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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 support 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 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 rebuilding 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.