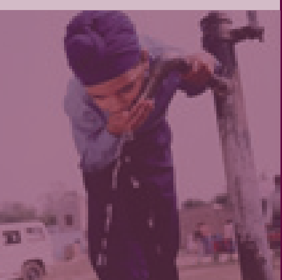

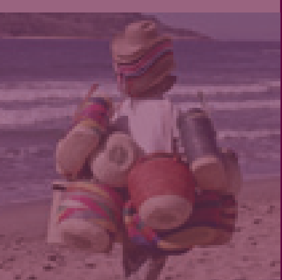

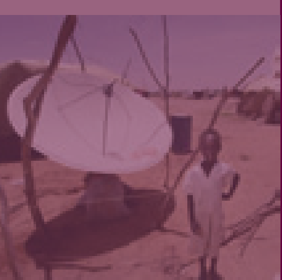

ECONOMIC OPPORTUNITY SERIES

The Role of the Food & Beverage Sector in Expanding Economic Opportunity

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Preface

Beth Jenkins, CSR Initiative, Kennedy School of Government, Harvard University

The past fifty years have witnessed a "revolution" in global economic growth. Yet not everyone has participated in this revolution. More than 65% of the world's population, over four billion people, still lives on the equivalent of less than $4 per person per day. Even worse, the world's poor are severely constrained – and often completely lacking – in opportunity to do better for themselves.

The business community has both the capabilities and the strategic, business reasons to play a major role in creating these opportunities. The CSR Initiative's Economic Opportunity Series, a product of our Economic Opportunity Program, explores this role across a range of industries.

"Economic opportunity enables people to manage their assets in ways that generate incomes and options."

For the poor, livelihood choices – in employment and entrepreneurship – are constrained by a wide range of interdependent obstacles, ranging from geographic isolation to market failures to political exclusion. This suggests that when we think about eradicating poverty, we should think broadly about creating economic opportunity. Economic opportunity is not, in itself, a solution; instead it is a context in which individuals can create their own solutions. It is a combination of factors that enables the poor to manage their assets in ways that generate incomes and options.

Creating or expanding economic opportunity could rightly be considered a responsibility of governments toward their citizens. But in today's global market environment, various risks and opportunities provide reason for business to engage.

One key reason, across industries, is for business to leverage its own comparative advantage in society. As Milton Friedman might say, "the business of business is business" – and this is exactly what gives firms the capability and credibility to expand economic opportunity. Business activity creates jobs, cultivates inter-firm linkages, enables technology transfer, builds human capital and physical infrastructure, generates tax revenues for governments, and, of course offers a variety of products and services to consumers and other businesses. Each of these contributions has multiplier effects on development.

In developing countries, companies' multipliers often fail to reach the scale or leverage of which they might be capable – often due to market failures and governance gaps. More deliberate management attention is required to unlock their full potential.

The Economic Opportunity Series explores four key strategies companies can use to expand economic opportunity:

Creating Inclusive Business Models	Involving the poor as employees, entrepreneurs, suppliers, distributors, retailers, customers, and sources of innovation in financially viable ways
Developing Human Capital	Improving the health, education, experience, and skills of employees, business partners, and members of the community
Building Institutional Capacity	Strengthening the industry associations, market intermediaries, universities, governments, civil society organizations, and grassroots groups who must all be able to play their roles effectively within the system
Helping to Optimize the "Rules of the Game"	Shaping the regulatory and policy frameworks and business norms that help determine how well the economic opportunity system works and the extent to which it is inclusive of the poor

There is enormous variation in the roles companies can play, depending on their industries, their particular business models and relationships, and the contexts in which they operate. The industry reports in the Economic Opportunity Series explore this variation, offering more specific and detailed examples for different industry sectors. The research suggests, in general, that inclusive business models can be the most effective and sustainable ways companies can contribute. Complementary strategies such as developing human capital, building institutional capacity, and helping to optimize the "rules of the game" can also have significant impacts. These strategies are often used in combination with inclusive business models, to enhance both their commercial viability and their development impact.

The research that has gone into this series also suggests that company efforts to expand economic opportunity can draw upon core business, philanthropic, and public donor funding, depending on the balance of business and social benefits expected, the likely timeframe for their realization, and the level of uncertainty or risk involved. Hybrid approaches are increasingly common.

So is collaboration. Complex, systemic challenges like expanding economic opportunity present frustratingly frequent bottlenecks to unilateral action, corporate or otherwise. Even the best-resourced efforts eventually run into limitations on scale somewhere. Collaboration allows parties to share knowledge and information, pool scarce or diverse assets and resources, access new sources of innovation, create economies of scale, and enhance the legitimacy of the parties' own individual activities. In addition to assembling the necessary resources and capabilities, collaboration can generate new capabilities and change operating environments in ways that create new strategic opportunities.

The Economic Opportunity Series is part of a growing effort within the business and development communities to make the links between business activity and poverty alleviation. Experimentation and learning are happening fast. As a result, the series must be considered a work-in-progress, and readers are invited to share their experience and reflections with us. We look forward to being part of the dynamic growth and development occurring in this field.

1 The Role of the Food & Beverage Sector in Expanding Economic Opportunity

The food & beverage industry has a unique role in expanding economic opportunity because it is universal to human life and health. The industry operates at multiple levels of society: families grow crops for their own consumption, communities trade fresh produce and home-processed goods, local companies transform domestic crops for local markets, and international corporations purchase commodities globally to deliver products across geographies.

In this diverse landscape, billions of people grow, transform, and sell food, particularly in developing countries where agriculture dominates all other economic sectors. Yet a vast share of these workers cannot both satisfy their immediate consumption needs and earn sufficient income from food markets to improve their lives. This paper provides insight into how pioneering large firms are breaking this dilemma and building economic opportunity around food & beverage value chains.

1.1 The Advantage of Large Firms

By tackling specific barriers in a few locations around the world, large companies are demonstrating that progress can be made: people can turn their work into incremental gains in income and improved standards of living. Unsurprisingly, companies' interventions reflect their own business models and span agricultural production of raw materials, food processing, and distribution and marketing activities. By changing the conditions in this "field to mouth" value chain, large companies help provide stability and opportunity to thousands of people.

Such changes target the critical pre-conditions to economic opportunity. They create inclusive business models with emphasis on global or local markets, build the human and physical capital of the poor to participate effectively in food & beverage value chains, and work to overcome the adverse institutional and policy factors, among others, that prevent food & beverage value chains from fulfilling their promise of value distribution.

While such interventions are by no means the prerogative of large international firms, such firms do have advantages in taking action:

- **Knowledge of demand market.** Large companies understand both domestic and international markets, the nature of demand for foodstuffs, and therefore the 'bar' that the poor must clear to market their goods (not least to companies' own purchasing departments). In many of the cases reviewed, a recurring objective is to raise the crop quality of small-scale farms, which are challenged to keep up with ever-rising standards for crop production.
- **Span across the value chain.** Additionally, the major firms in this sector operate or strongly influence entire value chains from growers to consumers. That reach is particularly powerful for creating economic

opportunity because large companies can either link poor producers to the rest of the world or strengthen local cycles of wealth creation by mobilizing growers, producers, distributors, and consumers.

- **Resources and credibility.** Not least, large companies have the weight to confront legacy approaches to production and vested interests in supply chains and the reputation to be credible partners to a wide variety of allies sharing complementary objectives. Together, they can afford to invest for the long term and infuse patient capital into transformative initiatives.

1.2 Learning from Existing Research

Food & beverage companies expand economic opportunity in many ways, in both rich and poor regions of the world. A number of studies have highlighted the contribution of the industry in creating both economic and social value.[1,2,3,4] From revenues generated by the industry worldwide, a large portion of value flows to:

- farmers involved in raw materials production
- local food processing or manufacturing capital investments
- both direct and indirect labor
- governments as taxes
- local and global investors as dividends

More specifically focused on a low-income context, Unilever and Oxfam's landmark study on the socio-economic impacts of the Unilever value chain in Indonesia demonstrated how far this value distribution can go: while the company employs 5,000 people in that country, an estimated 300,000 additional jobs are supported both upstream in food production and downstream in distribution.[5] Similarly, in a December 2006 Harvard Business Review article, Michael Porter and Mark Kramer highlighted the "shared value" created for both Nestlé and local communities as a result of the company's long-term investment in developing milk districts in India and Pakistan. This investment has ensured a growing source of quality supply to the local dairy market, income growth to farmers, and significant associated gains in communities' access to education and health.[6]

1.3 Learning from Case Studies

The role of large firms and of their partners in expanding economic opportunity can take a variety of forms. The emerging Indian retail giant, Reliance, is reaching into the country's own rural agricultural supply chain to provide quality foods for its stores. Nestlé is linking the economic engine of its milk supply chain in Pakistan with an initiative to support thousands of women entrepreneurs trained in livestock care. Coca-Cola Sabco, an East African bottling company, is creating hundreds of micro-businesses to improve product distribution. Whether the long-term vision is about developing local markets or global supply chains, the different scenarios all have one thing in common: they focus on the ability of poor communities to create and capture more of the value from their labor.

These cases are still exceptions, albeit formidable ones. Multinationals generally do not purchase from micro farms, but from larger, more efficient agricultural producers or trading companies that aggregate and sell food commodities. And the typical strategy for entering developing countries is not to employ and serve the poorest of society. In fact, because of advances in food manufacturing, packaging, and marketing, the only customer segments that large firms can serve profitably with legacy business models are the wealthy few in urban centers. To produce at equal quality and at prices affordable for Bangladesh's poor, Danone Grameen, for example, had to shed a number of technologies involved in the company's mainstream approach to manufacturing, instead using more labor-intensive processes.

Increasing the number and scale of such initiatives requires new approaches that stretch 'business as usual' practices. The case studies reviewed for this report provide insight into the necessity of collaboration. All but one assign specific roles to cross-sector partners in growing inclusive business models, building the human and physical capital of the poor, and improving enabling institutions and policies. But for these efforts to lead to sustained social and economic gains also requires consideration of other dimensions: creative strategies must be developed to secure, diversify, or multiply sources of income, to protect the environment, and to scale up individual success stories to levels where vast impact can be achieved.

Finally, in comparing all the case studies, a powerful dilemma emerges regarding how best to expand economic opportunity: Are the poor better served by connecting poor producing regions to high-purchasing-power international markets, where larger margins offer more value for redistribution, or by progressively scaling up local businesses operating on extremely thin margins? Perhaps the simple answer is both are required.

1.4 Methodology

This report applies the results of primary and secondary research to a number of case studies to draw lessons on strategies for expanding economic opportunity in the food & beverage sector. Primary research consisted of telephone interviews with 19 experts representing large multinational or national corporations (see List of Companies Interviewed). Secondary research included a review of relevant reports, studies, and articles from a range of sources for each case study.

Findings are divided into three primary sections. Section 2 provides an overview of the business case for engagement in expanding economic opportunity in developing countries. It focuses on the motivation for intervention at global or local levels. Section 3 presents a framework developed by the authors to depict the range of strategies companies are using to tackle barriers to economic opportunity, with particular emphasis on the division of labor emerging between partners. Section 4 outlines key lessons – and concerns – for the industry in engaging in expanding economic opportunity. Finally, Section 5 provides case studies profiling the economic opportunity strategies employed by a number of different companies.

2 The Business Case for Engagement

2.1 The Need for Sustainable Food & Beverage Production

> *"Depletion of natural resources and problems faced by rural communities affect agricultural productivity. Ensuring sustainable agricultural practices is in the interest of the entire food chain, from producers to consumers. And it is of urgent concern as global caloric consumption is set to double in the coming 25 years, which will require producing two to three times more agricultural products on the same amount of cultivated land."* – Nestlé[7]

Embedded in Nestlé's motivations for investing in agricultural regions are inter-related economic and environmental interests. In fact, most cases profiled in this report feature joint agendas: finding new ways to create and share wealth while diminishing adverse impacts on nature.

Major firms in the industry are concerned about maintaining access to quality foodstuffs despite potential – often man-made – disruptions to their supply chains. These include population growth encroaching on agricultural lands, increasing water scarcity and pollution, climate change resulting in increased frequency and severity of droughts and floods, and the spread of infectious diseases affecting plants, pollinating insects, and human beings. In the context of degrading environments, the poor are particularly affected as they possess fewer resources with which to react or adapt to changing conditions. Global consumers, in turn, are increasingly willing to pay premiums for safe, organic, and sustainable products that address their health concerns, as well as their interests in preserving the environment and fighting poverty. In this equation, however summarily depicted here, lies the opportunity for large companies to anticipate the needs of consumers, improve lives, and mitigate the environmental footprint of their industry.

2.2 Improving Global Supply Chains

With this outlook, food & beverage companies are naturally turning their attention to the state of agricultural supply chains, particularly around crops in high demand internationally, originating from poorer countries, based on highly fragmented production, with farmers struggling to keep up with rising standards of production in terms of both farming practices and product quality.

2.2.1 Securing the Supply Chain

The crops featured in our examples have transformational potential in both environmental and economic terms. They include premium coffee that can be grown under forest cover rather than through slash-and-burn practices, and new, biodiversity-friendly native crops developed as better alternatives to existing raw materials. The initiatives surrounding these crops empower farming communities to raise production standards while offering different levels of guarantee on product uptake. They allow participating companies to count on access to highly traceable food materials at needed quality, quantity, and price levels, and to be sure that they are not associated with environmental degradation.

Supply chain security can also be achieved more indirectly, as Nestlé is showing in Pakistan. While it has a long history of working with farmers to improve milk production standards, the company is finding another way to promote both economic activity and better food standards. Instead of training farmers directly, Nestlé agronomists, with the support of United Nations Development Programme (UNDP) and the Government of Pakistan, are developing a cohort of women entrepreneurs empowered to sell animal healthcare services to their Punjabi farm communities. Better livestock health ultimately translates into improved supply conditions for Nestlé and other local buyers.

2.2.2 Developing Alternative and Innovative Food Content

Faced with growing concern about the impact of palm oil, Unilever is banking on Allanblackia (AB) oil as a long-term substitute in the production of low-cholesterol margarine. The company's extensive research on the properties of AB oil puts it in a unique position to take advantage of this new biodiversity-friendly and income-generating crop. Because the initiative does not build from an existing base of agricultural activity, it requires a multi-year commitment. As Unilever's Harrie Hendrickx states, the company plans to "bring the volumes to a level where economies of scale reduce cost and make the whole project sustainable. Then, with a new raw material established, hundreds of thousands of farmers in Africa can earn a decent living from it."

2.2.3 Meeting Demand for Sustainable Products

Trading companies positioned between growers and food manufacturers are also promoting sustainable agricultural practices. One incentive is to avoid disintermediation by global companies creating direct linkages with the poor in order to offer a "responsible" value proposition to consumers. ECOM, one such trading company, is helping hundreds of coffee producers in Honduras achieve certification for responsible coffee production and sourcing, resulting in both economic gains and wider quality of life improvements in grower communities.

In some cases, companies are taking the responsible or sustainable value proposition all the way to consumers to achieve a "values premium" that goes beyond quality or safety guarantees. This includes additional efforts by lead companies and partners to gain exclusive access to crops, and to brand products on the basis of their benefits to communities and to nature. Starbucks' Conservation Coffee Alliance falls under this logic: its intervention transformed coffee production in Chiapas in Mexico, where the company is now purchasing more than 50 containers or approximately 2 million pounds of high-grade coffee annually, an increase of 48 containers from when the program first began. Together with a number of other social and environmental efforts, the objective is to position the company as responsible and maintain a positive image in a fiercely quality- and experience-conscious coffee shop industry.

2.3 Developing Local Food & Beverage Markets

While global companies might first focus on export-based opportunities, a number of examples also emphasize efforts to build local food & beverage value chains. In each of the cases, companies are addressing immediate or anticipated constraints to growing domestic versions of their business models. As Danone testifies, even if designed primarily as social investments, these initiatives stretch companies to innovate and develop completely new business models that rely less heavily on costly technologies, without sacrificing product integrity. Such initiatives may focus upstream on supply conditions and food processing or include distribution and consumer marketing. They create a greater diversity of jobs than do models associated with production for export, where employment is concentrated in farming.

2.3.1 Improving Access to Local Foodstuffs

SABMiller and Cargill are focused upstream with their initiative in Rajasthan in India to improve barley production and satisfy domestic brewing needs. A key incentive is to raise local standards sufficiently to lower the companies' dependence on international supplies of quality barley for malt production. The program is currently working in 150 villages spread through three districts of Rajasthan. The goal is to purchase up to 10,000 tons of high-grade barley locally.

Reliance India is also dependent on improving local food production. The Indian conglomerate, traditionally active in petrochemicals, is now building a chain of retail stores that will cover 1,500 sites in India. To supply its new stores, Reliance is in great need of quality produce. Farming in India, however, is highly fragmented and subject to hard climactic conditions: once harvested, it is very difficult to keep fruit and vegetables fresh under extreme temperatures. Reliance has therefore developed a network of collection centers located close to farmers. These have reduced spoilage of crops to 5% from an average of 30% and eased handling charges paid by farmers to middlemen by 50%. The plan now is to expand the model with Rural Business Hubs which, in addition to being trading centers, will provide agricultural education to improve farm yields and environmental practices. The hubs will also offer health services, shopping, and even entertainment.

2.3.2 Improving Distribution

Coca-Cola Sabco (CCS) is a key bottler for Coca-Cola in East and South Africa and Asia. In 2002, CCS faced distribution difficulties as a result of poor infrastructure in East Africa, where traditional methods of distribution were costly and ineffective. To address these issues, CCS designed an innovative system of Manual Distribution Centers (MDCs) that build its distribution network through small-scale enterprises. These enterprises employ eight to 10 people each and sell Coca-Cola to retail outlets within geographic radii of about 1.5 kilometers. MDC owners and staff are trained in basic principles of business, such as profit and cash flow management, customer service, optimal warehouse management, and marketing. They are also offered non-business training, for instance in HIV/AIDS awareness. Currently, there are 380 MDCs in Kenya alone, generating $100 million in revenue annually, employing approximately 4,000 people, and supporting families of approximately 16,000 people.

2.3.3 Building a Culture of (Social) Innovation

Danone Grameen's joint venture in Bangladesh to produce and market yogurt in poor communities covers the entire food & beverage value chain, including upstream and downstream activities. The initiative covers the development of micro-farms for quality milk production, manufacturing using a novel process that emphasizes labor over technology, and door-to-door distribution by "Grameen Ladies." In fact, the venture goes beyond creating economic opportunity to addressing nutritional deficiencies in children, in line with Danone's mission "to bring health through food to a majority of people." While the first factory employs 30 people recruited and trained from the community, the development of micro-farms and distribution agents will employ up to 1,000 people. The initiative foresees establishing up to 50 such value chains across Bangladesh, which means employment and economic opportunity on a vast scale. Most importantly, it infuses Danone with a spirit of social innovation that challenges legacy business models.

3 ■ Business Strategies for Expanding Economic Opportunity

This report has assumed that investments by large firms in expanding economic opportunity have focused on specific barriers to people's ability to work, accumulate assets, and improve their lives. Our case studies show that a number of barriers must, in fact, be tackled simultaneously. Collaborative action across sectors is often necessary, as no company or partner organization possesses all the capabilities need to overcome all barriers.

From the case studies explored in detail, we found three different levels of interventions for expanding economic opportunity: creating inclusive business models involving the poor as entrepreneurs, suppliers, distributors, retailers, customers, or sources of innovation; building the human and physical capital of the poor to enable them to participate in these models; and tackling specific institutional or policy barriers in the enabling environment to enhance feasibility and impact. Behind each intervention are specific activities carried out by a variety of partners across business, government, civil society, and the international donor community (see Figure 1).

FIGURE 1 **THREE INTERVENTION LEVELS TACKLED BY CROSS-SECTOR PARTNERS**

	Companies	NGOs (or Academia)	Local Government / MLOs / Bilaterals
Create Inclusive Business Models	• Research how to grow and commercialize crops • Local foodstuff transport and processing • Purchasing with guarantees • Building distribution networks and micro-businesses • Financing,mainly through loans	• Management of crop collection • Financing, mainly through loans	
Build Human and Physical Capital	• Training to farmers through company agronomists and promotion of alternative sources of income • Establishment of rural banking systems • Provision of new seed as well as pesticides, fertilizers, oils, life insurance, and other financial incentives	• Provision of plant material, seed development • Training (the trainers) on domestication or transformation of crop • Curriculum development and certification post-training • Establishment of rural banking systems	• Initiative design and (co)-financing • Coordination of major stakeholders and monitoring • Identification of implementation partners • Provision of loans and loan guarantees to credit providers
Improve the Enabling Environment including Institutions and Policies	• Development and enforcement of production standards • Creation of local NGOs or program centers to raise awareness and disseminate sustainable practices • Investment in educational materials for local schools	• Research policies on sustainable and equitable farming • Research on pest management • Formation of groups / associations for social mobilization • Funding of social entrepreneurs in communities: e.g. working on water access, roads, schools	• Coordinate research on domestication strategy for new crop • Support environmental baselining • Education to farmers on the reasons for applying minimum wages • Support to publicize initiatives, provide relevant licenses, build trust

From this perspective, a number of patterns emerge:

First, initiatives are truly collaborative: they all mobilize cross-sector partners, particularly to address community development needs. Second, interventions for creating economic opportunity do not come as single thrusts: all initiatives employ at least two of these interventions simultaneously. Indeed, creating businesses requires empowered people and supportive environments. The presence of these multiple levels of need is why most initiatives manage very complex change processes and depend on the motivation and resources of many partners.

In different ways, these three levels of intervention help to overcome a variety of barriers to expanding economic opportunity along food & beverage value chains. These barriers include the poor's lack of appropriate skills, technologies, and finance, as well as their inexperience in designing and growing businesses, and lack of awareness of the economic and business opportunities. In addition, supportive institutions, reliable infrastructure, and effective "rules of the game" are all largely missing in the contexts in which they live and work. Below, we dissect each intervention separately, while recognizing that they are all inter-connected in practice.

3.1 Creating Inclusive Business Models

Key constraints to designing and implementing business models that include the poor, whether as farmers, distributors, or retailers, include their inexperience in designing and growing businesses and their difficulty in accessing financing for their operations.

3.1.1 Inexperience in Designing and Growing Businesses

The poor often lack the capability to design and grow their businesses to meet the safety, quality, quantity, and other requirements of participating in the value chains of larger firms. To address this barrier, large firms are applying their expertise to help farmers and small business partners accelerate progress toward sustainable, scaleable models that can create enough value to improve lives.

Upstream, farms are turned into competitive enterprises by infusing knowledge on how to grow and commercialize high-quality crops. These businesses can expand on the basis of higher prices and more stable cash flows. Starbucks, for example, has been able to pay a 20-40% premium above locally attainable prices for quality coffee in Chiapas. ECOM similarly sells certified coffee from its sustainable coffee program to Sara Lee at a $5 premium per bag, with $3 going to growers and $2 to the local non-profit set up to help implement sustainable farming practices.

Companies also try to share value locally by helping to design and develop businesses further down the value chain. Unilever, for example, established an independent company to process AB nut in Tanzania and set up local buying centers which employ 45 people. Interestingly, in this case, the company goes beyond offering premium prices to secure supply; it guarantees that same price until the new operation realizes full economies of scale. Meanwhile, the company is actively searching for secondary guaranteed buyers for AB oil to improve long-term prospects for the crop.

Danone Grameen goes even further by building an entire chain of businesses from micro- farms to yogurt factories to small-scale distribution enterprises. The venture, however, faces challenging economics: with yogurt portions sold at 5 taka ($0.07 US) in order to be affordable to local communities, little margin is available to operate this array of businesses. Consequently, a dilemma arises: is economic opportunity better delivered by connecting the poor to international but volatile markets that allow for redistribution of significant value added, or by developing local markets which face such constraints?

3.1.2 Lack of Financing

A key obstacle for small farmers and entrepreneurs in establishing and growing their businesses is a lack of access to finance. Credit to finance new activities or technologies can be offered directly by company programs, as in the case of the Danone Grameen joint venture, or through partners, as in the case of Conservation International's Verde Ventures, Ecologic Finance, and Calvert, which partnered with Starbucks in the Conservation Coffee Alliance. Each was already providing credit to farmers in Latin America.

In the case of Coca-Cola Sabco, the International Finance Corporation (IFC) was looking for appropriate corporate partners in East Africa to drive economic development through small business creation. Through their partnership with CCS, IFC assisted entrepreneurs interested in setting up distribution businesses to obtain favorable financing for their operations. IFC's role was critical in encouraging local banks to become involved as well.

Governments and representative offices of global multilateral agencies play important roles in co-designing and financing many initiatives. In almost all cases profiled here, development institutions cover significant portions of the budget. UNDP is financing 80% of the $5 million budget for women livestock caretakers in Pakistan, for example, and the US Agency for International Development invested $1.2 million in expanding the Conservation Coffee Alliance throughout Latin America, in addition to issuing a $4 million credit guarantee to Ecologic Finance to secure its loans to farmers. And the UK's Department for International Development, the Netherlands Development Organization, and the Austrian government are infusing funds into Unilever's $4 million AB oil program in Tanzania. Beyond financing, however, it is clear that these institutions also contribute legitimacy and valuable support in mobilizing implementing partners and program communities. Local government institutions play important roles on this level as well: issuing appropriate licenses, hosting community engagement processes, and communicating progress to other public institutions.

3.2 Building Human and Physical Capital

Whether they aim to build up suppliers of raw material, plant operators, or distributors, all initiatives examined include considerable transfer of skills, technologies, and new financing mechanisms. Case studies strongly suggest that this is a fundamental intervention level.

3.2.1 Lack of Skills

Training on how to grow crops for quality and environmental sustainability, operate processing plants, or manage distribution businesses is found in every case featured. Interestingly, the division of labor between companies and NGOs is not highly differentiated at this level: Nestlé has its own agronomists training livestock caretakers in Pakistan (a key reason UNDP selected the company as implementing partner), but ECOM, having realized that it was difficult to work with local stakeholders as a trading company, decided to create a local NGO (the Alianza por la Sostenibilidad) to train farmers in sustainable coffee farming.

3.2.2 Lack of Needed Technologies

Technology transfer is similarly present in a number of initiatives, whether providing cold chains for milk conservation, or plant material to reach new quality standards in coffee production. Again, these assets can come from various sources: either the company has access to the technology or a partner NGO steps in, as Conservation International did with its plant nurseries in Chiapas.

3.3 Improving the Enabling Environment

The principal barriers addressed here are contextual: they are missing public goods that allow businesses to grow and operate. These deficits might be found in concrete infrastructural or institutional gaps, in policy vacuums, or in even more intangible factors such as local beliefs and norms. While there are many ways to categorize barriers in the enabling environment, the case studies suggest four important areas to address to create economic opportunity.

3.3.1 Low Awareness of Economic Opportunities

The first area builds awareness about economic opportunities and the benefits of changing practices. Social mobilization to "sell" the projects appears to be a shared role across sectors, even if companies frequently build on the credibility of NGOs, local governments, and agency representations to publicize and encourage programs. Unilever has relied on a number of NGOs to create farmer-producer groups that build awareness first, and then skills. SABMiller and Cargill's program established centers in three districts of Rajasthan to mount publicity campaigns targeted at barley farmers about the potential for growing a higher-grade crop. Danone Grameen benefits from the considerable aura of Grameen, and the trust it generates among the poor, to mobilize communities to join its new businesses. Reliance's ambition to make Rural Business Hubs into centers stimulating agricultural productivity in India is based on added services to farmers as a pull mechanism for mobilization.

3.3.2 Dearth of Supportive Institutions

The second area to address is the availability and strength of local institutions, such as farm groups, to orchestrate necessary educational, financial, or transaction processes. This category of interventions even extends more broadly to essential community institutions, such as schools. Whether as cooperatives, educational centers, or trading houses, building new centers of economic activity is a pattern visible in almost all examples.

3.3.3 Deficiency of Infrastructure

The third, though far less frequently addressed area, touches on the infrastructure needed to collect or transport goods. SABMiller and the Murarka Foundation, in parallel to working with farmers, are supporting a network of over 70 social entrepreneurs in targeted farm communities. These individuals run projects tarring roads, allowing for better transportation of produce or piping treated water to villages. Starbucks Conservation Coffee Alliance also noted that cooperatives' newfound wealth was in part dedicated to repairing roads and making them more rainfall resistant. Such projects serve community activities beyond coffee farming.

3.3.4 Needs for Knowledge and Standards

Lastly, a critical area for the food & beverage sector, given its sensitivity about food safety and traceability, is to research and develop social and environmental standards to apply to food production and processing, and enforce these through various certification schemes. In Unilever's work on AB oil, a World Conservation Union (IUCN) evaluation ascertained that AB oil production is environmentally sound and socially equitable, and the government-sponsored Tanzania Forest Research Institute (TAFORI) coordinated research aiming to develop an appropriate domestication strategy for the new crop.

4 Future Opportunities

The companies and case studies in this report are tangible manifestations of the power of business to contribute to gains in prosperity, while progressively diminishing the adverse impacts of economic growth on the environment. A fundamental question remains, however, when considering the vast number of people living in poverty and the rate at which humanity is consuming natural resources: how quickly can success stories be scaled up across regions and industries? In the spirit of expanding best practices in the food & beverage sector, we offer five ingredients, among others certainly, which can be considered:

"Because expanding economic opportunity is not only about access to education, technologies, and finance, but also about awareness of opportunities and belief in the possibility of change, companies have much to gain from non-profits and public institutions."

1 The "must" of collaboration. A knee-jerk reaction to the topic of "expanding economic opportunity" is that the private sector must provide the answer. Clearly, growing and operating business activities is a central component of the cases featured – even the dominant one, as in the case of Danone Grameen. But when dealing with poor communities, it is evident that cross-sector partners are essential as well. Even Danone Grameen relies on the legitimacy of the Global Alliance for Improved Nutrition (GAIN) to research and validate the nutritional benefits of its products to children. Because expanding economic opportunity is not only about access to education, technologies, and finance, but also about awareness of opportunities and belief in the possibility of change, companies have much to gain by partnering with non-profits and public institutions. The need for parallel interventions to design and grow businesses, build communities' assets and capabilities, and improve enabling environments suggests that collaborative approaches are in fact optimal.

2 Patient capital. The ability of governments and foundations to provide patient capital (not seeking competitive market returns in the short term or at all), directly or as providers of credit to local businesses, plays a central role in a number of cases. This funding allows for the progressive scale-up of business models which may only yield competitive returns to participating companies in the long term. Because the food & beverage sector can address both economic development and environmental agendas, their initiatives can tap into a range of budgets among public and private donors. When confronting the long-term economic realities of many of these projects, companies should take comfort in the fact that significant amounts of patient capital appear to be available for those willing to take the lead and collaborate.

3 Planning for sustainability. There are two facets involved in sustaining "wins." First, economic gains can be made more sustainable. Among the cases reviewed, different levels of guarantees are provided: some companies pay premiums over market prices, period. This raises the question of what would happen should market prices plummet. As there is not yet a wider market for AB oil, Unilever goes further by guaranteeing a price until 2012 while looking for other buyers for the crop. ECOM invests some resources to reduce growers' dependency on coffee (for example, by assisting them to diversify into fish and poultry), while Nestlé focuses on a model – livestock care – that is likely to be of long-term value, regardless of market dynamics, as long as women are equipped and trained to serve farmers. Danone Grameen is building a self-sustaining model from the outset, knowing that the economics of the venture will be challenging at least until some level of scale and experience is achieved.

Second, because the food & beverage sector is so deeply connected to the state of natural resources, expanding economic opportunity goes hand in hand with environmental sustainability. These two agendas will be increasingly interrelated in terms of scaling up food production and achieving good "values" prices in international markets. The number of case studies which rely on environmental research and guidelines to set the conditions for creating economic opportunity is striking. This duality should be explored in planning new initiatives.

4 The choice between global and local approaches. The case studies in this report reflect two distinct ways of creating new value for poor communities. The first is to raise the quantity and quality of food products for sale in markets with high purchasing power, such as urban centers or other countries. The second is to build local value chains within rural and low-income communities themselves. Especially if combined with a unique branding strategy around "pro-poor" produce, significant premiums can be paid via the first strategy to poor producers, which can invest the additional income in business growth and diversification. When local models are developed, more jobs might be supported, but only in the context of local prices and wages which leaves little room for income redistribution along the value chain. The depth of research of this paper cannot point to the supremacy of one approach in terms of total economic opportunity potential; it simply suggests a choice for companies seeking to expand economic opportunity. Are communities best off depending on significant short-term, but perhaps volatile, income gains, or building local businesses for local consumers that may offer enhanced long-term potential?

"A fundamental question remains, however, when considering the vast number of people living in poverty and the rate at which humanity is consuming natural resources: how quickly can success stories be scaled up across regions and industries?"

5 Designing for scale and replication. The initiatives documented here share an important theme: their ambition is to reach vast numbers of people with their asset- and capability-building interventions. Starbucks has already increased its supply base in Chiapas from two to six cooperatives and grown the number of participating farmers from 300 to 1,000. The program has also expanded to Peru, Columbia, Costa Rica, and Panama. Over a year into its program with UNDP in Pakistan, Nestlé has already trained 800 women, and will increase that number to 4,000 within three years. Each woman is already earning an average of $42 a month, an income that will continue to be tracked over time. SABMiller and Cargill's program currently works with over 2,400 farmers growing higher-grade barley and aims to reach 3,000. ECOM certified over 500 coffee producers by mid-2007 and targets another 750 for the coming year. Coca-Cola Sabco's MDC model started in Kenya is now being rolled out across East Africa and Asia. The flexibility of the MDC model makes it easily scalable and adaptable to local conditions. Four years since it was conceptualized and implemented, nine other countries (Uganda, Tanzania, Mozambique, Namibia, Ethiopia, Sri Lanka, Nepal, Cambodia, and Vietnam) have successfully implemented it. In replication lies a vital ingredient to create economic opportunity on a vast scale, and one that should resonate with large companies' traditional approaches to testing what works in one market and then sharing the learning on a global scale.

5 Case Profiles

5.1 STARBUCKS AND THE CONSERVATION COFFEE ALLIANCE

Starbucks, Conservation International, USAID and Verde Ventures brought together a set of assets and capabilities to transform coffee production in Chiapas, Mexico. The results are enhanced livelihoods for coffee growers, protection of the biodiversity of the region through sustainable agricultural practices, and a specialty premium coffee for Starbucks.

Background

The Conservation Coffee Alliance is a collaborative effort to increase the supply of quality coffee in ways that protect forest biodiversity and provides new income streams to participating farmers. The initiative started in the El Triunfo reserve in Chiapas, Mexico, in 1998 and had expanded to Peru, Colombia, Costa Rica, and Panama by 2004. Starbucks, together with alliance partners including Conservation International, the US Agency for International Development (USAID), and Verde Ventures, brought together a set of assets and capabilities to transform local coffee production and provide new specialty and premium coffee for Starbucks. The initiative allowed six farm cooperatives in Chiapas to triple employment and increase farm revenue.

This case study focuses on the Chiapas region and the impact of the initiative on the economic fabric of the Chiapas communities. The project experienced two major phases: from 1998-2004, activities focused on implementation and scale-up of the initiative. Since 2004, emphasis has been on institutionalizing the model by transitioning from donation of services to a cost recovery model in which farmers purchase additional skills and technology transfer using funds from new premium coffee sales.

Motivation

In line with its integrated approach to corporate social responsibility, this initiative gives Starbucks an opportunity to strengthen supply conditions by stabilizing access to premium crop, improve the environmental and social impacts of its supply chain, and brand the new coffee supply on the basis of origin. Because Starbucks emphasizes premium coffee and traceability, investing in specific regions which can naturally offer quality beans is of long-term strategic importance for the company.

With a secure outlet for the crop to sustain the effort, Conservation International (CI), which first approached Starbucks about its conservation practices in general, uses the Alliance to further its mission to protect biodiversity and prevent forest destruction through slash-and-burn practices. The project is also a strategic fit for USAID as it provides a scaleable model addressing its agenda to promote sustainable farming practices. Verde Ventures, a unit of CI, along with Calvert and Ecologic Finance, support farm-level financing through their credit and loan facilities.

Activities

This case example centers on an inclusive business model in which Starbucks sources coffee beans from poor coffee growers in Chiapas. To strengthen this model, Starbucks has developed new sustainable coffee-growing standards – the Coffee and Farmer Equity or C.A.F.E. Practices. To implement these standards, the partnership has built human capital by offering technical assistance to coffee growers. CI was instrumental in helping Starbucks to develop these guidelines and to pilot them in Chiapas with local coffee farming cooperatives.

Specific changes in the supply chain and supply conditions for coffee procured in Chiapas were pursued. They include applying new production standards, building local skills through training, improving access to finance, and branding the product as shade-grown coffee by Starbucks. In addition to financially investing in the program both directly and through Verde Ventures, Starbucks' greatest contribution has been to signal its commitment to purchase quality coffee produced in the region, and to fulfill that promise with ever-increasing uptake. Starbucks' retail growth in Mexico, one of its fastest-expanding markets, is also providing a direct channel for the coffee from Chiapas: all of the brewed coffee served in Starbucks cafés in Mexico is grown domestically.

Funded by Starbucks and USAID, CI has been the principal driver of the program on the ground. An important step was to establish the C.A.F.E. Practices which, among other environmental criteria, include verification of shade canopies for growing coffee. CI assisted in developing these standards by consulting with a broad range of stakeholders. CI has also worked with farmers to apply the standards to meet Starbucks' aggressive production

	targets. CI also invested $0.5 million of its own funds. Between 1999 and 2004, Starbucks committed more than $2 million to the partnership, and loaned another $2.5 million to Verde Ventures, $7 million to Ecologic Finance, and $1 million to the Calvert Foundation. Those organizations on-lent the funds at affordable rates, enabling farmers to cover their financial needs until harvest and to invest in production improvements. USAID first invested $1 million to support CI in Chiapas and then another $1.2 million to expand the Alliance throughout Latin America. The agency also provided $4 million in credit guarantees to Ecologic Finance.
Impact	By 2004, Starbucks had already exceeded many of its targets. In that year, the company paid farmers an average of $1.20 per pound of green coffee. The average price on the New York “C” market in that year was $0.70 per pound. However, Starbucks considers the most important metric to be the premium paid locally, not the premium over the international price. On average, the company was paying a 20-40% more than what farmers would have received had they sold locally. An additional benefit of the program is that cooperatives now have enough volume to be suppliers of choice. From two containers of coffee purchased just three years into the program, Starbucks now sources more than 50 containers annually from the region, or approximately 2 million pounds annually. Additionally, 3,000 hectares of land are maintained under sustainable best practices for conservation coffee. CI has collected considerable evidence regarding the broader impact of the program on communities – they have discovered access to education has grown significantly. One of the cooperatives used its surplus income to open a new school to provide previously-unavailable education in grades five through nine. Dietary intake has improved, and participating communities have diversified their crops beyond coffee. Furthermore, roads have been improved by adding gravel to stabilize sand cover which previously washed away easily under rainfall.
Lessons	The initiative has been a great success along its primary objectives – to raise production levels for premium coffee, allow for traceability of product internally for Starbucks, protect the environment, and create economic opportunity. An additional benefit for Starbucks was the opportunity to introduce to their customers a new coffee with environmental attributes, Shade Grown Mexico, which is now included in the company’s core line-up in regular and decaf varieties. While the initiative has helped reinforce the reputation of Starbucks as a socially responsible company, it is not clear, whether it has led to increased sales or differentiation in the marketplace. Consumers seem to appreciate Starbucks’ concern for the environment, but they appear still to make purchasing decisions on the basis of exciting packaging and their personal taste for “a perfect cup.”

5.2 NESTLÉ AND UNDP IN PAKISTAN

Nestlé Pakistan Ltd has partnered with UNDP-Pakistan to implement a gender support program providing rural women in the Punjab province with training in livestock management and care. Over three years, this program will create a cadre of 4,000 women livestock workers who can deliver primary livestock management, production, and extension services, earning up to $42 a month.

Background

Nestlé's partnership with the United Nations Development Programme (UNDP) to develop a livestock management training program for women of the Punjab province in Pakistan is an example of a public-private partnership to increase human capacity. The initiative is a part of UNDP's gender spport program to bring about Community Empowerment through Livestock Development & Credit (CELDAC). The CELDAC project was designed by UNDP upon request of the Government of Pakistan, and is expected to run for three years (2007-2009).

Motivation

Headquartered in Lahore, Nestlé is Pakistan's largest consumer goods company with sales of more than CHF 500 million. The company estimates that a million people earn their living from Nestlé in Pakistan, from employees, farmers, and distributors to suppliers, transport companies, and retailers. Since Nestlé started investing in Pakistan 18 years ago, the company has established the country's largest milk collection network. Today, Nestlé collects milk from 140,000 farmers in Punjab who, as a result, receive over CHF 120 million per year directly from the company. Nestlé is actively engaged in a number of mutually beneficial partnerships with these suppliers, as with suppliers around the world.

In 1992, Nestlé set up a milk collection system for farmers in Pakistan and provided them with support through the company's agricultural services division. This program increased the quality of animal care, resulting in significantly improved milk quality for Nestlé and better, more secure livelihoods for farmers' families. Through this experience, Nestlé learned that farm animals were mostly cared for by women, who often lacked training in livestock management. Furthermore, because veterinary care was limited in rural areas, most animals did not receive timely treatment, resulting in a loss of income for the family. In 2005, in an effort to address some of these challenges, Nestlé Pakistan initiated an agriculture services program for farmers which included a sub-focus on rural female livestock extension workers. This sub-focus provided support and education to rural women engaged in livestock development and management. UNDP, inspired by the success of this program, requested Nestlé's participation in the CELDAC initiative.

Activities

UNDP is the CELDAC initiative's primary donor, having pledged $4 million over a three-year period. UNDP was also responsible for initial project design, and continues to provide ongoing monitoring and management support. When developing the initiative, UNDP recognized the key role that partners could play in its long-term sustainability. In identifying prospective partners, UNDP looked for companies that were already engaged with rural populations and had the necessary technical implementation capacity. The initiative is managed by a joint UNDP-Nestlé Project Management Unit, which has independent offices, accounts, and staff, and is audited by UNDP.

Nestlé and Engro Foods Ltd, a local Pakistani company, were identified as strong potential partners given their experience with the local market. Nestlé Pakistan is now UNDP's project implementation partner for the Punjab province. In addition to providing $200,000 in grant support and $800,000 in-kind, the company is also contributing expert assistance from Nestlé Agricultural Services and Nestlé Pakistan. Engro Foods is UNDP's implementing partner for the Sindh province. The University of Veterinary Sciences in Pakistan is helping develop curriculum and certification for the training program.

The CELDAC project aims to achieve two major objectives:

1) To create a cadre of 4,000 women livestock workers in three years, building their capacity to deliver primary livestock management, production and extension services; and

2) To generate income and employment for about 4,000 poor livestock households through the provision of institutionalized, collateral-free credit and savings facilities.

To achieve these goals, trainees are given a month-long, hands-on training in basic animal healthcare. The training, delivered by technical experts, develops participants' ability to deliver primary livestock management, production, and extension services. Once trained, program graduates are given a kit comprised of medical instruments, medicines, and vaccines to be used in their future activities. All training program graduates are expected to be self-employed. It is estimated that they will earn Rs 100–500 ($1.50-8.00 US) per service provided to clients in rural villages.

Impact

While the CELDAC project was only recently implemented, it has already gained traction. To date, over 800 women have been trained and certified after passing completion tests developed by the University of Veterinary Sciences. More than 70% of program graduates are already established as independent entrepreneurs, either as livestock workers performing approximately 4-5 basic animal health management activities per month, linked with certified veterinarians, or as small dairy-related business owners linked with the existing market of milk sellers or animal feed providers. The average increase in family income has been approximately Rs 2,500 per month, or $42 US. A formal evaluation of the project will be undertaken by end of 2007.

While only a very small quantity of milk is sold back to Nestlé by the women trained in this program, the company has generated goodwill in the community as a result of the program. More tangible business benefits are not expected in the short term, but may be realized in the long term. UNDP has benefited from working with corporations, building its capacity in project management and execution.

Key Lessons

The different skills and experiences contributed by each partner have been instrumental to the CELDAC project's success thus far. Particularly important has been partner companies' capacity to link rural development with market mechanisms. For example, women entrepreneurs have an outlet to sell their milk to Nestlé, Engro, or other milk companies, and women livestock workers have been linked to existing veterinarians to get access to clients that need servicing.[8] CELDAC's National Project Director and Head of Corporate Affairs for Nestlé Pakistan, Mr. Syed Fakhar Ahmed, remarked, "Corporations and development organizations need to collaborate to integrate rural development with market mechanisms, as capacity-building during will only be sustainable if there is a market mechanism to absorb it in the future."

A challenge Nestlé has faced in its efforts to educate women livestock workers relates to the cultural environment in Pakistan. In most rural areas of the country, women have minimal access to education and limited opportunities to generate income. It is a great challenge to promote the concept of entrepreneurialism for women in this context. However, each CELDAC graduate contributes to the development of a cadre of social mobilizers that can serve a resource to UNDP and other non-governmental organizations (NGOs) working in the region.

5.3 RELIANCE

Reliance Retail is sourcing fresh agricultural produce directly from thousands of farmers in Indian villages through a network of Collection Centers. Reliance provides a guaranteed market, reduces transaction costs, and trains the farmers in better and more sustainable farming practices. The company's initiative has brought higher incomes for farmers and reduced produce spoilage up to 35%, resulting in better quality products for Reliance retail stores.

Background

Reliance Retail's vision is to be the most successful and admired organized retail company in India. With a planned investment of approximately $6 billion, Reliance is investing in a state-of-the-art retail infrastructure and supply chain, addressing a significant challenge for businesses in India today. Reliance's plan will create a national footprint with operations in over 1,500 cities and towns and more than 500,000 employees. The company's retail outlets will include a variety of formats, spanning hypermarkets, supermarkets, convenience stores, specialty stores, and Rural Business Hubs (RBHs).

The RBH concept is still in its final stages of development, with the first RBH to be opened in the fourth quarter of 2007. However, Reliance has started gaining relevant experience working with rural farmer communities by building rural Collection Centers (CCs) for fresh vegetables and fruits across different states in India. While the scale of impact of the Collection Centers is far smaller than what the company expects for the Rural Business Hubs, they are proving vital in developing an understanding of how best to work with rural farmers, laying the foundations for the RBHs to be a success.

Motivation

Reliance's investment in its CCs is motivated by the need to source high-quality fresh produce, as well as the company's mission to create prosperity for Indian farmers and other members of its supply chain. Historically, India has suffered from a fragmented agricultural supply chain and high rates of produce spoilage. Farmers in numerous villages produce crops that must travel many miles before reaching the stores. Industry experts estimate that more than 30% of all fresh produce is lost or spoils before it reaches the market.[9] Due to regulations in place since the 1960s, all produce had to pass through middlemen or mandis to ensure fair prices for farmers and prevent hoarding during food shortages. Although the regulation was created to safeguard the interests of customers and farmers, it has also contributed to poorer quality produce, higher mark-ups, and inconvenience for all parties involved. While this regulation was phased out three years ago, most retailers still procure their supplies using the government-licensed mandis. When Reliance started its retail stores, called Reliance Fresh stores, in November 2006, it decided to ensure a supply of fresh produce in its stores by bypassing the mandis, creating CCs in villages where farmers could sell their crops locally.

Activities

With its CCs, Reliance has built an inclusive business model that links the company more closely in the supply chain to poor farmers in Indian villages. To strengthen this business model, they are training those farmers to improve the quality of the produce they sell.

Before establishing a new CC, Reliance contacts farmers in surrounding villages to raise awareness and provide training on how to cultivate the farmers' desired products. Reliance also distributes plants for certain crops from Reliance-owned nurseries, and provides other relevant information. CCs maintain farmer contact lists and call on them when they are looking to procure specific crops.

Reliance currently operates 160 CCs across India, with each CC procuring produce from villages within a 15-kilometer radius. CC activities include primary grading of produce based on quality standards, electronic weighing, loading into plastic crates, labeling to allow traceability, and issuing cash payments immediately after delivery. During the harvest season, farmers bring their produce to the CCs every day. Their products are weighed electronically and farmers are quoted prices that match those they can get from the mandis. Reliance promises to purchase all produce delivered, which mandis do not guarantee. The CC also charges handling fees approximately 50% lower than those in the mandis. In case of superior quality of produce, farmers are offered better price than those paid by the mandis.

Reliance uses its own fleet of trucks to transfer fresh produce daily from the CCs to regional processing and distribution centers, which then distribute it to Reliance Fresh stores. “After establishing these centers, we are able to get the produce at the right time of the day, transfer it to the storage points, and reduce spoilage to less than 5%,” says an official from Reliance Retail.

Impact

Reliance is putting mechanisms in place to measure the impact of its direct procurement in a systematic fashion through farmer interviews. While the results are by no means exhaustive, they are beginning to confirm the positive impact of local sourcing. For example, farmers working with CCs pay handling charges up to 50% lower than those incurred at mandis. Weighing is transparent due to the use of electronic scales. Farmers receive cash payment on the spot, as opposed to waiting for a week or longer, as was the case with the mandis. According to Reliance, on-the-spot cash payments are worth a “perceived” higher price to the farmers.

Based on farmer interviews, Reliance has determined that its Collection Centers have partially reduced “distress” sales to the mandis. Through better transparency and practices, Reliance is beginning to shape the industry standard for farmer relations, forcing the mandis to improve to stay competitive.

Through the higher prices and agricultural efficiency and sustainability training they receive from Reliance’s CCs, farmers have been able to improve their productivity. Reliance’s farmer interviews reveal greater awareness of quality differentials in their produce. Many farmers say they are investing in the seeds and inputs required to grow higher-quality produce overall.

While the mandis may be feeling the pinch, farmers selling to Reliance have expressed their happiness at being paid in cash as soon as they hand over their goods. “We were dealing with thieves who always used to cheat us,” says one farmer who now sells grapes to Reliance.[10]

Next Steps

While CCs demonstrate a first step toward creating economic opportunity by sourcing directly from farmer communities, the impact of Reliance’s Rural Business Hubs is expected to be multi-fold. Through the RBH network, Reliance strives to be the partner of choice in creating prosperity for Indian farmers, small retailers, and other producers of goods and services, especially in rural communities, where approximately 70% of the Indian population lives. The network will help increase farm yields through knowledge dissemination, and procure crops right at the farm-gate level. RBHs will also provide essential services like healthcare, education, entertainment, and capacity-building and rural enterprise development activities. Finally, Reliance hopes its RBHs will offer a new buying experience to rural consumers. The company plans to create approximately 1,400 RBHs in 20 states covering about 450 districts in India, reaching over 225 million people. The overall investment, excluding land, is expected to be approximately $700 million.

5.4 SABMILLER, CARGILL, AND THE MORARKA FOUNDATION

Since 2005, SABMiller and Cargill have been working together with the government of the Indian state of Rajasthan, the Morarka Foundation (a local NGO), and local subsistence farmers to support the development of a healthy and viable barley malt industry to supply local breweries.

Background

SAB Miller, with sales of 254 million liters of beer and a market share of approximately 34%, is the second-largest beer company in the Indian market. It has operated in India since 2000 with 10 breweries in the country. Cargill is an international provider of food, agricultural, and risk management products and services. The malt group of Cargill's food division works in partnership with its customers to grow malting barley. Cargill has historically been the primary maltster for SABMiller globally.

Barley malt is one of the principal ingredients in beer. Rajasthan, where SABMiller sources barley, produces approximately 420,000 tons of barley per year. The barley, however, is largely feed-grade, and hence does not command a premium price. It is therefore not viewed by farmers as a priority crop. Farmers do not use certified seeds to sow, instead saving seeds from previous growing seasons. Since saved seeds do not guarantee varietal purity, rate of germination, or pest resistance, they do not yield consistent, high-quality crops.

Motivation

As SABMiller looked to expand its beer market in India, a strategic partnership emerged with Cargill. The company realized it needed better quality malt, and that better quality malt required better quality barley. Cargill Malt India had expressed interest in establishing a world-class malting unit in India, and SABMiller was interested in having a high-quality domestic malt supplier. With two agendas converging, SABMiller and Cargill collaborated to restructure the existing supply chain through the Malt Barley Development Program. This program, called Sanjhi Unnati (SU), is similar to many other barley development initiatives of SABMiller but has been customized to meet Rajasthan's unique needs.

Activities

A key component of the program has been the creation of SU centers. Through these centers, SABMiller and Cargill use a variety of strategies to make their inclusive business model successful. The SU centers provide certified seeds, agricultural skills training, and other support, and the participating companies are currently in discussions with ICICI Bank to offer farmers access to credit. The new supply chain structure removes multiple inefficiencies in the previous system, created by poor-quality barley seeds, exploitative credit conditions for farmers, and unnecessary commissions to middlemen.

The SU partnership consists of four members, in addition to the farmers themselves: SABMiller, Cargill, the Morarka Foundation, and the Rajasthan Government. SABMiller established the program and provided initial funding; now, SABMiller coordinates the various members and monitors and reports on the project on an ongoing basis. Cargill assists in all operational aspects of the project, manages the SU centers, sells seed, and trains farmers. To increase farmer participation, the Morarka Foundation facilitates social mobilization and interaction between local communities and SU management and operations staff. The foundation also supports relationship management for the program by addressing longer-term social needs of SU communities. The Rajasthan Government approves licenses and provides state infrastructure and support for the program. The Government also promotes the SU concept through its extension organizations and teams on ground, for example by raising awareness of the benefits of certified seeds.

SU centers have been set up in three districts of Rajasthan. SU staff, franchisees, and local Cargill staff have been trained by experts from Cargill Malt Eurasia to provide ongoing support and extension services. When the program commenced, a publicity campaign was launched to raise awareness amongst 20,000 local barley farmers, using a variety of communications tools including "jeep campaigns," farmer meetings, and leafleting. This led to a recruitment drive inviting farmers to become members of the SU program. Participating farmers bought certified seeds from the SU centers and received access to personalized and group extension services from professional agronomists provided by SABMiller. To give farmers incentives to visit the SU centers, several other useful products were offered, including wheat and groundnut seeds, pesticides and fertilizers, oils, and life insurance products. Veterinary days and prize draws were also organized.

Program costs are expected to total between $92,000 and $156,000 per year for the first three years. The program is not expected to become self-sustaining in near term, and may need continued investment for an additional three-year term.

Impact

There were six SU centers operating as of 2007, supporting 2,400 farmers. The centers have distributed 200 metric tons of certified seeds and procured 7,000 metric tons of barley. 62% of farmers who took the seeds have sold back to the centers rather than to traditional middlemen. An extensive system for tracking and reporting progress has also been put in place and is being monitored. In addition, a new initiative has been undertaken to examine whether suitable software can be developed to track activities and analyze field data. To better understand the impact of the program on communities, the Morarka Foundation is developing an extensive database.

Since the program was introduced, both the yield and quality of barley have improved. In the last harvest, yield was over 20% higher, though it is difficult to estimate how much of the improvement can be attributed directly to SU. Nevertheless, there are broad indicators confirming the value of the SU program: over a two-year period, SU districts achieved an average yield of 33.3%, while the average for Rajasthan state was 14.2%. Crop quality has improved as well. Average TCW, a measure of malt extract, has increased from 40 to 43 grams since the SU program was introduced.

There has been a direct positive impact on farmers' incomes as a result of higher yields and crop quality. Farmers receive a 50% subsidy on certified seeds and they command up to 10% higher prices from SU centers compared to the mandis.

SABMiller is using the SU program to build credibility and acceptance among farmers and farming communities. In the long term, the company can use these relationships to widely distribute better quality seeds. A strategic long-term benefit also exists for Cargill, as eventually the company will be able to use the SU centers to sell and procure additional crop varieties.

Lessons

Farmers were initially reluctant to accept the new seeds provided by SU. To overcome this barrier, consistent farmer engagement and long-term project commitment is proving crucial. The Rajasthan Government also played a key role on a practical level by publicizing the program through extension activities and providing relevant licenses. Government involvement also lent credibility to the program, assuaging farmer's doubts. Because farmers are very price-sensitive, it proved important to ensure that the SU price consistently beat the mandi price.

Next Steps

Goals have been set for the partnership in terms of number of centers established, number of farmers enrolled, and quantity of seed distributed. By 2008, 10 centers are expected to be fully functional. These centers will support 3,000 farmers, distribute 700 metric tons of certified seed, and procure 10,000 metric tons of barley.

To provide high-quality, certified seeds for distribution to farmers, a seed development program has been set up. Twenty new global seed varieties have been tested, of which five look more promising than local varieties. These will be distributed to the farmers in the next five years. Over the same five years, SABMiller India expects to achieve 50% of total barley procurement from the SU program, up from 10% in 2007.

5.5 UNILEVER AND PROJECT NOVELLA

In Tanzania, Unilever has partnered with local organizations to establish a locally-owned supply chain for Allanblackia oil, a new raw material to be used in margarines and spreads. Called Project Novella, the initiative is increasing income for farmers who cultivate AB trees, generating jobs in the AB supply chain, and preserving the biodiversity of the region.

Background

Unilever partnered with multiple non-governmental organizations (NGOs), international organizations, and government agencies in Tanzania to commercially produce food-grade Allanblackia (AB) oil as a superior alternative ingredient in some Unilever products. The company has done extensive research on the properties of AB oil and has established new applications in manufacturing spreads and soaps. AB oil's unique properties allow lower saturated fat versions of margarine and spreads to be produced. The objective of this partnership, called Project Novella, is to assist Tanzanian farmers, rural communities, and local small businesses to build, run, and grow a locally-owned supply chain for AB oil. Novella also strives to preserve the biodiversity of the region and thus contribute to achieving the Millennium Development Goals.

Motivation

Unilever's primary motivation to form Project Novella is to promote the cultivation of a sufficient quantity of AB seeds to guarantee a sustainable supply of AB oil. Since AB is not well-known and not commercially produced, Unilever is challenged to source the volumes required to benefit commercially from the properties of the new crop. To address this challenge, the company is working with local Tanzanian organizations to create an entirely new supply chain for AB.

Activities

Project Novella is an inclusive business model that sources AB seeds from local, community-based farmers. The project also works to build human capital by training the farmers to produce high-quality AB in an environmentally sustainable manner. To ensure that the AB supply chain is viable over the long term, local institutions such as Tanzanian Allanblackia Board, farmers associations, rural banking systems, and agricultural institutes have been developed. As in the other cases profiled in this report, these human capital and institutional capacity-building strategies help to make Unilever's inclusive business model stronger.

Unilever decided to partner with multiple local NGOs, international organizations, and government agencies to tackle the challenges it faces in Project Novella. These challenges include local capacity-building, local social mobilization and change, research and technical training in sustainable domestication, and plant propagation. Additionally, Unilever believes that to make the model viable in the long run, the supply chain had to be owned by local farmers, small enterprises, and communities.

Local NGOs such as Faida MaLi, the African Institute for Economical and Social Development (INADES), the Institute of Cultural Affairs Tanzania (ICA), and Tanzania Forest Conservation Group (TFCG) have provided training to farmers on business awareness and management, helped establish producer groups, and mobilized farmers and village communities.

Other partners in Novella include international organizations such as SNV (the Dutch development organization), UNDP's Growing Sustainable Business Initiative, The World Conservation Union (IUCN), the International Centre for Research on Agro-Forestry (ICRAF), and governmental institutions such as Amani Nature Reserve (ANR), Tanzania Forestry Research Institute (TAFORI), and local governments. UNDP helped undertake social and economic impact assessments, gather environmental baseline data, and provide key contacts with government organizations. IUCN established best practices for environmentally sound and socially equitable ways of introducing a tree crop to farms. ICRAF and TAFORI coordinated research to establish an domestication strategy appropriate for widespread cultivation. ANR hosted and managed a central tree nursery for trees and the government Forestry and Beekeeping Department (FBD) issued licenses and certificates for AB business.

Over the four years that Project Novella has been operating, the collaboration has made significant progress in creating a five-step supply chain for cultivating, collecting, transporting, processing, and exporting AB. Farmers and groups in the villages are engaged in collecting AB seeds from their farms, drying the seeds, and weighing and selling the product to collection centers throughout the harvest season. Seeds are then taken to a local crusher, who Novella has supported to upgrade his factory to produce food-grade oil. The AB oil produced is then transported to Europe. Activities related to the growing and collection of seeds are coordinated and managed by local NGOs; all other activities related to transporting, processing, and exporting are managed by Unilever.

Unilever is committed to making this project a success. To increase local ownership, Unilever spun off an independent implementation-focused company called Novel Development Tanzania Limited (NDTL) to run a large part of its AB supply chain activities. NDTL ensures that the collection centers are operating, that farmers are paid, and that seeds are transported, processed into oil, and exported. Unilever has guaranteed farmers a fixed price per kilo of seeds, and has pledged to pay an attractive, premium price for AB oil until the full economies of scale take effect in or before 2012.

This chain of activities is made possible by the extensive human and institutional capacity-building undertaken by the Novella partners. NGOs have raised awareness of the economic benefits of growing trees, and trained farmers and village associations on domestication. They have also helped villagers mobilize and legally register as economic groups. After registration, these groups have access to training and the opportunity to sell their produce to Unilever. Other institutions such as the Tanzanian AB Board, farmers associations, rural banking facilities, and payment systems have been established. As of 2006, several rural tree nurseries had been established and a first lot of 2,000 new trees had been planted in the farms. Domestication best practices have been documented and shared. Over 20,000 trees will be planted by 2007, most produced by rural, community-owned nurseries. ICRAF is working with ANR to improve both quality and quantity of current AB replication technology.

Novella is jointly funded by the partners and by additional grants from the UK Department for International Development (DfID) and Austrian Government Aid (ADA). The total funding commitment from 2003–2007 is $4 million.

Impact

Results for Novella to date are highly encouraging. The number of villages involved has grown from 16 to 48, and is expected to reach 100 by 2008. As of 2006, 6,000 farmers were involved in the program. The average AB earning per farmer per year has increased from £30 to £70. Forty five full-time jobs managing the buying centers, half of which are held by women, have been created. Six hundred and fifty tons of AB seeds are produced per year and future demand stands at 600,000 tons. The planting of AB trees will lead to a marked increase in supply volumes, thereby increasing the impact on rural income levels. By 2016, more than 25,000 farmers should be able to earn more than £200 per year farming AB, in addition to their other economic activities. The success of the program is being recognized widely and is being emulated by Novella teams in Ghana and Nigeria.

Lessons and Next Steps

While the project is successful, a growing supply chain will have to be established and made sustainable by the end of the DfID grant term. Local ownership, active capacity-building of the farmers, investment in research capabilities, and improvement of business practices are some of the factors that are expected to contribute to the supply chain's sustainability and viability. Two primary hurdles still exist: demand for AB nuts must grow and the quality of AB oil must improve even further. Progress has been made on the demand side as Unilever has found a second guaranteed purchaser for AB oil. Having more than one buyer for the oil reduces farmers' dependence on a single major buyer.

Future growth now depends on achieving scale by rolling out the experience across Africa, involving many communities in planting AB trees on small, diversified farms in order to preserve the biodiversity of the region. Moving forward will require attracting skilled people who can guide the process, as well as the funding to finance tree production and training for farmers on how to integrate AB into their current farm activities. The Novella partnership is committed to bringing this project to scale. As Harrie Hendrickx of Unilever says, "We will bring the volumes to a level where economies of scale reduce cost and make the whole project economically sustainable. Then, with a new raw material established, hundreds of thousands of farmers in Africa can earn a decent living from it."

5.6 DANONE GRAMEEN

The traditional approach to growing an international business in emerging markets is to target segments likely to find a company's product competitive. Because legacy brands and traditional modes of production are adapted to high-purchasing-power countries, this strategy typically limits developing country markets to the wealthiest customers. Danone Grameen is turning this logic upside-down, rethinking the entire value chain for yogurt production and marketing so that it employs and serves the poorest segments of society.

Background

Danone has partnered with Grameen Bangladesh to fund equal shares of a social enterprise for the poor. This venture creates economic opportunity and delivers a quality, nutritious product to the "base of the pyramid." Its three objectives are to:

- provide children suffering from nutritional deficiencies with a low-priced yogurt adapted to their nutritional needs,
- create jobs around an economically viable and scaleable business model, and
- preserve the environment.

The Global Alliance for Improved Nutrition (GAIN) is a critical actor in the joint venture as well, validating the benefits of the nutrient-enhanced yogurt for children. As of September 2007, the joint venture had been operating for less than one year and was still in full learning and adaptation mode.

Motivation

For Danone, creating Grameen Danone Foods Ltd. is consistent with its strategy to deliver health through nutrition. The company's underlying motivation is to innovate and transform its processes to deliver value to people with low purchasing power, and in so doing, to inspire all Danone operations to rethink their models. The project also sends a powerful signal internally, demonstrating Danone's mission to be a social innovator.

For Grameen, the joint venture is a natural addition to its existing portfolio of for-profit and non-profit enterprises serving the poor in Bangladesh. Among many other services, Grameen provides financial and technical support to micro and small enterprises; support for healthcare, education and disaster relief; mobile telephone service through thousands of "Grameen Ladies"; and energy to off-grid villages through non-polluting renewable energy models. The Danone Grameen joint venture leverages Grameen's extensive reach and immense credibility in rural communities.

The partnership provides GAIN with an avenue to pursue its mission of providing essential micro-nutrients to populations in need, leveraging both public and private food distribution channels.

Activities

Danone Grameen is addressing all essential components of the value chain, from agricultural production of milk, to yogurt manufacturing, to product distribution. At all steps, the main partners are scaling up activities and contributing to the formation of a viable inclusive business model. $1 million in capital has been invested so far.

Upstream, the objective is to promote local milk supply, particularly through the development of micro-farms. Danone is using its experience to raise quality and productivity standards. Rather than involve its own agronomists directly, Danone is building local agronomic capacity, training local NGOs that can then work with farmers. Danone is also helping to establish a supply chain that prevents deterioration of milk in Bangladesh's hot climate.

At the center of the value chain, Danone has designed a completely new factory set-up affectionately called the "deskill factory." This model favors employment over costly technologies, without jeopardizing product quality – the yogurt is Danone-branded and must meet the company's quality standards. The first factory is located in Bogra, 150 kilometers north of Dhaka, the capital. Specific attention has been paid to safety through highly concrete, illustrated trainings that raise awareness in employees, most of whom come from local, rural environments, of risks inherent in industrial activity. Other innovations are in place or being prepared, such as the use of biogas, solar energy, biodegradable jars, and reusable containers.

Downstream, the joint venture is banking on the extensive network of Grameen Ladies for door-to-door sales along existing local retail channels. The goal is to keep distribution to a radius of 30 kilometers around the factory to minimize environmental impacts associated with transport. However, the model introduces new challenges for the

Grameen Ladies as yogurt distribution differs considerably from micro-lending or provision of telecom services: distributors are asked to purchase a perishable product upfront. The success of this approach has yet to be determined.

In the meantime, GAIN is validating the yogurt's nutritional impact through clinical studies, bringing the expertise and independence to validate the health benefits of the enterprise. This validation provides substance to the venture's social marketing, which relies on word-of-mouth.

Danone Grameen has invested significant effort in creating a product suitable for the market, as opposed to selling existing yogurts that works well for other markets. The yogurt is branded as "Shakti doi," which means "energy yogurt." It is made of fresh milk and sugar and is enhanced with micro-nutrients including vitamins, iron, protein, iodine, zinc, and calcium. It is cheaper than other yogurts available in the market and in line with what low-income people can afford (5 taka or $0.07 US). A single 80-gram cup provides 30% of a child's daily requirements of vitamins, iron, zinc, and iodine.

Impact

While much of the project has yet to unfold, the partners predict that over 1,000 livestock and distribution jobs will be created. This compares with approximately 30 factory jobs been created in the pilot factory. Thus, employment impact will occur principally upstream and downstream in the value chain.

Over time, profits from the venture will be reinvested in the construction of other plants. The partners anticipate that up to 50 plants could be established in Bangladesh within 10 years, multiplying the employment impacts accordingly. While the venture is off to a promising start, the viability of the model has yet to be established; it is particularly challenging to operate a full value chain that relies solely on an extremely low-cost product. There is very little additional economic value to be captured in the market to finance the substantial investments required.

5.7 ECOM

The Coffee Group at ECOM, a leading agricultural commodities trader, has partnered with Utz Certified "Good Inside" to provide technical assistance and training to hundreds of Honduran coffee farmers, enabling them to produce high- and consistent-quality coffee through sustainable farming techniques.

Background

Honduras, the second poorest country in Central America, economically relies heavily on a narrow range of exports, notably coffee and bananas. In a context of high unemployment (estimated near 28% in 2006), coffee is a key employer in rural areas, with 110,000 officially-registered coffee producers. A conservative estimate indicates that coffee production supports 8% of the country's inhabitants. Though Honduras benefits from the same climate, soil, and altitude conditions of other countries producing high-quality coffee, Honduran coffee has not matched its potential. There are three primary reasons:

- selection in the 1990s of plant varieties which favor productivity over quality,
- rudimentary processing techniques, and
- extensive and unnecessary handling throughout the production and local marketing chains.

Founded in Barcelona, Spain, in 1849, ECOM Agroindustrial Corporation is one of three leading companies in the highly-concentrated coffee trading market. In 1986, ECOM's Coffee Group established a trading and processing company, SOGIMEX, in Honduras.

Motivation

Increasingly, ECOM's customers wanted to know the origins and methods of production of their coffees. For example, both Japan and the European Union prohibit certain types of chemicals to be used as fertilizers. To adjust to changing demand, SOGIMEX started piloting sustainable coffee projects providing farmers with the technological knowledge and training they needed to produce consistently good-quality, traceable, specialty coffees, which could command a premium with the company's customers.

Activities

SOGIMEX launched its first sustainable coffee or Caficultura Sostenible project in 2002 in Marcala. Coffee produced was purchased at a premium by Starbucks, confirming that a market existed for sustainably-grown coffee. In November 2004, ECOM partnered with Utz Kapeh, now called Utz Certified, a worldwide responsible coffee certification program, to develop additional projects. The partnership with Utz Kapeh focused on three main goals:

- to achieve a sustainable coffee industry in Honduras;
- to develop a pilot a model that could be brought to scale throughout the country; and
- to foster a new culture throughout the supply chain, leading to technically-savvy coffee farmers with greater social awareness and environmental responsibility.

With the help from the Coffee Support Network, ECOM and Utz Kapeh promoted their first Utz Certified pilot project in San Nicolás, Santa Bárbara, with much success, selling all of the resulting coffee as Utz Certified.

Recognizing that it was challenging to build partnerships with local stakeholders as a private corporation, in 2005 ECOM decided to create a local NGO, Alianza para la Sostenibilidad, to lead the development of additional sustainable coffee projects. ECOM invested more than $560,000 in this initiative.

Alianza para la Sostenibilidad (APS) worked with many partners who contributed to the success of the program. Utz Kapeh, meaning "good coffee" in the Mayan language, set standards for responsible coffee production and sourcing. Utz Certified and the Coffee Support Network from the Netherlands trained the first ECOM Trained Agronomist (TA) for the pilot project. Later, in the roll-out project, ECOM's TA trained five more TAs who in turn provided technical assistance to farmers. IHCAFE, the Honduran Coffee Institute, the National Agrarian institute, CIRAD (a French agricultural research organization), and Crop Life helped develop better farming practices. Disagro Group, a regional fertilizer company, assisted in analyzing farm soil and providing fertilizer training. Honduras Red Cross supported first aid training in farms and milling facilities. The Honduran Secretary of Labor was also involved to ensure that farmers understood labor laws regarding the minimum age to work, minimum wages, and other labor-related issues.

Through APS, coffee farmers received training in basic business skills. "Since illiteracy is high in Honduras, many farmers do not develop a habit of writing or keeping track. We teach the farmers ways to track their harvests, keep basic records of their activities, expenses, and incomes. To make things easier for them, we have created simple forms and invited children to attend the training so that they can then help their parents with the registries," says Carlos Urmeneta Jr., project manager in Honduras.

Farmers also received training on waste management, fertilizer management, and sustainable growing methods as defined by Utz Certified. They learned how to treat the pulp generated from wet milling processes to create organic fertilizers. They received guidance on fertilizer management, in which the soil composition of their farms was analyzed and customized formulae developed. These formulae improved crop yields and reduced the quantities of fertilizer needed. To handle fertilizers and toxic material, farmers received safety equipment and basic training on handling. Since 85% of farmers lacked sanitation facilities, they were also taught how to build these facilities and avoid contaminations. First aid kits were provided in case of emergencies on the farm.

Farmers whose coffee received certification were paid a premium for their crop. Moreover, farmers were encouraged to pursue other activities to diversify their incomes, such as poultry or tilapia farming. Other quality-of-life benefits included a school assistance plan set up to ensure that children attended classes rather than working in the farms.

At every occasion, public authorities were informed of APS' activities. With the help of strategic partners from public and private sectors, ECOM is looking to roll out this project on a National Initiative level.

Results

The partnership has brought three main benefits to coffee communities: it has improved skill levels, raised income levels, and reduced the harmful effects of coffee farming on the environment.

As of the 2006-2007 harvest, 509 coffee producers had received training and technical assistance and achieved Utz Certified status. Coffee produced and certified by the program amounted to 4,800 metric tons. The target for 2007-2008 is to certify 750 producers and double the volume of certified coffee, which will directly impact approximately 1,200 Honduran families, generating an estimated 5,000 field jobs. The program originally targeted small farmers but has expanded to include larger farms, allowing for higher volumes to be produced and more families to be impacted. The ultimate ambition of the project is to reach a national scale.

After training, farmers' overall productivity has increased by 54%, and their costs have decreased by almost 20%. While income data have not been measured systematically for all participants, anecdotal examples are available. For instance, one of the top-performing farmers received an additional premium of $3 per 46-kilogram bag of coffee produced, resulting in a cumulative increase in net income of $95,000 between 2004 and 2006. Additionally, due to safety training, his farm saw an approximately 90% reduction in accidents.

Sustainable farming methods have also contributed to reducing pollution on the farms. In a community where water and pulp have never been treated, a quantity equivalent to over 33 Olympic-sized pools of residual water and over 6,500 metric tons of pulp have been treated through the APS program. Reforestation initiatives have also been implemented.

Lessons

Prior to this project, exporters like ECOM were not regarded positively by farmers and thus had great difficulty in building credibility with local communities. A crucial turning point occurred when ECOM agreed to support the re-building of a school in San Nicolás. Only after this agreement did farmers believe ECOM sincerely wished to contribute to the well-being of their community.

While ECOM realized that it could not control the root causes of volatile commodity prices, the company proved it could affect supply chain issues and contribute to the availability of traceable and sustainable sources of supply. To make these projects sustainable, ECOM has identified customers who are willing to pay premiums for certified coffee. For example, Sara Lee pays a premium of $5 per 46-kilogram bag, of which $3 is passed on to the grower and $2 to APS. Other corporate buyers of certified coffee include Tokyo Allied Coffee Roasters, Ahold, IKEA, Migros, ICS Coffee & Tea, Bewley's, and Ruquoy. Restaurant chains like McDonald's have also joined in.

APS is currently funded solely by ECOM. To increase the scale of the project in Honduras and expand into neighboring countries, APS is pursuing new donors and implementation partners.

Overall, ECOM is positioned to lead and excel in the trend to bring consumers and farmers closer together, promoting more sustainable methods of coffee production and allowing for increased traceability and transparency in the coffee supply chain. Integral to this approach is its ability to replicate its knowledge worldwide. Other notable collaborative projects include working with Starbucks and Conservation International in the Conservation Coffee Alliance in Chiapas, Mexico; helping Nestlé's Nespresso AAA program to restore biodiversity in Costa Rica by planting trees; and assisting Rainforest Alliance in Mexico, Guatemala, and Nicaragua to implement environmentally-sound coffee and timber production in the Bozawas biosphere reserve. ECOM is also working with cooperatives to buy coffee and cocoa at better prices and supporting Fairtrade standards in procurement.

5.8 COCA-COLA SABCO

Coca-Cola Sabco is creating significant economic opportunities in Africa and Asia by providing the option to create and operate Coca-Cola Manual Distribution Centers (MDCs). MDCs account for more than 95% of the company's sales in many areas, and they have helped it to achieve double-digit sales growth since the model was implemented.

Background

Coca-Cola Sabco (CCS) is a key bottler for The Coca-Cola Company in southern and eastern Africa and Asia. CCS produces and bottles beverages at 25 plants across 12 countries and employs over 9,700 local people. The company contributes to local economies through employment, investment in plants, tax revenues, local procurement, and the creation of income-generating opportunities in the sale of their products through different types and sizes of retail channels.

Motivation

Traditional means of distribution are costly and ineffective in many parts of East Africa, where roads are often narrow, unpaved, and unmaintained, especially in lower-income neighborhoods and informal settlements. Around 2002, CCS recognized the need for a distribution system more appropriate to these contexts – one that would provide better service to the many small and micro retailers located there and, by extension, to end customers. At the same time, CCS was searching for an opportunity to demonstrate its commitment to job creation and wealth distribution.

CCS' response was to design an innovative new distribution system around small, independent distributors – essentially building its distribution network through local small business development. This system of Manual Distribution Centers (MDCs) was piloted on a small scale in Ethiopia and, following its success, was rolled out on a large scale in Kenya. Public Affairs and Communications Manager for CCS, Adrian Ristow, remarked, "Through the creation of small locally-owned businesses which share in the profits of The Coca-Cola System value chain, it can be ensured that wealth is shared with a broad cross-section of the local population."

Activities

MDCs are distribution centers that serve their local neighborhoods. MDC owners are third parties who are actively supported and managed by CCS; one CCS area sales manager will manage and monitor the performance of five to eight MDCs.

The company chooses MDC locations based on an overall area business plan and identifies prospective partners in those locations who have the potential to open and operate their own MDCs. CCS helps these partners establish their MDC operations, including designing routes and methods of delivery and determining the frequency of delivery service required to keep customers in stock. As needed, CCS also negotiates special loan arrangements with local commercial banks to provide credit to the entrepreneurs. CCS has also used its existing relationship with IFC, one of the company's investors, to provide financing for MDC entrepreneurs.

CCS continues to support MDCs even after the start-up phase. For instance, the company provides assistance in procuring delivery vehicles, such as custom-built bicycles. In addition, after an MDC has recruited the necessary staff, CCS provides basic financial skills training to all of its employees. MDC owners and employees are all treated as active CCS distributors and receive ongoing support and training from company representatives in order to ensure that optimal selling conditions are maintained at the retailer level.

Impact

Over the five years that the MDC system has been in place, it has had significant impact on local communities and on Coca-Cola Sabco's business. In Kenya, for instance, there are currently 380 MDCs generating over $100 million in revenue, employing nearly 4,000 people, and supporting a base of approximately 16,000 people. MDC employees and their families have access to greater wealth, better living conditions, and future opportunities such as education. A typical MDC's revenue is around $25,000 per month and sales staff receive commissions based on pre-specified percentages of sales revenue.

The entrepreneurs running the MDCs have seen dramatic transformations in their lives as a result of increased income and empowerment as business owners. Many of them hailed from humble backgrounds, often as drivers for wholesalers or low-skilled laborers in the beverage value chain. “I’m very happy with the opportunity that Coca-Cola has given me. I did not ever dream of being an investor, employing others, and supporting my greater family,” says Samuel Wangige Wairimu, an MDC owner who had worked as a driver for a Coca-Cola wholesaler for 18 years, earning less than $40 per month.

The MDC model is expanding and continuing to create local investment, jobs, skills development, and sales growth. The model first rolled out at scale in Kenya, but has since spread across East Africa and Asia. Its flexibility makes it adaptable to local conditions and therefore relatively easy to replicate and scale. Four years since the MDC model was rolled out in Kenya, nine other countries (Ethiopia, Uganda, Tanzania, Mozambique, Namibia, Sri Lanka, Nepal, Cambodia, and Vietnam) have successfully implemented MDCs. A total of 2,905 MDCs were operational as of year-end 2006, employing more than 10,000 people.

For CCS, there have been three significant business benefits of the MDC model. First, CCS has seen significant increases in sales across all 10 participating countries, ranging from 6 to 523%. These increases reflect increased distribution range and improved affordability of products; the MDC system shortens the supply chain, cutting out unnecessary wholesalers who added to product cost and increased prices at their convenience. The system has also contributed to price stability – offered prices are held for longer than usual, well below inflation.

Second, smaller and harder-to-reach retail outlets receive better service than they did previously, thanks to the ability of MDC salesmen to make more regular visits. These visits have helped reduce out-of-stock situations, helping outlet owners improve their businesses and building favorable rapport between them and Sabco.

Third, replication and scaling of the model have led to further innovation in distribution methods. In East Africa, Vietnam, and Cambodia, for example, push carts have been developed in place of bicycles as a means of distribution to support further entrepreneurship in the value chain.

Next Steps

CCS is planning to continue growing its flexible and successful MDC model, as it has been accepted as a vital component in the growth strategy of the company. Wherever CCS faces distribution and access difficulties similar to those in East Africa, the company plans to develop more MDCs.

CCS is only beginning to realize the power of the distribution network created by MDCs. The company has used the network as a platform for various beneficial community services – for example, working with the US and Ethiopian governments as well as a local NGO, Positive Change, to provide economic opportunities for HIV/AIDS orphans – and has been approached by other organizations about similar projects. Coca-Cola Sabco is committed to finding ways to use its network strategically for community development.

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List of Companies Interviewed

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Jane Nelson

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Tanzania: Lessons in Building Linkages for Competitive and Responsible Entrepreneurship
Tamara Bekefi

Viet Nam: Lessons in Building Linkages for Competitive and Responsible Entrepreneurship
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Leveraging the Development Impact of Business in the Fight against Poverty
Jane Nelson

About the Authors

Marc Pfitzer is the Managing Director of the Geneva office of FSG Social Impact Advisors. Marc brings over 15 years of experience advising senior executives across sectors. He is responsible for FSG's work in Europe, spanning multinational corporations, foundations, non-governmental organizations, governments, and public-private-partnerships. His work includes strategic reviews and business planning for the social sector, issue research leading to action or policy recommendations, social initiative implementation and evaluation. Much of his recent work has focused on the linkages between corporate competitiveness and social engagement and evaluation of major social initiatives, topics he has written about and presented at dozens of conferences. Prior to joining FSG, Marc served as Manager at the Boston Consulting Group based in Zürich, working on a variety of consulting assignments for both corporations and non-profits on the topics of strategy, organizational design, and change management. He also has significant experience in training and professional development. Prior to BCG and during his studies, he worked with the World Economic Forum. He holds an MBA from the European Institute of Administration (INSEAD-Fontainebleau) and a BA from Harvard in Government and History. Marc is fluent in French, English and German. He can be reached at **marc.pfitzer@fsg-impact.org.**

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About FSG Social Impact Advisors

FSG Social Impact Advisors is a 501(c)(3) nonprofit enterprise that provides consulting services to foundations, corporations, governments, and non-profits to develop strategies for increasing social impact and to measure the results achieved. FSG also publishes original research and leads action initiatives that advance the practices of philanthropy and corporate social responsibility. FSG was founded in 1999 by Professor Michael E. Porter and Mark R. Kramer as Foundation Strategy Group, LLC, and converted to non-profit status under its new name in 2006. With offices in Boston, San Francisco , Seattle, and Geneva, FSG's global team combines strategy consulting, evaluation, and research skills with a deep understanding of the non-profit sector. **www.fsg-impact.org**

About the Corporate Social Responsibility (CSR) Initiative

Under the direction of John Ruggie (Faculty Chair) and Jane Nelson (Director), the CSR Initiative at Harvard's Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance, and public policy, with a focus on the role of business in addressing global development issues. The Initiative undertakes research, education, and outreach activities that aim to bridge theory and practice, build leadership skills, and support constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors and is now also supported by Abbott Laboratories, Cisco Systems, Inc., InBev, InterContinental Hotels Group, Microsoft Corporation, Pfizer, Shell Exploration and Production, and the United Nations Industrial Development Organization (UNIDO). Visit the Initiative's homepage at **http://www.ksg.harvard.edu/m-rcbg/CSRI**

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