



Unravelling Local Sourcing in Africa

Position paper on opportunities for doing sustainable business

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Sustainable local sourcing trends

Sustainable local sourcing means that a company buys local or regional products, processes them locally and markets them in local or regional markets, and in the process creates a sustainable business that benefits both its local suppliers and the company itself. A sustainable business is one that takes a long-term view and provides incentives for all its partners. Such incentives go beyond offering competitive prices; they may also include market and supply guarantees, and access to information.

Many food and drinks companies and retailers in Africa already source from local farmers, they pay for it and they have formed fruitful business relationships. One may therefore ask whether it is necessary to promote the concept of local sourcing. Based on a variety of market signals, it appears that local sourcing is gaining ground as a profitable and – perhaps more important – a sustainable business model that benefits both companies and their local suppliers. The model is being adopted not only by large, food and beverage companies and retailers, but increasingly also by small and medium enterprises.

Googling the term 'local sourcing Africa' yields numerous recent news items, such as 'Local sourcing lowers Shoprite costs in Africa', 'Nestlé to adopt local sourcing in African factories' and 'Coke expands local sourcing in East Africa'. Several companies have adopted clear mission statements on local sourcing, and expect positive impacts on both their own businesses and local communities. Heineken, for instance, has promised to empower thousands of people by adopting local sourcing targets:

'Heineken endeavours to source as much as possible of its raw materials locally. To help empower thousands of people across the communities where we are active, we aim to secure a sustainable supply of raw materials. Moreover, in the right quantity and quality and at fair and acceptable return and costs. Many of our local breweries run projects helping local farmers compete against imported grains, raising smallholder farmers' incomes, which contributes to the alleviation of poverty. Locally produced ingredients shorten our supply chain and the diversification of raw material sourcing, both beneficial to our local suppliers as well as our company.' ('Heineken Cares', January 2012)

While local sourcing seems to be a positive trend, it is necessary to understand why it is occurring, and whether it offers a real opportunity for sustainable local economic development or is simply window-dressing. This position paper examines why companies are increasingly sourcing their agricultural supplies in Africa, and whether they are doing so in ways that are helping to reduce poverty. We conclude that local sourcing in Africa offers significant opportunities for both companies and small farmers.

Increasing local sourcing in Africa

So why are many companies operating in Africa deciding to source from local suppliers? The main reason is the growing demand for food.

The world's population is growing. Various studies have presented different projections, but the most often quoted is that of the United Nations Population Division, which expects that by 2050, 9 billion people will live on our planet (UN, 2010). In absolute terms, the populations of almost all continents will grow, but in relative terms, Africa's population will rise from 13.4% to almost 22% of the world's population.

One specific feature of future population growth in Africa is that it will be urban growth. By 2050, it is expected that 1.2 billion Africans will live in cities – about 60% of all Africans, compared with only 28% in 1980 (FAO, 2011). Urbanization has many negative effects, such as the increased production of waste and the spread of diseases and pollution. But it also provides a positive stimulus for the emergence of a middle class. Already Africa has more middle-income families (i.e. those earning between US\$2–20 per person per day) than India or China (AfDB, 2011). The African Development Bank estimates that about 313 million people, or about 30% of Africans, can now be categorized as middle class (AfDB, 2011). This urban middle class will in turn stimulate economic development, and is therefore expected to grow further in the future.

Market growth offers opportunities for the food industry, and is one reason why companies are increasingly targeting African urban markets, especially those in countries in transition to more diversified economies, including Cameroon, Ivory Coast, Senegal, Uganda and Zambia (OECD, 2008; McKinsey, 2010). In such growing markets, companies will reach a point when where they can produce their products more efficiently using local raw materials or ingredients instead of importing them. Local sourcing offers a number of advantages, including faster supply/delivery times, lower transportation costs and the lack of import duties. Moreover, local sourcing allows companies to control quality all along the supply chain, as well as greater flexibility in placing orders. The latter is possible in local supply chains because the pipeline from source to company is short, making it easier for businesses to build relationships with their suppliers (Inkoopportal, 2012). This is indeed what is currently happening in Africa.

Fighting competition by fighting poverty

The growing African consumer market does not in itself explain why companies should wish to help to reduce poverty among small farmers. The reason for this is not only philanthropy, but is related to the scarcity of food.

Food scarcity leading to increased competition

As the world's population grows, so too will the demand for food. Many are already arguing that the existing food production system will not be able satisfy the demand, leading to food scarcity. A number of other factors are likely to worsen the situation, including the use of food crops such as wheat, maize and sugarcane to produce biofuels, and the role of commodity speculators in raising food prices (OECD, 2008).

The first effects of food scarcity have already been seen in increased food prices. In January 2011 the UN Food and Agriculture Organization reported that the world food price index was 3.4% higher than the month before, marking the highest level since the organization began monitoring food prices in 1990 (BBC, 2011). This is unlikely to be a one-off event; indeed, Oxfam has warned that food prices will continue to rise for at least the next 20 years (*The Guardian*, 2011).

To meet the increasing global demand, food production will need to rise by 70% (FAO, 2009), which means a doubling of agricultural production. Most developed countries have already reached their capacity in terms of food production, and this now needs to happen in developing countries (Bruinsma, 2009). Considering the large areas of arable land available in Africa, and its underdeveloped production systems, many believe that the continent has substantial potential to scale up production. Some studies estimate that today Africa has realized only 20% of its production potential (Deiniger and Byerlee, 2011).

As a result of the growing demand for scarce food supplies, both local and foreign food manufacturers are interested in African agricultural produce. Perhaps the most notorious is China, a country that needs to feed 20% of the world's population, but has access to only 10% of all arable land (Brown, 1995).

From large-scale to small-scale suppliers

One way for countries such as China to source in Africa is to invest in large-scale farming. Since 2009 more than 70% of the global new land brought into production has been in Africa. Countries such as Ethiopia, Mozambique and Sudan have leased or sold millions of hectares of farmland to foreign investors in recent years (Deiniger and Byerlee, 2011).

For these foreign investors, large-scale farming in Africa can be a risky business, especially in countries where there are no systems in place to guarantee property rights and to ensure the participation of all stakeholders. Large farms may also have negative social and environmental impacts, including social unrest if local farmers are driven from their land, as well as land degradation, which may severely hamper agricultural development in the future (Wegner and Zwart, 2011).

Many private companies are now seeking to diversify their sources of supply and are increasingly approaching small-scale farmers. Sourcing from small- rather than large-scale farmers offers several advantages, including access to land and the diversity of the crops they produce (Vorley et al., 2008). According to Vorley, a specialist in inclusive business models, 450 million small-scale farmers already feed 70% of the world's population (Vorley, 2011). As food becomes scarcer, this dependence on small producers will only increase.

Companies that do choose to source from small-scale farmers need to persuade them to commit to their supply chains, and not to 'lose' them to the increasing number of global competitors. Thus they are offering their suppliers more than good prices, but are investing in improving their livelihoods – in other words, they are helping to lift them out of poverty. They do this by offering training, providing inputs such as farm supplies, equipment and credit, helping to build farmers' organizations, sharing information and even contributing to community development. These companies thus hope to outdo the competition by offering more competitive prices and by providing added value to farmers. As a result, companies hope to build up goodwill not only among their producers, which will in turn secure future supplies, but also among politicians (because it helps to develop the country) and donors (NGOs who may invest in increasing farm output) and to improve their national and even international market image. In the long term, this is a win-win situation for all, and is what we call the principle of sustainable local sourcing.

Building on socio-economic aspects of supply chains

The trend described above is the logical next step in various supply chain management theories. Over the last few decades, supply chain management structures have moved away from spot-market transactions towards value chain integration (Van Weele, cited in Boomsma, 2008). The aim of integrated chains is to reduce overall costs throughout the supply chain (rather than those of just one company) while satisfying consumer demand. As food becomes scarcer and the competition for food supplies ever fiercer, it is likely

that the next step in supply chain management will be to create integrated supply chains that satisfy both the demands of consumers *and* the needs of suppliers. If so, sustainable supply chain management, which in practice over the last decade has only been translated as not harming the environment (Seuring and Muller, 2008), will build on the socio-economic aspects of supply chains.

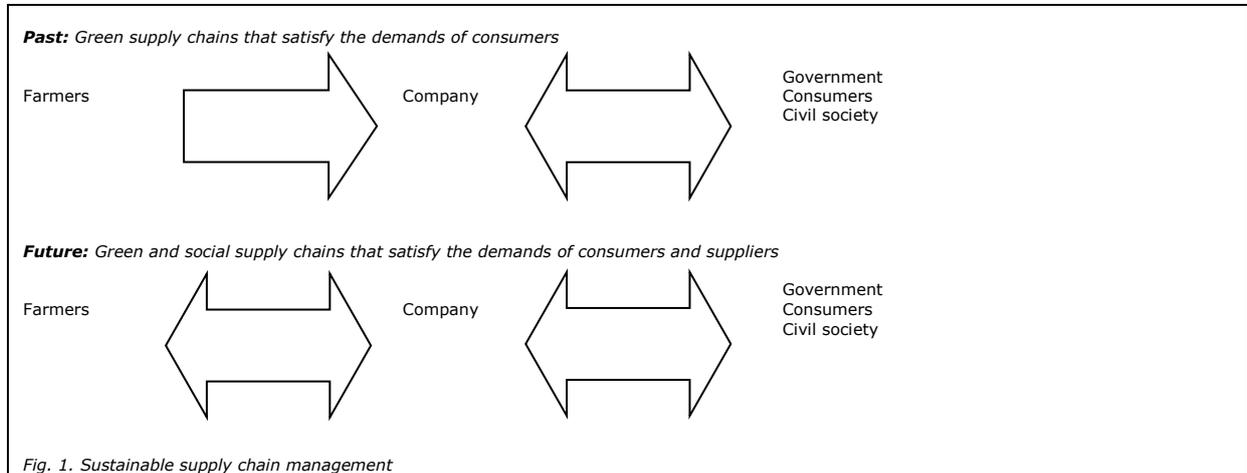


Fig. 1. Sustainable supply chain management

Conclusion: Sustainable local sourcing is a significant opportunity

We conclude that sustainable local sourcing offers a significant opportunity to improve the livelihoods of small-scale producers in Africa. It is a business model that forces all actors in the supply chain to collaborate and create attractive win-win situations for all. Of course there are still risks involved. African markets are still far behind developed markets in other parts of the world, and considerable investments are needed in basic infrastructure, education, the service sector, etc. But, as in any innovative market system, where there is demand, there will be supply.

Further information about the conditions and investments needed for starting up successful local sourcing activities can be found at www.local-sourcing.com



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