

LOCAL SOURCING

Building local supply chains for more competitive and inclusive businesses



WHY LOCAL SOURCING?

Many corporations serving developing markets want to increase the amount of product sourced locally. Large corporations import many raw materials to developing markets for use in production or retail distribution. These sourcing systems are often due to legacy supply chains or global contracts. However, locally sourced alternatives are often available, and – compared to imports – can reduce the costs of freight, import tax, and the actual raw material price. Over the long term, establishing local supply chains can be an attractive commercial option for corporations.

Local sourcing can help companies meet their social and environmental objectives in addition to cutting costs. Sourcing locally has a much lower carbon footprint than importing. It also helps to sustain local communities in the countries where corporations do business. In developing countries, smallholder, family-run farms can produce key raw materials that have the potential to bolster the supply chains of locally operating corporations, while simultaneously improving their own livelihoods. When companies source semi-processed or processed goods locally, they can even help to spur local manufacturing and support the local market to capture a greater share of the value chain. These initiatives are often looked upon kindly by local governments and consumers, resulting in enhanced reputational value for the corporation.

LOCAL SOURCING CHALLENGES

However, local sourcing in developing markets is not always straightforward. Some of the common challenges that corporations face include:

- **Logistical challenges.** In many markets, agricultural production is spread across tens of thousands of smallholder farmers without clear organization or structure. This can make aggregation expensive;



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- **Poor capacity.** Farmers and intermediate supply chain players often lack the knowledge or training to implement best practices, affecting the quantity and quality of their production;
- **Inadequate services.** A lack of decent services – including quality seed, inputs, and available mechanization – further limits yields;
- **Lack of financial services.** Smallholder farmers have an estimated unmet financing demand of \$200 billion¹, leaving them less able to invest in their production. Where financial services are available, farmers typically face high fees and interest rates;
- **Lack of developed market.** A lack of other, similar buyers can mean that farmers and intermediate suppliers have little experience in dealing with the demands of a major corporation. Furthermore, suppliers' over-dependence on a single buyer creates reputational risk, as sudden change in demand could negatively impact local livelihoods.

¹Dalberg (2016); INFLECTION POINT: Unlocking growth in the era of farmer finance.



Local sourcing can help companies meet their social and environmental objectives in addition to cutting costs and supporting local communities.

HOW TECHNOSERVE HELPS COMPANIES WITH LOCAL SOURCING

TechnoServe partners with multinational corporations to develop and improve their local supply chains to the benefit of corporations and suppliers alike. TechnoServe's approach follows a five-step process, beginning with aligning the corporate's commercial and social objectives for local sourcing in order to identify solutions and develop a business case for action. The best path forward may require investment, and in some cases, a touch of creativity to tweak a manufacturing process or procurement approach. TechnoServe helps its corporate partners to identify and quantify the return on that investment gained through reduced procurement, logistics, and manufacturing costs, as well as through the less "tangible" benefits of improved reputational value or license to operate.

TechnoServe's Strategic Initiatives team offers unparalleled expertise in partnering with corporations to find business solutions to poverty. Our team of eleven professionals brings experience from working in strategic roles in the private sector – typically management consulting – combined with practical, grounded knowledge of development gained from time spent managing teams in the field. With strong collaboration from TechnoServe teams across 29 countries, we support corporate partners at every step, from origination, to design and implementation of projects tailored to their unique circumstances and objectives.

CASE STUDY 1 – PROJECT NURTURE

In 2009, The Coca-Cola Company in East Africa recognized an opportunity to tap into the local production of mangoes and passion fruits for its fruit juices in the region. Despite abundant production of these fruits in Kenya and Uganda, the lack of a working supply chain meant that the company was reliant on imported fruit purées.

Project Nurture was launched in 2010 as a partnership between TechnoServe, Coca-Cola, and The Bill and Melinda Gates Foundation. Working with 54,000 farmers across 1,000 producer groups, TechnoServe helped farmers to improve fruit yields and quality, and to organize their production for bulk sale. By the end of the project, the producer groups had established commercial ties with four fruit processors and more than 50 regional traders and exporters, ensuring higher prices for farmers and a faster route to points of sale for the fruit, reducing waste and spoilage. Participating farmers saw their incomes increase by an average of 142 percent.

Project Nurture also worked with local fruit processing companies to improve purée production from the farmers' mangoes and passion fruit. As a result, the processors were able to start supplying Coca-Cola with the purée needed for its juice drinks. When Minute Maid Mango hit the shelves soon afterward, it was Coca-Cola's first locally-sourced fruit drink in East Africa, and the purée was so good that it was used to make juice in six other countries. This opened Coca-Cola's eyes to a new world of local sourcing possibilities. Now through its Source Africa initiative – announced in 2014 – the company is building sustainable agricultural supply chains across Africa.



Through their partnership, TechnoServe and Walmart have integrated 4,000 small-scale farmers into formal retail supply chains, and have expanded their initiative to help an additional 5,000.

CASE STUDY 2 – WALMART

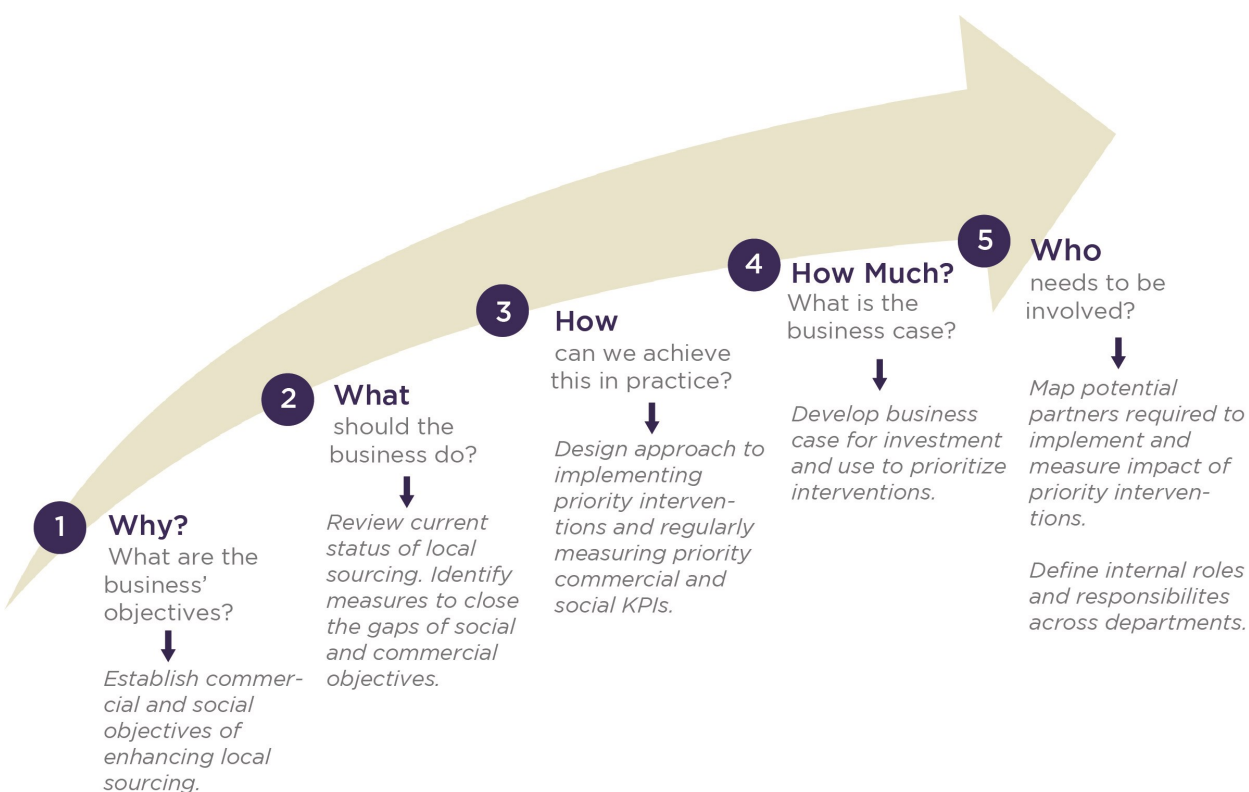
In 2010, TechnoServe began a partnership with Walmart Mexico to build the capacity of local farmers in Mexico. Originally launched as a food security initiative in the impoverished state of Oaxaca, the collaboration expanded in 2011, becoming a pilot program designed to enable participating farmers to compete in the commercial sector. The program was

then scaled up once again in 2012 to include five additional regions of Mexico.

Walmart's goal was for farmers to become independent suppliers of its own supply chain as well as those of other buyers. TechnoServe works with Walmart to identify high-potential value chains, support farmer organizations to operate as agribusinesses, and to train farmer associations in production and business management. Thanks to its deep understanding of Walmart's sourcing needs, TechnoServe is able to help farmers add value to their products. TechnoServe links farmers to the financing and infrastructure they need to increase the quality and quantity of their production for direct sale to Walmart as well as other large retailers. In the tomato value chain, for example, TechnoServe enabled producers to deliver AAA quality tomatoes to formal channels.

Under this partnership, TechnoServe has helped integrate 4,000 small-scale producers of lime, mango, tomato, melon, broccoli, and other products into the supply chains of not only Walmart but other supermarkets as well. As a result, participating farmers now supply approximately \$2 million of produce to formal markets. Farmers' incomes have increased by an average 25 percent, lifting them above the poverty line. In January 2017 the program expanded again, and is currently working to build the capacity of an additional 5,000 farmers and related farmer associations to supply commercial buyers.

TechnoServe has developed a proven 5-step process to enhancing value from local sourcing.





TechnoServe's Project Nurture worked with 54,000 farmers, helping them to improve their fruit yields and quality, and helping Coca-Cola to produce its first locally-sourced fruit drink in East Africa.

CASE STUDY 3 – DANONE

TechnoServe's partnership with Danone Latin America began in 2009 with a series of small projects that ultimately evolved into a larger, 5-year local economic development program, which is now being implemented in Jalisco.

Through the collaboration, TechnoServe has provided specialty training to 300 smallholder dairy farmers, helping them to formalize their businesses and organize into cooperatives, thus increasing their production and quality, and allowing them to collectively sell their milk to Danone and integrate directly into the Danone supply chain. Through the Jalisco Milk Club – which was established with support from TechnoServe – farmers are now able to access milk cooling tanks as well as a Guarantee Revolving Fund, which provides operational credit at a low cost.

These 300 farmers provide more than 115,000 liters of milk to the Danone plant every day, representing a tenth of the plant's total supply. To date, farmer net income has grown by 95 percent due to a combination of higher sales volumes and improved value share. Higher earnings are partly due to farmers' ability to bulk aggregate and sell directly to Danone, and to therefore negotiate a better price. Meanwhile, Danone de México can now rely on a sustainable supply of local, quality milk for its production of milk products for Mexican consumers, underlining its license to operate in the local market.

CASE STUDY 4 – AB INBEV

In 2016, SABMiller plc (prior to its merger with AB InBev) initiated a project with TechnoServe to review and strengthen local supply chains sourcing its Ugandan subsidiary, Nile Breweries Limited. This collaboration ultimately aimed to create value for the business and for its smallholder suppliers. Nile Breweries Limited originally created its "Eagle" beer in 2003 using local sorghum. Since 2009 it has also established local supply chains for barley in temperate regions of Uganda. TechnoServe conducted a review revealing that, while Nile Breweries' supply chains had significantly improved the livelihoods of smallholder farmers, it had the potential to increase its impact even further.

TechnoServe built a business case to demonstrate how investing in smallholder and intermediary capacity building could help close yield gaps and drive greater loyalty to the company, enabling farmers to increase their incomes as well as increasing Nile Breweries' security of supply. TechnoServe is now partnering with Nile Breweries to train 2,000 sorghum and barley farmers, – along with their farmer organizations – in Eastern Uganda. In 2018, the partners are looking to scale their approach to new areas of Uganda.

TechnoServe works with enterprising people in the developing world to build competitive farms, businesses and industries.

TechnoServe is a leader in harnessing the power of the private sector to help people lift themselves out of poverty. By linking people to information, capital, and markets, we have helped millions to create lasting prosperity for their families and communities. TechnoServe has earned a 4-star rating from independent evaluator Charity Navigator for the last 10 years, placing us in the top 1 percent of all its rated nonprofits. With nearly 50 years of proven results, TechnoServe believes in the power of private enterprise to transform lives.

STRATEGIC INITIATIVES

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