# Case Study:

## Food Retail Industry Challenge Fund – A private sector-led food innovation initiative

infoDev
INNOVATION & ENTREPRENEURSHIP

SUPPORTED BY
WORLD BANK GROUP

# Case Study:

## Food Retail Industry Challenge Fund – A private sector-led food innovation initiative



1818 H Street NW

Washington, DC 20433

**Website:** www.infodev.org

**Email:** info@infodev.org

**Twitter:** @infoDev

**Facebook:** /infoDevWBG



**Attribution:** Please cite the work as follows: "Case Study: Food Retail Industry Challenge Fund – A private sector-led food innovation initiative." 2018. Washington, DC: The World Bank Group. License: Creative Commons Attribution CC BY 3.0

**Photo Credits:** Cover Photo: Arne Hoel / World Bank

# Case Study:

## Food Retail Industry Challenge Fund – A private sector-led food innovation initiative

Norad

UKaid
from the British people

Sida

FORMIN.FINLAND.FI
MINISTRY FOR FOREIGN AFFAIRS OF FINLAND

infoDev
INNOVATION & ENTREPRENEURSHIP

SUPPORTED BY
WORLD BANK GROUP

# Acknowledgements

This case study was developed by the infoDev and Industry Solutions Units of the Finance, Competitiveness & Innovation Global Practice of the World Bank Group with technical support from Agland Investment Services and J.E. Austin Associates. Other contributors include the International Finance Corporation and the Agriculture Global Practice of the World Bank Group.

The study team included Anupa A Pant, Blair Edward Lapres, Ellen Olafsen, Loraine Ronchi, and Peter A Cook of the Finance, Competitiveness & Innovation Global Practice, and William Mott, Martin Webber, Stephanie Haile, Madeleine Nelson, William Scott, Gareth Smail, Donald M. Taylor, and Laya Hess-Skinner of a consortium of Agland Investment Services and J.E. Austin Associates. The team received guidance from a decision review panel chaired by Ganesh Rasagam and consisting of Dietrich Fischer, Milaine Rossanaly, and Christopher Ian Brett. The paper benefited from discussions with and guidance from numerous World Bank colleagues, Bradford Roberts, Parmesh Shah, Selchuk Tanatar, Bas Rozemuller, and Sarah Ockman.

This study was made possible through the support from the governments of Norway, Sweden, Finland, and the UK's Department for International Development (DFID).

# Table of Contents



# Synopsis

*This is a case study, not of a single business-to-business linkage, but of a United Kingdom Department for International Development (DFID) initiated challenge fund with the objective of providing financial incentives to private sector U.K./EU food retailers and processors to source and import African food products. The* ***Food Retail Industry Challenge Fund (FRICH)****, operated over five years, initiated four calls for proposals and made 25 matching grants. Most of the cases focused on increasing crop production and raising incomes for farmers, but several involved improving the capacity of small and medium enterprises (SMEs) to supply product to the lead firm.*

*Three grants involving retailers and processors and SME agro-processors are discussed in this case. The examples provide insights into the interests, motivations, and abilities of the private sector to implement linkages with African agro-processing SMEs for new sources of raw materials and finished products for export to U.K. and EU markets. The examples involve a diverse group of lead firms, including an established retailer, a food ingredients processor, and a snack food processor and marketer. Lessons learned are presented both on the use of a challenge fund to create agro-processor innovation and linkages to export markets, and on how the private sector worked with African SMEs.*

# Introduction to the Food Retail Industry Challenge Fund (Frich)

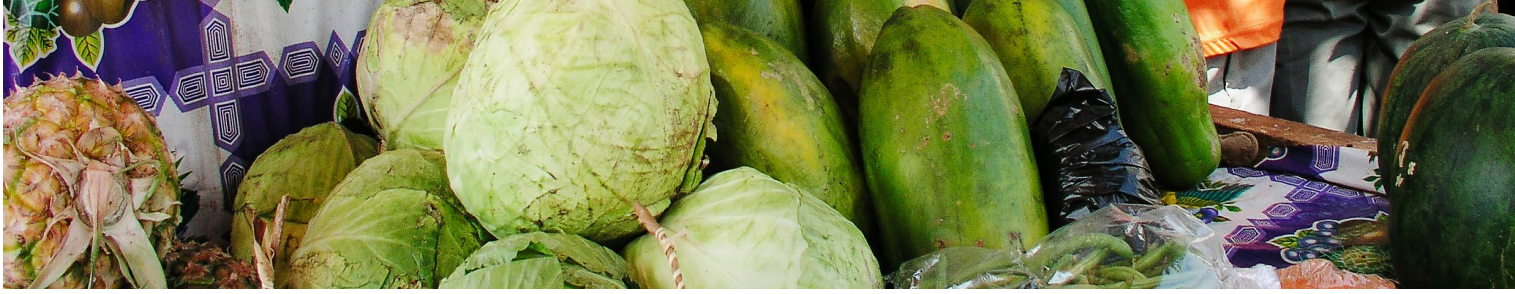
The United Kingdom Department for International Development (DFID) initiated the Food Retail Industry Challenge Fund (FRICH) to incentivize the U.K. food industry to seek and import more food products from Africa. FRICH was a £7.4 million (US$10,500,000) challenge fund launched in July 2008 and closed in September 2014. The project was selected as a case study because of its focus on mobilizing innovative private sector food and retail companies to serve as lead firms for establishing a supply chain to reach small and medium enterprises (SMEs) and farmers in Africa.

DFID sees the private sector playing an increasing role in economic development. In a recent speech, the U.K. Secretary of State for International Development commented that "working with private sector partners—the new development players—to maximize the development impact"[1] is one of three key pillars of DFID's approach to economic development. DFID's Private Sector Department oversaw FRICH, and the international economic consulting firm Nathan Associates London Ltd. was responsible for the fund's management and implementation, including:[2]

- fund design, marketing, monitoring and evaluation, and contracting;
- project evaluation, management, and supervision;
- value chain and market analysis;
- communication of lessons learned; and
- pre-financing of grants and fund financial management.

1 Justine Greening, "Frontiers in Development - economic growth is key" (speech, Washington, D.C., September 22, 2014), Wired Gov, http://www.wired-gov.net/wg/news.nsf/articles/justine+Greening+Frontiers+in+Development+Economic+Growth+is+key+23092014071000?open

2 Mark Thomas, Director of Nathan Associates (UK), in discussion with the author.



The fund was initially established for U.K. retailers and food manufacturers as a pilot project that grew out of an earlier program between the U.K. food industry and DFID. The objective was to test how small grants could stimulate innovative ways in which private sector-led sourcing of food and beverage products could provide opportunities for small-scale African producers and food processors. When appropriate, U.K./EU grantees and their African partners were expected to contribute matching funds that were equal to the amount of the award, although contributions were not required from African partners.

In its final two years, the fund was expanded to EU companies. In order to qualify for a grant, an applicant was required to:

- Identify as a private sector enterprise—either a retailer or a retail brand with an established share of the U.K. market or other European markets—or propose a partnership with such an enterprise.
- Demonstrate financial and technical capacity and be willing to contribute at least 50 percent of project costs.
- Propose testing of an innovative concept or business model, or scale-up of a successful pilot project. (Business finance was not eligible.)
- Demonstrate potential for commercial sustainability.
- Identify the key U.K./EU or African firms or institutions involved in the project and their roles, and demonstrate how poor African farmers, farm workers, or small-scale entrepreneurs were likely to sustainably improve their livelihoods as a result of the success of the project.[3]

The selection process required two steps: 1) Presenting a concept document, and 2) if accepted, a more detailed plan and budget. The selection was made by a steering committee made up of both public and private sector members.

Over six years, the fund held four competitive calls for proposals, funding 25 projects in 11 countries[4]. The maximum award size was £250,000 (US$333,000). The projects covered a range of products, including tea, coffee, chilies, cocoa, fruits and vegetables, fruit juices and smoothies, flowers, tilapia fish, beef, baobab, palm oil, groundnuts, and vanilla. The majority of selected projects focused on increasing the production of specific crops or introducing new crops in accordance with the fund's objective of raising farmer incomes. Five of the 25 projects involved working with small and midsize processing facilities.

# FRICH Fund and Lead Firm Assumptions

## *FRICH Fund Assumptions*

Five basic DFID assumptions guided the formation of the fund and the issuance of grants[5]:

1. **An open and competitive process will elicit the most promising innovations.** The designers of the fund assumed that an open and competitive process would reveal some of the best and most innovative projects. The open nature of the competition was emphasized because there was a sensitivity to disbursing public funds to large companies that, on the surface, would not need grants to further their business interests.
2. **The grantees will test new and innovative projects.** The availability of matching grants would stimulate grantees to consider new ideas and approaches that were considered too risky or expensive to pursue on their own. In addition, the grants would enable grantees to test the commercial viability of the innovation.
3. **Commercially viable innovations (or variants) are scaled up by grantees and then replicated by others.** Fund designers assumed that successful projects would be replicated through the demonstration effect. The fund targeted profit-oriented businesses (lead firms) that sought an edge in the competitive marketplace by finding new products or processes. Excerpts from a project design memo indicated

3 U.K. Department for International Development, "UK helps farmers in Africa trade their way out of poverty," press release, October 24, 2012.

4 Kenya, Democratic Republic of Congo, Malawi, Rwanda, São Tomé and Principé, Ghana, Uganda, Senegal, Namibia, Zimbabwe, and Ethiopia

5 Winters, Mark and Rajan Soni, "Strategic Review of the Food and Retail Industry Challenge Fund (FRICH)," Department for International Development, November 2014.



| Lead Firm | SME | Brief Description of Project Scope | Linkage Motivation for Lead Firm | Linkage Motivation for SME |
|---|---|---|---|---|
| Intersnack Group (Dutch) | Equatorial Nut Processors (Kenya) | Develop new sources of raw material; particularly groundnuts from Africa based SMEs, as well as improve the quality of sourced raw material. | Develop a new source of aflatoxin-free groundnuts from Africa for processed snack foods developed for the UK/EU markets | Develop new supplies of groundnuts for export and raw material for domestic markets |
| Marks & Spencer (UK) | Iriaini Tea Factory Co. LTD. (Kenya) | Source a finished and branded point of origin product which increases value-added at source and generates a product which can be certified as Fair Trade. | Develop a new product that further incorporates social responsibility programs into business strategy | • Move from commodity production to value-added<br>• Obtain technical skills from partner<br>• Leverage market linkages and commercial know-how from partner |
| FullWell Mill Ltd (UK) | Fruits of the Nile (Uganda) | Expand company product offerings of dried fruit – both for buyers of raw material/ ingredients and for use in proprietary snack bars | Source dried fruit products - a raw material for the company's sales to food processors and for own label snack bars | Expand dried fruit sales to existing buyers, by testing and drying new varieties (berries) |

that "FRICH will provide relatively small amounts to test new ideas that, if successful, could provide business models with a much wider applicability across Africa."[6] "Success will be measured in producer incomes and in increased market access for low-income, rural households. But given the limited funds and pilot nature of FRICH, real success will be measured in the replication of FRIC-inspired business models across Africa."[7] Presumably, success for the lead firms would be measured in commercial sustainability.

4. **Increased market access to the United Kingdom and European Union (EU) leads to increased incomes for poor African producers.** Increased access to higher-priced markets was expected to translate into higher prices for small and midsize producers. The fund particularly emphasized that projects should increase the incomes of the rural poor.

5. **An increase in income leads to a decrease in multidimensional poverty.** Multidimensional poverty was understood to mean poverty beyond just incomes, including health, education, and living standards. This was a bold objective for a modest investment in a new commercial project, but increasing the income of the rural poor was an important foundation for the project.[8]

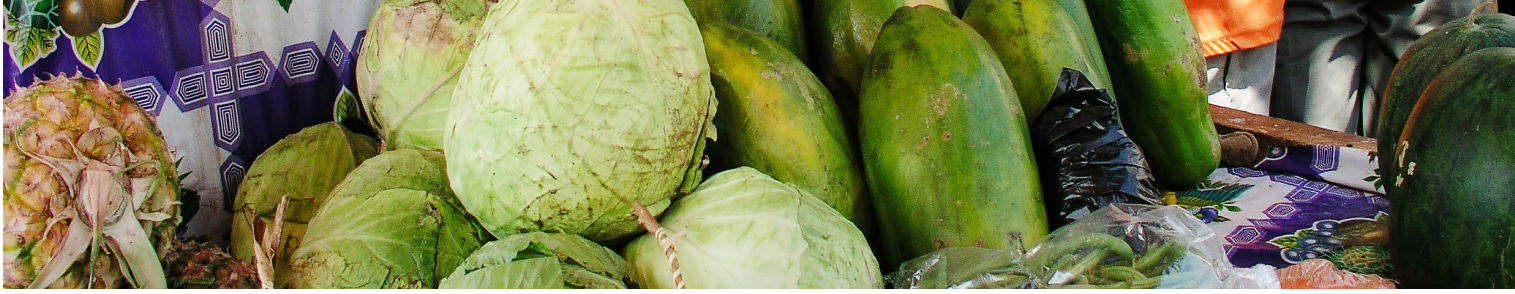
## *Lead Firm Assumptions*

From the group of 25 projects, three lead firms were selected for this case study because of the important role SME agro-processing played within their supply chains. The companies are Intersnack Group, a leading Dutch snack food company; Marks & Spencer, a large U.K.-based retailer; and Fullwell Mill Ltd, a U.K.-based food ingredients company. The background and motivation of each lead firm and their relationship with their SME partners are summarized below.

6 U.K. Department for International Development, Food Retail Industry Challenge Fund-FRICH Project Memorandum (November 2007), 7.

7 U.K. Department for International Development, Project Memorandum, 3.

8 Summarized from Winters (2014).



The three lead firms shared a general interest in diversifying and expanding their sources of raw material, and found FRICH to be a convenient vehicle for testing new raw material sourcing strategies, as well as initiating and creating relationships with SME suppliers. Intersnack and Marks & Spencer selected well-established partners: Kenyan midsize processors of nuts (Equatorial) and tea (Iriaini). In contrast, Fullwell Mill partnered with a small,[9] village-level processor of dried fruit.

## *Linkage Strategies And Results*

The three companies developed unique strategies for sourcing crops and food products from Africa. The FRICH fund managers found their strategies compelling, and selected them for matching funds.

### Intersnack Group and Equatorial Nut Processors

Intersnack has a strategic objective to increase the quality and quantity of tree and groundnuts sourced from Africa by working with local SMEs. The company has found that by improving processing and grading at the source, they are able to reduce processing expenses in their EU factories and reduce the amount of produce that does not meet their specifications.

Groundnuts are an important raw material for Intersnack, and there is concern within the company that global sources of aflatoxin-free groundnuts[10] are becoming scarce or unreliable. According to Wim Schipper, Intersnack's Procurement Director for Africa, the United States is an important source of groundnuts, but any change in U.S. agricultural policy, such as a reduction in subsidies, could reduce groundnut production and exports. Africa also has a history of groundnut production, but in recent years, exports to the United Kingdom and EU have been limited—partially due to control of aflatoxin, which is a significant challenge for small farmers. Proper drying and storage of the raw product is critical.

**Intersnack's competitive strategy was to actively seek new sources of product that could pass the increasingly strict U.K./EU quality and phytosanitary standards, particularly for groundnut supplies from Africa.** In this context, the company has initiated raw material sourcing projects in Kenya, Burkina-Faso, Benin, Ghana, Malawi, and the Ivory Coast.

To carry out its FRICH proposal, Intersnack partnered with Equatorial Nut, an established Kenyan nut processing firm, to develop a source of aflatoxin-free groundnuts. If the project proved successful, Equatorial Nut would become a long-term supplier of groundnuts for Intersnack. Before the launch of the project, Equatorial Nut's main processed product was macadamia nuts—which the processor had supplied to Intersnack in the past—and its supply of groundnuts was imported. Equatorial Nut was searching for other nuts that it could process and market, and the prospect of a local source for groundnuts, particularly groundnuts that could be exported, was attractive.

In its partnership with Intersnack, Equatorial Nut Processors was expected to collect, process, and export groundnuts from local sources. (This represented a shift from the company's previous role of packaging and marketing groundnuts imported from Malawi to service the local market.) The company would support farmers by collecting produce from farms; providing reliable and swift payment using M-Pesa, a mobile phone-based money transfer service; and sharing access to local storage and processing facilities (see Figure 2).

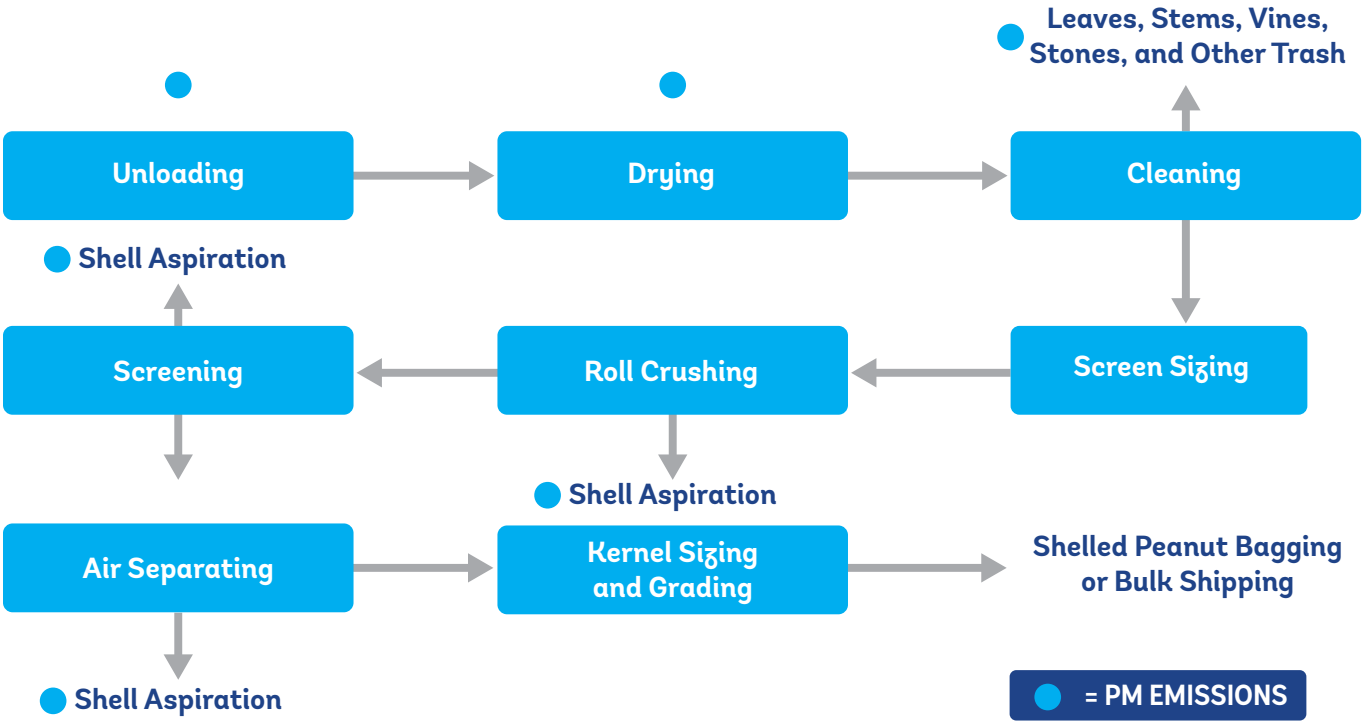
### FIGURE 2: EQUATORIAL NUT GROUNDNUT SUPPLIER


9 Less than US$600,000 in annual turnover

10 Aflatoxin is a naturally occurring toxic residue from strains of the aspergillus fungus found in the soil. It can have serious long-term health implications and it is of particular concern with maize and groundnut processors. There are various ongoing research projects in Africa to find ways to produce and harvest aflatoxin-free product, with emphasis on improved drying and hermetic storage methods, which are methods that could be used by small farmers.



## FIGURE 1: EQUATORIAL NUT'S PEANUT PROCESSING CHAIN




The project was implemented by FairMatch in collaboration with two Kenyan nongovernmental organizations (NGOs), the Africa Centre for Environment and Development (ACFED) and ReACT Kenya. Project funding was utilized primarily for (1) research with the University of Nairobi on how aflatoxin contaminates the crop, (2) farmer training programs, and (3) facilitating and exchanging knowledge between Intersnack and Equatorial Nut.

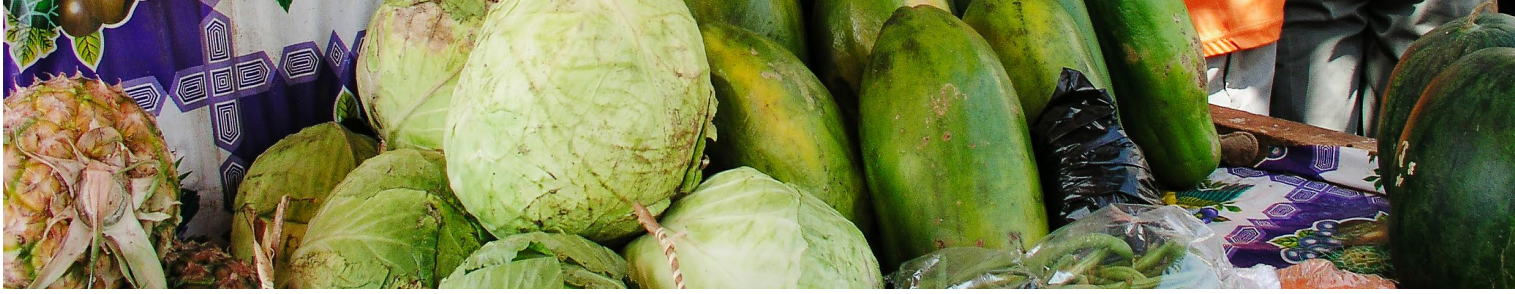
## Project Results: Intersnack Group and Equatorial Nut Processors

Intersnack received funding in the fourth phase of the fund, which left them only 18 to 24 months to accomplish an ambitious project. Their goals were to achieve better prices for small outgrowers, to support outgrowers in improving product quality and producing aflatoxin-free groundnuts, and to introduce African peanuts into the EU market.

An internal strategic review by DFID concluded that the project was probably too ambitious. The report stated, "Our prognosis is that in the absence of further public subsidy, it is very unlikely that Intersnack will invest its own capital in such an out grower model in the Meru area. A more likely outcome is that the FRICH funding will have helped consolidate Equatorial Nut's relationship with out growers, and the groundnuts will go to the domestic and regional market. Any advance against the prevalence of aflatoxins in groundnuts in Kenya, when that happens, will be the result of the broad range of public interest, action-research driven interventions being undertaken by agricultural research institutions."[11]

Although local production was established and two containers of groundnuts were exported, there were indications that the product could not meet EU standards. Despite not meeting all of its expectations for the FRICH project, Intersnack continues to pursue new groundnut supply projects in Africa. Likewise, in a recent interview, Equatorial Nut managers spoke positively about the results of the trials and noted their interest in continuing development of a local supply of groundnuts. Initially the processor would focus on local markets where regulations were less stringent and prices were higher, with a goal to export once a supply was established. However, while Equatorial Nut was willing to make investments to develop a local groundnut supply, the processor felt it would be necessary to partner with

11 Winters (2014)



a farming organization to obtain technical assistance in production. If this partnership can be achieved, Equatorial Nut feels confident in their ability to export groundnuts to the United States and EU, once they have an aflatoxin-free product.

## Marks & Spencer (M&S) and Iriaini Tea Factory Co. LTD.

The U.K.-based large retailer is a leader in buying and utilizing fair trade products from Kenya. With the increasing popularity of fair trade products among U.K. retailers, however, M&S sought new ways to demonstrate their corporate social responsibility. By purchasing fully packaged tea from Kenya, the value added from processing and packaging could be captured by African farmers, thereby enhancing farmer incomes. M&S decided to pursue a branded tea bag packaged in Kenya that could be imported for sales in their U.K. stores.

M&S felt it was important to its customer base that the company support DFID programs, particularly rural income enhancement projects in Africa. This interest coincided with considerable local political interest in sourcing more value-added products from Kenya. Since M&S had been working with Kenyan fair trade tea farmers since 2010, **the FRICH program provided an opportunity and incentive to test the idea of packing a finished tea product (tea bags) at its source for sales in U.K.-based stores.** This strategy sharply contrasted with the approach of most multinational firms, which imported Kenyan tea in bulk, and then graded, blended, processed, packaged, and branded the tea in or near U.K. or EU consumer markets.

M&S partnered with a midsize enterprise, Iriaini Tea Factory, one of 67 cooperative tea companies operating under the umbrella of the Kenya Tea Development Agency Holdings Ltd (KTDA). During an annual visit to Kenya, M&S was impressed with the Iriaini Tea Factory's income diversification project, funded by revenue from the fair trade premium. The companies entered into an agreement to develop a packaged consumer tea product with technical and retail support provided by M&S.

Project funds were used to lease and purchase tea bagging equipment, hire technical consultants, prepare a "clean room," install equipment, purchase special tea bag paper, and carry out staff training programs.

The project generated a huge amount of interest in both Kenya and the United Kingdom. The Kenyan president visited the newly built tea packing facility in November 2011 to observe the production line and the first tea packed by farmers. The packaged tea, which featured a "Mount Kenya Teabags" logo (Figure 3), was launched in 296 M&S stores in February 2012 to coincide with fair trade week, and a video of the project was shown in stores and on the M&S website. The formal project was completed in early 2013.

In many ways, the partnership between M&S and Iriaini was a unique project within the Kenyan tea industry. Kenya is a large supplier of commodity tea to the global market; however, the industry had experienced little progress toward capturing value-added products. The global tea industry is dominated by seven companies that control approximately 85 percent of the trade. Almost all of these companies are highly integrated multinationals, and many own their own plantations and factories, while also purchasing raw tea from Kenya and elsewhere in bulk. Since the price of raw tea is typically less than 20 percent of the price for the finished product, breaking into the consumer market is a major achievement. The product was also unique because most of the packaged teas available in stores are blended and few can claim a single source.

### FIGURE 3: MOUNT KENYA TEABAGS PACKAGE FOR MARKS & SPENCER



The M&S proposal quickly won local supporters because of the international project backers, and it was a popular subject with the Kenyan press and political leadership.

## PROJECT RESULTS: MARKS & SPENCER (M&S) AND IRIAINI TEA FACTORY CO. LTD.

The project has not generated large sales for M&S. At the end of the formal project in 2013, retail sales reached £39,000 (US$50,560). Orders are still being placed, but are small (400 to 1,000 kilograms per shipment), and factory output is low compared to its capacity. Although the project was initiated by a department of M&S that focuses on ethical trade and social responsibility, the product seems to be run by the commercial side of the business; therefore, if sales continue to lag, the product could lose shelf space.

Profit margins for the factory are also low, given the limited production levels. Still, Iriaini is selling tea to M&S at a price equivalent to $7 per kilogram, compared to the current Kenyan auction price of $2.35 per kilogram[12]. If 25 to 30 percent of the factory's output could be used for a consumer product, it would have a profound impact on the income of Iriaini's 8,000 member farmers. For example, an average farm family who receive about $110 per month from the cooperative based on the commodity tea price could increase their income to about $200 per month[13].

Despite the low export sales, the real market opportunity is likely to be the domestic market. Iriaini Tea Company is already selling a tea bag product and a loose tea product in a limited area near the factory, with one store at the factory itself. Historically, the company has been production-oriented, and it does not have a marketing department. The project has influenced the factory management and cooperative members to begin rethinking their strategy. Jane Nyambura, a manager at the Ethical Tea Partnership in Kenya, commented that "the real success of this project is not the amount of packaged tea currently being sold, but that the eyes of management and the cooperative members have been opened to the opportunities to supply the consumer market, and to think beyond only being a commodity producer." The company needs funding and expertise to develop a domestic marketing strategy and a market implementation plan, Nyambura added.

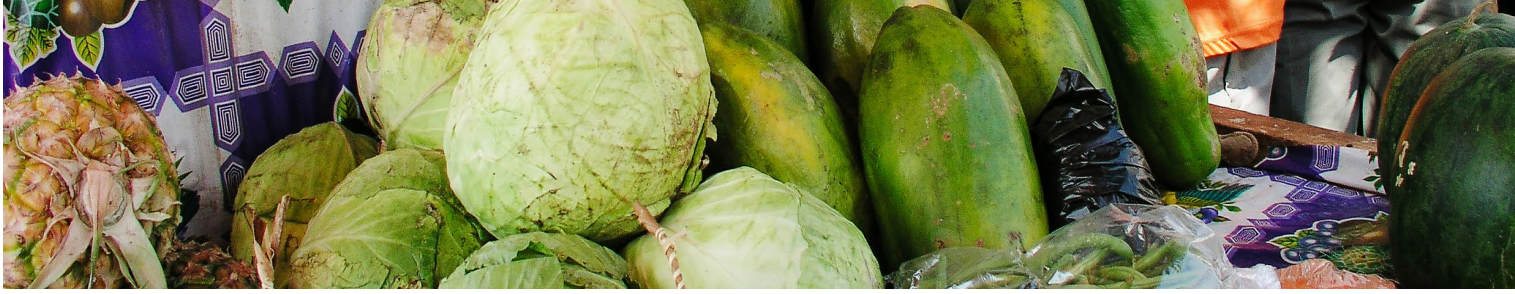
12 $7 per kilogram and commodity auction price estimate from a manager at Iriaini Tea Company

13 Assuming 30 percent of the tea was sold by the coop as a consumer product ($7/$2.35 x 0.30 x $110)

## FIGURE 4: IRIAINI TEA BAG PACKAGING MACHINE

## Fullwell Mill Ltd and Fruits of the Nile (FON)

Fullwell Mill is a leading U.K. fair trade food manufacturer that supplies raw material (food ingredients) to food processors, produces food products under license for major U.K. brands and supermarket chains, and manufactures products such as snack bars under their own label. For many years, the company has purchased solar dried fruit from Fruits of the Nile (FON), a company formed in 1987 in Uganda. FON processes dried fruit products, principally pineapple and banana, that are both organic and fair trade certified. FON established its



## FIGURE 5: FRUITS OF THE NILE CAPE GOOSEBERRY PRODUCTION

Nile Growers Association (FONA) in 1997 to administer organic and fair trade programs, which in turn opened up new marketing opportunities for FON.

Fruits of the Nile is a unique SME because it has taken the processing of fruit to the village level, a task that is difficult to accomplish. The dried product is then further processed and exported, meeting strict U.K. food quality standards. About a third of the members grow pineapples and two-thirds grow bananas, which have fair trade market prices of $1.50 and $3.00 per kilogram, respectively. A farmer can earn the equivalent of $70 to $150 per year, an attractive cash crop. Approximately 60 fruit driers, located in villages, service 450 farmers who are organized into 50 to 60 associations. The simple wooden solar drier is covered with polyethylene that traps the sun to dry the fruit at a temperature of about 50 degrees Celsius[14]. The dried fruit is delivered to FON for further washing, drying, and grading, and then packaged and exported to Fullwell Mill and other local clients.

Fullwell Mill had been receiving an increasing number of requests from clients for new dried fruits, particularly dried berries, for use in new food product formulations. The company decided to test whether farmers could produce and successfully dry several new berry varieties. **Developing new products for its clients was an important linkage motivation for Fullwell Mill.**

During its FRICH partnership, FON focused on the growing and drying of new berry crops, including

14 Construction of the driers costs about $300 each, and the cost is shared: two-thirds contributed by the producers and one-third from FON as an interest-free loan. Producers repay the loan through product.



strawberries, blueberries, raspberries, and cape gooseberries, and provided samples of the products to Fullwell Mill. The berries were planted at 10 trials sites where FON was already working with farmers. The sites represented different agro-ecological soil and weather conditions in order to test which would be most suitable for production. Several of the trial sites were scheduled to become nursery sites for the production and distribution of seedlings to farmers for commercial production and drying. Fullwell Mill's main contribution to the project was researching berry varieties and finding planting material.

### Project Results: Fullwell Mill Ltd and Fruits of the Nile (FON)

The production of raspberries and blueberries was not particularly successful, as farmers had no experience growing the crops and lacked understanding of the best environment for production. Drought and weather conditions also negatively impacted the berries, as they require irrigation. Strawberries matured quickly, but the high moisture content of the berry did not produce an acceptable dried product. However, some of the farmers found that supplying fresh strawberries to the market was a good business.

The most successful berry was the cape gooseberry (Physalis). The local agronomic conditions were well-suited to the crop and it dried well with a golden color. Farmers were interested in expanding production and Fullwell Mill was anxious to purchase the product. Farmers also found that the fresh berry sold well in local markets, which restricted the supply for drying.

The limited time frame for the trial turned out to be a constraining factor in the success of the project. Fullwell Mill required time to research berry varieties and to determine the best location to carry out the varietal trials. Planting material was eventually purchased from a South African nursery, and research on drying methods was left to FON. In the end, there was only time to dry berries from one harvest season. In hindsight, there was too little time for both researching new crops and conducting fruit drying trials, which caused delays in the implementation plan, said Adam Brett, a manager at Fullwell Mill. There was not enough time to evaluate the best season, location, and care for the berry varieties. The small company is unlikely to fund further research and trials, but it intends to expand the cape gooseberry product.

# Overall Project Results: FRICH Grant Fund

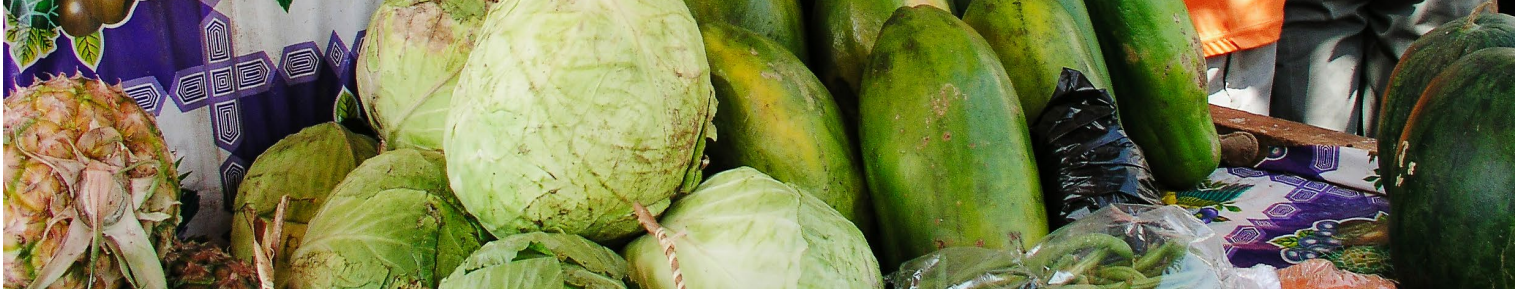
DFID and its implementation firm evaluated the results of the 25 projects funded by FRICH. The analysis provides valuable insights for organizations that might consider similar development projects in the future. The overall findings are summarized below in response to each of the program's five assumptions:

### *1. An open and competitive process will elicit the most promising innovations.*

Donor programs regularly find it difficult to inform firms in the private sector about grant funding opportunities, and learn that "open and competitive" can still reach a limited audience. Large private sector food processors and retailers are often unaware of the availability of grant funding, and have little understanding of how or why they should participate. In the case of the FRICH project, private and NGO development professionals learned about the opportunity and brought it to the attention of the private sector. Therefore, the development community was an important motivational force behind the project's development. However, the NGO community, although well-intentioned, may lack understanding of the commercial realities of the project or industry, and as a result, may minimize the challenges or oversell the opportunities associated with the project.

### *2. The grantees will test new and innovative projects.*

The three projects profiled in this case study focused on firm-based innovation. The limited success of these projects suggests that firm-based innovation may be less valuable for public development funding than market-based projects, in which an entire market segment is positively impacted rather than a single



firm. Firm-based innovation can have positive sector impacts, but the results from imitation and copying are often realized more slowly.

The post-project review also questioned whether the innovative projects would have occurred without grant funding. Some of the 25 projects might well have been initiated independent of the grant program, but for the three companies profiled in this case study, grant funding was indeed necessary to stimulate implementation of the projects.

### *3. Commercially viable innovations (or variants) are scaled up by grantees and then replicated by others.*

Because of its limited time frame, it is difficult to determine the long-term impact of the FRICH fund, particularly for the objective of "replication by others." In fact, in a sample of nine projects from the internal DFID review, only two projects continued without additional financial support, and only one project had its positive results replicated by other firms. Certainly, there are many examples in the developing world where new crops or processes have been introduced, and the observed success of the innovation was replicated by farmers and SMEs, leading to the development of an entirely new industry. However, it is a long-term process. Clearly, individual firms cannot be expected to provide valuable knowledge to their competitors as this runs counter to their commercial interests.

### *4. Increased market access to the United Kingdom and EU leads to increased incomes for poor African producers.*

In general, the three projects had insufficient data on producer incomes to draw conclusions on this subject, although two agricultural projects of the nine projects sampled had a positive impact on worker income because of access to new markets. Two of the projects did not impact worker income, including the Marks & Spencer tea project. Cooperative members are paid based on the overall production and price of commodity tea. At this stage of the project, the amount of tea used for direct marketing is small (less than 1 percent) and has not impacted the average prices received by farmers. Still, cooperative members learned that the value of their tea significantly increases when it is packaged as a consumer product.

### *5. An increase in income leads to a decrease in multi-dimensional poverty.*

An important objective of the fund was to increase the income of the rural poor. Presumably, any agricultural or SME activity should have positive impacts on the income of workers. When questioned, all the smallholder farmers in the nine project sample indicated that they had benefited from their association with the project. In general, the analysis suggested that if a project intends to have a positive impact on the "rural poor," then it must dig deeper into the structure of the labor market. It was found that agricultural enterprises tend to restrict permanent employment in favor of casual labor, which is paid at a much lower rate than permanent labor. This point is often not considered when designing projects to address agricultural worker incomes.

The objective of alleviating multidimensional poverty was beyond the ability of the fund, and projects did not have a significant impact on social services, a benefit generally provided by governments. African participants were asked the open question: "In what other ways could UK Aid help you further, if that was possible?" The participants pointed to "schools, roads, water, [and] electricity,"[15] all of which are significant long-term investments.

# Lessons Learned

### *Lesson 1: Project Duration & Funding.*

For new agriculture and SME processing projects, a considerable amount of time must be allotted for research, trial and error, and implementation in order to achieve project goals. Often only one crop and associated processing season is possible per year, in comparison to

15 Winters (2014)



non-agricultural manufacturing, which can occur year-round. Both **Intersnack** and **Fullwell Mill** indicated that their plan should have included more time to implement the project. **Intersnack** was one of the last firms to receive grant funding, so only had 18 to 24 months to initiate and complete their project.

In the case of **Marks & Spencer**, it was clear that introducing a new consumer product into the competitive U.K. retail market would require considerable time and resources to create a sustainable marketing program. For example, the tea bag's package is already being redesigned after a year in the market. While a food processor often has a significant budget for marketing a new product, a retailer often does not have the orientation or profit margin to develop a new product (see Lesson 3). A common suggestion from the three participating lead firms was that the project duration should be three to five years in length.

## *Lesson 2: Role of Public Sector.*

The public sector played an important role in all 25 projects through the establishment of the **FRICH Fund** to support innovation in the food supply chain. A majority of the projects would not have occurred without public support, including the three companies that are featured in this case. In general, the food sector in the United Kingdom and EU was exposed to agriculture sector supply issues in Africa, but significantly, 25 companies were selected and funded to pursue their planned innovation. The fund manager indicated that it takes considerable time (usually more than budgeted) for hands-on work with applicants to introduce the concept of the fund, respond to questions, and evaluate both the proposal and the applicants.

## *Lesson 3: Project Objectives and Commercial Focus.*

In selecting lead firm and supplier linkage projects, it is necessary to ensure that the supplier's commercial interests are aligned with the project's objectives. Commercial firm goals—such as increasing sales volume, reducing product cost, and targeting consumer demand—are basic objectives that need to be considered.

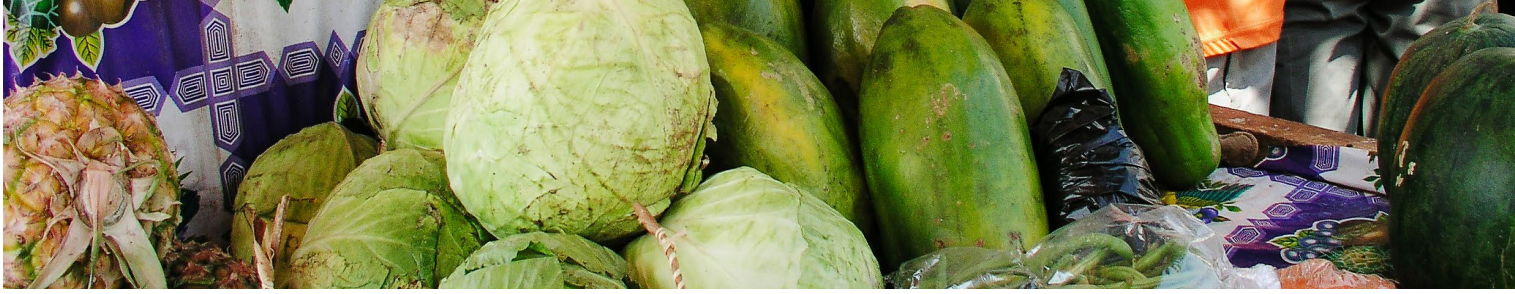
Companies are increasingly investing resources in corporate social responsibility, but these initiatives may not have the sustainability of a commercial project. For example, the **Marks & Spencer** project originated in the company's social responsibility programs. However, after an initial launch, a product will eventually be evaluated from a commercial perspective, where shelf space elasticity, retail margin, and other measures are of greater importance.

Lead firms that are processors of consumer products often have larger budgets and higher margins to introduce a new product over a period of one to three years. Retailers, such as **Marks & Spencer**, have different business models. Retailers work on small profit margins, often 1.5 percent after tax on gross sales, and product turnover is important. Therefore, retailers closely evaluate the revenue per square foot of floor or shelf space.[16] Retailers may develop proprietary products, but these products are often variations of existing food products.

## *Lesson 4: Commodity vs. Consumer Product.*

In general, it is financially attractive for commodity producers to differentiate their product and move up the supply chain, and even produce a consumer product. In the **Marks & Spencer** case, the SME tea processor was anxious, as were political supporters in Kenya, to move up the supply chain and produce a consumer product for an influential U.K. supermarket chain. Even with the correct market linkages, it was difficult to achieve the project's objectives. Although packaging and sales of the product in the U.K. retail market continues, the volume is small compared to the total volume of the commodity being processed by the SME cooperative. For **Fruits of the Nile**, it was easier to produce a unique product because they were further along the supply chain as ingredient suppliers for the food industry, so the move to retail marketing was a shorter jump. Moving a food product from commodity status to a consumer or differentiated product remains a goal of many producers, but it is one of the most difficult shifts to make in the supply chain.

16 Net profit after taxes (2014) from "Supermarket Facts," Food Marketing Institute, http://www.fmi.org/research-resources/supermarket-facts



## *Lesson 5: Improved Quality and Quantity of Raw Material.*

Significantly, Intersnack emphasized outreach to SMEs and local sourcing of raw material, both as a means to increase supply and to improve the quality of raw material at the point of production. The company noted that this approach can result in a net decrease in the cost of raw material, but did not share a specific figure. The lesson is that these approaches can benefit many companies seeking raw material, and often provide better prices for local SMEs through improved supply chain efficiency.

## *Lesson 6: Commercial Expertise.*

Evidence from the three projects suggests that the most successful partnerships occur when lead firms and SMEs are directly involved with project implementation, rather than delegating implementation to a third party. For example, Intersnack had limited experience in crop production and sourcing in Africa, and had to rely primarily on several NGOs who had local agricultural experience. In comparison, both Fullwell Mill and Marks & Spencer, together with local SMEs, brought considerable commercial African experience to the table, which contributed to the project's results. These two firms were able to provide hands-on experience to partner SMEs, improving their chances of success and allowing midstream corrections to be made when required.

## *Lesson 7: Regulation and Competitiveness.*

Food and agricultural projects exported to U.S. and European markets face increasingly complex and strict phytosanitary regulations that are difficult and expensive for a new supplier to achieve, making the products uncompetitive (although domestic markets in Africa can be attractive alternatives). It is particularly difficult for small SMEs to meet these regulations; for example, the **Intersnack** groundnut project was uncompetitive in the export market because it did not meet EU standards. On the other hand, the partnership of Fullwell Mill and Fruits of the Nile was remarkable in its ability to meet U.K. phytosanitary standards for dried fruit using village producers and driers. This success could be attributed to the long-term relationship between the two firms.

## *Lesson 8: Product origin and traceability.*

All three lead firms shared an interest in forging closer ties with their SME suppliers. Over the past five years, consumers, retailers, and processors within the food supply chain have increased their ability to trace the sources of raw material, whether fresh or processed. The objective is to be able to quickly trace sources of contamination, chemical residue, pathogens, and overall quality problems. Consumers have expressed concern over traceability, and food processors are responding by requiring point of origin and traceability information with each shipment.

This trend is also reflected in retailing, where consumers view point of origin as an indicator of product quality. Product origin may also positively influence consumers who seek to support agriculture and farmers in developing economies. **Marks & Spencer** predicted that processing and packaging consumer tea products at point of origin would be a selling point for consumers, but it did not seem to have a positive impact on sales (although the source of the product had limited emphasis on the package). Still, for products such as wine, coffee, tea, and many other food products, the country or region of origin is often important to consumers and an essential component of a marketing and pricing strategy.

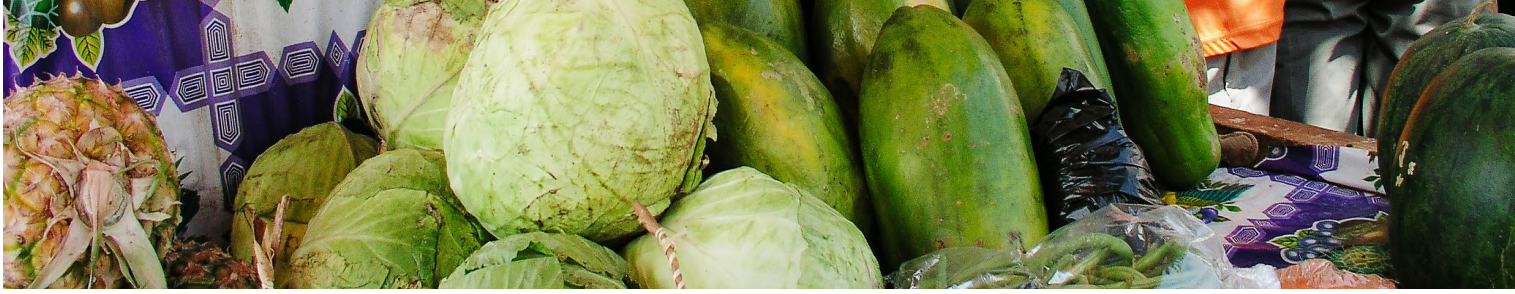
Additionally, the use of fair trade or a similar certification by suppliers (signaling support for higher prices to farmers) was important to **FullWell Mill's** customer base and to **Marks & Spencer** corporate strategy.

## *Lesson 9: Export vs. Local Markets.*

Two of the three SMEs **(Equatorial Nut and Iriaini Tea)**, while originally focused on the export market, discovered that the domestic market was also attractive. It is worthwhile to consider the potential of the growing domestic market in Africa. In fact, the experience of the FRICH fund suggests there may be merit to an innovation fund focused on developing new products or food and agriculture approaches specifically for **local or regional markets in Africa.**



| Interview List | | |
|---|---|---|
| **Organization** | **Interviewee Name(s)** | **Date of Interview** |
| Fruits of the Nile, Man. Dir. | Angello Ndyaguma | May 11, 2016 |
| FullWelll Mill | Adam Brett | April 12, 2016 |
| Ethical Tea Partnership | Jane Nyambura | May 13, 2016 |
| FairTrade | Frank Olok | May 13, 2016 |
| Fair Trade | Catherine Maina | May 13, 2016 |
| Marks & Spencer, London | Hazel Culley | April 6, 2016 |
| Marks & Spencer, Tech. Cons. | Phil Mumby | April 21, 2016 |
| Kenya Tea Dev. Authority, Marketing Manager | Lucy Nyaklore | May 17, 2016 |
| Irianini Tea Factory | Matthais Ithiga | May 17, 2016 |
| React Africa Re. Env. Nut Co. | Joyce Gema | May 17 2016 |
| Intersnack | Wim Schipper | April 10, 2016 |



# Bibliography


Food Marketing Institute. 2014. "Supermarket Facts, Net profit after taxes." http://www.fmi.org/research-resources/supermarket-facts

Greening, Justine. 2014. "Frontiers in Development - economic growth is key." Speech delivered at USAID's Frontiers in Development, Washington, D.C., September 22. http://www.wired-gov.net/wg/news.nsf/articles/justine+Greening+Frontiers+in+Development+Economic+Growth+is+key+23092014071000?open

U.K. Department for International Development. 2007. "Food Retail Industry Challenge Fund-FRICH Project Memorandum."

U.K. Department for International Development. 2013. "Guidance Page: Food Retail Industry Challenge Fund (FRICH)." https://www.gov.uk/guidance/food-retail-industry-challenge-fund-frich

U.K. Department for International Development. 2014. "Programme Completion Report." iati.dfid.gov.uk/iati_documents/4787319.odt

U.K. Department for International Development. 2012. "UK helps farmers in Africa trade their way out of poverty." Press release, October 24.

Winters, Mark and Rajan Soni. 2014. "Strategic Review of the Food and Retail Industry Challenge Fund (FRICH)." Department for International Development.

1818 H Street NW

Washington, DC 20433

**Website:** www.infodev.org

**Email:** info@infodev.org

**Twitter:** @infoDev

**Facebook:** /infoDevWBG

infoDev
INNOVATION & ENTREPRENEURSHIP

SUPPORTED BY
WORLD BANK GROUP