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Business and Development
A Case Study: SABMiller

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Abstract

There is a growing consensus within the international development community that business has an important role to play in supporting development and alleviating poverty. Policy makers increasingly acknowledge that strong and sustained economic growth is an essential requirement for achieving the Millennium Development Goals, and see the private sector as the primary engine of that growth. Business has moved beyond conventional models of corporate philanthropy, and companies are finding ways in which they can create economic opportunity for poor people through their core business activities. The greatest contribution the private sector can make to development is to invest in emerging markets and run successful and profitable businesses in a responsible way. SABMiller provides a useful case study of how these principles are implemented in practice and how core business activities can contribute to sustainable development. The company works through its supply chain to create sustainable economic opportunities for small entrepreneurs in several of the developing countries where it operates. A recent external review of SABMiller's smallholder farmer programmes in Africa and India found that the programmes delivered material socio-economic benefits to participating farmers and their communities, in addition to the business benefits generated for the company.

Introduction

> *"As a multinational with African origins and interests in 31 African countries, SABMiller is increasingly asked about the role of business in the continent's development. What should business be doing, and how can SABMiller help? By far the greatest contribution business can make (and it is a very great contribution indeed) is to run successful, profitable companies – contributing to tax revenues, investing in local economies, and paying suppliers, distributors and employees".*
>
> Graham Mackay, Chief Executive, SABMiller plc[1]

> *"It is the absence of broad-based business activity, not its presence, that condemns much of humanity to suffering. Indeed, what is utopian is the notion that poverty can be overcome without the active engagement of business".*
>
> Kofi Annan, UN Secretary General[2]

There is a growing consensus that the private sector has an important role to play in supporting international development. This is underpinned by shifting attitudes in both the development and business communities. The development community increasingly acknowledges that only the private sector can generate the economic growth necessary to lift people out of poverty. For its part, the business community is developing a deeper understanding of the business case for engaging in development issues, and a clearer view on how it can best contribute. Surveys confirm that business leaders believe they have responsibilities to a broader set of stakeholders, beyond their immediate shareholders[3].

SABMiller, as an African-originated multinational with operations in many emerging markets including India, China, Russia, South and Central America, believes that the greatest contribution we can make to development is by running successful and responsible businesses in emerging markets. SABMiller has two businesses in Africa, South African Breweries Ltd in South Africa, and SABMiller Africa and Asia across the rest of the continent. Overall, we have brewing or beverage interests in 31 African countries and our Chief Executive, Graham Mackay has commented that "if there were any more of Africa, we'd be investing in it"[4]. By investing in developing countries, we make our greatest impact by contributing to economic growth, generating tax revenues for governments and creating opportunities for suppliers, distributors and employees. Our own impact assessments have shown that in Africa, on average, for every one person we employ directly, we create up to 40 jobs in our supply and distribution chains[5]. Given that we employ around 16,500 people directly in Africa[6] (including South Africa), that means that SABMiller has contributed indirectly towards the creation of over half a million jobs on the continent.

Importantly, we believe that our *core business activities* are more likely to make a long term and sustainable impact on poverty than philanthropic corporate social investment programmes[7] explicitly aimed at meeting development challenges. Our emphasis is on exploring ways in which our core business activities can best contribute both to our business and towards wider social and economic objectives, creating what has been referred to as "shared value" - in other words, value for business and value for society[8]. Along with many in the business community today[9], we believe strongly that private sector involvement in development will only be sustainable and make an impact if it is based on a hard business case and good business practices.

Of course, the way we run our business is fundamentally important. Operating in a responsible and accountable way is not only good for our business, but also the communities in which we operate.

Fundamentally, there is no contradiction between what is good for business and what is good for development.

The development community's changing perspectives of the role of business

While business attitudes to development have been shifting, there is also a greater recognition today among the development community that business is a crucial partner in the fight to alleviate poverty and support growth and development. In 2000, the world community adopted the eight Millennium Development Goals (MDGs) – covering poverty, education, health and the environment – as a framework for action with 2015 as the target date for achieving them[10]. A UN summit in 2005 reaffirmed the importance of the MDGs[11].

As the 2015 target date draws nearer and it seems that sub-Saharan Africa is unlikely to meet any of the goals[12], there is a renewed focus among international development stakeholders on the urgent need to address the problem of persistent poverty in many African countries. As part of this process there has been a rethinking among a number of donor agencies and policy makers about how these goals can be met, with the UK providing a good indicator of this trend.

The UK's Department for International Development (DFID) has argued that economic growth should be put back at the heart of the strategy[13], citing the fact that growth accounts for more than 80% of poverty reduction worldwide, and has lifted 500 million people above the poverty line since 1980. African growth rates have been impressive, with average annual economic growth in sub-Saharan Africa above five per cent since 2004, reaching almost 6 per cent in 2007 – one percentage point higher than the world average[14]. But accelerating this still further, and sustaining it in the longer term, is widely viewed as critical to achieving the MDGs[15].

Gordon Brown, the UK Prime Minister argued in a speech in July 2007[16] that "trade, wealth creation and job creation are the only routes to long-term prosperity…for too long we have talked the language of development without defining its starting point in wealth creation – the dignity of individuals empowered to trade and to be economically self sufficient." This fits with what poor people themselves have identified as their priorities. In a survey by the World Bank of 60,000 poor people published in 2000, the majority said that self-employment, starting a business, or getting a job offers the best prospects, by far, for escaping poverty[17].

In this context, the UK Government has placed a greater emphasis on the private sector as the driver of growth, investment and employment, and recently developed a new private sector strategy that includes engaging more effectively with business, putting in place the conditions for a vibrant domestic private sector, and enabling poor people to access markets[18].

In March 2008, Douglas Alexander, the UK Secretary of State for International Development said that "the private sector, as an engine of growth, can bring both global and local opportunities …. Globally, through helping major businesses to strengthen their links with developing countries, we can help to increase investment and to create jobs within these marketplaces…Locally, we will support developing countries to develop more competitive markets and improve access to economic opportunities for the poor within these countries."

The UK Government is not alone in its pursuit of a closer partnership with the private sector: 10 out of 22 OECD DAC donors and approximately 20 UN organisations have or are about to launch programmes to engage the business community[19]. USAID has a successful programme of engaging with business through its Global Development Alliance[20]. The UN Economic Commission for Africa estimates that the achievement of the MDGs "will not happen unless there is sustained economic growth at a minimum level of 7 per cent – such growth will only come as a result of private sector efforts”[21].

Last year’s G8 Summit Statement from Heiligendamm, Germany[22] on “Growth and Responsibility in Africa” highlighted the importance of economic growth and the private sector: “Achieving and sustaining the Millennium Development Goals, and moving beyond them, requires an environment that enables economic activity and encourages broad-based private sector-led growth”. The Fourth Tokyo International Conference on African Development (TICAD IV), held in May this year in Yokohama, Japan set out a “framework for a century of African growth”[23], with Japanese Prime Minister Fukuda announcing a package of measures, including funding for transportation infrastructure, to attract private investment.

What is particularly significant about the donor community’s interest in larger businesses is its shift away from traditional corporate philanthropy towards focusing more explicitly on how it can leverage the contribution that the private sector makes through its core activities: that is, creating employment opportunities[24], using small enterprises to supply and distribute their products[25], developing new business models that engage with people at the bottom of the pyramid as producers and consumers[26], and helping build skills and capacity.

Case study – SABMiller’s approach to sustainable development in Africa

SABMiller is one of the world’s largest brewing companies, with brewing interests and distribution agreements in over 60 countries across six continents. Part of the FTSE 30, SABMiller is the only African-originated Fast-Moving Consumer Goods company to have become a truly global business. Our brands include premium international beers such as Pilsner Urquell, Peroni Nastro Azzurro and Miller Genuine Draft. We are also one of the largest bottlers of Coca-Cola products in the world. Our global presence continues to strengthen: the Miller Brewing Company, a wholly owned operation, is the USA’s second largest brewer; our Chinese joint venture, CR Snow Breweries, has become the largest brewer by volume in China; and in India SABMiller is the second largest brewer.

Our African origins

A large part of SABMiller’s business, history and pride is invested in the African continent[27]. Our original brewing company, South African Breweries (SAB) Ltd, was founded in 1895 and today is Africa’s largest brewer. We have brewing or beverage interests in 30 other African countries, and are the market leader in most of these. Castle, Kilimanjaro, Mosi, 2M, Eagle, St Louis, Chairman’s ESB, Castle Milk Stout, Rhino and Nile Special are just some SABMiller brands which have become household names throughout Africa.

Our two African businesses – SAB Ltd (South Africa) and SABMiller Africa and Asia - account for a substantial part of our group earnings. In the fiscal year 2008, just under a third of our earnings[28] were generated in South Africa, while SABMiller Africa and Asia accounted for 14 per cent of overall earnings. Over the past 5 years, our annual growth in Africa (excluding South Africa) has averaged approximately 19 per cent.

We have invested significantly in both the South African economy and the other African economies where we have businesses. SABMiller Africa and Asia has invested in excess of US$1,150 million in African economies since 1994 and SAB Ltd has invested US$900 million in improved facilities and operations for the period 2005 to 2009.

SAB Ltd employs 8,972 people across its beer and soft drinks divisions, and in 2007/8 paid US$259 million in salaries and wages. In 2006/7, the taxes derived directly from the production and sale of SAB Ltd's products amounted to US$1.2 billion. SABMiller Africa and Asia employs 7,527 in Africa, and has injected US$403.2 million in taxes and salaries during 2007.

Increasing economic and political stability in many African countries is playing an important role in our own business success. Overall, Africa is estimated to have grown by 5.7% in 2007 - the fourth consecutive year of record growth - and this is forecast to increase further to 5.9% in 2008 and 2009[29]. In terms of business climate reform, Ghana and Kenya featured among the top 10 reforming countries in the world in 2008, and Mauritius, South Africa and Namibia were all ranked among the top 50 places in the world for ease of doing business[30].

This is not to say that Africa does not face enormous challenges – including a business climate that imposes more regulatory obstacles on entrepreneurs than any other region[31]. The cost of and access to financing, tax rates and administration, macroeconomic instability, corruption and poor infrastructure top the list of constraints in surveys of business people in Africa[32].

We believe that the path to long-term and sustainable reduction in poverty lies with a vibrant private sector – recognising that for the large part, the private sector is made up of small-scale entrepreneurs and family farms, and that most poor people derive their livelihoods from private sector activity[33].

Engaging in international discussions about the policies needed to address these obstacles and accelerate growth, and how the private sector can contribute, is an important part of business's contribution to the international development arena. Based on our long history and substantial investment in Africa, we believe that we are well-placed to contribute to such discussions. To this end we are a founder-sponsor of Business Action for Africa[34], a network of companies committed to supporting Africa's development through their core business activities and a regular contributor to the World Economic Forum's Africa Economic Summits (AES).

We support the growing trend for companies to work collectively to advocate for the policies that we believe are needed to promote growth and poverty reduction in Africa.
A number of areas have been identified as being of key importance to help businesses flourish and create an environment where their contribution to development and poverty alleviation can be optimised:

- *Governance and the investment climate*: The priority for African governments, and for donors that work with them, is putting in place a climate that enables Africa's diverse private sector to bloom. This has been prioritised by the African Union[35], successive G8 discussions[36], and reports on Africa's drivers for growth[37]. Studies show that it is the poorest countries – those in most need of investment – that have the most difficult environments for business[38], including with respect to the burden of regulation, tax rates, macroeconomic instability, policy unpredictability, policy uncertainty and corruption. Our own experience has also highlighted the need to enhance the quality of laws, property right protection, and currency volatility. To this end, we have committed US$2.5 million to the Investment Climate Facility for Africa (ICF)[39] over a five-year period.

- *Infrastructure*: Infrastructure is also flagged up in business surveys as a major source of cost for businesses in Africa[40], and is widely regarded as critical to growth and meeting the MDGs[41]. It is clear that inadequate rural roads and agricultural infrastructure constrain the access of low-income farmers to wider markets. The high infrastructure costs we face as a business, combined with the small nature of the markets we operate in, mean that the costs of doing business are relatively high per unit.

- *Tariff barriers, intra-Africa trade and international trade*: A key issue is the question of borders, tariffs and taxes. There are many obstacles to cross-border trade within Africa which are very unhelpful to multinationals because they force sub-economic choices; they make transaction costs much higher; and they tend to bias investments in the wrong direction.

Nevertheless, despite these challenges we have witnessed a broadly positive growth trend within the continent, and this is driving demand and making it viable and economically attractive for us to turn our attention to previously untapped markets in the rural areas of countries such as Tanzania and Mozambique.

Our greatest impact – and how to measure it

We believe that is important for a company of our size to understand our social and environmental impacts and to have plans in place to ensure we minimise negative impacts and optimise positive ones. In 2006, we launched our Global Sustainable Development Framework with 10 sustainable development priorities (see box). The framework provides a clear structure to enable each company in the group to understand the risks and opportunities that key global environmental and social issues pose to our business[42].

The framework builds on a long history across our businesses of engaging in social and environmental initiatives. This includes nearly a decade of reporting on Corporate Accountability, our membership of the Johannesburg Stock Exchange Social Responsibility Investment Index, and our strong performance on the UK's Business in the Community Environment Index. Our commitment to these issues is led at group Board level by the Corporate Accountability and Risk Assurance Committee (CARAC) – in which Chief Executive Graham Mackay is personally involved – and at the country level by national management teams.

Sustainable Development Priorities
The need to… 1. discourage irresponsible drinking 2. make more beer but using less water 3. reduce our energy and carbon footprint 4. have a vibrant packaging reuse and recycling economy 5. work towards zero waste operations 6. have supply chains that reflect our own values and commitment to sustainable development 7. have respect for human rights 8. bring benefit to the communities we serve 9. contribute to the reduction of HIV/Aids within our sphere of influence 10. be transparent in reporting our progress on these environmental and social sustainable development priorities

As important as establishing a clear framework, however, is creating the means to assess our performance against these priorities. To this end we introduced a self-assessed performance management system known as the Sustainability Assessment Matrix or SAM[43]. SAM has become an invaluable tool as it provides us with consistent, group-wide data across each of our sustainable development priorities and gives us a clear picture of performance across all of our operations worldwide. It also gives individual operations the ability to benchmark themselves against their peers.

We also believe that it is important to have independent verification of our systems and are engaged in ongoing efforts to improve our knowledge and understanding of our corporate "footprint". For example, in South Africa, we recently commissioned the Bureau for Economic Research (BER) at the University of Stellenbosch to conduct an impact assessment of SAB Ltd's operations[44]. The study used input-output analysis to measure direct, indirect and induced impacts. Among the main findings of the BER study were that SAB Ltd supported 378,000 jobs in addition to the 8,972 individuals directly employed; that it pays – on average – higher than the average South African wage; and that close to 75% of staff are previously disadvantaged individuals. The study estimated SAB Ltd's total value added to the economy, including both its direct contribution through wages and taxes and the indirect contribution through various economic multipliers, to be around 3.3% of GDP.

Promoting enterprise development through our supply chains

One of the most important ways we can benefit poor people in developing countries is to create markets for their products and involve them in our value chains, as suppliers or distributors. This view is widely shared within the development and business communities and borne out by a growing body of case study evidence[45]. With nine out of 10 jobs being in the private sector[46], eliminating poverty hinges on boosting local private sector development and entrepreneurship. Emerging evidence also shows that companies like ours have a positive impact on the productivity of suppliers, by contributing to the transfer skills and technology, access to finance and a more conducive business environment[47].

SABMiller has a history of sourcing agricultural inputs - such as barley and sorghum - from smallholder farmers in order to include them in our supply chain. Tanzania Breweries Limited has been contracting with smallholders since 1984, with a majority of smallholders being in the programme since the 1990s. Our South African business, SAB Ltd, introduced the Taung barley programme in South Africa in 1998. Programmes have since been started by Nile Breweries, Uganda in 2003, Zambia Breweries in 2004 and SABMiller India in 2005.

The business objectives for engaging with small-scale farmers have differed from region to region, ranging from strengthening government relations to securing future input supplies. In South Africa the political environment, particularly the Black Economic Empowerment (BEE) agenda was the main driver. In Uganda and Zambia, smallholder sourcing was central to the launch of a new brand, Eagle Lager, which was only made possible due to special excise reductions agreed with government. In India, the main business driver was to ensure the quality and security of agricultural supply needed to meet rapidly growing demand for SABMiller's products nationally. In Tanzania, the business benefits were seen as securing the supply of quality barley in the face of uncertain commodity prices and supply, and generating savings of excise tax through import substitution.

SABMiller recently commissioned an external review of these five smallholder programmes. The review found that socio-economic benefits delivered by the programmes have included over 10,000 jobs created, or improved, for farmers working in disadvantaged regions of Africa and India.

Numbers of farmers currently engaged in the schemes include over 6,000 in India, over 1,000 in Uganda (this is expected to rise to around 5,800 once stockpiles of sorghum are used), 2,600 in Zambia, 686 in Tanzania and 158 in South Africa.

One of the most visible benefits of the programmes has been to increase the incomes of participating farmers. For the South African farmers in the programme, the average net income for 2007 was estimated at ZAR91,000 (approximately US$12,000) which is considerably higher than the estimated net income of farmers in the same region who are not involved in the SAB programme, estimated at between ZAR4,000 and ZAR12,000 for the year.

Ugandan farmers involved in the smallholder programme predominantly came from a subsistence agriculture background. They received on average US$247 in 2007/08. Over the past four years of the programme over US$3.6 million has been paid to smallholder farmers by Nile Breweries. Zambian and Tanzanian farmers involved in the scheme also predominantly came from subsistence farming. Of all the countries reviewed, the impact on Zambian farmers was arguably the greatest, as Zambia faces the most challenging international development situation - the country is currently ranked 165th out of 177 on the UN's Human Development Index[48].

In India member farmers were already engaged in farming prior to the introduction of the scheme and the impact on them can best be described as 'job improvement'. Although the programme has only been in existence since 2005/06 it has been growing rapidly with the number of farmers engaged in the programme increasing from 1,574 in 2005/06 to 6,024 in 2007/08. The farmers are paid a preferential price for their harvest, which in 2007/08 was Rs434 higher than the open market rate.

The programmes also delivered significant other socio-economic benefits in the form of capacity building, with farmer training and education a key component of the schemes. Anecdotal evidence was cited of improved access to education and health services for farmers and their dependents. This is in addition to the business benefits derived from the programmes, which included substantial savings generated from reductions in excise duties agreed to by both the Ugandan and Zambian governments in recognition of the socio-economic benefits the schemes could deliver.

SABMiller's smallholder sourcing programmes operate under various models. In South Africa and Tanzania, a high level of direct control is maintained with an "in-sourcing" model; in Zambia operations are outsourced to a contractor; while in India and Uganda a hybrid model is applied where SABMiller maintains oversight and use their influence, yet without direct responsibility for all roles. Among the findings of the review was that the hybrid model has been the most successful in delivering the hoped-for outcomes. It leads to efficient and relevant participation from all partners. The in-sourcing model can lead to insufficient participation from partners, while the outsourcing approach can result in a low level of programme supervision from our businesses which could potentially reduce benefits for small-scale farmers. Tanzania is now shifting towards a partnership model with key activities being performed by external partners and a degree of control being maintained by Tanzania Breweries Limited.

Whilst the review did point out a number of challenges which need to be addressed if the programmes are to be successfully scaled up and replicated elsewhere, its key findings suggest that there is tremendous scope for supply chain programmes such as these to provide large numbers of small-scale producers with a sustainable route out of poverty, while generating business benefits to the company. Ongoing expansion into new markets now provides us with the opportunity to transfer our learnings from Africa to these operations.

Concluding remarks

Both the development and business communities have moved beyond the question of *whether* business has a significant and positive contribution to development, and towards a focus on *how* business can best engage. Our experience with our small scale suppliers and distributors has demonstrated to us the large impact that we can have through our core business, alongside our contribution to economic growth. Looking ahead, we believe that the tasks for the business community include learning from and scaling up best practice, as well as further developing the metrics to quantify our impact. This will lay the basis for the constructive partnerships that will be needed across business, donors, academics and non-government organisations to advance our shared commitment to improving the lives of poor people around the world.

Endnotes

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