dutch market	20,000^	390,210 (2008-2011)	10,000^	114,876 (2011)
• Total market share of FSC certified timber in the Dutch market	35%*	39%	5%	5%
Result area 3: Effective collaboration and institutionalization at sector level:				
• Number of partners formally committed to FSC (including private and non-private partners)	Retail: 8* Construction: 5* Timber traders: 5* Project Commissionaires/awarding authorities: 50*	Retail: 4 Construction: 5 Timber traders: 0 Project Commissionaires/awarding authorities: 30	Retail: 8 Construction: 5 Timber traders: 5 Project Commissionaires/awarding authorities: 30	Retail: 4 Construction: 5 Timber traders: 0 Project Commissionaires/awarding authorities: 30
• Number of financial institutions providing loans to FSC certified companies (only TAA)	3*	1	1	1
• FSC competence platform for lesser known species established and functioning	One platform that drives rising imports and application of certified lesser known species.*	Agreement with participating companies and organizations signed, action plan developed, timber species identified.	Action plan developed, first memberships established.	Agreement with participating companies and organizations signed, action plan developed, timber species identified.
• Number of local authorities in Europe trained on sustainable procurement of timber	10	40 (est.)	4	40 (est.)
Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:				
• Number of strategic reviews	1	1	1	1

* Target for 2013,

** Target 2015,

*** Target 2016,

^ Based on the TAA figures, only. In addition to this TBI has set a yearly target of 75,000 m³ with a condition that at least 3 million ha is certified – this milestone is expected to be reached in 2014.



Aquaculture

15% of EU import of tilapia, pangasius and shrimp responsibly produced in 2015

In the last 30 years, an explosive development took place resulting in half of fish consumed globally now being supplied by the aquaculture sector.

This rapid expansion has come at a cost; water pollution, uncontrolled catch of wild fish for feed, misuse of antibiotics, impact on coastal areas such as mangroves, and social issues with workers and surrounding communities. With its value chain partners, IDH creates demand for responsibly produced farmed fish. The program aims to responsibly produce and source a volume equivalent to 15% of the EU imports of tilapia, shrimp and pangasius by 2015 with tangible sustainability impact.

Main sustainability issues targeted

Water pollution; feed sustainability & efficiency; siting and biodiversity; social responsibility towards farmers, workers and communities

Partners

Private

Anova, Chicken of the Sea/ Thai Union, DKSH, FEMEG, Heiploeg, Nordic Seafood, Mayonna, Nutreco, Royal Greenland, Seafood Connection, Queens, Regal Springs & over 30 Vietnamese pangasius producing companies, all Dutch retailers committed towards ASC, Ahold US

Other partners

VASEP, VINAFIS, SNV, GIZ, ASC, GlobalG.A.P., CBI, WWF in various countries e.g. WWF-Vietnam

Governments

MARD/Vietnam

Focus countries VIETNAM, INDONESIA, THAILAND, ECUADOR, INDIA

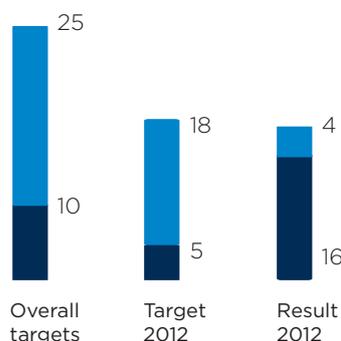


Progress 2012

of metric tons of ASC certified fish produced (whole fish)
(Shrimps/Pangasius/Tilapia)

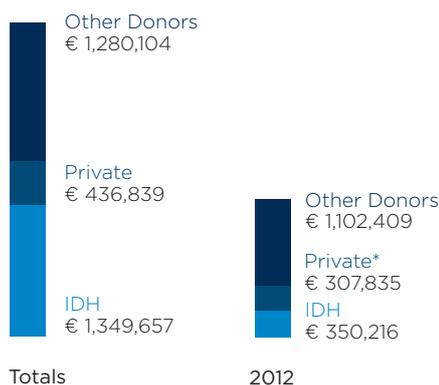


Number of European private partners committed to ASC & IDH program (retail & traders)



Financials 2012

Actual Public and Private contributions



* 2012 private contribution also includes 2011 private contributions, due to late reporting.

Theory of Change

To increase the supply of responsibly farmed fish and create positive social and environmental impact, the IDH Aquaculture Program boosts demand and supports fish farmers in their transition towards more responsible practices. IDH aims to accelerate the shift towards a responsible aquaculture sector by leveraging demand and supporting increased supply by creating a framework to sustain these changes. This will be achieved by adopting three intervention strategies:

1. Committing retail and seafood buyers to responsible sourcing preferably through independent certification such as by the Aquaculture Stewardship Council (ASC) in order to provide an incentive for better farming practices. Buyers' interest is fueled by their

need for traceability and securing access to products for current and future demand, and their need for consumer trust in their brands.

2. Implementing scalable and cost-effective models for providing support that enable farmers to improve business performance, reduce impact on the environment, improve social responsibility and increase supply chain resilience. These models bring reduced transition costs and efficiency gains to both donors and companies investing..
3. Convening coalitions of private and public sector stakeholders (like retail, trade, donors, CSO's), supporting the advancements of standards (ASC

organization, benchmarking, cost efficiencies, feed dialogue) and strengthening the enabling environment for sustainable farming in the countries of production.

Key accomplishments in 2012

- The European market launch of the Aquaculture Stewardship Council (ASC) - availability of the first ASC certified tilapia products on the market - was prime time news on 2 Dutch national television channels and was covered in the key international seafood press (Intrafish, Seafoodsource). 41 clippings were counted covering an advertisement value of almost € 500,000.
- The acceptance of ASC as a credible scheme has been much faster than expected; in 6 months time, around 300 ASC certified products were available in 16 countries, mainly in Europe but also in Canada.
- The 'ASC Accelerator' - the producer support program for pangasius in Vietnam, implemented by SNV - was launched during the 2012 European Seafood Exposition in Brussels. By December 2012, the program was solidly embedded in Vietnam; it is recognized by the Vietnamese government, sector organizations, farming industry and WWF as a key tool in bringing on the shift towards responsible production and ASC certification.
- The first 2 ASC certified pangasius farms (Vinh Hoan, September 2012 and Vinh Quang, October 2012) were partners of the IDH aquaculture program.
- Target on volumes ASC certified pangasius exceeded expectations: approximately 10% of Vietnamese supply base has either obtained or was in the process of obtaining ASC certification by the end of 2012.
- The Farmers in Transition Fund was designed and approved for producer support program on farmed shrimp. To gather insights on critical roadblocks, 4 pre-assessments against draft ASC Shrimp Standard were done, along with a benchmark analysis of shrimp standards of various international and Asian national certification schemes.
- Consolidated support of Dutch retailers towards ASC certification (ASC covenant with CBL from December 2011) and increasing European retail interest in ASC generating demand for responsible seafood products.

Deviations

- 2012 targets for tilapia were not met, because of the decision to give priority to farmed pangasius and shrimp (see also KPI table).
- Significant delay in spending due to strong delay in the handover of the ASC shrimp standard, and related confusion in the value chain about the value proposition and costs of various international certification programs for aquaculture - ASC, GAA/ BAP and GlobalG.A.P. Also the originally intended strategic relation with WWF, as leading NGO in this field, on the FIT Fund for shrimp did not materialize.

Lessons Learned

- Once the ASC hit the market, the Vietnamese pangasius sector pro-actively transitioned towards independent certification according to ASC standards, delivering responsible produced volumes of pangasius to 16 countries. This bypassed the need for pangasius traders to commit and get funding to support their suppliers from the 'ASC Accelerator'. It allowed us to open additional ASC accelerator funding for those independent producers willing to satisfy the growing demand for ASC pangasius. Sometimes producers adapt very fast to sustainable demand!
- During 2012 the so-called Global Sustainable Seafood Initiative gained momentum working towards a common global benchmarking tool for seafood certification. This might eventually clarify the claims and labels of those programs and bring more efficiency to the supply chain.
- With such a diversified, fast growing supply base of a young sector such as aquaculture, a stepwise market transformation approach (involving multiple voluntary standards) is needed to appreciate different starting points in sustainability level both at producer and demand side.

KPI Table Aquaculture

Key success indicators Aquaculture Program*

Overall Target (2010-2015) Cumulative result (2010-2012) Target (2012) Result (2012)

Result area 1: Tangible improvements in condition of production in countries of origin:

• Number of metric tons of ASC certified fish produced (whole fish)	P: 100,000 S: 115,000 T: 7,500	P: 51,250 S: 0 T: 0	P: 60,000 S: any first volume T: 2,000	P: 51,250 S: 0 T: 0
• Number of hectares under certified sustainable farm management	P: 250 S: 15,000 T: 250	P: 246 S: 0 T: 0	P: 150 S: First farmer certified T: 70	P: 246 S: 0 T: 0
• No. of metric tons feed use reduction/year compared to situation before certification	P: 25,000 S: tbd T: tbd	P: 16,900	P: Piloting measurements	P: 16,900

Result area 2: Tangible improvements in sustainable markets:

• Number of European private partners committed to ASC & IDH program	10 retailers 25 traders	20 retailers 10 traders	5 retailers 18 traders	16 retailers 4 traders
• No. of metric tons of ASC certified processed seafood purchased by program partners	P: 33,000 S: 45,000 T: 3,000	P: 18,300 S: 0 T: 0	P: 20,000 S: 0 T: 750	P: 18,300 S: 0 T: 0
• % of Dutch market share of ASC certified farmed Pangasius, shrimp and tilapia	P/S/T: 30%		P: 15%	P: > 30%**

Result area 3: Effective collaboration and institutionalization at sector level:

• Number of services support platforms built in producing countries	P: 1 S: 4 T: 1	P: 1 S: 2 in start up T: 0	P: 1 operational S: 2 in start up T: 1 in start up	P: 1 S: 2 in start up T: 0
• Number of ASC guidance helpdesks in place	2	P: 1 Vietnam	1 Vietnam	P: 1 Vietnam
• Funding to ASC by industry partners	€ 200,000	€ 25,000	€ 200,000	€ 25,000
• Number of private and public partners participating in governance structures of ASC	Private: 20 Public: 15	Private: 23 Public: 18	Private: 5 Public: 18	Private: 8 Public: 8

Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:

• Number of studies executed	7	5	4	4:
• Number of learning pilots on key bottlenecks in the sector	4	3	1	2:
• Number of solutions for identified bottlenecks developed and implemented	5	2	3	1:

* P: Pangasius, S: Shrimp, T: Tilapia

** No data available from Food Monitor 2012 (done by LEI/ WUR before). Best estimate based upon partner sales volume



Cotton

1.5 million MT Better Cotton lint on the market in 2015¹

Cotton uses 10% of the world's agricultural chemicals and thousands of liters of freshwater. This indiscriminate use of resources indicates that there is a considerable gap between sustainable cotton cultivation and present agricultural practices. The economic, social and environmental costs associated with the production and use of cotton fiber, have resulted in a rapidly increasing demand for sustainable cotton.

Keeping these costs in mind, the Better Cotton Initiative (BCI) has developed a standard that focuses on mainstreaming sustainable cotton. With several brands expressing an interest in BCI, IDH initiated the Better Cotton Fast Track Program (BCFTP) to advance the implementation of Better Cotton projects in 2010. As a demand driven program, the BCFTP relies on the commitment of frontrunner brands and retailers to invest in farmer support programs and the procurement of Better Cotton.

¹ The overall target has been redefined from 1 Million to 1,5 Million, see deviations paragraph

Main sustainability issues targeted

Reduce water and pesticide usage, improve soil health, improve biodiversity, promote 'Decent Work', facilitate increased net profit

Partners

Private

Adidas, IKEA, H&M, Levi Strauss & Co, Marks & Spencer, Nike, Walmart, Vaibhav Laxmi Industries, Arvind, Abishek, Zhongliang, Golden Fields, Huafu, Taichang, Huitong, CMDT, OLAM, CottonConnect, ACF, Trident, ABRAPA

Other partners

ICCO*, Rabobank Foundation*, FSP (Solidaridad)* AFPRO, Solidaridad, WWF India, WWF Pakistan,

Governments

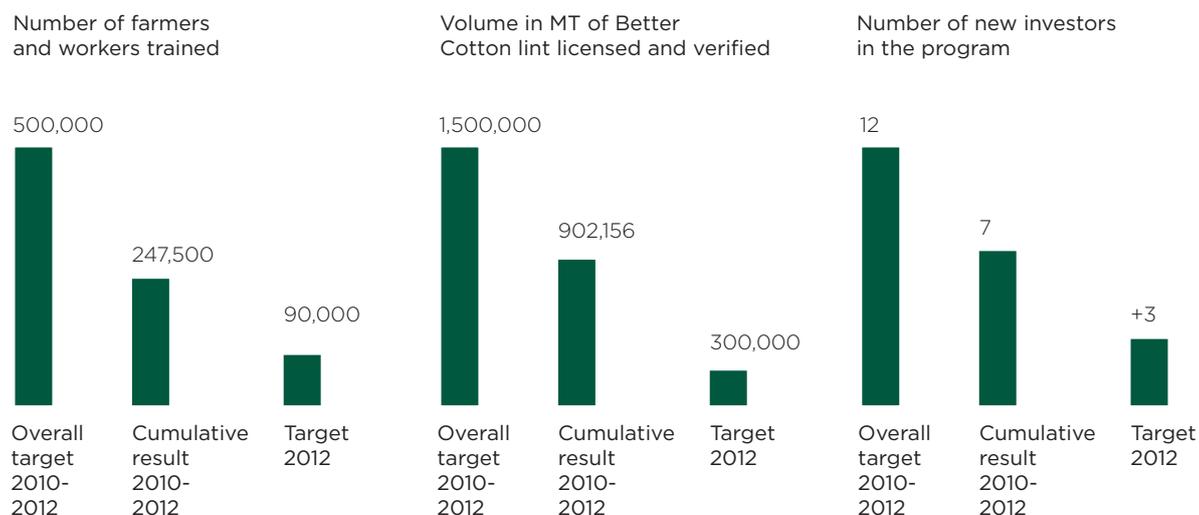
Mozambique

* Funders

Focus countries INDIA, PAKISTAN, CHINA, BRAZIL, MALI, MOZAMBIQUE



Progress 2012



Financials 2012

Actual Public and Private contributions



Theory of Change

The Better Cotton Fast Track Program (BCFTP) aims to demonstrate both the business case for stakeholders and the positive impact at farm level including reduction of water, chemicals and improved decent work practices, soil health and net profit.

The 4 key interventions are:

- Resourcing the transition by
 - Creating a platform for public and private funders to invest and distribute funds
 - Providing match-funding
 - Managing projects
 - Demonstrating the business case for all stakeholders
- Building demand for Better Cotton (BC) by
 - Garnering commitment from private partners by demonstrating the business case to them
 - Encouraging the supply chain to procure BC
 - Working with brands to translate their sustainability vision into concrete demand signals
- Encouraging supply of BC by
 - Creating BC through investment in farmer training projects that can achieve scale
 - Encouraging projects to develop a concrete and self-funded exit strategy that will lead to embedding the Better Cotton System
- Linking supply and demand by
 - Supply chain mapping beyond the brand with the idea of increasing traceability and transparency
 - Knowledge sharing and mutual learning

Key accomplishments in 2012

- Two global brands, Walmart and Nike joined the BCFT program in 2012
- The first trader to become part of the Fast Track Program, OLAM, started with a pilot project in Mozambique together with the Mozambique government
- The Fast Track Program invested € 7.4 million in 33 projects in India, Pakistan, China, Mali, Mozambique and Brazil in 2012-2013
- Better Cotton supply has increased phenomenally in 2012/2013 with over 165,000 licensed farmers and 670,000 MT of Better Cotton lint licensed in 2012-2013, this is more than double the targeted 300,000 MT.
- First results from impact measurement show an increase in income of BC farmers, and a decrease in use of pesticides. These results have been described in more detail in the impact studies section.
- A learning platform for Implementing Partners was established, where partners shared experiences in implementing Better Cotton, and where they learned more about self reliance and self funding strategies. As preparation for the 2013 season all partners developed a plan for self reliance and self funding.
- A supply chain meeting was organized in China to reach out to Chinese supply chain partners of the BCFT brands and retailers. Following the meeting, new partners in China were identified, under the condition of commitment to fund a project for at least 50%.

Deviations

- In the course of 2012 - due to the increase in volumes of BC - the goal of the BCFT has been redefined and set even more ambitiously at 1.5 million MT, instead of 1 million MT licensed BC on the market in 2015.

Lessons Learned

- The BCFT needs to transition into a market driven model where demand and supply forces interact to facilitate the mainstreaming of the sustainability standard. The program needs to evolve beyond the sustainability departments of apparel companies and become entrenched in their operations and commercial business.
- There are no umbrella solutions for challenges that exist across regions and the program will have to be structured in such a way that it will keep regional differences at the forefront. For this reason, regional task forces were set up to understand the indigenous realities and diverse challenges faced by each particular region. This is also a first step in embedding the Better Cotton principles within the agricultural policies of regional governments.
- The impact studies have shown that it is difficult to measure criteria like social change and water usage. There is a need to go above and beyond traditional methods of research and analysis, and develop relevant social KPIs. Work has already been initiated in Mali, India and Pakistan with external agencies and BCI, to develop global social change KPIs and to address some of the challenges in addressing child labor and the involvement of women.

KPI Table Cotton

Key success indicators Cotton Program *

	Overall Target (2010 – 2015)	Cumulative result (2010-2012)	Target (2012)	Result (2012)
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Result area 1: Tangible improvements in condition of production in countries of origin:

• Number of farmers and workers trained	500,000	247,500**	90,000	247,500
• Number of licensed hectares where Better Cotton is grown	1,500,000	685,000**	205,000	685,000
• % of female farmers trained of total farmers trained	10-15%			12.12%
• Volume in MT of Better Cotton lint licensed and verified	1,500,000	902,156	300,000	670,000

Result area 2: Tangible improvements in sustainable markets:

• Number of new investors in the program	12	7	+3	+2
• Volume in MT of verified Better Cotton procured by private partners	750,000 (50% of BCI total licensed volume)	82,057***	100,000	50,000***
• Private sector investment in the BCFT fund (EUR)	Not determined	6,818,569	3,180,000	3,848,380

Result area 3: Effective collaboration and institutionalization at sector level:

• Number of local implementing partners	Not determined	9	+4	+7
• Number of regional taskforces established	1 in India 1 in China	4	1 in India	National stakeholder councils organized in Pakistan, China, India and Mali
• Number of national/international public-private partnerships, including local government	Partnership in Mozambique, India, China	n/a	CMA partnership	MoU between BCI and Cotton Made in Africa (CMA)

Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:

• Best Practices Learning Platform for implementing partners established	1	n/a	Platform leader identified	Meeting organized for all IPs in Dubai around self reliance
• Number of studies into BCFT impact executed by an external evaluator	4	2	+1	+2
• Implementation of key lessons learned into the program regarding project cost efficiency	Efficiency model with annual benchmark is implemented	n/a	Development of data management system for annual benchmarks	Implementation of dashboard on financials and metrics

* Reporting on the cotton projects in India, Pakistan, China and Mali are based on seasons which run from April 1st 2012 until March 31st 2013

** The farmers that were already in the BCFT Program in previous years are retrained every year; therefore the cumulative result does not exceed the year result

*** Figures are based on the latest, mid-year estimates for procurement of verified BC, actual end year figures for 2012 are expected to be higher



Electronics

More sustainable manufacturing in over 100 factories by 2015

Manufacturing regions in China, representing around 70% of world wide electronics supply, are facing major production challenges including increased wages, labor shortages, higher workers' expectations, environmental impact and social issues related to migrant and student workers. This urges the electronics industry to invest in constructive worker-management dialogue, improved quality and productivity mechanisms, better working conditions and environmental performance; all resulting in stronger business competitiveness.

The IDH Electronics Program is currently the largest, pre-competitive initiative in the industry geared towards sustainable business improvement aiming to target over 100 suppliers, impacting 500,000 workers in China.

Main sustainability issues targeted

Improve working conditions and increase energy efficiency

Partners

Private

Dell, HP, Philips, Apple, Nokia

Other partners

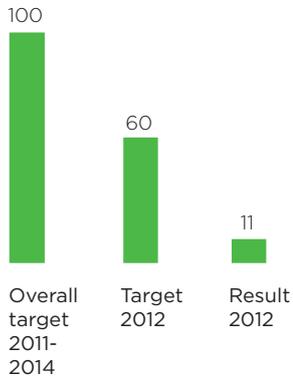
Dutch Federation of Trade Unions, Infact, Good Electronics, Somo, Economic Rights Institute, Globalization Monitor, International Hong Kong Liaison Office

Focus countries CHINA

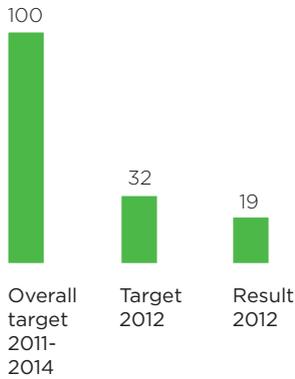


Progress 2012

Number of suppliers monitoring sustainability KPIs



Number of worker/management dialogue forums installed or identified



Financials 2012

Actual Public and Private investments



Theory of Change

The IDH program builds on the experience of traditional auditing having had limited impact on structural non-compliance issues. By supporting suppliers' improvement potential, instead of enforcing standards and audits top-down, the program addresses together with the supplier management and employees the root causes of poor working conditions and other labor and environmental issues.

Solutions are tackled in a systemic improvement frame and linked to business performance (such as production efficiency and lower turnover). Improvements are implemented with the support of topic-experts, and are owned

and monitored by a supplier team of management and workers representatives. The team is coached to become a sustainable mechanism for problem-solving and solution-finding in the factory.

The international brands contribute by aiming at fundamental and lasting change of their supply base, in order to reduce vulnerability to reputational damage and to improve manufacturing performance.

Key accomplishments in 2012

- 22 suppliers received the Entry Point Assessment (EPA), 21 started with the Work Plans based on the EPAs, and 19 worker-management dialogue forums were installed or identified.
- Outreach to international brands has resulted in two more international brands (Apple & Nokia) joining the program.
- Supply base engaged in two major supplier events during which program data and progress were shared and discussed between suppliers and buyers.
- Innovative methodology on worker-management dialogue was developed for 80%.
- A menu of services and a pool of consultants/trainers on workers satisfaction improvement, working conditions and environmental performance improvement were developed.
- Cooperation agreement with industry platforms EICC (Electronics Industry Citizenship Coalition) and GeSI (Global E-Sustainability Initiative) was reached, to align training activities on worker-management dialogue.

Deviations

- There was a delay in the program roll-out; resulting in 48 fewer suppliers listed YTD than planned. Gaining (financial) supplier commitment takes time (business case is not straightforward), worker management dialogue is a sensitive topic, there is limited field capacity, standardized methodology were not available - which needed to be developed first.
- No results in 'improved working conditions and energy efficiency' yet as implementation of the work plans started later in the year (as a consequence of first bullet point).
- There was an unplanned turnover in contracted program delivery staff on the ground

Lessons Learned

- This program addresses the issues as a *business investment*, not as compliance costs or grant-driven workers training. However, in order to make the program attractive for suppliers, the investment costs and perceived return on investment need to be attractive for the supplier. Investment costs can be high, and a return is not guaranteed or could take longer than the regular pay-back time and contract horizon in this sector. This increases the barrier for supplier to participate in the program, and to invest in improving working conditions overall. A study is therefore started in 2012 to gain more insight in the costs and benefits of improved working conditions at supplier level.
- As the program works bottom up instead of top down, certain key compliance issues (such as excessive overtime for example) do not come up as a first priority in the improvement plans. The priorities of both workers and suppliers do not always reflect gaps in standards or law. Although some of these issues might come up later in the dialogue process, it is important to take into account that not necessarily all compliance issues are addressed by the program on the short to midterm.

KPI Table Electronics

Key success indicators Electronics Program¹⁷

	Overall Target (2011-2014)	Target (2012)	Result (2012)
Result area 1: Tangible improvements in condition of production in countries of origin:			
• Number of Entry Point Assessment completed	100	60	22
• Number of Supplier Work Plans approved & contracted	100	-	-
• Number of worker/management dialogue forums installed or identified	100	32	19
• Number of workers reached by improvement activities in the program	500,000	-	-
• Number of suppliers with improved worker-management dialogue	80	-	-
Result area 2: Tangible improvements in sustainable markets:			
• Number of private brands committed to the program	5 brands	5	5
• Number of partnerships with Industry Platforms	2	2	2
• Number of suppliers monitoring sustainability KPIs	100	60	11
• Number of suppliers (not in IDH program) using network of local trainers/methodology	50	-	-
Result area 3: Effective collaboration and institutionalization at sector level:			
• Network of training organizations established & trained	50	25	4
• Chinese government policy favorable to sustainable electronics/aligned with IDH program targets	Guangzhou government favorable policy or activity	-	-
• Industrial policy favorable to sustainable electronics/aligned with IDH program targets	5 Brands , 1 industry platform favorable to policy	-	-
Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:			
• Number of supplier sessions held	4	2	2
• Number of learning trajectories on key bottlenecks started	4	1	1

¹⁷In addition to the Key Performance Indicators listed here, the Electronics program will be reporting towards the following output and outcome indicators during the coming years: "Number of workers participating in trainings", "Number of training hours received by worker's trainers", "Number of training hours received

by management", "Number of suppliers with improved workers satisfaction", "Number of suppliers with improved working conditions", "Number of suppliers with reduced energy consumption", "Number of suppliers with increased productivity" and "Number of suppliers with increased productivity". The indicators will be

reported in the KPI table as soon as the targets for these indicators have been defined and first results achieved.



Coffee

25% worldwide coffee sales sustainable in 2015

As one of the world's most loved beverages, global coffee consumption has grown steadily year after year - particularly in emerging markets. At the same time, production has suffered from under-investment, poor production practices and adverse climatic conditions. As a result, production has remained below demand. In recent years, leading coffee roasters and national coffee associations have made serious commitments to increasing sustainable sourcing. The Sustainable Coffee Program (SCP) will foster these ambitions and help support millions of farmers in the development of a sustainable coffee production system. Collectively, the partners have the ambition to increase sustainable green coffee trade from the current 8% to 25% by the end of 2015.

Main sustainability issues targeted
Climate adaptation and livelihood of farmers

Partners

Private

Mondelēz International (formerly Kraft Foods), Nestlé, DE Master Blenders 1753, Tchibo

Other partners in the Steering Committee

KNVKT, The European Coffee Federation (ECF), GIZ, WWF - US

Governments

Vietnam, Ethiopia, Uganda

Focus countries BRAZIL, VIETNAM, UGANDA, ETHIOPIA, COLOMBIA, INDONESIA, PERU, THE NETHERLANDS, SWITZERLAND



KPI table is not yet available

Financials 2012

Actual Public and Private contributions



Theory of Change

The program target of accelerating sustainable coffee production to a mainstream (>25%) breakthrough level should be reached by leveraging current sector initiatives and providing a forum for close collaboration with local governments. A particular focus of the program is to make coffee producers more economically resilient in an ever-changing market. As a consequence, the program aims to increase production, yields and export volumes of sustainably grown coffee. At the heart of the SCP is bringing coffee farmers to adopt sustainable practices in environmental, social and economic aspects on a larger/mainstream scale. The key drivers for this improvement are committed international demand, large scale capacity building and a business supportive national policy frame for the coffee sector.

In each participating country, the program creates an inclusive umbrella for all running and new sustainable coffee farmer support projects. The program disseminates good practice learning, brings costs down through scale, assesses and improves the business case for sustainable production and creates a platform for dialogue between private sector and local authorities.

The capacity building focuses on livelihood improvements driven by productivity improvement, better business practices and meeting the core sustainability requirements of international voluntary standards.

Key themes identified as bottlenecks to sustainability -

both globally and regionally - are sustainable production, standards collaboration, climate change and access to finance.

Key accomplishments in 2012

- The program moved from the development phase to implementation in May 2012, after a year of collective development of this ambitious program with international partners and with advisors in origin countries. IDH program management team is up and running.
- Letter of Intent with roasters for total program ambition were signed.
- National Coordinators and National Advisors were contracted in all first wave countries (Brazil, Vietnam, Uganda and Ethiopia), to drive strategy development and program roll-out.
- Many outreach meetings were held (with World Coffee Outlook, ICO, ECF, 4C Association AGM, Sustainability Forums together with 4CA in Africa and Vietnam, other roasters, donors).
- Joint (extended) Steering group visited Vietnam for collective learning, decision making on the Vietnam focus and in depth personal discussion with the Minister of Agriculture.
- Workshops on Standards Alignment were held with key sector stakeholders to build a collective strategy and concrete actions on how coffee industry, standards and others will work together to the benefit of farmers and increase the efficient use of resources.

Deviations

- The set-up of sufficient governance and controls took longer than expected, therefore the roaster contract signing-off process and overall roll-out was delayed.
- The Field Level project application process took longer than expected which resulted in under-spending as compared to projections.

Lessons Learned

- A holistic and systemic approach with different stakeholders creates high complexity in program management.
- Ongoing stakeholder management and engagement is important as their thinking around sustainability develops. This engagement takes time and energy!
- Form partnerships with other knowledgeable partner organizations in the sector and build on each other's learning and core strengths, e.g. KNVKT, 4C Association.

Programs in Implementation Light

Natural Stone, Tourism and Spices are important programs for IDH.

In 2012, the Spices Program grew from 7 to 10 private partners. The program started with a core group of four Dutch spices importers, the program managed to include one of the largest spice importers in the world and managed to take one of Europe's largest food processor aboard. Now one of the biggest challenges facing the Spices Program will be formulating one generic sustainability standard that is applicable to several spices.

Natural Stone is one of our programs that typically has many SME partners - small and medium sized enterprises that import, process and trade natural stone. In 2012, a new international program called 'TFT Responsible Stone Program' (RSP) was launched and IDH is handing over project coordination and implementation for the Natural Stone Program to TFT.

In tourism, a new initiative, the Accelerate Sustainable Tourism Initiative, has been set up to ensure that the market transformation continues after the planned phase out of IDH.



Spices

20% of all pepper imported in the EU produced sustainably

The production of spices is mainly done by smallholders, and although it differs per type, several sustainability issues are found in spice production. Among these are uncontrolled pesticide use, occupational health issues, improper agrochemical storage and waste (water) management, poor labor conditions - including child labor. These all stem from smallholder poverty, insecurity and debts. For buyers, lack of traceability and control over food safety as well as insecure supply are main drivers to opt for sustainable production.

IDH convened and is hosting a unique consortium of leading international and Dutch spice companies and a few development NGOs: the Sustainable Spices Initiative - SSI.

SSI works on widely accepted mainstream sustainability standards for spices and aims, to have 20% of all EU imports of black and white pepper as well as 10% of the volumes of three other spices, sustainably produced, by 2015. The main focus is on 7 high-volume/high-value spices: pepper, chilies, turmeric, ginger, vanilla, clove and cinnamon.

Main sustainability issues targeted

Maintain biodiversity, responsible use of agrochemicals, improve labor conditions (migrant workers, no child labor), and improve economic position of smallholders.

Partners

Private

Cassia Coop, Euroma, Intertaste, Jayanti, McCormick,

Nedspice, Olam, Unilever, Unispices, Verstegen.

Other partners

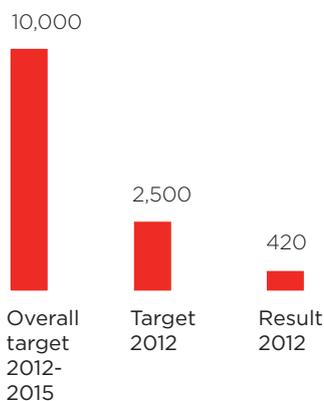
Cordaid, Both Ends, ICCO, KIT, Rainforest Alliance, SNV Asia, Dutch embassies in Indonesia and Vietnam

Focus countries VIETNAM, INDONESIA, INDIA, MADAGASCAR

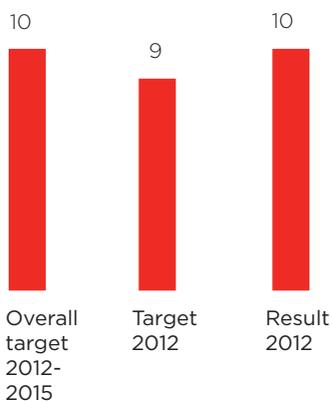


KPI Progress 2012

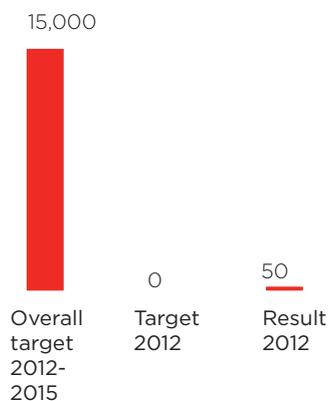
of smallholders trained on sustainable production practice



of private partners investing in the program

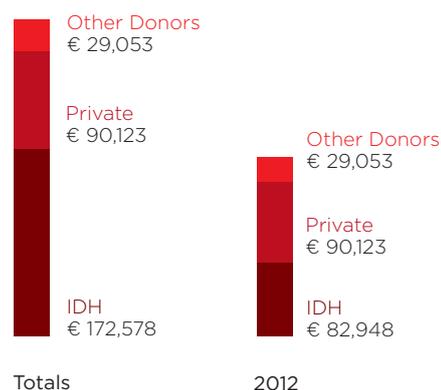


Volume of certified sustainable pepper purchased by program partners (tons)



Financials 2012

Actual Public and Private contributions



Theory of Change

Sustainability is a strategic solution for the industry to address the issues of food safety, traceability and reliable supply. Within SSI, Dutch and international processors, traders, blenders, the food industry and NGOs strive to ensure long-term supply of sustainable and safe spices, build a sustainability standard endorsed by chain actors, pilot up-scalable farmer support through supply chain and help national spice sector platforms to address key sustainability issues locally.

The demand for sustainable and high quality spices by the food industry, retail and spices brands has definitely stimulated international processors and blenders to embrace sustainability and certification as core strategy for their international markets. They adopt this strategy by

getting closer to farmers, e.g. through backward integration programs, investing in training for farmers, and ensuring they apply good agricultural practices. This offers the industry more control over its production processes, from farm to the consumer, ensuring food safety and better product quality. Better management and reduction of agrochemical use, and improved labor conditions lower environmental and health risks, improving farmers livelihoods and their environment, contributing to the MDG's 1, 7 and 8. Through up-scaling the engagement of international and local actors, the program will contribute to transformation of the international market. This challenge is huge, given the number of farmers involved and related poverty. At the same time there is much to win for both farmers and industry.

Key accomplishments in 2012

- The Sustainable Spices Initiative (SSI) was consolidated and grew from 7 to 10 private members: 4 International brands/processors, 6 Dutch SMEs and 5 NGOs. Cassia Coop, Jayanti, Olam and Icco joined. A Project Advisory Team and the SPIF Executive board are in place.
- Spices Producer support Investment Fund - SPIF, co-funded by Cordaid became operational. The first four pilot projects were contracted in 2012 with 3 SSI members.
- Development of the SAN Rainforest Alliance (RA) Local Interpretation Guidelines (LIG's) started, for the 7 chosen spices in the 4 selected countries. LIG's are critical guiding documents to achieve RA certification. They are developed by RA together with the sector and local stakeholders. The final draft LIG for pepper was finalized end 2012; all LIG's are expected to be concluded in 2013.
- First 50 MT RA certified pepper from Indonesia was imported by SSI member Euroma. Production came into place without the SPIF project as the demand for this pilot volume was sufficient. It was put on the market in January 2013.
- A cost/benefit study for sustainable pepper was started by the Royal Tropical Institute (KIT). Conclusion is expected by mid 2013. 5 gap analyses and feasibility studies were conducted.

Deviations

- SPIF projects started later in 2012 than expected. Therefore no tangible results were yet reported and the program spending remained lower than expected. This is due to several reasons: preparation of projects showed difficult for most partners, and they often required adaptations. SPIF development itself took time, also contributing to the delay. Projects turned out to be relatively small, and 2 of 6 projects did not meet requirements at all, needing additional support to be able to start in 2013.
- Targets seem to be difficult to reach through projects alone. SSI will need to find cost-efficient and up-scalable methodologies to reach out to more farmers and increase volumes.
- Cost Benefit analysis was delayed due to a late start of field projects, which are key to the study.

Lessons Learned

- The ambitious SSI targets are unlikely to be met solely through the current portfolio of SPIF pilot projects. Also the costs per farmer are relatively high so far. SPIF will look into more cost efficient methods to train farmers. The good news is that some suppliers have shown willingness to work with farmers for RA certification without project support: market demand - by SSI members - has shown to be a sufficient driver in these cases.
- For further up-scaling, IDH and SSI will also scope ways to contribute and strengthen local stakeholder platforms to address key sustainability issues.
- To mainstream sustainability in spices production, one single standard seems to be limiting for private partners involved. SSI is exploring ways to benchmark other standards with RA, keeping a clear orientation on reaching meaningful impact on the ground.
- All is new for the sector: while LIG's for RA are still being prepared, projects are starting, the costs and benefits are not yet clear and the sector has to build experience with projects and producer outreach. This takes more time than expected.

The broadening of the RA standard to other spices and other countries as desired by the SSI members will require a new and cheaper approach, as the actual one is time consuming and expensive.

KPI Table Spices

Key success indicators Spices Program

	Overall Target 1 (2012 - 2015)	Target (2012)	Result (2012)
Result area 1: Tangible improvements in condition of production in countries of origin:			
• Number of smallholders trained on sustainable production practice	10,000	2,500	420*
• Number of hectares of land managed using sustainable techniques	20,000	5,000	0*
Result area 2: Tangible improvements in sustainable markets:			
• Number of private partners investing in the program	10	9	10
• Number of IDH partners that have actively engaged value chain partners through producer support pilot programs	10	5	3
• Volume of certified sustainable pepper purchased by program partners (tons)	15,000	0	50
Result area 3: Effective collaboration and institutionalization at sector level:			
• Number of non-business program partners involved in the program in origin countries (including local/regional governments, sector boards)	10	5	4
• Number of industry-wide accepted mainstream sustainability standards for spices	1	1	1
• Coalitions consisting of 2 or more partners that did not work together on sustainability issues before IDH program started.	10	5	4
• Number of pilots with organizing farmers developed in sourcing countries	5	2	3
Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:			
• Number of best practices documented and shared	5	2	0
• Number of GAP analysis and base-line studies	10	5	5
• Number of solutions for identified sustainability bottlenecks developed	3	1	0

* mentioned numbers resulted from SPIF projects. Wider additional efforts from SSI members and suppliers show additional 268 farmers trained and 45 hectares RA certified.



Natural Stone

Improved labor conditions for 10,000 workers by 2015

Natural stone imported from emerging economies (China, India, Turkey and Brazil) represents about 65% of the Dutch market and 50% of the EU market. However, production in these countries comes with social and environmental issues. An increasing number of public buyers, construction companies and Do-it-Yourself stores demand “sustainably produced” natural stone.

Due to the sustainability risks that come with the production of natural stone, public buyers and architects are increasingly looking for alternative building materials such as concrete, or only accept stone from Europe. In combination with a rapidly declining construction market, this is a serious threat for the market position of non-European produced stone. The objective of the program is to diminish the negative impact of natural stone mining and processing by sourcing responsibly quarried stone that respects the environment and improves people’s lives at the raw material extraction stage and throughout the supply chain.

Main sustainability issues targeted

Heavy, dangerous work in quarries; Excessive working hours; Use of child labor mainly in manual cutting of cobblestones; Poor housing for migrant laborers; Adverse impacts on water supplies, air and the landscape

Partners

Benelux

ABN, VNNI, FEBENAT, M.O.B. /Beltrami/Stoneasy/SVI/Hofman/Dekker/Hoogenberg/Jetstone/Petrumus/Arte di Granito/Gebr. Voets/van Leeuwe/Pelt & Hooykaas /Hong Shen

UK

B & Q/Ceramic Prints/Aggregate Industries

Scandinavia

Arctic Kvartsit/Eurosten

Civil Society & Unions

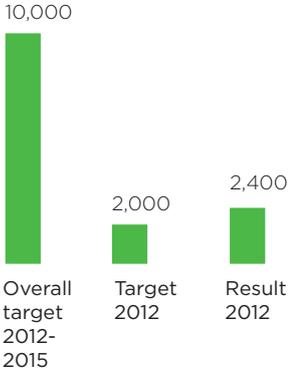
LIW, FNV Bouw, Building and Wood workers International, The Forrest Trust (TFT)

Focus countries INDIA, CHINA



KPI Progress 2012

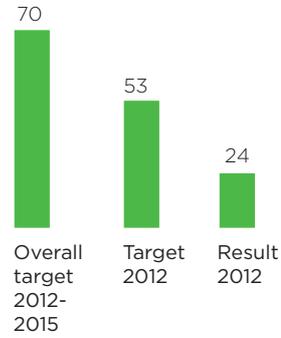
Number of workers under improved working conditions in factories and quarries of the suppliers participating in the program



Number of suppliers committed to improving working conditions in their factories and quarries

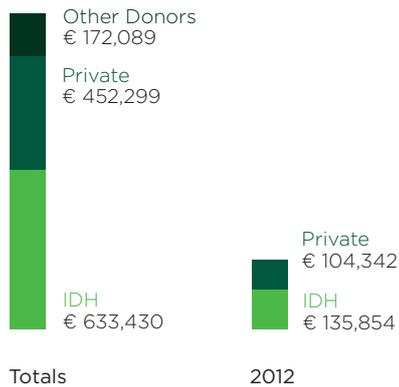


Number of private partners committed to the program



Financials 2012

Actual Public and Private contributions



Theory of Change

The program mobilizes and stimulates cooperation between Northwestern European importers and their suppliers to offer transparency on the origin and production circumstances of natural stone.

Due to the SME character of the sector, this cooperation between importers and wholesales is crucial to create leverage in order to engage factories and quarries. By having a clear and transparent set of sustainability criteria and a clear step by step approach, importers and produc-

ers jointly work towards improving the social and environmental performance of factories and quarries in India and China. In time, this will create a supply of responsibly produced stone that has been verified based on the code of conduct of the Responsible Stone Program.

Key accomplishments in 2012

- Launch of the new international program called 'TFT Responsible Stone Program' (RSP) on October 10th, 2012.
- Hand-over toTFT of the project coordination and project implementation.
- (Financial) re-commitment and engagement of key players in the Netherlands, Belgium and the UK. The number of participating organizations remained the same.
- Mobilization and convening broader Northwestern European cooperation (focus on Scandinavia and Germany).
- Recommitting suppliers in India and China to the improvement programs.

Deviations

- Engaging and re-committing Northwestern European companies was given priority over engaging South European importers. The aim was to strengthen the core group of existing participants in Northwestern Europe.
- The number of participating organizations remained the same as last year. However, due to the increased participation costs and membership commitments, a number of companies chose to exit the program and a few new ones came on board. The number of suppliers in the program decreased from 65 to 32 production sites.
- The merger of the programs was delayed (to Q3 instead of Q1). Additional time was needed for finalizing the terms of cooperation and finance.
- Under-spending occurred due to a delay in launching and start-up of the international program.
- Handing over the project coordination to TFT, both in Europe and production countries, required more time and support.
- The learning targets of the program have been redefined. At the end of 2013, a best practice case will be drafted based on the learnings of the program. The other learning targets have been removed from the KPI table.

Lessons Learned

- The challenge remains getting the quarries engaged, being mostly an informal, small business and non-transparent sector. The first tier suppliers are key to reaching sub-suppliers and quarries. The engagement of first tier suppliers is on schedule. Strong emphasis was put on getting more European players on board, mapping all suppliers and supply chains and finding common product lines for the companies to concentrate on.
- The choice for 2nd party verification instead of setting up a 3rd party certification system proves to be program the right one at this stage of the. Primary focus is on engaging suppliers and starting the improvement process. 3rd party auditing would have had very limited added value at this stage, and therefore would have meant only additional costs.

KPI Table Natural Stone

Key success indicators Natural Stone Program¹⁸

Overall Target (2012* - 2015) Target (2012) Result (2012)

Result area 1: Tangible improvements in condition of production in countries of origin:

• Number of workers under improved working conditions in factories and quarries of the suppliers participating in the program	10,000	2,000 in program	2,400 in program
• Number of suppliers committed to improving working conditions in their factories and quarries	500	60 sites	32 sites actively engaged 75 quarries mapped

Result area 2: Tangible improvements in sustainable markets:

• Number of private partners committed to the program	70 importers, 5 EU sector organizations	45 EU importers 5 EU sector organizations	19 importers 3 sector organizations
• Percentage of total market share of participating companies	25% of Northwestern European market	+/- 10% of Northwestern EU market	+/- 10% of Northwestern EU market
• Percentage of natural stone imports from high risk countries of program partners that is sourced responsibly	10%	0%	0%

Result area 3: Effective collaboration and institutionalization at sector level:

• Number of non-private partners committed to the program (including local/regional government and sector boards)	15	5	4
• Number of European countries engaged in international initiative for natural stone	12	6	4
• Verification system formally recognized by key sector players	Formal acceptance and recognition by EU end-users (Public buyers and cooperate buyers)	Recognition of program by Dutch government as 'Erkend keteninitiatief'	0

Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:

• Number of best practices documented	1	0	0
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¹⁸ The first phase of the Natural Stone program was finished by the end of 2011. As of January 2012 the program was prolonged with a new set of Key Performance Indicators.



Tourism

To certify 884 accommodations by 2013

Global travel and tourism account for almost 10% of the world's GDP and generate 1 out of 13 jobs worldwide (WTTC, 2009). Tourism has an important role to play in the economic development of most developing countries. Despite its positive effect, many social and environmental issues in the tourist sector in these countries need to be urgently addressed.

Key issues addressed

Energy use, waste disposal, labor conditions and relations with local communities

Partners

Private

TUI Nederland, Kuoni Nederland, Oad Group, Terra Travel (Baobab), De Reisspecialisten Groep, Sawadee Reizen, SNP Natuurreizen, Fox vakanties, ANWB, Corendon, Thomas Cook

Other partners

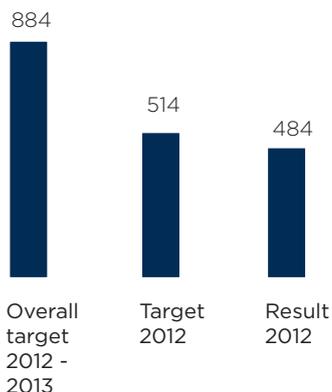
Travelife, MVO Netherlands, Abta, ANVR CBI

Focus countries BRAZIL, EGYPT, KENYA, TANZANIA, THAILAND AND TURKEY



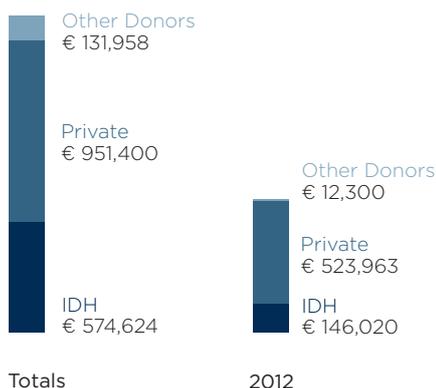
KPI Progress 2012

of Travelife certified accommodations in total



Financials 2012

Actual Public and Private contributions



Theory of Change

The IDH Tourism program promotes local economic development while protecting the environment. The program focuses on increasing the number of sustainable local tourist accommodations in developing countries, and on encouraging European tour operators to offer these accommodations.

Certification of accommodation plays a key role in promoting sustainable practices in the tourism sector. To increase the share of certified accommodations, the tourism program uses three interventions. First, the program invests in strengthening the Travelife certification scheme, strategy and organizational structure (the most credible

voluntary scheme available). Secondly, the program mobilizes market demand in Europe, through follow-up on sustainability commitments of tour operators and their associations. Thirdly, the program raises awareness of the benefits and necessities of sustainable supply chains by training incoming tour operators (the middlemen between European tour operators and accommodations).

Key accomplishments in 2012

- A new initiative, the Accelerate Sustainable Tourism Initiative (ASTI), has been set up to ensure that the market transformation continues after the planned phase out of IDH.
- ASTI was positively evaluated by its members MVO Nederland, ANVR, Travelife and CBI. Preparations have been made to include more European partners (such as Rainforest Alliance).
- The criteria for Travelife certification have been revised and the scheme has been recognized by the Global Sustainable Tourism Council (GSTC).
- Progress on increasing the number of certified accommodations is on target, especially in Turkey, which at 82 certified locations is far ahead of the country target.
- The interventions of the Tourism Program were incorporated into destination approaches for Thailand and Turkey.
- A 2025 vision was developed, and welcomed by the sector. This vision will contribute to improving the business case for sustainable tourism.
- Together with the Missing Chapter Foundation, we have agreed to set up a children's board to monitor implementation of the Vision 2025 for the Dutch tourism sector.

Deviations

- The number of planned destination approaches in the program has been increased from one to two as opportunities are identified both in Thailand and in Turkey.
- Due to the economically difficult situation in the tourism sector, the commitment (financial) of individual tour operators remains limited to a small group of frontrunners.
- The implementation of the Thailand destination approach is delayed, but will be completed early 2013.

Lessons Learned

- Because of the economically difficult situation, attention for sustainability in this sector is limited. We will address the importance to strengthen and highlight the business case for tourism.
- Local certification systems can strongly benefit from association with international systems such as Travelife. GSTC recognition is helping Travelife to become even more widely accepted.

KPI Table Tourism

Key success indicators Tourism Program		Overall Target (2012 - 2013)	Target (2012)	Result 2012 (2012)
Result area 1: Tangible improvements in condition of production in countries of origin:				
•	No of Travellife certified accommodations in total.	884	514	484
•	No of Travellife certified accommodations in the selected countries:			
		Brazil: 6, Egypt: 30, Kenya: 6, Tanzania: 6, Thailand: 9, Turkey: 36	Brazil: 1, Egypt: 33 Kenya: 5, Tanzania: 3 Thailand: 8, Turkey: 50	Brazil: 1, Egypt: 54, Kenya: 3, Tanzania: 0, Thai- land: 6, Turkey: 82
Result area 2: Tangible improvements in sustainable markets:				
•	Number of NL tour operators participating in Travellife program	12	1	1
•	Number of EU market leader tour operators participating in program	3	2	2
Result area 3: Effective collaboration and institutionalization at sector level:				
•	Number of destination approaches developed.	2	1	0
•	Number of accommodations subscribed to the Travellife system ('paying members')	1473	856	794
•	No of accommodations subscribed to the Travellife system ('paying members') in the selected countries			
		Brazil: 10, Egypt: 50, Kenya: 10, Tanzania: 10, Thailand: 15, Turkey: 60	Brazil: 5, Egypt: 40, Kenya: 5, Tanzania: 5, Thailand: 8, Turkey: 50	Brazil: 2, Egypt: 61, Kenya: 6, Tanzania: 0, Thai- land: 11, Turkey: 102
•	No of sets of criteria revised.	1	1	1
Result area 4: Knowledge on sustainability & supply chain approaches developed & shared:				
•	Number of learning trajectories started on marketing of sustainable holidays	1	1	1

Programs in **Development**



Cashew

375,000 farmers producing sustainable cashew in Africa by 2015

Currently 40% of the global cashew production (raw cashew nuts) is produced in Africa, whereas only 10% is processed into cashew kernels in Africa. As of April 2012, IDH piloted its Cashew Program, where innovative models to efficiently and sustainably organize the sourcing areas of the (newly established) processing facilities are developed and executed. The pilot program includes both the Management Information System (MIS) at central level, as well as two on the ground projects; one in Burkina Faso and one in Ivory Coast.

The core objectives of the program are to improve the quality and quantity of raw cashew nut production, create an economic impact trajectory on smallholder farmers integrating sustainability and strengthen the strategic linkages between chain actors. All this is developed in such a way that it can easily be replicated or expanded to other nuts. After the pilot in early 2013, the program is expected to move to implementation and become a full pillar program.

Main sustainability issues targeted

Transparency and traceability of the supply chain, security of supply, unorganized smallholders, poor working conditions, health & safety issues on processing level, high carbon footprint

Partners

Private

Intersnack, Olam, Trade & Development Group, Ahold

Other partners

African Cashew Initiative, African Cashew Alliance, FairMatch Support

Focus countries BURKINA FASO, IVORY COAST, MOZAMBIQUE, THE NETHERLANDS



Theory of Change

The IDH cashew program is an industry-driven program working to make production, processing and trade of cashew nuts more sustainable. By creating strong market linkages between newly established medium to large scale cashew processing factories in Africa, their sourcing area and western end buyers, social-economic development of a sustainable cashew value chain is ensured while natural resources are being preserved.

The total value chain is engaged in the transformation process, focusing on increasing productivity and quality of cashew nuts. In time this should lead to better livelihoods for smallholders, better working conditions at processing level and more security of supply for cashew roasters. The intervention logic supporting this approach is built on two components:

- 1 Bottom-up, through large scale roll-out of an innovative, cost-efficient and sustainable farmer aggregation model which includes feedback loops throughout the supply chain.
- 2 Top-down by answering and implementing the 'bigger' questions on how to integrate traceability and sustainability in an efficient and cost effective manner.

Key accomplishments in 2012

- Almost 10,000 farmers are included in the pilot (target is 13,000)
- Through a tender procedure software provider Chainfood has been selected for the development of the Management Information System. Based on business requirements the Management Information System is customized for full implementation in the season starting April 2013. This provides the sector with a tool for transparent sourcing, integrating basic sustainability criteria.
- CBI and Profound led a market scan for the cashew sector which is used to develop a full implementation plan and engagement of new partners.
- Strategic partnership established with the Bill and Melinda Gates Foundation and the German government funded African Cashew Initiative of GIZ. IDH has become a core partner of the African Cashew Initiative and will further explore its on the ground collaboration and join forces in the target countries in 2013.
- Together with FairMatch Support, strategizing on scalability of the pilot was done, including a discussion on cost-efficient standard implementation frameworks.
- Strategizing was done on how to validate sustainability in the Cashew/Nuts supply chain through innovative models.

Deviations

- The pilot program started in two countries instead of three. Possibilities for intervention strategy in Mozambique have been further explored and look promising.
- Due to a long contracting phase, the pilot start date was delayed with 2 months. Therefore the pilot will be extended until May 2013 - budget-neutrally.

Lessons Learned

- The interest in direct sourcing from Africa continues to grow and organizing the sourcing areas in an efficient and sustainable manner becomes more crucial. The pilot seems to have given the sector a workable model and interesting value proposition to implement further. Up-scaling, both the in-country activities as well as the number of partners engaged in the Management Information System is now crucial for the program's success.



Fruits & Vegetables

100% sustainably sourced fresh fruits and vegetables from Africa, Asia and Latin America by 2020

In response to publicity about problematic working conditions in producing countries, there is an urgent need to work towards sustainability and good agricultural practices throughout the fruits and vegetables sector. This means empowering producers and smallholder farmers to improve product quality, food safety, water use and waste water management, thereby improving working conditions for millions of workers in the sector. Given the urgency of tackling sustainability in the fruits and vegetables sector as largely consumer driven, the private sector has a key role to play in addressing socio-economic and environmental issues across the supply chain.

Main sustainability issues targeted
Environment, Water sustainability, hired labor circumstances and labor conditions

Partners

Private companies
AgroFair, Albert Heijn, Bakker Barendrecht C1000, Eosta, FairFields, Jumbo, Jaguar the fresh company, Lidl, Nature's Pride, Staay Food Group, The Greenery, Special Fruit, SuperUnie, Van Oers United

Civil society organizations

Frugi Venta, Het Productschap Tuinbouw, ICCO, Solidaridad, UNDP, WWF

Governments

EL&I, AgentschapNL, various Dutch embassies in producing countries, Ministries in Peru South Africa and Costa Rica

Focus countries ARGENTINA, BRAZIL, COLOMBIA, COSTA RICA, ECUADOR, EGYPT, GHANA, ETHIOPIA, INDIA, KENYA, MOROCCO, PERU, SOUTH AFRICA



Theory of Change

In order to address socio-economic and environmental issues at scale, the IDH program has brought together 15 Dutch and Belgian retailers and traders and 5 civil society organizations to set sustainability targets and translate that commitment into measurable volume shares. The initiative is called the Sustainability Initiative for Fruits and Vegetables (SIFAV). These partners together signed a covenant committing to source 100% sustainable fruits and vegetables by 2020.

To materialize this ambitious commitment, companies need to set up the minimum bottom line for social and environmental sustainability and comply with standards that ensure it. To facilitate this process of standardization, the program aims to harmonize standards, provide systems review of common references, reduce cost and audit fatigue. The program thus works with seven¹ existing and well established social and environmental standards to go through Global Social Compliance Program (GSCP) Equivalence Process.

Finally, the program aims to scale change by directly addressing socio-economic and environmental issues in producing countries. Together with companies, the program will identify and tackle major hot spots and set up producer support projects in producing countries to build capacity of producers. The objective is to support producers in increasing yield and quality of their products, thereby gaining access to lucrative markets, while encouraging better water use and water waste management. Ultimately this results in increased income, better working conditions and livelihoods for producers and workers, as well as sustainable use of resources. Moreover, having access to multiple markets also reduces the risk associated with volatility of demand for producers.

Key accomplishments in 2012

- IDH signed a covenant with 13 companies² and five civil society organizations³, with a commitment to sustainably sourcing 30% of fruits and vegetables by January 2014; 50% by January 2015 and 100% by 2020. Since the official signing in June 2012, two additional companies have signed the covenant⁴
- IDH has induced three standards to go through the GSCP Equivalence Process. SIZA has already completed this process.

- A program advisory body (the Steering committee) has been established while capacity building trainings and standards implementation process have been conducted for covenant companies.
- A working relationship has been established with Dutch embassies and local ministries in Costa Rica, Peru, Ethiopia and South Africa.
- Collaboration with Fruit South Africa Initiative, WWF South Africa, and The National Platform for Responsible Trade and Production in Costa Rica was started.
- Producer support projects framework of governance has been established (objectives, KPIs and procedures), producer support projects were initiated together with some covenant members, and one program in South Africa has already started implementation.

Deviations

- The speed and process of program development has been influenced due to the fact that some of the companies have modest experience in initiating producer support projects and working in a pre-competitive manner has not been on top of their agenda in the past. Consequently, some companies have relied more on IDH for guidance and support.

Lessons Learned

- The program management is looking at how, with producer support projects, to encourage companies (and other relevant partners) to start implementing standards, and to establish hotspot list for producer support projects.
- Some companies take a more active role in the covenant activities while others are less engaged. To get a better impression of the potential members applying to join the covenant, IDH will conduct more thorough due diligence research on potential covenant members in the future.

This program is in development; therefore no KPI table is available yet.

¹ The social standards selected so far are BSCI, ETI/SMETA, SIZA, IMO (Fair) for Life, Fair Trade, Rainforest Alliance. For environment: GlobalGap

² AgroFair Benelux B.V; Albert Heijn B.V.; C1000; Coöperatieve Inkoop Vereniging Superunie B.A; Eosta; FairFields; Jaguar, the fresh company; Jumbo Supermarkten B.V.; Lidl Nederland; Nature's pride; Staay Food Group; the Greenery; Van Oers United.

³ FrugiVenta; het ProductschapTuinbouw; ICCO; IDH, The Sustainable Trade Initiative; Solidaridad.

⁴ Bakker Barendrecht B.V.; Special Fruits nv (Belgium)



Flowers

90% of internationally flowers sustainably produced by 2020

Demand for certified cut flowers is slowly increasing, but comprises still less than 10% of all flowers and pot plants that are produced and traded sustainably in Europe. Civil society organizations are increasingly expressing their concerns about the sector and the unsustainable practices that occur. On the market side, retailers are more and more looking for category solutions when it comes to sustainability. They are working towards transforming complete categories rather than single products.

Although a many standards currently exist in the floriculture sector, there is a large extent of fragmentation and many differences on what sustainability is and how to apply it. In practice, this resulted in a multitude of fragmented projects and single issue - single country approaches. On project level, impact has been created, but it has not reached a mainstream level. Therefore the sector as a whole has decided to take responsibility and create an initiative that is desired, created and maintained by the sector and its stakeholders. To counter the fragmentation, lack of transparency and inefficiencies, IDH developed (with producers, trade, retail, NGO's) an industry platform towards a mainstream sustainable floriculture sector, *the Floriculture Sustainability Initiative (FSI)*.

Main sustainability issues targeted

Social: Employment conditions (wage, working hours, contract labor), Health & Safety
Environmental: water, use of pesticides, waste.

Partners

Private

BGI, BRO, Dutch Flower Group, Dutch Horticulture Board, EHPEA, FleuraMetz, FloraHolland, Florint, LTO Noord, Milieu Programma Sierteelt (MPS), Pfitzer BV, UnionFleurs, Vereinigung des Schweizerischen, Blumengrosshandels, Pflanzen-Koelle Gartencenter, Ahold, VGB

Civil society organizations

BothEnds, Fair Flowers Fair Plants (FFP), Hivos, LTO Noord, Rainforest Rescue International, Max Havelaar/Fair Trade, WWF Kenya.

Focus countries EUROPE, COLOMBIA, ECUADOR, KENYA, ETHIOPIA



Theory of Change

FSI acts as an industry umbrella for the development of a shared vision, reversal of standard fragmentation and inefficiencies and creation of a structure to manage and prioritize current and future sustainability on a sector level.

To achieve these objectives, FSI has the following strategy:

- Increase the demand for sustainable flowers and lower costs by providing transparency and comparability of the sustainability standards in floriculture using the FSI Equivalency Tool.
- Create change on the ground by taking joint action on hotspots through joint impact projects.
- Prepare for the future through the development of tools and best practices regarding future topics.
- Increase market outreach and enabling pro-active communications about sustainability challenges and best practices.

Key accomplishments in 2012

- 25 key international players and CSOs joined the development of the Floriculture Sustainability Initiative (FSI).
- An international agreement on governance was created, setting up the FSI.
- An equivalency tool for the various sustainability standards was developed and tested.
- Strong engagement (in kind & cash) of key players in the design process.
- Launch of the Floriculture Sustainability Initiative at IPM Essen January 2013.

Deviations

- Development was extended as more time was needed for finalizing the government structure and concept of the equivalency tool.

Lessons Learned

- Focus on doing: business driven initiative with full membership and strong participation of CSOs is better than a round table structure.
- Do not make the governance structure too heavy in starting phase.
- Do not reinvent the wheel, but use existing structures.
-

This program is in development; therefore no KPI table is available yet.



Palm Oil

Decrease deforestation by increasing the productivity and efficiency of independent oil palm smallholders.

The demand for palm oil, the world's most used vegetable oil, is expected to double by 2020. Most of the remaining suitable land for palm oil expansion is now populated by tropical forests. The key objective of the Palm Oil Program is to *mitigate deforestation* by doing more with less: increasing the (sustainable) production of palm oil by improving smallholder farmers' productivity in existing production areas.

Main sustainability issues targeted

Deforestation
Greenhouse gas emission
Livelihood of smallholders

Partners

Private

Sime Darby, Unimills, PTPN III
Unilever, Olam, Ahold, Walmart
Johnson & Johnson, Mondelēz

Other partners

Task Force Palm Oil,
MVO Netherlands, Solidaridad,
WWF-US, Conservation International,
SHARP, RSPO, Dutch Embassy in
Indonesia

Focus countries INDONESIA, MALAYSIA, LIBYA, GABON, THE NETHERLANDS, SWITZERLAND



Theory of Change

The increase in productivity is necessary to respond to the rising demand of palm oil globally and to meet the growth targets of governments like Indonesia without using more (forest) land. Potentially, it will also trigger *inclusive growth*: export growth of palm oil beneficial for smallholders' improved livelihoods.

IDH will form a coalition of first mover companies in the US and EU which will jointly identify their main "supply shed" areas. These companies will encourage mills in these supply shed areas to include the independent smallholders in their sourcing base as part of its increased productivity and sustainable production. Mills will be stimulated to invest in these smallholders by providing access to finance for replanting and Good Agricultural Practices training.

Key accomplishments in 2012

- Established IDH local presence in Asia which has been instrumental to kick-start things.
- The IDH palm oil program very well connected to the "up scaling coalition", a group of international retailers, CPG companies, industry players and civil societies.
- IDH became a member of the Tropical Forest Alliance 2020, a partnership between the Consumer Goods Forum and USAID (and broader donor community) to eliminate deforestation.
- Designed supply shed approach in which mills include independent smallholders in their sourcing base as part of their sustainable production - and boost their yields.
- Strengthen SHARP as a platform for smallholder development.
- Cooperation with the Dutch Task Force of Sustainable Palm oil, including outreach to Belgium and other European countries.
- MOU with PTPN III - a state owned company - to train and certify 1,500 of their independent palm oil smallholders; the partnership was started by the Dutch Embassy in Indonesia.

Deviations

No deviations

Lessons Learned

- We have observed that there are many initiatives in the palm sector. However, these initiatives are neither coherent nor geared towards supply chain transition and solutions.
- The IDH program aims to work towards a supply chain transition; therefore we need to understand the whole supply chain. To connect the demand base with the supply sheds, we need to map the end users and supply base.
- Within these supply sheds, innovative interventions need to be created, including financing models for smallholders upgrading to higher productivity and improved livelihoods.

This program is in development; therefore no KPI table is available yet.

Programs in **Scoping**



Minerals & Metals

The scoping phase of mining focuses on two 'conflict minerals': Tin and Gold. These minerals have the highest potential for market transformation for four key reasons:

1. They are connected to more consumer responsive industries
2. They show potential to convene key stakeholders who are interested in up-scaling sustainable production
3. They are sourced in IDH strategic countries.
4. They are two of the four minerals effected by the conflict minerals legislation (Dodd Frank) leading to much higher sourcing awareness from the industry

Indonesia and Peru together represent 35% of global tin and 10% of global gold production. In these countries the minerals in scope are extracted through Large Scale Mining (LSM) and Artisanal Mining (ASM). While LSM has the highest impact on the environment and community issues, ASM represents by far the biggest group of workers. An effective strategy for mainstreaming sustainability in both Gold and Tin supply chains should include both LSM and ASM practices.

Main sustainability issues targeted
Environmental impact, Small Miners income and social issues

Focus countries AFRICA, ASIA, LATIN AMERICA



Key accomplishments in 2012

- IDH monitored the sustainable sourcing developments in the tin and gold sectors, in preparation for the moment to step into a more pro-active scoping role when private sector support for up scaling sustainable tin and/or gold will be more visible. In anticipation of this, further scoping was put on hold by the IDH Executive Board.
- IDH stayed informed through stakeholder meetings with the Ministry of Foreign Affairs, Tata Steel, Philips, Apple, Friends of The Earth, Solidaridad, WWF, among others.

Lessons Learned

- As expected, US regulation has triggered a long list of sustainability initiatives in the conflict minerals sector, however most of them are compliance based, and mean in fact an export ban for the DR Congo and surrounding countries. Some exemplary initiatives, including the Dutch Ministry supported Conflict Free Tin Program, have been able to go 'beyond compliance' and aim to develop capacity for conflict free tin mining on the ground. Building on this to make this tin mining also more sustainable and mainstream, could be a starting point for an IDH program in future.

This program is in scoping; therefore no KPI table is available yet.



Paper and Pulp

The production of pulp and paper is one of the leading causes of deforestation in the world, particularly in Indonesia. The key objective of the Sustainable Trade Initiative on Pulp & Paper (STIPP) is to establish an innovative industry-wide platform with key industry players who are committed to tackling their sustainability 'hot spots' in order to improve the overall sustainability of the sector.

Main sustainability issues targeted
Deforestation; toxic chemicals;
Energy and water efficiency; Water
pollution

Focus countries INDONESIA (INITIALLY) AND CHINA (AT A LATER STAGE)



Key accomplishments in 2012

- IDH local presence in Asia was established, which has been instrumental to kick-start things.
- In the scoping phase, IDH, AkzoNobel and Asia Pulp and Paper (APP) have researched the opportunities for sustainable market transformation in Indonesia. Recently, sustainability criteria, forestry issues and roadmap were discussed with APP. Reaching agreement with APP on the minimum sustainability criteria is a first go/no go step in this scoping phase.
- IDH became a member of the Tropical Forest Alliance 2020, a partnership between the Consumer Goods Forum and USAID (and broader donor community) to eliminate deforestation.

Lessons Learned

- Industry wide transformation in Indonesia can be achieved if a few key players are committed and on board.
- In order to make greater impact, it is essential to include suppliers of the mills in sustainable forest management as well.

This program is in scoping; therefore no KPI table is available yet.



Apparel

The Sustainable Apparel Coalition (SAC) is a group of leading apparel and footwear companies and public stakeholders. Some of our partners, Marks & Spencer, H&M, Levi's and leading brands Wal-Mart, Nike, Adidas, C&A, Gap Inc, are members.

The SAC was launched in March 2011 to reduce environmental and social impact of apparel and footwear production worldwide. SAC wants to develop a shared vision on sustainability built on an industry-wide index for companies to measure and evaluate apparel and footwear product sustainability performance.

IDH has been approached by SAC, and is now scoping its potential-added value and role. IDH has indicated interest to support and strengthen the SAC membership network and stakeholder engagement by convening the industry in Europe. Building on this, IDH aims to co-design programs on specific issues with frontrunners in the SAC.

Engagement with SAC would further leverage the experience in sustainable manufacturing practices in Asia gained in the Electronics program, and would connect well with the retail/brand network which is vital for the Cotton program.

Main sustainability issues targeted
Environmental & social performance

Focus countries ASIA



Key accomplishments in 2012

- The opportunities for, and added value of starting a partnership with SAC were analyzed.
- A joint draft proposal was created for partnering with SAC on setting up a European SAC hub and collaborative improvement programs focused on specific 'hot-spots'.

This program is in scoping; therefore no KPI table is available yet.

Impact studies

Introduction

Seven studies into the results and achievements of the IDH Cotton, Cocoa and Tea programs were done by independent international consultancies and academic institutes. For each of these commodities, the impact at farmer level in terms of income, sustainable production and the like, was assessed. They also analyzed the extent to which markets have transformed by integrating sustainability considerations into the market rules of the game.

Given the innovative and mainstream approach of IDH - no change model was at hand. Being halfway through our Action Plan Sustainable Production & Trade, now is an excellent time to investigate our impact so far, and to ascertain whether the programs deliver the intended sustainability benefits at scale. We also want to investigate if and how our intervention strategies could be more effective.

Last but not least, as a publicly funded organization, IDH strives to deliver benefit for the public good. By sharing results and lessons learned with a wider audience of stakeholders, we hope to contribute to existing and future programs in this realm.

The studies were conducted by ODI, Lei Wageningen, Cosa, KPMG and Steward Redqueen in Kenya (tea), India, Mali, Pakistan, Brazil (cotton) and Ghana and Cote d'Ivoire (cocoa).

The studies indicate that:

The source of livelihood of over 700,000 farmers in cotton, cocoa and tea has significantly improved.

- The programs have significantly increased the global market share of sustainable products: sustainable tea and cocoa are well on their way to becoming mainstream.
- Cooperation between companies, NGOs, governments and science is well established; the systems for market transformation are in place. Programs have triggered large scale private investments.
- Flanking and additional activities are necessary to address more complex issues such as child labor and gender inequality.

Increase livelihoods at scale

The studies show that farmer training in better agricultural practices targeted at (e.g.) reduction of pesticides use, better water- and waste management, soil conservation and efficient land use, have increased both quality and quantity of yields. This has a positive effect on the liveli-

hoods of farmers.

In tea, KTDA (Kenyan Tea Development Agency) small-holders who have participated in the Farmer Field School (FFS) trials generated an average yield improvement of 36%. Another benefit is that a 75% return on the Mombasa tea auction price was paid to the farmers, which compares very favorably to the returns in neighboring Tanzania and Rwanda, where subsequently 27% and 25% of FOB price is paid to farmers. In cotton, an average 20% higher yield (compared to control groups) was accomplished in Pakistan, India, Mali and Brazil, and the use of water and pesticides was significantly reduced. In cocoa, premiums and better quality of cocoa have led to higher incomes for cocoa farmers in Cote d'Ivoire and Ghana. This has resulted in improved source of livelihoods of over 700,000 farmers.

Volumes of sustainably traded commodities have increased significantly

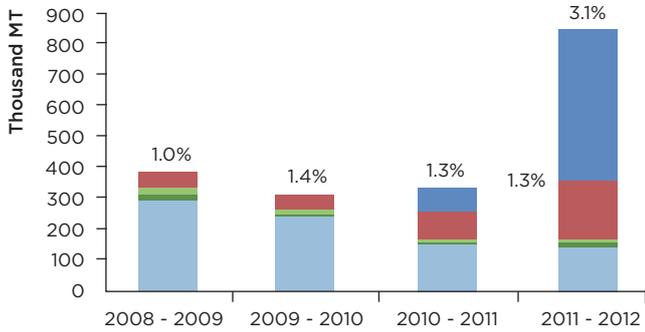
Over 12% of global tea production is now certified. Sustainable cotton has a 3.1% global market share and certified cocoa has a global market share of 12%. These figures outperform the goals that IDH set itself in 2010 in its Action Plan Sustainable Trade.

Given the theory that 20 - 30% market share will create a tipping point that will transform the entire market to more sustainable practices, sustainable tea and cocoa are well on their way to becoming mainstream. This shows the key difference between IDH programs and previous initiatives to improve farmer livelihoods in developing and emerging economies, which is 'scale'.

In cotton, cocoa and tea alone the livelihoods of over 700,000 farmers have improved. In cotton, after 2 years of implementation approximately 490,000 MT Better Cotton lint has been verified in the 2011/2012 season, which was 1.5 times more than all other sustainability initiatives in the sector together (see graph). In 2013 all 560,000 KTDA tea small holders in Kenya will be certified. On the market side, multinationals and over 160 SMEs are working together in IDH programs, and have invested over € 500 million in supply chain transformation.

Global public private cooperation increases trade volumes

In the complex supply chains of cocoa, cotton and tea, the vertical cooperation between farmers and (western) retailers, brands, manufacturers and processors in the supply chain is well established. In the tea and cocoa programs this has resulted in (e.g.) better alignment of demand and supply, cost reductions in the supply chain, rewards for farmers for sustainable production (premi-



% of total global cotton production

- Better Cotton
- CmiACotton
- Fairtrade Cotton
- Both Organic & Fairtrade Cotton
- Organic Cotton

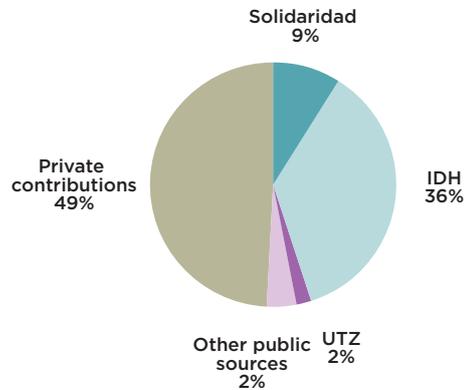
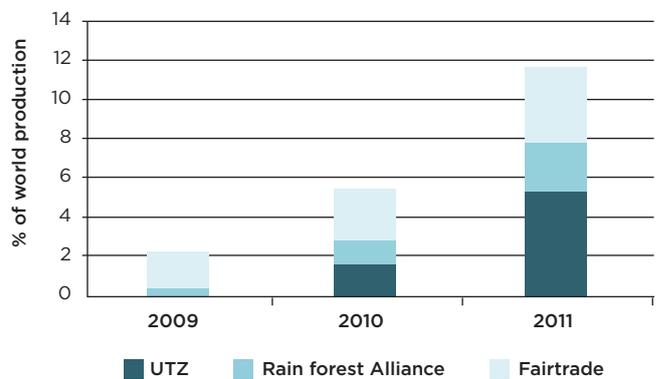
In 2 years time, 1.5 times more BC cotton than all other sustainable initiatives together was produced. (Source: Steward Red Queen)

ums) and structures in which large numbers of farmers can be organized and trained. Horizontal cooperation between companies, NGOs and governments has resulted in better alignment of knowledge, efforts and investments, leading to more efficient use of resources and a large market demand for sustainably produced materials. In cocoa for example, a coalition of companies with 40% global market share was built. Together with NGOs and governments this coalition invested over € 12 million (€ 90 million of premiums not included) in sustainable market transformation (see graph in the right column).

Inclusive, local organization

One of the key learnings of IDH programs is that embedding in local structures and building on existing initiatives is essential. The Kenyan Tea Development Agency (KTDA) played a crucial role in reaching out to tea smallholders in Kenya. The supplier - buyer relationship between Unilever and KTDA has been a key enabler for success. Furthermore, the KTDA Farmer Field School methodology was readily accepted and implemented by small scale farmers, resulting in higher tea yields and improved kitchen gardens, increasing income and a higher level of food security in the region.

In cocoa, cooperation with governments in West-Africa contributed to the outreach to farmers and smoothed cooperation with national institutions, such as the Cocoa Boards in Ghana and Cote d'Ivoire, which were instrumental in the formulation of national policies. Last but



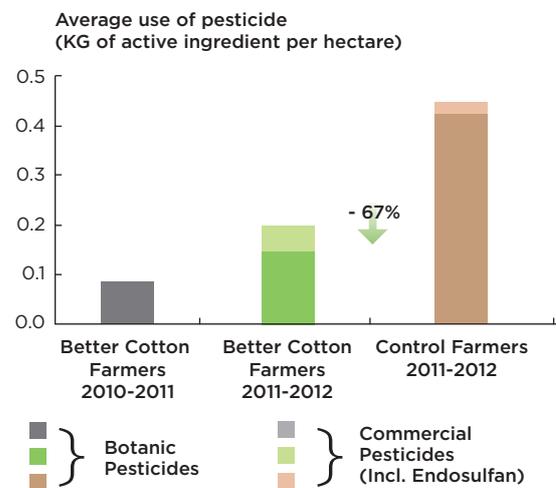
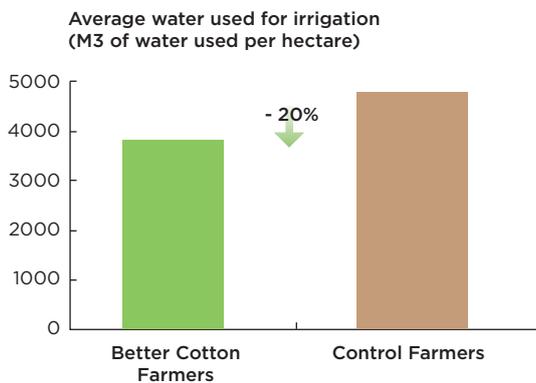
Cocoa beans produced by certified farmers (Source: KPMG)

Half of investments in sustainable cocoa were private.

not least: sustainable production and trade that are supported by local authorities and embedded in local structures will more easily become self propelling.

Beyond certification

The system for certification is well established. The system has reached scale and has become self propelling in tea, cotton and cocoa. The benefits of certification are clear in terms of transparency, market linkage and premiums, but there are also limitations. In cocoa for example, there is a need for increased productivity. New interventions such as better and more fertilizer application, new planting materials, and system changes making small scale farmers bankable, are needed to revitalize the sector. Social issues, such as gender inequality and child labor need to be addressed by additional, flanking activities. For tea, IDH started a program with KTDA and the Ethical Tea Partnership (ETP) to address social issues, such as



Reduced water and pesticides use by Better Cotton farmers. (Source: Steward Redqueen)

minimum wages in the Kenyan tea industry. The 3 studies indicate that some issues, such as gender inequality and child labor, cannot be fully addressed by supply chain transformation alone. To resolve such issues, cross-sector activities will need to be organized. Regional farmer education centers in cocoa and tea can be instrumental to create more awareness of the need to tackle these issues.

Sustainable market transformation helps to increase the source of livelihoods of large numbers of farmers. In cotton, there is also clear evidence for the reduction of water and pesticides use (see graph above), increased use of compost and reduced use of commercial fertilizer (see next page). In cocoa and tea the environmental benefits of sustainable production and trade are, although very promising, still anecdotal.

Impact Study

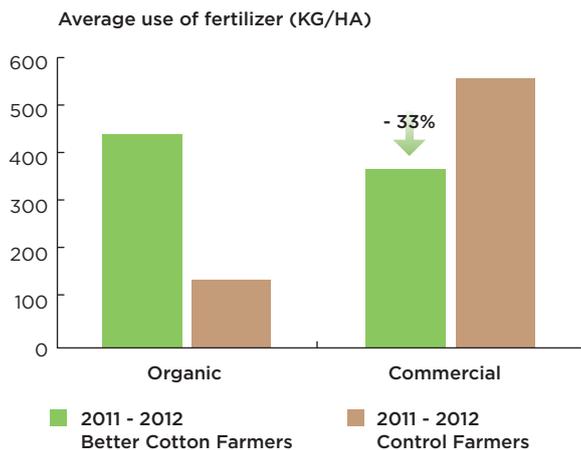
Cotton

Higher yields, better livelihoods and large scale environmental impact of global coalition.

Results

In the 2011-2012 season, the BCFTP funded 24 projects in India, Pakistan, Brazil and Mali, training approximately 125,000 farmers. In the 2011/2012 season, 490,000 MT Better Cotton (BC) lint was licensed.

- In 2 years time the Cotton program more than doubled the volume of sustainable cotton.
- Compared to control farmers, BC farmers use 20% less water; 67% less pesticide; 33% less commercial fertilizer, and they use more organic fertilizer (compost):



- In the 2011/2012 season, the 125,000 (mostly smallholder) Better Cotton farmers had an average 20% higher yield compared to control groups.
- The program was successful in catalyzing market transition: supply creation, market demand and supply chain linkages.
- Institutional build-up of the BC system, significant learning on the business case for BC production and subsequently triggering of private sector investments.

Challenges

To strengthen the database on complex issues such as water, pesticide usage, profitability and decent work practices.

- To improve retail and brand uptake of Better Cotton.
- To engage stakeholders in producing countries, particularly midstream supply chain players and local governments.

Steps forward

iDH and BCI have started an impact study on decent work (e.g. child labor) in India, Pakistan and Mali to strengthen capacities of implementing partners by defining KPIs on gender inequality and child labor. These KPIs will be integrated in the BCI system. And best practices and tools will be disseminated among sector partners.

The positive impact results in the program are a joint effort of IDH and its public and private partners:

Private partners: Adidas, IKEA, H&M, Levi Strauss & Co, Marks & Spencer, Nike and Walmart.

Funders: IDH, ICCO, Rabobank Foundation FSP (Solidaridad) Supply Chain Partners: Vaibhav Laxmi Industries, Arvind, Abishek, Zhongliang, Golden Fields, Huafu, Taichang, Huitong, CMDT and OLAM.

Implementing partners: BCI, ACF, AFPRO, Arvind, CottonConnect, Solidaridad, Trident, WWF India, WWF Pakistan, ABRAPA and OLAM.

Governments: Mozambique



“IDH is crucial to the growth of Better Cotton production, including leading the conversation, facilitating dialogue between various stakeholders, and ensuring scaling occurs as fast as possible.”

Sean Cady, Vice President, Product Stewardship and Sustainability, VF Corp. (Source: steward red queen materials)

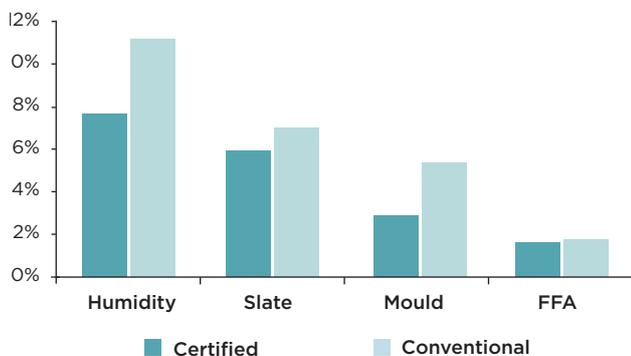
Impact Study

Cocoa

Over € 90 million of private investments were made in the sustainable supply chain. Mainstream market transformation is taking place.

Results

Better quality yields and 10% price premiums for trained small scale cocoa farmers in Cote d'Ivoire contributed to the improved source of livelihoods of 96,000 cocoa farmers.



Yield quality of certified farmers has significantly improved. (Source: KPMG)

The IDH Program has been successful in the professionalization of farmers and the mainstream market uptake of certified cocoa (over 15,000 MT certified cocoa was purchased in 2012).

- The program organized partners representing over 40% of global cocoa trade and other public and private partners to invest over € 12 million in sustainable cocoa production and trade.
- The institutional enabling environment and support structures for certification are in place, forming a good base to boost yields through (e.g.) access to fertilizer and finance.

Challenges

yield improvement has been difficult to measure due to great differences in the groups of farmers, uncertainty of land plot sizes, and lack of on-farm registration practices.

- Standards have no clear effectiveness off-farm, e.g. landscape level or social issues. We need to orchestrate

effective relationships between market forces, state and community.

- The business case works for the frontrunners. Scaling requires new models of delivering services to the farmers. How to reach the 90% unorganized farmers? What is the role of micro-distributors? How to establish collaboration with state agencies?

Steps forward

continue to build on the 'beyond certification' agenda by focusing on productivity and quality improvements via the 'fertilizer and access to finance' program.

- Further develop national platforms and strategies to address social issues such as child labor, gender inequality and food security.
- The traditional approach of impact studies proves to be weak in illustrating field level changes. In the next phase, in-company data and audit results will be used. This data is better scalable and more cost effective in terms of collection and analysis.

The positive impact results in the program are a joint effort of IDH and its public and private partners:

Private partners: ADM, Ahold, Armajaro, Barry-Callebaut, BT Cocoa, Cargill, Continaf, Ecom, FrieslandCampina, Kraft, Mars, Heinz, Nestlé, Multi-Trex, Ferrero, Delfi and Cemoi.

Governments: Cameroon, Côte d'Ivoire, Ghana, Indonesia, Switzerland and Vietnam.

Other partners: FLO, GIZ, ICCO, Oxfam Novib, Rainforest Alliance, Solidaridad, Swisscontact, UNDP, UTZ Certified and WCF.



"We have unraveled where we have succeeded and where our shortcomings are so we can fine-tune them until the ultimate benefit is realized"

Yaw Adu-Ampomah, Deputy CEO of the Ghana Cocoa Board (Source: <http://www.youtube.com/watch?v=txUVfyengWg>)

Impact Study

Tea

The locally embedded Tea program shows large scale impact: in 2013, some 560,000 tea smallholders will be certified in Kenya, one of the world's largest tea exporters.

Results

By the end of 2012 over 200,000 smallholders were certified and 798 Farmer Field Schools (FFS) had been set up. An average of 36% yield increase significantly contributed to the improvement of source of livelihoods for small scale tea farmers who were part of the FFS training in Kenya.

- Local ownership and embedding have been key in achieving results. KTDA has now added sustainability practices to its core business and will be less dependent on external funds.
- Through diversification and increasing tea prices, the incomes of tea farmers have increased significantly, the use of pesticides has decreased, and waste management and sustainable water use have improved.
- Kenyan tea farmers who have been trained by KTDA (Kenyan Tea Development Agency) at Farmer Field Schools have also improved their kitchen garden (carrots, tomatoes, cucumbers, small animal husbandry, dairy production, etc) activities significantly. Selling those on local markets increases their income and improves food security in the region. The IDH investment in farmer's trainings (5% of total investments) catalyzed significant private sector investments.
- KTDA tea farmers get a 75% return of the Mombasa tea auction price, which compares very favorably to those in neighboring Tanzania and Rwanda where respectively 27% and 25% of FOB price is paid to farmers.

Challenges

Standards such as Rainforest Alliance and UTZ have shown a clear potential to improve farm performance. But what is their effectiveness off-farm, e.g. landscape level, social issues? How to orchestrate effective interplay between market forces, state and community?

- Next year, 560,000 Kenyan smallholders will be certified. Kenyan baseline conditions are unique in terms of organization and farmer share of FOB price (75%). How to extend the business case and KTDA methodology to other countries?

- How to deal with the diverse composition of smallholder population of KTDA in terms of farm size, capitalization and professionalization?

Steps forward

Integrate Farmer Field School and Rainforest Alliance trainings to maximize sustainability impact and to have a self-sufficient sustainable tea economy in Kenya after 2015.

- Export the Farmer Field School model outside Kenya.
- Start up a domestic program in India, as 80% of Indian tea production is consumed domestically.
- Expand and deepen our partnerships to address cross-cutting sustainability issues in the tea industry, such as complex social, environmental and economical issues with particular attention to wages, gender and agro-chemicals.

The positive impact results in the program are a joint effort of IDH and its public and private partners:

Private partners: DE Master Blenders 1753, Twinings, Unilever, Kenya Tea Development Agency (KTDA), Tata Global Beverages, Ethical Tea Partnership (ETP) and KNVKT.

Other partners: Oxfam Novib, Oxfam GB, Solidaridad, Rainforest Alliance, UTZ certified, WEF, Business Watch Indonesia, LEI Wageningen UR

Governments: Kenya, India, Indonesia and Vietnam.



“In the Farmer Field School I learned when you prune and pluck tea properly you have high yields; I am now also growing crops such as tomatoes and even carrots!”

Kenyan Tea Farmer

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Other activities

Learning & Innovation

The IDH Learning Program has a twofold focus. First, we support the performance drive and impact delivery of IDH pillar programs by organizing tailor-made studies. This is done by stimulating strategic reflection with program partners and by prototyping innovative solutions for critical obstacles to market transformation. Our support aims to bolster strategic decision-making and program focus by developing relevant metrics, field evidence and quantitative tools.

Second, the IDH Learning Program contributes to wider knowledge generation and dissemination through (cross-sector) studies, impact assessment, our yearly congress and other learning events, and publications. We actively participate in international forums on market transformation, certification and sustainability, and are more and more being acknowledged in our specific contribution to those themes. The dissemination of knowledge and best practices is done through our own publications and by strategic alignment with platforms and institutions such as SAI Platform, IMD, ITC, MIT and WUR.

Achievements in 2012

Sector programs

Together with IFC, FMO, WWF and KPMG we studied the business case for responsible soy. The analysis reveals a reasonable break-even period of less than 3 years. Another key insight is that legal compliance would take up 90% of the upfront costs for producers. This implies that embedding the RTRS in national policies is critical to mainstream success. By consequence, we have accelerated a focus on local convening and national embedding in the soy program.

In cocoa, we convened a partnership of leading players from the cocoa industry, fertilizer supply industry and local government to raise a joint initiative to improve access to fertilizer, boost productivity and restore soil fertility on cocoa farms in Ivory Coast and Nigeria. The learning program developed the underlying base of field evidence, in partnership with CIRAD, and the modeling of how the industry can integrate fertilizer distribution into their supply chain models.

In cotton, we supported the BCI in their strategic plan for 2015-2020. We engaged a consultancy firm to design the BCI traceability strategy, taking into account the lessons learned in palm oil and soy.

In tropical timber, a strategic review was organized, to understand why, after twenty years, the sector has reached only 6% of the tropical forest under sustainable forestry management. We developed an innovative analysis and field-based metrics to demonstrate how the

traditionally weak business case for sustainable forestry will improve - once new legality initiatives such as EUTR, FLEGT and Lacey Act are put into practice. The analysis supported the development of a next-stage strategy for our timber program focused on creating synergies between sustainability certification and legality initiatives, in particular through the EU Sustainable Tropical Timber Coalition.

In tea, our team, supported by an intern from Duisenberg School of Finance, spent ample time in the offices of the KTDA to retrieve primary data on the costs and benefits of certified sustainable tea. Our analysis shows a consistently higher yield from farmers who are certified and who participate in a farmer field school. The outcomes of the study are being used for discussions with KTDA management and other partners in our tea program, concerning the up-scaling of certified tea volumes and full internalization of costs into the mainstream business. In addition to the cost-benefit study we collaborated with Oxfam-Novib, ETP and Unilever to conduct a study on fair and transparent wages for workers in the tea sector. This study will be used in 2013 for debates with public, private and civil society stakeholders in the tea sector. Finally, we realized a cost-benefit study into the Lestari tea standard in Indonesia.

Aside our engagement with the pillar sector programs mentioned above, we realized a number of other activities at sector level:

- Quantification of the business case for improved labor practices in the electronics industry in China, jointly with INFACT and KPMG. Our work included the development of a business planning tool which can be used by factories, so they can develop the business case for their specific situation.
- We assigned an ambitious study into the business case for sustainable coffee, supported and co-financed by the roasters in our coffee program. The work will include developing country-level investment propositions for Ethiopia, Brazil, Vietnam and Uganda. In 2012 we started the work with TechnoServe, and we expect to deliver final results in Q2 of 2013.
- The business case of sustainable pangasius production in Vietnam was organized. So far, the study has covered large-scale producers and will in 2013 be complemented by additional data on small-scale producers.
- We studied the business case for sustainable spices, with a particular focus on the costs and benefits for the SME companies which trade and process the prices. The study has been commissioned to KIT and will be delivered in Q2 in 2013.

Cross-sector activities

We finalized the first round of impact studies into IDH market transformation programs, with a focus on cotton, cocoa and tea, in order to develop the evidence base of our theory of change and to reinforce our programming. The studies were presented and discussed by the IDH Impact Committee and the Supervisory Board in March 2013, who greatly appreciated the quality of the studies. We are currently analyzing and reflecting on the studies and preparing a publication for release in Q2/3 in 2013. More details about our impact research are captured in the 'impact studies' chapter in this Annual Report.

We organized the 2012 International Supply Management Congress in partnership with Unilever, Rabobank, AkzoNobel, PWC, KPMG, NEVI, Shell and ADC. The event attracted more than 1100 participants; IDH welcomed approximately 300 partners from our networks. We organized well-visited IDH expert workshops on three topics: the impact of sustainable trade, national-owned sustainability and practical approaches in sustainable sourcing.

Together with SAI Platform, IMD and ITC we developed a practitioner's guide for the sourcing of sustainable agricultural raw materials. The publication is a practical, hands-on guide for supply chain managers and procurement managers. It holds the experiences and best practices of leading companies in the field. In 2013 the guide will be further developed through a series of workshops and interactions with procurement managers.

Partnerships

IDH is striving to accelerate high-impact market transformations in view of making global supply chains more sustainable. Impact requires a larger scale and such scale can be reached much faster through partnering and expanding our Dutch founding base to a European level - if not a trans-Atlantic platform. Our scale, track record and value proposition in result-oriented Public Private Partnerships have proved to be incentives for like-minded governments to align with IDH in transforming global supply chains, hereby using the market forces of the private industry. By joining forces, donor partners can provide an even more effective contribution to policy making and realization of the MDG's 1, 7 and 8.

In 2012, we agreed on our strategy for European cooperation, building on the strengths of our value proposition and the strong support for this direction from our private sector partners. Our approach fortunately is in line with the 'Agenda for Change' of the European Commission that commits to joint programming between the

EU, its member states and beyond. Policy coherence for development is also supported by the Netherlands to increase the impact of aid. Our message entails IDH offering prospective donors a return on investment through a well-functioning PPP, which works with all supply chain actors to deliver sustainability impact and private sector development in producer countries.

Achievements in 2012

- Development and roll out of IDH's Strategy for European cooperation.
- Signing of three year cooperation agreement with Danish International Development Agency (DANIDA) on the programs Coffee and Cotton, in the countries Ethiopia, Uganda and Mozambique.
- Preparing the final stage for political approval of a four year partnership with the Swiss State Secretariat of Economic Affairs (SECO).
- Advanced engagement with the UK Department for International Development (DFID) on a PPP proposal for a multi-commodity program to tackle deforestation in Latin-America, West and Central Africa and Asia.
- Presented IDH during a high-level panel session for a crowd of over 40 decision makers in development cooperation at the *European Development Days* in Brussels in October.
- Organized and co-hosted with the Dutch Ministry of Foreign Affairs a successful public partner roundtable in November on "*Catalyzing public private partnerships to accelerate and upscale sustainable market transformation for the public good*" with policy makers from European and North American donors and the European Commission.
- Started ongoing talks with other bilateral donors, such as the Swedish International Development Agency (Sida) and the Finnish Department for International Development Co-operation on alignment with IDH programs.
- Presented IDH to the European Commission, among others the Directorate-General for Development and Cooperation (DG DEVCO), Directorate-General for Environment and Directorate-General for Agriculture.
- Explored with USAID's mission in Brussels, Feed the Future Alliance and the Climate Change Group opportunities for cooperation. Since then USAID and IDH are working together on reducing commodity-driven deforestation.

Risk Management

As a publicly funded and mandated organization, the importance of adequate risk management and transparency is essential in keeping our stakeholders' trust in our partnering, our results and our spending.

Traditional financial reporting does not do justice to the legitimate expectations on risks and operations transparency of our stakeholders, who expect that organizations respond in a timely matter to developments in society and that they monitor and act upon the risks that are associated with our activities in these environments.

In particular, public donors expect the IDH management to know the potential risks in its operations and how to mitigate them.

The development of a risk management process in 2012 was a conscious step to further professionalize the organization in this respect.

Achievements in 2012

- In 2012, significant steps have been taken to address risks on a structural basis. IDH's risk management framework document was approved by the Supervisory Board in its meeting on October 25th 2012. It classifies four categories of risks: External risks, Programmatic risks, Organizational Risks and Finance, Planning and Control risks. Since the adoption of IDH's risks management policy, reputational and other risks have become a regular, substantive item of discussion between management, program managers and operational staff in MT-meetings, the recurring program reviews and on other occasions.
- An International Corporate Social Responsibility (ICSR) Policy has been developed based on the OECD guidelines for Multinational Enterprises outlining the programmatic steps to be taken towards compliance. This ICSR policy has entered into effect January 1, 2013.
- Implementation of the overall risk management framework was started, as well its ICSR policy into IDH's program flow in 2013.

Organizational Development

Staff is a core asset of IDH and vital in realizing our mission. In 2012, we concluded the first phase of expanding the organizational capacity, to the 35 fte needed for the 2011-2015 plan. We continued putting our efforts toward the pillar programs, building supporting teams for each program and establishing internal quarterly program

reviews as well as making more time for strategic reflection. Further, professionalization of IDH and its HR framework took place. Solid people management was institutionalized by strengthening the annual appraisal process, developing job descriptions and facilitating recruitment and induction. Finally we used the 2011 collective value work and survey results on this to continue to build our staff engagement.

Achievements in 2012

Focusing efforts and taking time to reflect

During 2012 we continued to focus on the IDH pillar programs. A few additional program officers were hired to assist with PM&E, contractual and administrative work. The operations team was expanded with 2 staff members to better support the programs from a financial and legal perspective, and learning and communication efforts were more focused on the pillar programs. In Indonesia, Vietnam and India local support was contracted to strengthen and further embed the local convening role of the programs.

The IDH commodity programs are in continuous development, further refining the effectiveness of our interventions. To organize and facilitate this process, quarterly program review meetings were set up. This allows all relevant staff working on a particular program to reflect on program progress and issues and make strategic decision together when required.

People management

In 2012, IDH people management was shaped. In this process job descriptions were written for all positions, including core job functions and IDH key success factors and other requirements. A solid annual appraisal process was established in which time is taken to set objectives and discuss performance as well as identity challenges. During 2012 most of the senior staff conducted the Leadership Circle ©; a 360 degree feedback tool, followed up by 2 or more individual coaching sessions.

Strategy to further build capacity

IDH is an organization that is action -, not reflection led. Learning by doing is common; reflection is sometimes done ad-hoc. More reflection and learning is wished for to ensure results in a dynamic and complex environment. During Q4 of 2012 a plan for further training of our staff in 2013 was developed. This strategy includes 3 work streams:

- Quarterly change management modules for Program Managers, Program Directors and Learning staff

- PM&E training for Program Officers
- Monthly good practices meetings

Communication

In 2012 we focused on internationalization of our communication outreach on two levels. First, we tried to get a stronger foothold in the media in producing countries, to increase support for sustainable production and trade with local stakeholders. On another level, we aimed for better representation of IDH in international mainstream media (Reuters, Associated Press, Financial Times etc). Furthermore, as our programs developed and accelerated, we needed to better align our program communication with our partners.

Looking back at the results of 2012, we have been successful in reaching out to media in producing countries such as Cote D'Ivoire, Brazil, Argentina, Ghana, Vietnam, Indonesia and Kenya, especially in cocoa, tea, soy and aquaculture. We also laid a good base for international mainstream media outreach, resulting in 2013 in articles about IDH by several news agencies and in national newspapers in the USA. Also alignment with program partners was incorporated the communication team's more systematic way of working.

IDH's communication strategy is threefold:

1. We promote Public Private Partnership models for sustainable production and trade, and shared value creation as a joint interest of businesses, NGOs and governments with IDH acting as key change agent.
2. We formulate and implement program tailored communication strategies that help accelerate and upscale our programs. In this we strive to emphasize the successes of our champion partners.
3. And last but not least, we disseminate lessons learned and best practices, as a contribution to public and sector knowledge creation.

Achievements in 2012

Corporate Communication highlights

Website The average number of website visitors has grown to 600 visitors per week - a 15% increase compared to 2011. Also quarterly newsletters are sent.

Events We co-organized the New Year's Event with CSR the Netherlands through a workshop on SME inclusion, and produced our traditional IDH New Year's present: a box with the 1st RTRS soy. This was sent to all our key stakeholders, and distributed by the Dutch government delegation at Rio +20. Joost Oorthuizen appeared in a regional episode of College Tour and was interviewed for

an article in a NRC supplement about sustainable trade. Another annual milestone: the ISMC congress in November, which was well attended especially by IDH partners due to intensive communication efforts. Several video reports (filmed and edited by the communication team) on tea in Kenya were made and published.

Reports The communication team helped to structure, organize, produce, design and publish numerous internal (Supervisory Board) reports, the annual plan, and external publications such as embassy program overviews, booklets for the two Strategy Group meetings, the attribution report, IDH factsheets, updated Action Plan, our annual report, numerous PowerPoint presentations and incidental publications.

Training Furthermore we initiated and organized a well appreciated '1 minute pitch' communication training for senior (program) management, including the MT.

Program Communication highlights In 2012, IDH and our partners have been successful in communicating program milestones such as the first ASC certified fish on the market - which was broadcasted in the NOS 8 o'clock evening news and RTL4 news - and the Fruits & Vegetables launch. The IDH team also organized the launch of a new cocoa program in Cote D'Ivoire that was covered extensively by West African press.

Other activities included:

COCOA - In November the Fertilizer launch took place in Abidjan. Key press from Cote D'Ivoire and other parts of West Africa reported extensively on the event.

COTTON - The Better Cotton Fast Track Program communication tools were produced. In cooperation with the other Fast Track partners, an advertisement was developed and published in the international trade magazine Ecotextile. In addition, an online banner campaign and feature story about the program was included.

SOY - IDH invited a camera crew from Argentina Canal Rural to cover the EU market demand for RTRS soy and thereby making farmers aware of the changing market circumstances. This was broadcast by both Canal Rural in Argentina and Brazil. The program was viewed by more than 15 million people.

TEA - An animation of the tea program, new fact sheets, an overhaul of the program web pages and three videos were shot in Kenya to highlight the on the ground activities in Kenya with the KTDA. Video footage included farmer interviews as well as farmer field school and tea processing factory impressions. A dedicated webpage was built in preparation of the 2013 New Year's present: KTDA tea.

TIMBER - In Brussels, a pan-European event presenting

the concept of the EU Sustainable Tropical Timber Coalition was held in December 2012. It demonstrated the business case for sustainable timber linked to new EU laws preventing the import of illegal timber. Earlier in the year the Linking Europe program was launched.

OTHER PROGRAMS - A video interview with the implementing partner of our Electronic programs was developed. The Floriculture program launch event was co-organized which was widely covered by Dutch and German trade media.

Communication on Learning & Innovation

Half way into our Action Plan (updated in 2012) we were already able to report on on-the-ground impact. Recent research on the cotton, cocoa and tea programs has been conducted. To frame the outcomes of the reports and to explain the top line results of these research studies - and the relevance to the IDH model of change - a brochure and related website on impact was developed. The mainstream communication of our impact will be concentrated in 2013.

Communication carefully branded and framed the learning insights that came out of the KPMG business case study on soy. Due to a very active anti-GMO lobby, any communication on soy can expect to trigger a lot of critical media attention. A carefully designed media strategy with a two-step approach (test the waters with the experts and formulate a frame on the basis of the outcomes), paved the way for an open (media) discussion.

The first impact study on the tea program by Lei Wageningen was communicated in close cooperation with researchers at Lei Wageningen University, but was kept deliberately low key and to expert circles only.

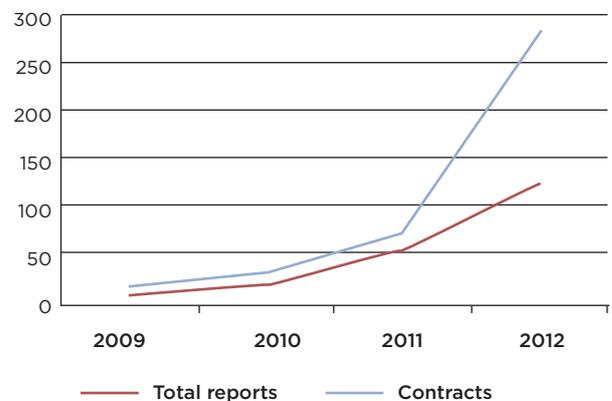
Planning, Monitoring & Evaluation

A key component of IDH's work, Planning, Monitoring and Evaluation (PM&E) enables us to measure progress, monitor whether activities executed create the foreseen outcome and continuously learn, improve and adjust our interventions when appropriate. In 2012 the total number of contracts grew immensely and the IDH framework for PM&E was further refined.

Achievements in 2012

In order to better implement IDH's PM&E framework and to guide our partners regarding our reporting require-

Improving the quality and consistency of PM&E



ments, the IDH Guidelines for Planning, Monitoring and Reporting have been included in all contracts focusing on program implementation. Essentially, this implies that for all contracts:

- Key Performance Indicators are framed within the four IDH Result Areas and a distinction is made between output and outcome indicators.
- An annual reporting cycle, which includes annual plan, progress report and annual report, was fully institutionalized.

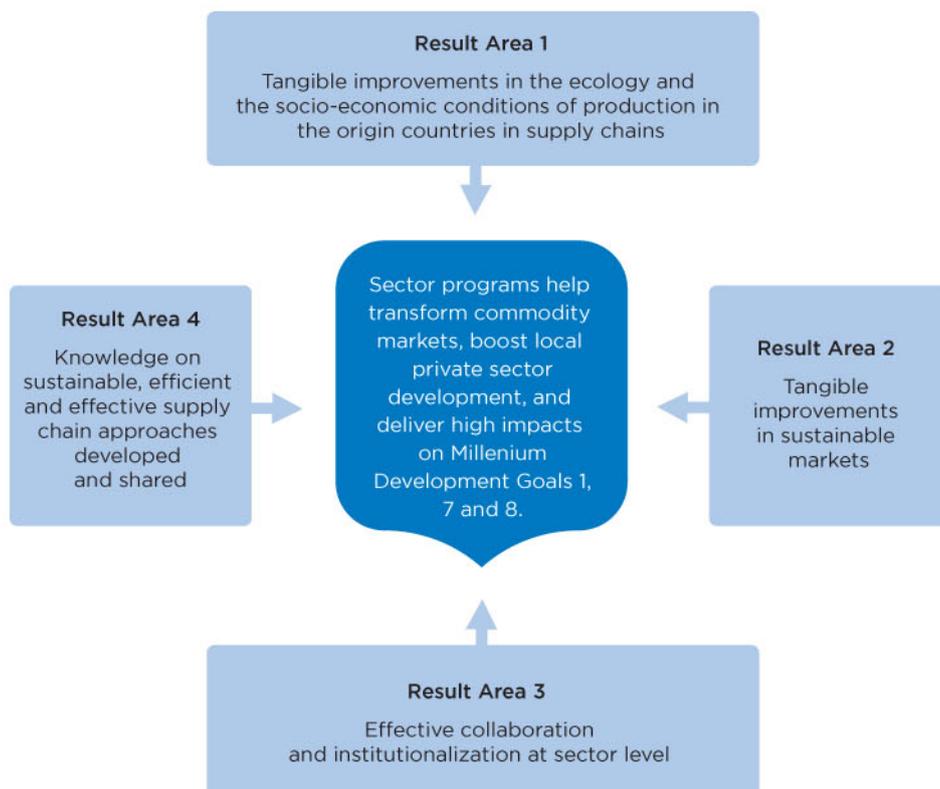
There is nevertheless room for continuous improvement. In Q4 of 2012 it was therefore decided to facilitate building full *intervention logic* for all programs. Intervention logic captures the way each program plans to reach its objectives and specifies explicitly how the performance is measured and monitored. The intervention logic serves as a tool for the Program Managers to better plan, manage and evaluate their programs, but it is also a way to improve IDH's transparency, accountability and communication with external parties.

Impact assessment

Obviously the 'proof of the pudding' in PME is the impact assessments. In 2012 impact assessments were executed for Tea, Cotton and Cocoa. These assessments are further explained in a separate chapter of this Annual Report.

Facilitating the PME process

In Q4 of 2012, due to the growing number of contracts and reports, it was decided to implement a Project Management System (PMS). The PMS will facilitate the planning, reporting and monitoring process for all programs, within IDH as well as from the implementing partners to IDH. Its full implementation is planned to be in Q3 of 2013.



Financials

Balance sheet

As at 31 december 2012, after appropriation of result

	31 december 2012	31 december 2011
	€	€
ASSETS		
<i>Current Assets</i>		
Accounts receivable	349,150	104,818
Advance payments and accrued income	1,777,834	1,025,928
Cash at bank	4,730,096	7,802,254
<i>Total Current Assets</i>	6,857,080	8,933,000
TOTAL ASSETS	6,857,080	8,933,000
LIABILITIES		
<i>Short-term Liabilities</i>		
Appropriated funds	2,965,671	7,702,484
Creditors	1,368,251	808,038
Taxes and social security charges	62,895	56,036
Other accruals	2,460,263	366,442
<i>Total Short-term Liabilities</i>	6,857,080	8,933,000
TOTAL LIABILITIES	6,857,080	8,933,000

- Comparative figures have been reclassified to conform to current year's presentation

Statement of income and expenditure

	2012	budget 2012	2011
	€	€	€
INCOME			
Subsidies from governments	19,597,677	21,770,000	13,195,748
Other income	1,611,207	-	1,112,522
<i>total income</i>	21,208,884	21,770,000	14,308,270
EXPENDITURES			
Programs and Projects	16,091,492	16,000,000	10,164,587
Learning and Innovation	780,139	1,000,000	304,047
Impact assessments and evaluations	276,523	150,000	50,000
Support and outreach cost	911,963	1,000,000	487,553
<i>total program expenditures</i>	18,060,117	18,150,000	11,006,187
Congress and communication cost	299,662	375,000	617,761
Personnel cost	2,305,018	2,550,000	2,012,862
Organizational cost	641,213	695,000	720,275
<i>total organizational expenditures</i>	3,245,893	3,620,000	3,350,898
<i>Operating result</i>	-97,126	-	-48,815
Financial income and expenses	97,126	-	48,815
Result	-	-	-

- Comparative figures have been reclassified to conform to current year's presentation
- The budget reflects the revised multiyear budget 2011 - 2015, as approved by the Ministry of Foreign Affairs in July 2012
- For expenditures on Programs and Projects we refer to the accounting principles.

Program Contributions and Investments 2008 - 2012

	2012 Total Contributions and Investments	IDH	Private	Other Donors
Aquaculture	1,760,460	350,216	307,835	1,102,409
Cashew	558,110	293,597	264,513	-
Cocoa	14,051,518	4,521,799	8,863,981	665,738
Coffee	975,963	565,253	410,710	-
Cotton	8,925,915	2,663,062	3,848,380	2,414,473
Electronics	2,315,207	311,980	2,003,227	-
Flowers & Plants	237,550	102,500	135,050	-
Fruit & Vegetables	45,242	45,242	-	-
Mining	-	-	-	-
Natural Stone	240,196	135,854	104,342	-
Palm Oil	79,604	79,604	-	-
Pulp & Paper	9,059	9,059	-	-
Soy	4,028,485	2,440,190	1,528,393	59,902
Spices	202,124	82,948	90,123	29,053
Tea	5,962,205	1,062,287	3,987,735	912,183
Tourism	682,283	146,020	523,963	12,300
Tropical Timber	3,138,365	1,710,788	966,542	461,035
Subtotal programs	43,212,286	14,520,399	23,034,794	5,657,093
Learning	1,025,739	780,139	-	245,600
Communication & Con- gresses	705,627	299,662	341,900	64,065
Total	44,943,652	15,600,200	23,376,694	5,966,758

	2008 - 2012			
	Total Contributions and Investments	IDH	Private	Other Donors
Aquaculture	3,066,600	1,349,657	436,839	1,280,104
Cashew	690,058	425,545	264,513	-
Cocoa	24,542,460	8,602,647	13,902,973	2,036,840
Coffee	1,174,377	676,492	450,960	46,925
Cotton	18,119,761	5,760,843	6,858,959	5,499,959
Electronics	2,658,269	655,042	2,003,227	-
Flowers & Plants	304,474	169,424	135,050	-
Fruit & Vegetables	80,085	80,085	-	-
Mining	50,794	50,794	-	-
Natural Stone	1,257,818	633,430	452,299	172,089
Palm Oil	116,137	116,137	-	-
Pulp & Paper	15,592	15,592	-	-
Soy	4,783,649	2,842,979	1,698,045	242,625
Spices	291,754	172,578	90,123	29,053
Tea	11,126,388	4,264,762	4,530,646	2,330,980
Tourism	1,657,982	574,624	951,400	131,958
Tropical Timber	12,465,510	5,626,127	2,499,208	4,340,175
Subtotal programs	82,401,708	32,016,758	34,274,642	16,110,708
Learning	1,588,013	1,304,413	-	283,600
Communication & Con- gresses	2,184,585	1,395,085	700,037	89,463
Total	86,174,306	34,716,256	34,974,279	16,483,771

Accounting Principles

General

Principal activities

IDH – The Sustainable Trade Initiative, is a foundation under Dutch law, and has its legal address at Nieuwekade 9 in Utrecht.

The organization is primarily involved in promotion of sustainability in the main international trade chains. It wishes to reinforce public-private consortiums that operate in those international trade chains in order to achieve high impact and value creation (from an economic, social and ecological perspective) in developing countries and emerging markets.

Financial Reporting period

The financial year coincides with the calendar year.

Basis of preparation

These financial statements have been prepared in accordance with the guidelines for annual reporting 640 'Not for-profit organizations' of the Dutch Accounting Standards Board. The accounting policies applied are based on the historical cost convention.

Going concern

These financial statements have been prepared on the basis of the going concern assumption. In accordance with the subsidy ruling from the Ministry of Foreign Affairs, IDH has not created a provision for continuity. The Ministry of Foreign Affairs has provided a formal guarantee to IDH to safeguard IDH's liabilities from personnel and short term liabilities.

Accounting policies

General

The figures for 2011 have been reclassified to conform to current year's presentation.

An asset is disclosed in the balance sheet if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognized in the balance sheet if it is expected to result in an outflow from the entity of resources embodying economic benefits, and the amount of the obligation can be measured with sufficient reliability.

Income is recognized in the profit and loss account if an increase in future economic potential related to an in-

crease in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognized if a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

If a transaction results in a transfer of future economic benefits and/or if all risks related to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability.

The revenue and expenses are allocated to the period to which they relate.

The financial statements are presented in Euros, the organization's functional currency.

Use of estimates

Preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles, the reported values of assets and liabilities, and income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognized in the period in which the estimate is revised and in future periods for which the revision has consequences.

Transactions in foreign currencies

Transactions denominated in another currency are translated into the relevant functional currency at the exchange rate applying on the transaction date.

Monetary assets and liabilities denominated in another currency are translated at the balance sheet date into the functional currency at the exchange rate applying on that date.

Financial instruments

Financial instruments include trade and other receivables, loans, cash items and trade and other payables. Financial instruments are initially recognized at fair value. After initial recognition, financial instruments are valued in the manner described below.

Loans granted and other receivables

Loans granted and other receivables are carried at amortized cost on the basis of the effective interest method, less impairment losses.

Trade and other receivables

Trade and other receivables are carried at amortized cost on the basis of the effective interest method, less impairment losses.

Trade and other payables

Trade and other payables are carried at amortized cost on the basis of the effective interest method, less impairment losses.

Trade and other receivables

The valuation of trade and other receivables is explained under the heading 'Financial instruments'.

Appropriated funds

Appropriated funds include grants received in advance, but which are not yet part of program - and other expenditures. The appropriated funds are carried over to the next financial year.

Non-current liabilities

The valuation of non-current liabilities is explained under the heading 'Financial instruments'.

Current liabilities

The valuation of current liabilities is explained under the heading 'Financial instruments'.

Revenue recognition

Government grants

Government grants are initially recognized in the balance sheet as appropriated funds if there is reasonable assurance that they will be received and that the foundation will comply with the conditions associated with the grant. Grants that compensate the foundation for expenses incurred are recognized in the statement of income and expenditure on a systematic basis, in the same period in which the expenses are recognized.

Program expenditures

The foundation enters into conditional, multi-year contracts with implementing partners. The annual commitment to the implementing partner is determined based on the approved annual budgets of the implementing partners. The annual commitment is recognized as program expenditure in the financial year. The remaining obligation based under the contracts with the implementing partners is recognized under the off-balance sheet assets and liabilities.

Once grant obligations cease to exist, they should be released to the statement of income and expenditure in the same financial year and noticeably be deducted from the program expenditures in the financial year.

Co-funding from other program partners received by the foundation will be recognized as income in the statement of income and expenditure of the foundation, when the foundation is contractually liable for the total financial commitment (the grant of the foundation and the co-funders) pledged to the implementing partners of the foundation for the financial year. The total financial commitment (the grant of the foundation and the co-funding from the program partners), based on the approved annual budget of the implementing partner for the financial year, is recognized as program expenditure in the statement of income and expenditure of the foundation. On balance, the financial commitment of the foundation is recognized in the statement of income and expenditure.

Grants received as a contribution in the expenses incurred by the foundation are recognized in the statement of income and expenditure, and deducted from the expenses concerned.

Employee benefits/pensions

Pension plans

The main principle is that the pension charge to be recognized for the reporting period should be equal to the pension contributions payable to the pension fund over the period. Insofar as the payable contributions have not yet been paid as at balance sheet date, a liability is recognized. If the contributions already paid exceed the payable contributions as at balance sheet date, a receivable is recognized to account for any repayment by the fund or settlement with contributions payable in future.

In addition, a provision is included as at balance sheet date for existing additional commitments to the fund and the employees, provided that it is likely that there will be an outflow of funds for the settlement of the commitments, and that it is possible to reliably estimate the amount of the commitments. The existence or non-existence of additional commitments is assessed on the basis of the administration agreement concluded with the fund, the pension agreement with the staff and other (explicit or implicit) commitments to staff. The liability is stated at the best estimate of the present value of the anticipated costs of settling the commitments as at balance sheet date.

For any surplus at the pension fund as at balance sheet date, a receivable is recognized if the company has the power to withdraw this surplus, if it is likely that the surplus will flow to the company and if the receivable can be reliably determined.

Taxes

IDH does not perform any entrepreneurial activities. The Dutch tax authorities have ruled that IDH is exempted for VAT and for Corporate Income Tax.

Determination of fair value

A number of accounting policies and disclosures in the foundation's financial statements require the determination of the fair value for financial assets and liabilities. For measurement and disclosure purposes, fair value is determined on the basis of the following methods. Where applicable, detailed information concerning the principles for determining fair value are included in the section that specifically relates to the relevant asset or liability.

Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows.

Contingent liabilities not included in the balance sheet

Financial Instruments

General

The foundation does not trade in financial derivatives, and follows procedures and code of conduct to limit the size of the credit risk with each counterparty and market. If a counterparty fails to meet its payment obligations to the company, the resulting losses are limited to the fair value of the instruments in question.

Credit risk

Credit risk is the risk of financial loss to the entity if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the foundation's receivables. Loans, receivables, and cash contain credit risks.

The management has established a credit policy under which each new counterparty's creditworthiness is analyzed.

Currency risk

The foundation is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the foundation (Euro). The currencies in which these transactions primarily are denominated are Euro and US Dollar.

Liquidity risk

The management ensures that the cash position is sufficient to meet the foundation's financial obligations towards creditors.

Guarantees

The foundation ('IDH') did not issue any other guarantees at year end 2012.

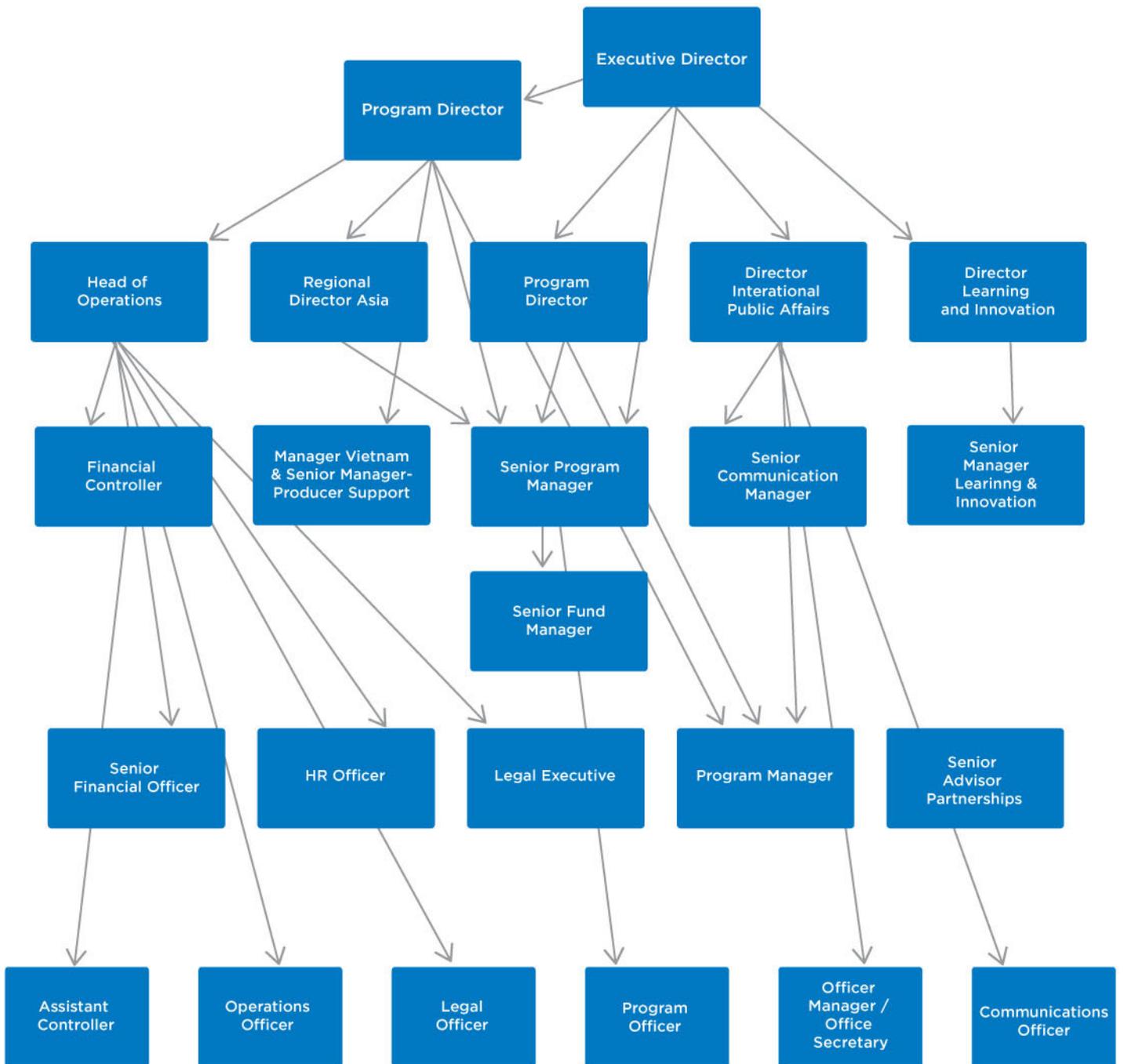
Executive Board

The Executive Board of IDH consists of two directors, a chairman and a member. The employment remuneration meets the requirements of the Ministry of Foreign Affairs for assignment of MFS II grants, in which it is stated that the remuneration of the Executive Board does not exceed the remuneration of a director-general of the Dutch Government.

The total remuneration of the two members of the Executive Board was € 295,000 in 2012, including bonus, holiday allowance, pension scheme and other fringe benefits.

Annex

Annex I: Organizational Structure



Annex II: Ancillary Positions

Executive Board

Mr. H. J. M. Oorthuizen (installed as Chair of the Executive Board on 7 September, 2011)

- Member of the Better Cotton Initiative Council
- Member of the board of the International Cocoa Initiative
- Wageningen Ambassador for the Wageningen University

Mr. Th. H. van der Put (installed as a member of the Executive Board on 7 September, 2011)

- Member of the Supervisory Board of Aquaculture Stewardship Council Foundation

Supervisory Board

Mr. A. H. J. Veneman (installed as Chair of the Supervisory Board on 7 September, 2011)

- Corporate Director Sustainability & HSE at AkzoNobel
- Chairmain Supervisory Board Foundation 'Milieukeur'
- Member Executive Advisory Board of the Europe - China Institute Nyenrode University
- Member Sustainability Advisory Board COFRA
- Ambassador Amsterdam Climate Initiative
- Member of Worldconnectors
- Board member of True Price

Mr. J. A. van de Gronden (installed as a member of the Supervisory Board on 7 September, 2011)

- CEO WWF Netherlands
- Member of Round Table for international cooperation 'Worldconnectors'
- Member of Policy Advisory Committee of NWO-WOTRO (Netherlands Organisation for Scientific Research - Netherlands Foundation for the Advancement of Tropical Research)
- Member Policy Advisory Committee nature activity centre Oostvaardersplassen of 'Staatsbosbeheer'

- Juryman Edgar Doncker Price for nature conservation in the Netherlands
- Member of Advisory Board for Faculty of Humanities at the University of Leiden
- Member of the Rotterdam Climate Council
- Member of Societal Advisory Board of the Adaptive Capacity of Life - research program of the Faculty of Mathematics and Natural Sciences at the University of Groningen.

Mr. P. J. Gortzak (installed as a member of the Supervisory Board on 13 October, 2011)

- Head of Policy / Deputy Head of Corporate Strategy and Policy APG
- Board member Foundation 'Cultuurlab' (Pakhuis De Zwijger)
- Treasurer and Secretary of Foundation The Volkskrant

Ms. F. Karimi (installed as a member of the Supervisory Board on 13 October, 2011)

- CEO of Oxfam Novib
- Member of the Board of Oxfam International*
- Member of the Board of the Foundation 'Samenwerkende Hulporganisaties (SHO)'
- Member of Supervisory Board of VPRO

*The board of Oxfam International is formed by individual Oxfams (legal entities). Ms. Karimi is the natural person in this board who represents Oxfam Novib legal entity.

Mr. J. Smit (installed as a member of the Supervisory Board on 13 October, 2011)

- President CNV-vakcentrale
- Board member of Social and Economic Council of the Netherlands (SER)
- Treasurer of Board of Labour Foundation
- Member of Bank Council of De Nederlandsche Bank
- Chairman of Board of Directors and member of Foundation Board of the 'Slotemaker de Bruïne Instituut' (SBI)
- Chairman of the Foundation 'Draagt Elkanders Lasten'
- Chairman of the Foundation 'Vakbondsfunctionarissen in nood'

- Chairman of the Foundation 'CNV Rechtshulp'
- Member of the Board of the Foundation 'Christelijke Pers'
- Member of the Board of the Foundation 'Christelijk-Sociaal Congres'
- Member of the Board of the 'Verbond van Katholieke Maatschappelijke Organisaties (VKMO)'
- Member of the Advisory Committee Foundation 'Instituut GAK'
- Member General Council ITUC – International Trade Union Confederation
- Member Supervisory Board of 'Forensische Zorg-specialisten'
- Member Sounding Board Commission Deetman (sexual abuse in the Catholic Church)
- Member Supervisory Board Dutch Ballet- and Symphony Orchestra 'Holland Symfonia', Haarlem
- Member Supervisory Board 'Windesheim Academy'
- Member Advisory Board SNS Reaal
- Member Strategic Advisory Board 'Verbond van Verzekeraars'

Mr. J. W. M. Engel (installed as a member of the Supervisory Board on 13 October, 2011)

- Chief Procurement Officer Unilever

Mw. C.A.A. Stiemer-Hermus (installed as a member of the Supervisory Board on 13 October, 2011)

- Senior Vice President Ahold European Sourcing

Mr. B.J. Marttin (installed as a member of the Supervisory Board on 16 May, 2012)

- Member Board of Directors Rabobank Netherlands
- Member of the Steering Committee of the Unico Banking Group
- Member of the Board of Directors of the American Chamber of Commerce
- Member of the Supervisory Board of the Wageningen University
- Member of the Dutch Trade Board

Mr. G. Boon (installed as a member of the Supervisory Board on 8 April, 2013)

- Chief Financial Officer Nutreco

The Supervisory Board has created three committees in which the following members of the Supervisory Board are represented

The audit committee:

- Mr. B.J. Marttin
- Mr. G. Boon

The impact committee:

- Ms. F. Karimi
- Mr. J. W. M. Engel

In the impact committee additional two external members are represented:

- Dr. Bill Vorley – Principal Researcher, International Institute for Environment and Development, IIED
- Dr. François Ruf – Agricultural Economist, CIRAD

The nomination and remuneration committee:

- Mr. A. H. J. Veneman
- Mr. J. A. van de Gronden

