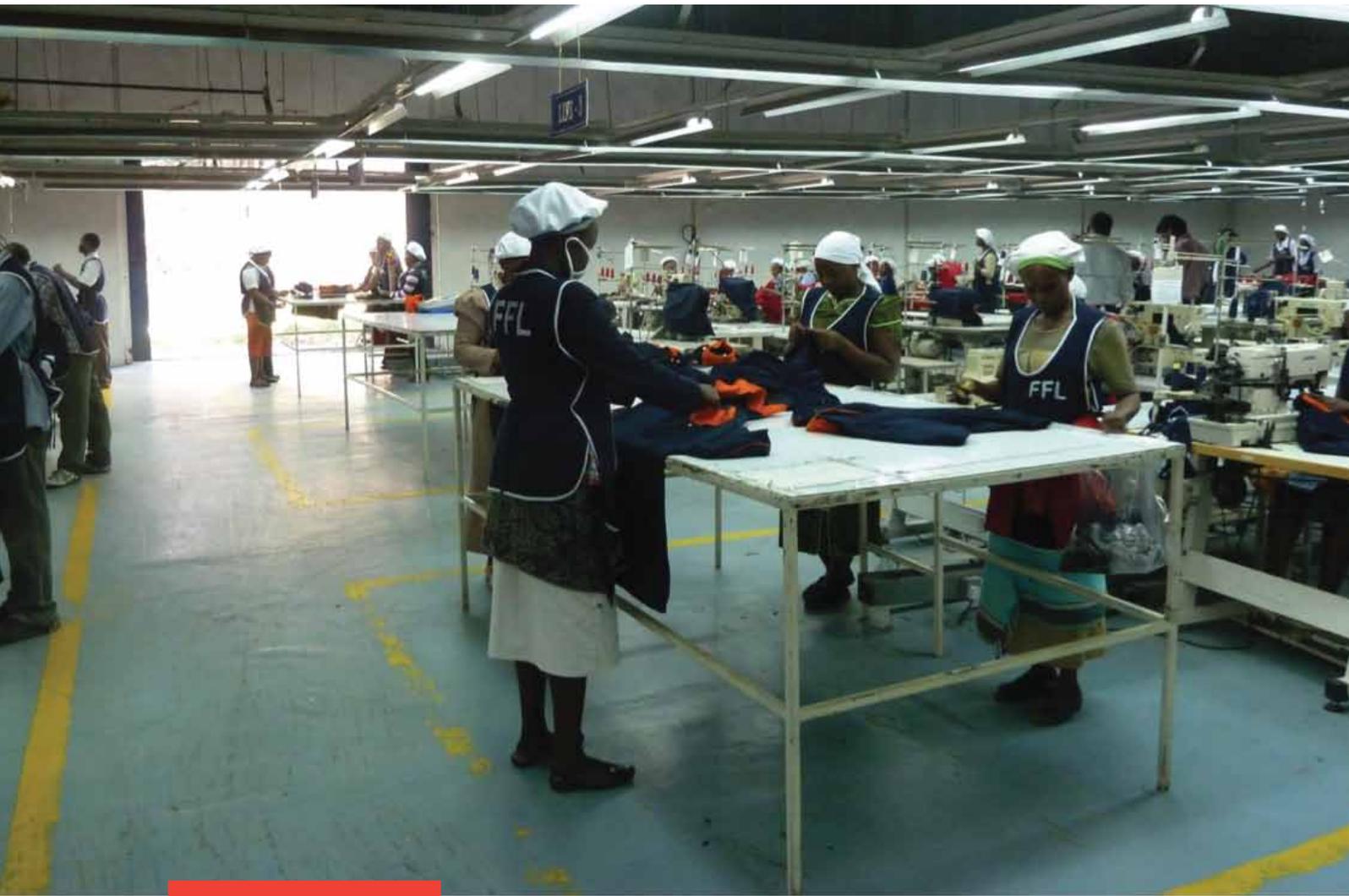




# Africa MAKING IT

A UK business perspective





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January 2015

Dr. Ann-Marie Brouder and Sarah Tulej  
[a.brouder@forumforthefuture.org](mailto:a.brouder@forumforthefuture.org)  
[s.tulej@forumforthefuture.org](mailto:s.tulej@forumforthefuture.org)

# About Forum for the Future

Forum for the Future is a sustainability non-profit that works globally with business, government and others to solve complex challenges.

We aim to transform the critical systems that we all depend on, such as food and energy, to make them fit for the challenges of the 21st century.

We have 18 years' experience inspiring new thinking, building creative partnerships and developing practical innovations to change our world. We share what we learn from our work so that others can become more sustainable.

System innovation is at the heart of our strategy. One of our key approaches is creating innovation coalitions, bringing together groups to solve bigger sustainability challenges - including those that work across whole value chains.

Another of our approaches is helping pioneering businesses go further, faster. Discover our stories and what we've learned about building a sustainable world at [www.forumforthefuture.org](http://www.forumforthefuture.org), or follow us on Twitter and LinkedIn.

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## London

Overseas House  
19-23 Ironmonger Row  
London, EC1V 3QN, UK

Company No. 2959712  
VAT Reg. No. GB 162 3473 19  
Charity No. 1040519

## India

86/87 Atlanta Nariman Point  
Mumbai, 400 021  
India

Corporate Identity  
No. U93030MH2014FTC254981

## New York

540 President Street  
Suite 1D, Brooklyn  
NY 11215, USA

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## Singapore

C/O Swire Pacific Offshore  
300 Beach Road  
#12-01 The Concourse,  
Singapore, 199555

Registration  
No. 201331258E

# About Value Added in Africa

The mission of Value Added in Africa is to build sustainable channels to international markets for African-made retail-ready products.

We focus on processed goods because they contribute most to reducing poverty in Africa. We do this by pioneering the creation and development of a resilient value-added marketplace. A marketplace of African suppliers and European buyers. We make sourcing from Africa easier, based on our network of over 500 factories in 29 countries and our growing network of technical experts on the ground.

We connect these two sets of needs working with:

- European businesses – we offer sustainable supply chain consulting: strategic alliances or end-to-end supply chain design and support
- African producers – we offer access to markets, end-to-end marketing advice, capacity building and market information.

VAA licences and promotes the Proudly Made in Africa label which guarantees a quality, ethical product, made in Africa and benefitting local producers.

“Delivering beautiful, ethical goods  
from Africa to the World,  
reliably”



## London

VALUE ADDED IN AFRICA - UK  
CAN Mezzanine  
49-51 East Road  
Old Street  
London N1 6AH  
UK

## Dublin

VALUE ADDED IN AFRICA - IRELAND  
IRELAND  
133 Capel Street  
Dublin 1  
Ireland



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**No.2**  
MEDIUM  
*Bold, bright and golden, with  
a classically brisk flavour  
and refreshing aftertaste*

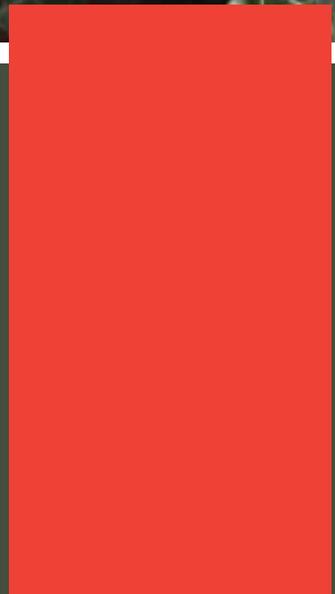
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FOR FRESHNESS





Sustainability is at the heart of the challenges facing both our economy and wider society. Today, supply chains are geographically distributed and extended, and more and more complex. This makes it harder for the public to know the story behind the products they wish to buy. Business has to bear primary responsibility for ensuring that their products have been made in a manner that cares for both the earth, and the people who produce them or else campaigners and consumers will challenge the way in which they conduct their operations. Such actions can

lead to extensive, long lasting reputational damage.

In undertaking the research Value Added in Africa and Forum for the Future have added to the public debate on sustainability. The rapid growth in many African economies offers opportunities for greater sustainability in our value chains and there is emerging an industrial sector that adds value to African natural resources rather than exporting them raw. This creates job, skills and livelihoods in African countries so that the benefits of production are shared along amongst all those involved. For UK retailers this can render value-chains shorter, more manageable and more transparent, and will create new business opportunities. In this research, and at the seminar I hosted at the House of Lords, leading UK retailers and brands articulated a strong sustainability-led business case for sourcing retail products from African countries. Business acknowledges that there are real challenges to be overcome in order to achieve their aims in this sector on a bigger scale. Nonetheless, the research reveals that top UK companies expressed their belief that their interests are best served by further exploring that opportunity which is encouraging. Also hopeful is that UK companies are leading in this area of work. My view is that their efforts should be complemented by policy and regulatory initiatives, especially those that might encourage more companies to engage sustainably with African countries' producers.

I am sure the debate will continue and that more companies will take steps to enhance their sustainability in this way and in doing so strengthen public confidence in the integrity of their brands.

Baroness Lola Young of Hornsey

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# Executive summary

Africa is growing - with an estimated GDP growth of 4.7% in 2014 and 5% in 2015. Demographic trends are helping to drive this growth – including increasing urbanisation, an expanding labour force, and the rise of the middle-class consumer. By 2040 the number of people of working age will be 1.1 billion, more than China or India. This will be a significant driver of GDP growth in Africa.

A third of this growth is attributed to the commodity boom but the remaining two-thirds comes from the growth of sectors such as wholesale and retail, transportation and telecommunications. The garment-manufacturing sector, for instance, has expanded in sub-Saharan Africa over the last few years and major retailers such as Primark, ASOS and H&M already source clothing from Ethiopia and Kenya.

This growth in the manufactured and processing sector in Africa has the potential to drive up income levels and growth. Research has shown that for every job created in agro-processing, 2.8 indirect jobs are created in support<sup>1</sup> leading to multiple benefits: higher incomes; increased food security; community development; capacity building and higher skills; less food waste; and the empowerment of women.

This project set out to explore the potential business and sustainability case for sourcing African-made products, and the barriers and opportunities that this might present. We interviewed 16 UK-based businesses about their attitudes and experiences. We explored value added in economic and social terms, whereby some form of processing will have occurred where the benefit will reach the wider community.



# Why source manufactured goods from Africa? The business case

Businesses recognise that Africa is growing and this presents many opportunities for them in the future. They articulated a business case for sourcing African-made goods – based on the increased manufacturing and processing now emerging in African countries – with the garments and foods sectors most prominent.

The business case included:

- 1.** Many businesses recognise that they are going to face **security of supply** issues for many commodities over the long-term. This may mean that ultimately they have no choice but to accept African-made products, and highlights the need to work with processors now to help guarantee their supply over the longer term.
- 2.** After the Rana Plaza factory disaster in Bangladesh in 2013 and the horsemeat scandal earlier the same year, the importance of ensuring **traceability and transparency** has risen up the agenda of many businesses in the UK. Sourcing products directly from Africa has the potential to offer a strong ethical base alongside clear traceability, because African manufacturers tend to know the source of their product – due to shorter supply chains.
- 3.** Many businesses are attracted to source manufactured goods from Africa due to the unique nature of the products they can procure. These products are often **new and different products**, helping brands and retailers differentiate themselves in a competitive marketplace and attract consumers looking for novel products.
- 4.** African businesses offering ethically produced, quality products create the possibility to **tell a good story to consumers** and through this, the opportunity to **enhance brand reputation** by building trust. There are questions about the longevity of certification schemes but what is becoming increasingly important is the ability of brands and retailers to tell a story that appeals to consumers – whether on pack or through social media.
- 5.** A clear **sustainability case** emerged for sourcing from African countries that either already encourages or would encourage more sourcing of African-made products. This includes income staying within Africa; economic multiplier effects as supporting businesses grow up around a manufacturing facility, creation of skilled employment opportunities and wider community development.
- 6.** **Labour and raw material costs are often lower** compared to many Asian sourcing countries making African manufacturers attractive to buyers.
- 7.** **Preferential tariff rates** exist on goods imported from African countries. This contrasts favourably with goods from many South East Asian countries.

# Challenges are faced

Although we specifically targeted businesses who had experience of sourcing value added products or were interested in doing so, our small cohort only imported a limited amount of African-made products. This contrasted with the broad range of basic commodities they were importing from many parts of the world.

This is often due to the challenges faced, which, in some cases, are simply a difficulty in finding the sorts of products needed. However businesses did face other challenges: a lack of understanding of the market place by manufacturers; lack of product consistency and an inability to meet required volumes; lack of appropriate technical skills; distance from the marketplace; and infrastructural and institutional barriers.

# Recommendations

In order to further the development of African manufacturing and processing for the benefit of UK businesses, the following is recommended:

**1. Support and develop intermediaries.** Utilise and develop 'ethical' intermediaries, which contribute to the creation of economic, social and environmental value, as the bridge between buyers and sellers. Intermediaries can provide services such as helping source products, helping guarantee high quality, ensuring that income benefits the local community, and ensuring that products are fully traceable and meet high environmental and social standards.

**2. Build sector-based collaborations to support local manufacturers.** Explore the potential for collaboration to address some of the challenges in sourcing African-made products by offering joint support to suppliers to help overcome challenges such as understanding of the marketplace, capacity building and accessing capital.

**3. Support capacity and skill development** in African manufacturers. One of the key barriers experienced by UK importers was the lack of technical and managerial skills. Whilst one-on-one support between buyer and seller can help there is also a potential role for policy and collaborations to offer wider support. One approach is to establish a scheme to share skills through two-way placements from businesses and universities.

**4. Build understanding of the marketplace.** Another key challenge for UK buyers of African-made products was the manufacturers' understanding of the marketplace in order to create attractive product offerings. To date that has largely been addressed through one-on-one support but there could be a wider supporting role, which policymakers and new or existing collaborations could play.

**5. Access to capital.** It is often difficult for early stage businesses to access capital through existing channels due to high interest rates. However alternatives exist such as identifying funders who can back risks and are interested in ethical sourcing; using crowdsourcing to raise funds directly from private investors; or establishing a fund supported by businesses and/or governmental/aid agencies where fledgling manufacturers can access funds at lower rates.

**6. Develop a challenge fund to support the production and export of manufactured and processed products.** DfID challenge funds could be oriented towards the support of the African manufacturing base where it could potentially serve the interests of UK brands and retailers. It is recommended that any such fund be longer than one year to allow sufficient time for planning and implementation.

**7. Government to government support** to help overcome some of the institutional barriers for doing business - specifically for UK businesses looking to import African-made goods back to the UK.

**8. A chance to shape the image of 'African-made'.** Although our interviewees were quick to mention many of the challenges they faced when sourcing from Africa, when asked directly about their image of African-made products, they tended to associate it with social benefits, quality, taste, and in some cases youth. Although this is not the universal perception of Africa *per se*, it perhaps indicates that there is a chance to positively shape the image of African-made products at this early stage of development.

**9. Moving from mainstream to niche.** The experiences of those who have sourced African-made products are largely positive but it remains very niche, often low volumes or is conducted at a pilot level. Hence a key challenge is sourcing at scale where high quality products with high sustainability standards can be sourced at higher volumes.

**10. Creating sustainable value networks.** Assisting producers to step up the value chain economically is a key way that value can be created and shared within the chain. However it will only be of benefit if it is done in a way that ensures that the most vulnerable in the value chain are able to benefit. This needs to be actively considered rather than assuming that the benefits will naturally spread.

Overall, from our assessment, we believe there is clear potential for Africa to capture more value from the commodities that it produces, by developing its emerging manufacturing and processing base and exporting a greater proportion of value added products. At the moment, many raw materials are exported, to be processed outside Africa, only to be re-imported for home consumption. As a result, much of the value created is captured outside Africa.

There is a clear need to look longer term - both in terms of development and security of supply. A long-term perspective would highlight issues such as security of supply, the growing African marketplace and manufacturing base and help provide a more systemic overview of the risks and opportunities for sourcing African made goods. African countries are examining how they can capture more value, recognising that they hold many resources. The UK is small in the global marketplace and so needs to build relationships and support producers over the longer term to help them capture more value and secure their own sources of supply.

However, many opportunities exist at the moment, particularly for UK businesses in the garment sector or those looking to source premium or novel/different products. Such manufacturing already exists and many UK businesses are looking to capitalise on the potential benefits.

<sup>1</sup> World Bank. 2008. World Development Report, Washington, DC

# 1. Introduction

Africa's economic rise is well charted. Growth in Africa is expected to accelerate to 5% in 2015, according to the UN<sup>2</sup> more than twice its pace in the 1980s and '90s. A third of this growth is attributed to a commodity boom, which has seen prices for oil, minerals and other resources soar and lift GDP since 2000. However the remaining two thirds came from other sectors including wholesale and retail, transportation, telecommunications and manufacturing.<sup>3</sup> The last decade has seen a marked shift from extractive to service-oriented sectors.<sup>4</sup>

Demographic trends will drive Africa's growth in the long term, chiefly urbanisation, an expanding labour force and the rise of the middle-class African consumer. Around 40 per cent of Africans live in cities – comparable to China. Urbanisation is boosting productivity as companies achieve greater economies of scale as well as spurring on the construction of critical infrastructure. By 2040 the number of people of working age is projected to exceed 1.1 billion, more than China or India, which will lift GDP growth.<sup>5</sup>

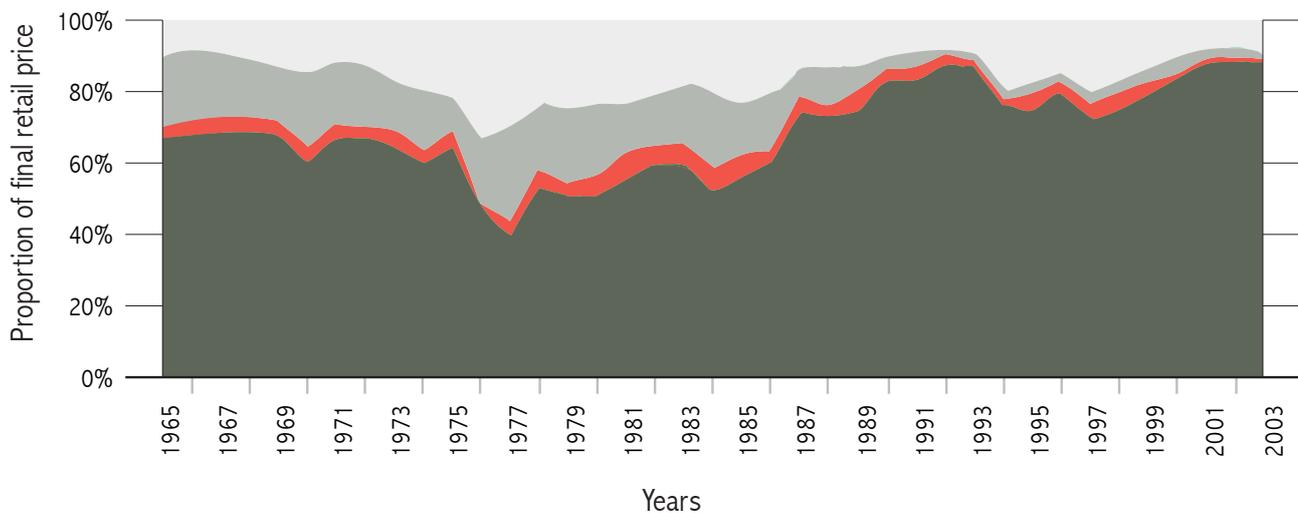
Africa's rising number of middle class households means that a greater share of income is being spent on non-food items. Indeed, its consumer-facing sectors are growing two to three times faster than those in the OECD countries. The rise of the African consumer has led to increasing foreign direct investment in manufacturing and consumer-facing services.<sup>6</sup> Job creation in proportion with population and economic growth will be essential to ensure that the benefits are experienced across Africa's young workforce.



There is clear potential for Africa to capture more value from the commodities that it produces, by developing its emerging manufacturing and processing base and exporting a greater proportion of value added products. At the moment, many raw materials are exported, processed outside Africa, only to be re-imported for home consumption. As a result, much of the value created, is captured outside Africa. As the chart below shows, up to 90 per cent of the total income from coffee goes to consuming countries.<sup>7</sup>

This dynamic looks set to change; in recent years Africa's agro-processing and manufacturing sectors have grown. Foreign direct investment in infrastructure, the expansion of telecommunications and rapid take up of mobile phones, and the skills and resources of Africans returning from the diaspora are critical factors behind this growth. The garment manufacturing sector in particular, has expanded in sub-Saharan Africa, boosted by access to materials from the continent's rich natural resource base, low labour costs and access to EU and the US markets through preferential trade agreements.<sup>8</sup> Major retailers such as Primark, ASOS and H&M already source clothing from Ethiopia and Kenya. Furthermore, there is a trend towards healthier products among consumers in high income countries – increasing demand for natural, ethical and organic ingredients. Local market demand for processed foods is also increasing, driven by urbanisation and the rising African middle class, expanding the opportunities for local producers to capture market share from foreign imports.

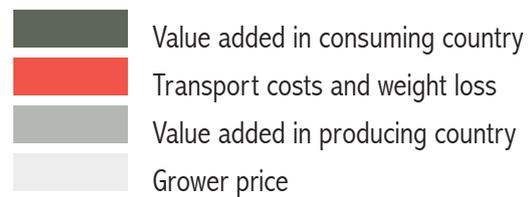
**Figure 3.2:**  
Inter-country distribution of income (% share of final retail price of coffee)



The growth of these sectors offers new supply options for businesses looking to source good quality products at affordable prices. There are also wide social and economic benefits for communities with a local processing or manufacturing base. The development of this sector is an essential part of the broad-based development needed to reduce high poverty and rising inequality rates in many countries. The benefits include job creation; higher incomes; increased food security; community development; capacity building and development of skills; reduced post-harvest food waste; and the empowerment of women.

However these arguments are not always sufficient to convince UK and Irish businesses to source products made in Africa. Companies that do not already source from Africa often see it as a risky option and real challenges remain related to infrastructure, capacity and skills, and regulation, for example. For many businesses, the country that they source from is immaterial as long as the products are of a high quality, at an affordable price to consumers and, for an increasing number, that steps are being taken to improve ethical and environmental standards.

This research set out to explore the potential business case for sourcing manufactured goods from Africa in the light of the growth of Africa's processing and manufacturing sector, along with some of the challenges and opportunities for brands and retailers.



Source: UN Economic Commission for Africa, 2013

<sup>2</sup> World Economic Situation and Prospects 2014: Global economic outlook, 18 December 2013, New York  
<http://www.un.org/en/development/desa/publications/wesp2014-firstchapter.html>

<sup>3</sup> What's driving Africa's growth, McKinsey & Company, 2010

<sup>4</sup> EY's attractiveness survey: Africa 2014, Ernst and Young, 2014

<sup>5</sup> Lions on the move: the progress and potential of African economies, McKinsey Global Institute, 2010

<sup>6</sup> EY's attractiveness survey: Africa 2014, Ernst and Young, 2014

<sup>7</sup> Economic Report on Africa, UN Economic Commission for Africa, 2013

<sup>8</sup> EY's attractiveness survey: Africa 2014, Ernst and Young, 2014

## 2. Objectives and methodology



The objectives of the research were as follows:

- > To understand the awareness amongst retailers and brands, of Africa as an emerging economic force (in terms of sourcing, manufacturing and market)
- > To understand the potential business and sustainability case for sourcing African-made products from the perspective of retailers and brands
- > To understand fully the barriers and opportunities for sourcing African-made products from the perspective of retailers and brands
- > To raise awareness of African-made products through interviews and a workshop that will include some case studies/examples
- > To raise awareness of VAA and the Proudly Made in Africa label

This project focused on understanding the attitudes of UK businesses towards sourcing African-made products. Forum for the Future conducted this project on behalf of Value Added in Africa (VAA) who already had an understanding of the challenges from the perspective of African producers, so this report does not explicitly explore the viewpoint of African producers.

To develop this understanding, we interviewed businesses (primarily) to understand their awareness of Africa emerging as an economic force, the potential business case for sourcing African-made products and the barriers and opportunities that this might present. We also wanted to explore whether a Proudly Made in Africa label would be useful to businesses.

In total we contacted 36 organisations for interview, with 22 responses. In total 18 people were interviewed from 16 organisations. We used a semi-structured interview and the respondents had a mixture of sustainability and buying expertise.

The focus was businesses in the apparel, tea and coffee sectors but was not limited to those sectors.

A list of companies interviewed can be found in the appendix. We subsequently held a workshop in July 2014 to share our findings.

The event was hosted by Baroness Young of Hornsey in the House of Lords and was attended by a mixture of businesses, NGOs and policymakers.

# 3. Sourcing from Africa –business perceptions

## Business and market development opportunities in Africa are growing

We explored with interviewees how they felt Africa might grow over the next ten years and whether that represented an opportunity or threat for their business. The respondents outlined a number of different ways that they felt Africa would grow over the next ten years. They recognised that Africa was rich in natural resources offering further growth potential in soft commodities, when current agricultural productivity was compared with the productivity in other regions. They also felt the business environment was improving in many countries; more favourable business regulation and improvements in infrastructure were making it easier to do business.

Many companies recognised the growth potential of the internal market within Africa: a burgeoning middle class with greater disposable income and brand awareness were all driving consumption and making the internal market within Africa more attractive. Companies within Africa have already begun to take advantage of this market with indigenous business from Kenya and South Africa spreading across the continent. For example, Bourbon Coffee has spread from South Africa to Rwanda, and retailers such as Mr Price, and Pick and Pay are spreading up from South Africa, as far as Zambia.

Some companies also mentioned the experience and skills of those they had dealings with in Africa and as a result their desire to disprove any misconceptions about sourcing from Africa. One such misconception was that African suppliers aren't able to meet UK quality and safety standards.

“My experience of the people I've worked with is that they are hugely experienced. There is a massive drive to prove that



misconceptions about Africa are misconceptions - that people don't know what they are doing and you can't produce in a BRC grade facility within Africa – because it's Africa”.

Others felt that these perceptions were real, but surmountable for companies that are prepared to work with suppliers over a longer time period to develop the standards and processes required: “There are challenges in getting suppliers who are aware of UK/EU requirements on food safety, requirements for having BRC and other systems, from food production and food safety standards, down to Sedex and environmental requirements. So there is a need to work with suppliers over a longer period of time so they can produce without assistance from us in terms of controls.”

Finally some interviewees specifically mentioned the opportunities to create added value by investing in local processing and manufacturing that were not being seized by individuals and businesses within Africa:

“I bring in huge amounts of coconut milk from Thailand. I was in a bar in Zanzibar recently and my wife asked for a piña colada. The barman uses powdered coconut milk from Oman. I'm sitting with 200 coconuts around me. Why is no one processing coconuts as the market is huge and the price is going up?”

Companies also mentioned lower labour costs in Africa (versus China, for instance) and the desire to buy more packed, finished and ready to ship products from Africa. Although an opportunity was broadly recognised, companies were not always clear how they would access this opportunity. Although many mentioned Africa as the future, there remains a gap between recognition of the opportunity and translating that into action.

## Limited sourcing of value added products but a wide range of basic commodities

The organisations we spoke to source a wide range of commodities from Africa, but overall source a far more limited number of processed or finished products. Interviewees emphasised the high quality of raw commodities, along with price, as the main reasons for sourcing from Africa. For example, some interviewees source commodities specifically for supermarket's premium ranges. Commodities included cocoa, tea, coffee, bananas, flowers, green beans, citrus, grapes, pears, apples, sugar, and nuts. However the processing and packaging of these products happens mainly outside Africa, generally in the consumer market. In some instances these products are re-imported back into the country of production for home consumption.

Out of the 18 interviewees we spoke to, only seven currently source value added products.

The products that are sourced include:

- Semi-finished cocoa products and confectionary from Nigeria and Ghana (for the African market)
- Cotton garments from Mauritius
- Tea bags from Kenya
- Chocolate bars from Madagascar
- Vanilla extract, powder and pods from Uganda
- Vegetable stir fry packs from Kenya
- Homeware from Uganda, Mali, Malawi, Kenya, Senegal and South Africa

While we only interviewed a small sample, it highlights the gap between the proportion of commodities imported and the proportion of processed or manufactured products. This is despite a desire amongst some of the companies to whom we spoke to source new manufactured and processed products.

## Image of African-made

When asked what African-made meant to them, interviewees offered very mixed responses, indicating African-made doesn't convey a single message. However, it doesn't convey a 'cheap' message and while the market is developing, it is a chance to convey quality as well as, in some cases, low cost.

Some common associations mentioned were around quality and

taste — particularly for coffee, cocoa and fruits. Others associated Africa with youth, as well as ethics and social awareness. There were some interviewees who felt Africa needs to overcome the stigma of being seen as impoverished and instead offer a unique product that can convey a social benefit. For others it had no particular resonance and no particular associations.

Whilst our interviewees were largely positive when asked directly about the image that African-made products conveyed (whilst not all sourcing finished products, they were all sourcing commodities) the experience of Value Added in Africa and the wide range of challenges listed indicates that this is not universally held and that some buyers do have a negative perception of products from Africa. This makes it critical for African producers (with support) to deliver an excellent service and product at this early stage of development. It also emphasises the need for more positive stories about the types of products that can be sourced from Africa having overcome the challenges outlined later in this report.

## Certain product types more commonly sourced

From our discussions with business it appeared that some products were more ready for market than others and that there was more demand for certain types of products. The most obvious opportunities appear to be with: apparel and accessories; niche, innovative products; and premium products. These were products that were already being sourced successfully and with demand for further products. The demand for garments and apparel comes from the ability to source low cost, quality products but following the Rana Plaza factory collapse in Bangladesh in 2013 buyers are also more concerned about sourcing ethically-made products. The opportunity for the apparel sector was also re-iterated at the workshop and emphasised by the high turnout of organisations from this sector. Likewise, buyers are looking to source new and innovative products to appeal to consumers. Our interviews indicate that products such as tea and coffee may have more difficulty initially, particularly due to the demand for freshness and shelf-life stipulations for coffee, and the need for blending from different sources in both tea and coffee. However, even in this case, single origin may offer an opportunity for African producers.

# 4. Business and sustainability case



## 4.1 Insights from interviews

This research starts from the premise that there is a clear ethical and social case for sourcing manufactured and processed products from Africa. Research has shown that for every job created in agro-processing, 2.8<sup>9</sup> additional jobs are created outside of the sector. VAA's own research found that, for chocolate bars made in Madagascar four times more jobs are created than when raw cocoa is exported. This has widespread knock-on effects including improved incomes and food security outcomes, building resilience in poor communities, improving skills, empowering women, and improving the economic prosperity within the country.

There are also wider environmental benefits such as allowing investment in climate change adaptation and mitigation, utilisation of water and reduction of food waste where products are manufactured soon after harvesting meaning less time for them to rot. The research explored whether a sustainability case was recognised amongst businesses and what the business case was.

### A sustainability case was recognised

Regardless of whether stakeholders sourced value added goods from Africa, most recognised a sustainability case for doing so. The

case included income staying within Africa and the economic development multiplier effects because processors are able to purchase raw materials from numerous smallholder farmers – farmers who often lose a large proportion of their harvest to seasonal gluts. Africa has a particular advantage in agriculture due to its rich natural resources and thus huge potential to create greater income from turning raw materials into higher value products. The production of finished goods creates demand for packaging, transportation and agricultural products, creating skilled employment opportunities along the value chain.

Furthermore, as women are responsible for a large proportion of smallholder farming and related processing activities, boosting this sector can build women's economic empowerment. One interview gave an example of how the presence of a manufacturing facility in Madagascar, making vanilla extract, was able to significantly raise the incomes of the smallholders that supply it with vanilla pods.

"[A supplier that makes vanilla extract] has 50 farmers who are bringing vanilla - so they have a ready market. It's common for cocoa and vanilla crops to be stolen in Madagascar – it's

politically unstable and has challenges. These guys are providing a ready market – they can pay farmers a premium as they are making a finished product. So the farmers can send their kids to school."

As well as raising living standards through increasing supplier incomes, several interviews said that conditions for workers in manufacturing facilities are often improved because of EU/UK regulatory requirements on food safety and supply chain management requirements through initiatives like Sedex that focus on improving labour standards, health and safety and environmental performance.

Some interviewees felt that it would be the sustainability case that would lead their company to source more value added products from Africa in the future, particularly those companies with a strong focus on ethics. Several companies we spoke to have programmes aimed at improving the livelihoods of smallholder farmers in their supply chain, through investment in capacity building and infrastructure.

"We have always tried to rebalance risk in the supply chain – one is to add more value at origin as globally at the moment all the risk stay with producers. So rebalancing that risk is the basis of sustainable business long term."

It is conceivable that, in time, these programmes may begin to focus more on enabling producers to add value to the raw materials they produce.

## Sustainability trade-offs

Some questions were also raised in relation to the sustainability case and the potential trade-offs that may have to be made. For example, the carbon footprint could go up for products when they were packaged:

“Shipping air doesn’t make lots of sense regarding the products we import. If you take packed tea versus tea in big bags, we will double or triple the amount of containers. I’m still to be convinced that it’s the right thing to do.”

However this would have to be balanced against any potential carbon savings that might be made elsewhere as a result of processing products in Africa – for example, greater use of renewable energy in processing or less carbon-intensive farming practices.

Views were mixed when it came to the advantage of being able to sell an ethical or sustainable product. There was broad agreement that while this doesn’t generate a propensity to purchase among UK consumers, and they pay scant attention to labels and different certification standards, they still expect there to be minimum ethical standards in categories such as tea and coffee where buying Fairtrade is now the norm.

## Supply chain transparency

After the horsemeat contamination scandal across Europe and the Rana Plaza factory collapse in 2013, transparency has rapidly risen up the agenda of companies. Companies drive productivity gains through embedding sustainable supply chain standards and gain customer trust by transparently sharing information on product origins. In an era of radical transparency those with poor and opaque supply chains are at risk. Transparency has become a tool for public activism and businesses are increasingly mindful of this. This new emphasis was also highlighted in our interviews:

“After horsemeat we are definitely focusing on the fact of having extremely good knowledge of our supply chain, where everything comes from. I think it’s vital – we have reams of info on our products – what’s in them, the origins. Consumers expect to know the traceability and transparency. If you don’t have it you will be blown out of the water.”

While Africa was not necessarily felt to offer greater product traceability than other sourcing markets, products that are easily traceable are likely to be more attractive to buyers in the future:

“The sustainability case will become more important as the consumer will demand it. It starts with foodstuffs, such as

coffee consumption. As consumers become more aware, suppliers that meet that demand will do better.”

During the workshop, the benefit to smallholders of having sight of the market and understanding what their product would become was also emphasised. There is a need for transparency, not just from producers to suppliers but also from suppliers to producers, so that they can better understand how to match their offer with market demand.

Strong ethical and environmental standards, coupled with clear traceability and transparency, are critical for businesses now and in the future. This gives consumers confidence in the brand and, although standards are increasingly being seen as a hygiene factor, being found wanting is a big reputational risk, particularly for brand-facing businesses. Many of our interviewees felt that sourcing goods from Africa could offer them those advantages as long as the products were fully traceable.

## Ensuring long-term supply

The increasing competition for land, the impacts of climate change, a growing population and resource constraints are all converging to pose threats to the security of commodities supply in the future. For instance, the demand for food is projected to increase by 40% by 2030 and as much as 70% by 2050<sup>10</sup>, the demand for water is projected to outstrip supply by a staggering 40% by 2030<sup>11</sup>, and the scientific projections for climate change in the agricultural sector point to major challenges to productivity and more difficulties in managing risk.<sup>12</sup>

Businesses, including the ones interviewed, are increasingly aware that they need to invest in the producers who produce their raw materials, to guarantee their supply over the long term. Significant volumes of commodities are sourced from Africa and many businesses are dependent on these commodities for the long-term success of their business. Ensuring sufficient supply in the future means longer term collaboration with producers to ensure that they have the capacity to continue to produce what is needed when faced with increasing challenges posed by climate change, increasing consumer demand and resource constraints. Investing in producers includes investing in their capacity to create more value added products and to capture more value from the chain. Not investing in this capacity over the longer term may mean that the UK market is excluded as African producers seek to forge relationships with emerging economies.

## High quality and innovative products

“Ultimately it needs to be done for commercial reasons.”

The basis of any business case is being able to offer good quality and affordable products and this remains the case with products from Africa. Interviewees consistently emphasised that sourcing products from Africa starts with being able to source the right product rather than being motivated for purely ethical reasons. Finding a good quality product motivates business, particularly a product that was different from their other lines and would appeal to consumers. The fact that this product came from Africa was irrelevant to most of the interviewees – the story of the product came later.

“If it’s cost competitive then they will be considered initially – it then comes down to ensuring that the facilities are at an acceptable level. Maybe 5 years ago if [the products] were cheaper but slightly inferior that would be okay – but that’s not the case now. There has been a dramatic increase in requirement from a food factory point of view.”

As illustrated above, it is not just a question of low costs. Coffee producers sourcing beans (rather than processed products) acknowledge that the price of coffee from Africa is higher but, given that the quality is higher than that sourced from other regions, there will always be demand.

## Telling the story behind the product

We questioned organisations on the value of having a label that clearly showed that the product was from Africa. Most organisations felt that it was increasingly important to have

a story behind the product:

“We communicate African origin as part of the chain of custody. We have to say where all products are from. We try and play it as a positive [because] it has a huge story behind it, [and] huge benefits – by buying from Africa you’re not just benefitting 10 people in a warehouse somewhere, you are benefitting thousands of farmers and livelihoods around that product.”

In particular, there was a move away from having labels and messages on pack. The message from the brands and retailers was an overall drive towards having less information on pack and using other forms of social media to communicate the story behind the brand. An example of this is Tetley’s Farmer’s First Hand Facebook Page, which connects people with the farmers that grow the tea and has been successful in communicating to consumers the story behind the brand:

“Our strength as a business is that we bend and flex our messaging based on [the type of] customer and what they need. We could do Africa messaging in different ways for different customers. It could be written on pack, on things like table talkers, or on branding boards on the wall, or messages that go together on websites. I would only see it as a positive to talk about the fact that products come from Africa”.

Some respondents also felt that certification schemes more generally will be less prominent in the future, with the emphasis placed on brands to demonstrate action on sustainability. There is an opportunity for brands to do this by telling the human stories behind the label, both to build greater trust with their customers, by showing how their brand also improves people’s lives, and to help people engage with issues that can often seem remote. Increasingly, consumers expect brands behind the products they buy to have a purpose behind simply making profit for themselves, and to benefit society in some way. Having strong ethical and environmental standards is crucial for brands to show their intent. Not all brands will choose to differentiate on the story behind the products they sell, but being able to evidence the integrity of their products is crucial to protect brand reputation. People will avoid certain brands if they find their ethics wanting as evidenced by numerous boycotts over the years of well-known brands, and fuelled in recent years by access to social networks. One memorable example is Greenpeace’s campaign against Nestlé in 2010 who were targeted for using palm oil sourced from companies linked to deforestation in Indonesia.

<sup>9</sup> World Bank. 2008. World Development Report, Washington, DC

<sup>10</sup> Biotechnology and Biological Sciences Research Council, 2014  
<http://www.foodsecurity.ac.uk/issue/index.html>

<sup>11</sup> Water Disclosure Global Report, Carbon Disclosure Project, 2011

<sup>12</sup> Food security, farming, and climate change to 2050,  
International Food Policy Research Institute

## 4.2 The business case

Drawing from the insights above, additional research and experience we can conclude there exists a clear business rationale for sourcing manufactured goods from Africa;

### 1 Security of supply

Sourcing more value added products from Africa can help secure supply over the longer term. Africa is rich in natural resources and has the potential to further boost productivity. The manufacturing sector is growing and African governments and business are looking at how they can capture more and more value in country. African businesses are also looking at other potential markets in South East Asia and the Middle East. To help secure supply over the longer term UK brands and retailers need to look at how they can start sourcing goods now to help secure supply.

### 2 New and different products

Organisations currently sourcing manufactured goods from Africa are often attracted by the prospect of obtaining a distinctive product that is not on the shelves of every retailer which ultimately helps draw more and more people to the brand or retailer.

### 3 Cost advantages

African manufacturers often face lower costs than other marketplaces as their commodities are often relatively nearby and labour costs are low. This helps offer UK importers a potentially lower cost product.

### 4 Preferential tariffs

UK importers of goods from Africa face a zero per cent tariff. This compares favourably with goods from many South East Asian countries that are subject to tariffs.

### 5 Traceability and transparency

Due to their proximity to the grower, most African manufacturers have full visibility of their supply chain, knowing exactly which farmers supply them. This is critical for UK retailers

and brands who need to be able trace their goods to source and particularly critical for goods and commodities with complex supply chains, such as cotton.

### 6 A good story

Products need to differentiate themselves in the marketplace. Sourcing African-made goods offers the possibility of a good story, such as being able to identify exactly who grew and manufactured the product and the benefits to the local community. This is becoming ever more important with the growth of social media, where consumers have the possibility to obtain more and more information about products and their provenance.

### 7 Less wastage

It is estimated that in some food sectors, post-harvest losses can be in the region of 30%. Processing foodstuffs closer to where they are grown can result in less wastage, as there is less possibility of products being ruined due to inappropriate storage or damage during transportation.

### 8 Income and community development

The creation of greater ethical and sustainability benefits form part of the business case for sourcing particular types of goods. Many businesses felt the sustainability case would lead them to source more products from Africa.

### 9 Creation of jobs and a boost to the regional economies

Helping push forward manufacturing and processing in Africa improves incomes directly and through multiplier effects, contributing to economic growth. This in turn creates opportunities for UK businesses as an expanding middle-class increases the demand for products that UK business can sell.

## 5. Challenges faced



Challenges in sourcing value added products from African producers exist and this partly explains why so few processed products are currently sourced from Africa. Some of the challenges are driven by UK retailer requirements including shelf life of products, just in time delivery and overall expectations of quality in the UK market. The challenges include:

### Understanding of the marketplace

One of the most common cited barriers was the lack of understanding by the African producers of the UK marketplace and the demands of customers and consumers. This was partly attributed to, in many cases, the lack of a comparable marketplace nearby. Particular areas where producers need support were on product branding and knowledge of how the UK retail market works and how to access it. This tended to manifest itself in poor packaging (both on pack and for transport):

“They [African producers] come to these trade shows but no one has told them what to do – there’s no information on the packaging – the products are not export ready. If you are coming to export rice or cassava that’s fine, but to export to retail, coming with something ready to go is important. They don’t know how brands should look, so they [would] sell well in the UK – as opposed to Nairobi.”

In one extreme example, producers had no idea what their product would be used for: “In Uganda, the coffee producers hadn’t even tasted coffee – they put their hand up and said, ‘why do we want to focus on improving the quality when all that it’s used for is gunpowder and bullets, and it’s being used to kill people?’ It really stuck with me, just how removed they are from the end user and the end product.”

### Product consistency and volume

Another frequently cited challenge was being able to source the products at a consistent quality and at the volume needed. Linked to this is being able to meet the high standards demanded by the UK marketplace and being able to meet those standards consistently. In some cases where a suitable product has been identified, African producers have been unable to produce the products to the volume required. One smaller brand working with African tea suppliers felt that the UK market was impenetrable and that, as a small brand, they are “too small to change the rules of the game” – rules felt to be set by large brands and retailers. So far they have not been able to find a way for their African partners to meet UK branded manufacturer and retailer demands on shelf life and sudden fluctuations in demand for tea bags:

“We tried working with co-operatives on packing tea.

We can't go ahead due to retailer shelf life requirements and quality control to ensure the standards at origin required by customers in the UK. We haven't found a solution.

We have thought about joining forces with co-ops to support the set-up of an operation to add value and sell at origin, rather than exporting outside. What we can bring to the party is sales and marketing expertise.”

## Infrastructural and institutional barriers

Another challenge is the infrastructural barriers that increase the time and costs of getting products to port and away.

This includes roads, storage, ports and heavy bureaucracy. This poses a particular barrier to those products that need to arrive relatively 'fresh' to market avoiding air travel. Some institutional barriers were mentioned in the form of regulation but it was also mentioned how this has improved. At the workshop, organisations also talked about the lack of an enabling environment in certain countries and the "difficulties in going through hoops" to export from the country of origin. Problems were particularly acute in landlocked countries.

However, one interviewee insisted that these challenges are surmountable if buyers are aware of and able to accommodate longer lead times and have reliable local contacts that are able to troubleshoot on their behalf:

"The challenges are around getting product – there are long lead times, that's fine. We have no problems with supply – we are used to forecasting and looking at potential. With Madagascar there aren't many ships going in. With Uganda it is getting products down to Mombasa if there are floods. As long as you understand that it's different from transporting something from Milton Keynes – there is only one proper road in Madagascar. You need to be determined, and don't be put off by it. You need somebody good there – it's a complicated place."

At the workshop, this point was reiterated by a company who felt that if you were trying to set up a factory in Africa, then political risk would be a factor. But for organisations that are already established in Africa, political risk was less of an issue. Even during extreme political events such as a coup, companies continue to make and export products.

## Finding appropriate products

Some businesses could not find appropriate products. The desire to source more processed products

was there but felt there was a limited supply base or it was difficult to find appropriate products with limited time. This highlights the need for more intermediated services (e.g. co-operatives, NGOs) to link the producer and buyer:

"A problem for us is knowing that the products are there... we don't even know what exists as I haven't spent enough time in Africa."

## Capacity and skills

Where some organisations were looking to source specific products, they could not find the required technical capacity to process those goods. Whilst this might exist, businesses have limited time and resources to source what they need even with the desire in place. Others mentioned a low skill base but elsewhere interviewees have mentioned the skills of those they are already sourcing goods from:

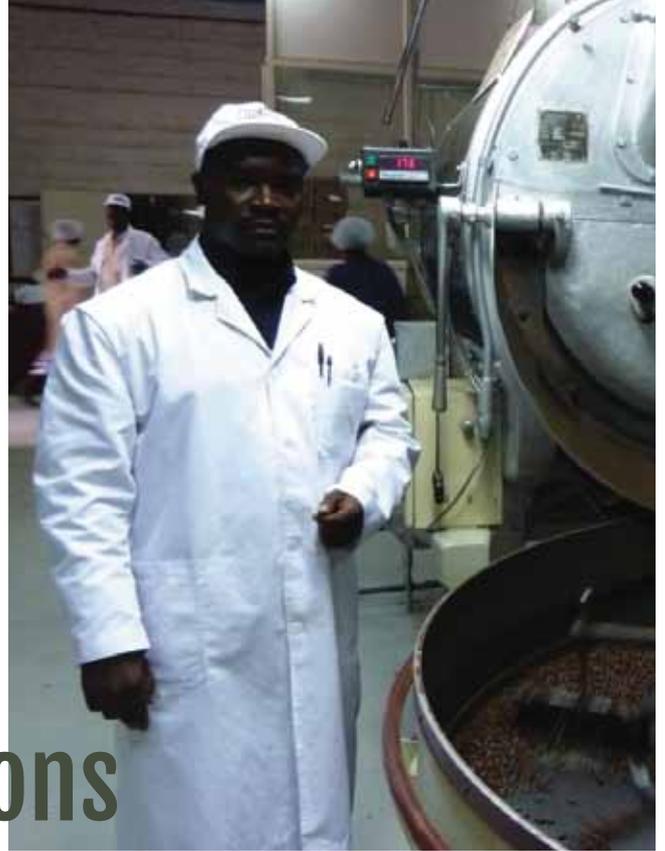
"Organisational dysfunction is an issue – the businesses need a lot of support when they are growing in the early stages. Our partners do that – we don't work with them directly. Organisational structures can be quite weak and knowledge can be weak. It's a long process trying to get products from co-operatives over here."

The lack of appropriate capacity and skill was also mentioned at the workshop. This included specific technical skills, like making a button, down to more specialist managerial skills. This came out strongly as a key barrier in the workshop and organisations that sourced manufactured products from Africa admitted that in some cases they needed to provide substantial training and capacity building support to the manufacturer.

## Distance from the marketplace

The increasing trend for freshness places many African producers at a disadvantage when providing goods for the UK market. Many coffee producers cited the need to source their product as fresh as possible to meet the shelf life requirement of UK supermarkets. The distance and logistical challenges of many African countries meant that they were unable to meet those requirements. In both the tea and coffee sector for example, the need for blending from tea or coffee sourced worldwide, means that it is more efficient to do so close to the end market. Although not the entire blended and packaged product remains in the UK (much of it is exported, including back to Africa), the UK provides a significant market for the product.

## 6. Recommendations



There is still a long way to go in developing the manufacturing and processing base in Africa and furthering the opportunity for more UK businesses to source value added products. We believe the following key recommendations will help with that transition.

### 1 Invest in and support ethical intermediaries

Companies mentioned a number of difficulties that an intermediary can potentially help overcome. While the trend more recently has been for companies to source directly, there is often a need for a supply chain connector/intermediary to connect the producer and buyer and to supply additional services such as training and micro-investment. An 'ethical' intermediary can help ensure supply chain traceability and transparency and that products are produced to certain environmental, social and other (such as health and safety) standards. Forum for the Future's work with the Shell Foundation highlighted ways in which ethical agents could work for the benefits of small-scale farmers and retailers in particular. Although the project focused on farmers rather than processors/manufacturers, many of the roles of an intermediary such as increasing transparency, reducing reputational risk, getting niche products to market, and working directly with and supporting small producers are equally applicable.

For more information visit:

<http://www.forumforthefuture.org/project/scaling-success/overview>

### 2 Collaboration within sectors

Many businesses that are sourcing African-made products are facing similar challenges. Whilst one-on-one business support between buyer and seller is essential, especially at the early stages of development, there is also a role for collaboration between businesses. Given that the challenges vary from sector to sector, this collaboration might work best within a particular sector. Hence the garment sector could come together to identify challenges that would be more effectively addressed together rather than in isolation. This includes areas such as understanding of the marketplace, capacity building and accessing capital.

### 3 Capacity and skill development

The need for capacity building and skills development for manufacturers and processors came up strongly within the workshop. The skills ranged from technical skills (manufacturing a particular product) right up to basic management skills, such as being able to respond in a timely fashion to

buyers. Businesses already sourcing African-made products have assisted their producers with capacity building support and training and some existing African manufacturers have tried to overcome this barrier by bringing in technical expertise from abroad. One suggestion from the workshop was for universities and companies to send people on placements to assist with the development of technical and management skills. Hence there is a role here for business in offering direct support to producers, for policymakers in offering support through existing aid and placement programmes (and supporting universities to do so). There is also a potential role for a collaboration of business working in a particular sector to offer the support jointly. This could take the form of training but it could also take the form of mentoring and on-going business support and advice.

## 4 Build understanding of the international market

There is a role for UK businesses and policymakers in helping fledgling African manufacturers understand the UK retail market. Ultimately, if UK businesses want products that are tailored to their markets, they are going to need to build that understanding of their market needs and demands. This can be done by individual businesses through one-on-one support, within a sector (for example, the garment sector collectively offers such support to fledgling African manufacturers), or through offering government-supported study visits.

Allied to this knowledge sharing, is supporting African producers to recognise opportunities. Many such opportunities were mentioned in the interviews and the workshop: from the potential for processing coconuts to the need for locally-sourced buttons or zips.

## 5 Access to capital

As we didn't interview producers, accessing capital did not come up strongly in the interviews but it was raised at the workshop. In their early stages, African companies need capital to help them overcome many of the challenges mentioned in Section 5 (these include building capacity and understanding of the marketplace). It is often difficult to access

capital through existing channels due to cripplingly high interest rates. However alternatives exist, for example: identifying funders who can back risks and are interested in ethical sourcing; using crowdsourcing to raise funds directly from private investors; or establishing a fund supported by businesses and/or governments/aid agencies where fledgling manufacturers/processors can access funds at lower rates.

## 6 Challenge fund geared towards value addition

There are undoubtedly roles for aid agencies worldwide in supporting value addition at origin. As this project is focused on UK business, we recommend that DfID should consider how it could use its challenge funds to support value addition at origin. The existing challenge fund to support food and drink has only supported one value addition project in the tea sector. All other projects are focused on commodities. Furthermore, some challenge funds have moved from a three-year to a one-year cycle. Businesses have explicitly said that supporting African processors and manufacturers is a long-term investment, one that is often difficult to achieve within three years, let alone one.

Therefore, DfID should consider:

1. How its challenge funds can be used to support more value addition at origin
2. Extending the duration of challenge funds from one year back to at least three years.

## 7 Government to government support

Within the workshop, UK businesses explicitly mentioned that the support they need from government is to help overcome some of the infrastructural and regulatory difficulties they encounter when trying to export from some African countries. This includes how the UK Government can work with other governments to help improve the regulation to make it more attractive to do business and create a more enabling environment. When considering how to support UK businesses to operate within sub-Saharan Africa, DfID should include specific support for UK businesses trying to import Africa made goods.

## 8 A chance to shape the image of African-made

Despite the often negative associations of Africa with poverty and corruption, those images have not translated into an image associated with African-made products. Among the businesses we spoke to, there were no particular associations made with African products and most tended to be more positive – for example, youthful, high quality and different products. This indicates that there is a real opportunity to shape the image of African-made products away from the traditional images of poverty currently associated with Africa, but also away from the low-cost sweatshop images associated with manufacturing in many Asian countries. It was remarked in the workshop that in the UK the media has shaped many of the images of Africa, building on the old colonial legacy. However, countries such as China have no pre-conceived images of Africa and view the opportunities that Africa presents rather than the challenges.

## 9 Moving from niche to mainstream

The experiences of those who have sourced African-made products are largely positive but it remains very niche, often low volumes or is conducted at a pilot level. Hence a key challenge is sourcing at scale where high quality products with high sustainability standards can be sourced at higher volumes. The difficulties are highlighted by the experiences of one organisation that supported the development of producers to add value to their product to assist with the economic and social development of the area. They ran the project as a pilot but then had difficulty moving from a pilot to a commercially viable operation. The project also needed continued support long after the pilot officially finished. The organisation hoped that the producer would be able to supply product to other organisations but instead the producer has continued to rely on the one organisation for their market and for support. One approach to achieving scale is for producers to focus on providing goods and services to domestic consumers rather than to external markets. Many respondents mentioned the importance of delivering to a local market as a way of building

capacity and scale. Whilst producers should be encouraged to supply their own marketplace, this can come with its own difficulties. At the workshop one producer remarked that it was easier to supply to the UK than it was to neighbouring African countries due to the infrastructural and institutional challenges. It should be noted that often scale is not possible for the most unique products where their attractiveness is based on lower volumes.

## 10 Creating sustainable value networks

A key challenge in creating sustainable value networks is ensuring that all members of the value chain secure a living wage or income, are able to capture a fair share of the value chain and are not disproportionately bearing the risks. Assisting producers to step up the value chain economically is a key way that value can be created and shared within the chain. However it will only be of benefit if it is done in a way that ensures that the most vulnerable in the value chain are able to benefit. Adding more value to products in African countries should help ensure that the local poorer population stand to benefit. This needs to be actively considered rather than assuming that the benefits will naturally spread.

## 7. Conclusion

This research started from the premise that sourcing added value products from Africa has greater potential to benefit the livelihoods of producers and communities in Africa than sourcing raw commodities with minimal processing. It set out to explore the experience of UK-based businesses and the business case for greater sourcing of processed goods from sub-Saharan Africa.

It is clear from this report that it is possible to source value added products from Africa and that companies are successfully sourcing products such as t-shirts, vanilla, and tea. However, opportunities are still very limited; those we engaged primarily sourced non-processed, raw commodities. The added value products that are currently being sourced were mostly in the apparel sector, plus other niche and premium products. Products such as teabags and roasted coffee posed more significant challenges in the short-term.

Businesses pointed to challenges in sourcing from African countries. These included understanding of the marketplace, meeting the requirements of their customers and their consumers, the lack of technical capacity to process certain types of goods and in some cases, being able to source and access specific products.

There is a clear business case for sourcing more processed goods from Africa. Long-term factors such as climate change, a growing population and resource constraints will converge to threaten the level of supply of many basic commodities. Producers have an opportunity to capture more value from these commodities through greater processing and manufacture. Organisations that have supported producers on this journey, forging long-term relationships, may find that their supply is more secure over the longer term, critical to building long-term resilience and security of supply when faced with



competition from many emerging countries. In the shorter term, sourcing high quality, innovative products that are clearly traceable back to origin offers clear business benefits. As a minimum, businesses need good-quality, affordable products but they also need a fully traceable product. Increasingly important is the ability to tell a story behind a product – a way of distinguishing one product from others and building consumer trust. Value added products from Africa can help to provide that story.

Businesses need to examine how their policy and practices improve livelihoods and serve to attract or deter African producers. Offering support to emerging processors in the form of longer contract lengths, training and capacity building, and marketing knowledge transfer would enable better supply relationships.

It is not clear the extent to which African producers and UK businesses alone will enable the change that is needed to move from sourcing pilot or niche products to the mainstream. Intermediaries can play a valuable role here, such as helping to source sustainably-produced products, ensure full traceability and transparency, tell the story and help producers with their knowledge of the UK market. However, assistance is also needed from UK aid and policymakers to explore how it can lend greater support to sourcing value added products.

Creating sustainable value networks requires the co-operation of all parts of the chain, working together to ensure that risks are not borne disproportionately by one link in the chain – while ensuring profitability for all involved. Central to this is the empowerment of producers; adding more value at origin allows for the sharing of risks and benefits. This requires a change in approach that will not only benefit African manufacturers and processors but also UK brands and retailers.

# Appendix 1 organisations interviewed

Bespoke Foods  
Cafedirect and Teadirect  
The Co-operative Group  
Department for International Development  
Finlays  
Kellogg's  
Marks and Spencer  
Matthew Algie  
Mondelez  
Peros  
Puma  
Taylors of Harrogate  
The Body Shop  
Twin Trading  
TK Maxx  
Whitworths

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Kenya



## Value Added In Africa

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[info@valueaddedinafrica.org](mailto:info@valueaddedinafrica.org)  
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