



Putting market access into practice: Reaching the bottom billion through corporate supply and distribution chains

Meeting 4, Tuesday 21st April 2009, at the Commonwealth Club, London WC2N 5AP

Speakers:

- **Andy Wales**, Head of Sustainable Development, SAB Miller
- **David Croft**, Conformance and Sustainability Director, Cadbury
- **Euan Wilmshurst**, Stakeholder Engagement Manager, Coca - Cola

Respondent:

- **Caroline Ashley**, Research Fellow, Overseas Development Institute (ODI)

Chair:

- **Simon Maxwell**, Director, Overseas Development Institute (ODI)

Summary: This meeting, the fourth in the [series](#) on Harnessing the Private Sector for Development Impact, sought to examine examples of quite detailed work on how supply chains and distribution chains can be reformed to further expand opportunities for the poor, while delivering business benefits too. Four case studies were presented. *Andy Wales* outlined the results from an independent review of smallholder agriculture projects that SAB Miller is engaged in. *David Croft*, talked about the Cadbury Cocoa Partnership, which aims to secure the economic, social and environmental sustainability of around a million cocoa farmers and their communities. *Euan Wilmshurst* presented the results of research that has been undertaken on the developmental benefits of Coca-Cola's manual distribution model which has been operating in East Africa since the 2001. *Caroline Ashley* presented a case study of the Spier Hotel in South Africa, which demonstrates the substantial development impact that can be generated by localising procurement.

Each speaker presented case studies of initiatives that have been undertaken to engage poor producers and gave some assessments showing their development impacts. The speakers also gave insights in relation to the amount of internal work needed, the business case for such reforms, and covered issues about scaling up and replication.

Andy Wales, Head of Sustainable Development, SAB Miller, started the event by outlining how the company has been improving their development contribution through inclusive business (outlined in this [presentation](#)) by using a partnership approach.

He outlined findings from independent PWC research into the smallholder agricultural projects SAB Miller has been doing in its various countries of operation. The research found that in its African operations, there had been strong but variable returns. The most notable success story was that the company's (pro-developmental) engagement with

6,024 smallholder farmers in India had resulted in rapid growth in the market and was central to expansion plans. The company has also identified the top three social interventions it is going to make in its Indian operations after a survey of 10,000 households, These are to be:

- Conservation farming pilots
- Providing market linkages for dairy produce to women from their member farmer families.
- Providing scholarships for education for young adults from the communities

Andy also highlighted that in Colombia up to 100,000 jobs could be created over 10 years if trials to re-introduce local barley are successful.

In Africa, where the company's work with smallholders has had more variable success, the main issue has been that beer is manufactured by importing barley from Europe. However, the company is now seeking to attract (poorer) customers from the informal alcohol market by producing cheaper beers using local lower cost crops as inputs – e.g. sorghum and cassava. In 2009, SAB Miller had engaged 12,700 participating farmers using enterprise development initiatives. This is set to rise to 35,000 by 2011.

Andy concluded by emphasising that long term success in development activities is driven by the company's need for higher quality supply or lower priced products. Development projects can be difficult to manage and getting the partnerships right is crucial.

David Croft, Conformance and Sustainability Director, Cadbury, talked about the Cadbury Cocoa Partnership, which aims to secure the economic, social and environmental sustainability of around a million cocoa farmers and their communities. The presentation is available [here](#).

In January 2008 the partnership was established with the United National Development Programme, and local governments, farmers and communities in Ghana, India, Indonesia and the Caribbean. Over ten years £45 million GBP will be invested through the partnership to improve farmer incomes, attract the next generation into cocoa farming and to develop communities and build partnerships.

The Partnership's four pillars were outlined:

1. Improving cocoa farmer incomes: by helping farmers increase their yields and produce top quality beans. To be achieved by developing farmer education programmes that explore best cocoa management practices leading to high quality and increased yields.
2. Introducing new sources of rural income: through microfinance and business support to kick start new rural businesses and introduce additional income streams such as growing other crops.
3. Investing in community led development: to improve life in cocoa communities e.g. supporting education through schools and libraries, supporting the environment through biodiversity projects, and building wells for clean, safe water.
4. Working in partnership: Farmers, governments, NGOs and international agencies will work together to decide how the funding is spent and work with local organisations to turn plans into action.

In 2009 the Cadbury Cocoa Partnership is now active across 100 Ghanaian communities, marking the 100th anniversary of cocoa trading with Ghana. The Partnership's first year has seen a Ghana Board set up to oversee the programme including representatives from Ghanaian government ministries, farmer organisations and development specialists.

The 100 communities who have now joined the partnership have been identifying their main development needs, including the construction of new school buildings or forming Cocoa Youth Clubs to encourage the next generation to remain with agriculture, particularly cocoa farming.

As well as seeking to make an immediate impact on farmers’ lives, the Cadbury Cocoa Partnership is exploring carbon reduction techniques to secure more sustainable cocoa farming.

David also announced that Cadbury’s Dairy Milk had just achieved Fairtrade certification in the UK and Ireland. He felt that this would result in the tripling of sales of cocoa under Fairtrade terms for cocoa farmers in Ghana, an increase in Fairtrade cocoa sales for existing certified farming groups, and the opening up new opportunities for thousands more farmers to benefit from the Fairtrade system.

Euan Wilmshurst, Stakeholder Engagement Manager, Coca-Cola, made a presentation about the company’s Manual Distribution System (MDC) in Africa (Presentation available [here](#)).

MDCs are independently-owned low cost manually operated distribution centres created to service primarily an emerging urban retail market where classic distribution models are not effective or efficient (typically 150 outlets spread over a manageable coverage area and with a defined customer base). The distribution of the product is mostly manual to keep costs at a minimum. Outlets served typically are low volume outlets with high service frequency requirements and limited cash flow requiring fast turnaround of stock.

It is a core business model that generates between 50%-95% of volume where it is utilized. While being commercially successful it also creates new businesses, thousands of jobs and much needed income in local economies

Coca-Cola Sabco has been operating this distribution model since the early 2000’s in East Africa. Similar models are now also being implemented by other bottlers in North & West Africa & in Asia, meaning the impact is growing exponentially.

The IFC and Harvard Kennedy School, in conjunction with Coca-Cola have investigated the MDC model in terms of its current & potential socioeconomic benefits. The research took place during summer 2008 with interviews taking place with Manual Distribution Centre (MDC) owners & their staff. Samples were selected from Ethiopia & Tanzania as two contrasting markets where the model has been implemented from the early 2000s. The Sample consisted of 21 MDCs in Ethiopia & 28 MDCs in Tanzania across a spectrum of high, medium and low performing MDCs.

The three key dimensions of development contribution identified in the research are shown in red in the table below, with examples given for each dimension:

KEY AREA IDENTIFIED	EXAMPLES OF DEVELOPMENT CONTRIBUTION
Creating economic opportunity	<ul style="list-style-type: none"> • 651 & 412 MDCs created in Ethiopia & Tanzania respectively • Over 6,000 jobs • Income for broader support of dependents
Catalyzing human capital development	<ul style="list-style-type: none"> • Qualitative feedback that basic business skills have been developed • Daily coaching by sales staff
Promoting women’s economic empowerment	<ul style="list-style-type: none"> • 19% & 32% women MDC owners in Ethiopia & Tanzania in sample • 10% of employees • Qualitative feedback on at least equal number of couple’s run MDcs

The research also identified five further areas of opportunity which Coca-Cola is seeking to explore:

- Targeted recruitment - Improvement in owner recruitment, incentives & supervision & management process to enhance core business success. Investigate the role of women & first time business owners in the network.
- Financing, credit and financial services - possibly in partnership with financial organizations, create model options for optimizing both business & development objectives.
- Capability development and training - Expand & enhance provision of business skills, training, life skills & further education opportunities through a curriculum based approach.
- Social products - Explore options for using the distribution model to distribute products with social or development benefits.
- Explore options for social marketing.

Caroline Ashley, Research Fellow at the Overseas Development Institute, gave a short explanation of a case study of the Spier hotel, a 200-employee business in the Western Cape of South Africa which developed a new 'enterprise development' procurement approach. She explained that the Spier hotel is an invaluable case study, because it demonstrates the substantial development impact that can be generated by localising procurement, and provides a wide range of extremely practical tips on how to bring local micro and small enterprises into corporate supply chains (a project briefing note can be found [here](#)).

The gross injection into the local economy due to new contracts outweighs what would be possible via philanthropic flows or increased wages from a hotel this size. The case study also highlights the value of a small amount of donor-funding in the early stages of pro-developmental supply chain reforms. DFID funded a facilitator for 30,000 USD to do the "leg work" and facilitate the reforms and reduce the transaction costs that would otherwise be incurred. However, within a few years, the gross contract values are several times higher.

Although this small example has detailed data and strong results, looking across the board some issues are:

- Why is supply chain reform not happening more, especially if it theoretically can bring commercial and development benefits?
- We know little about the developmental impact of such supply chain initiatives. We usually hear about gross contract values, but not about things such as: spin-off benefits, social benefits, gender impacts and have very few documented examples.
- We know that Supply Chains are also an area where businesses can make money by squeezing margins on suppliers. These pressures and the costs they impose on poor producers also need to be taken into account. Moreover, even ethical supply chain initiatives have losers as well as winners - Global Gap has excluded many producers in Kenya.
- Experience to date suggests core functions within procurement or distribution need adapting at technical detailed level. This can be a great deal of work. Best practice experience needs to be developed and shared on how much internal reorganization is required to adapt supply and distribution chains, and how this is best managed.
- Intermediaries play a massive role in supply chains, but their use can make it harder for MNCs to have reliable delivery. On the other hand, forthcoming Oxfam work shows that southern companies are innovating in their business models with small-holders and small enterprises.
- With the onset of the global financial crisis, pressure to cut costs in the supply chain have increased even more. Some MNCs are doing things to limit the pressure. For example, Asda have said that they are not passing the pressure on banana prices onto downstream producers, but what matters is what happens across all products and all retailers.

Open Discussion

During the plenary, issues discussed included:

- The business case for supply and distribution chain reform. It is clear that in the case of Cadbury, securing sustainability of supply is critical. Farmers are keen to leave cocoa production. In SAB, the business case is strong at the local level, for brewery managers. Examples of the commercial gains of undertaking supply chain reform are needed to facilitate replication and scaling up.
- The Cola-life campaign aims to distribute health products via the Coca-Cola distribution network. Coca-Cola confirmed that trials will begin before the end of this year.
- Partnership is important to make these initiatives work. But there are challenges: cultural, capacity and technical. Panelists agreed on the importance of partnership, such as in the SAB programme.
- There is also little sign of partnership between competitor businesses on these issues. When businesses in the same industry share best practices, supply chain reform may happen more quickly. However, this collaboration is limited by the fact that different businesses, even in the same industry may have very different supply chain structures. There may also be competition watchdogs who actively discourage any form of collaborative practice (usually this refers to matters of price fixing rather than collaboration on sustainability issues though).
- Internal costs are an issue. How can companies not succumb to the inevitable pressures of economies of scale and big brands, with the risk of crushing small innovative initiatives?
- The costs to those that lose jobs or contracts from these initiatives also need to be taken into account. Panelists recognized that this issue is yet to be considered in detail.
- Successful models take a long-time to build, so this process seems to be happening slowly. These issues need development expertise which is not the expertise of business. As Andy Wales recognized, businesses don't always know about these issues or know where to start. Hence the need for partnership was again flagged.