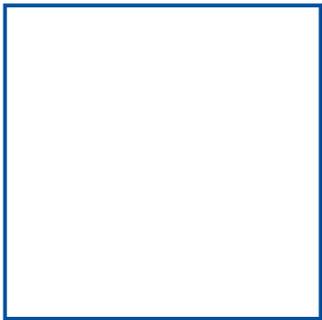
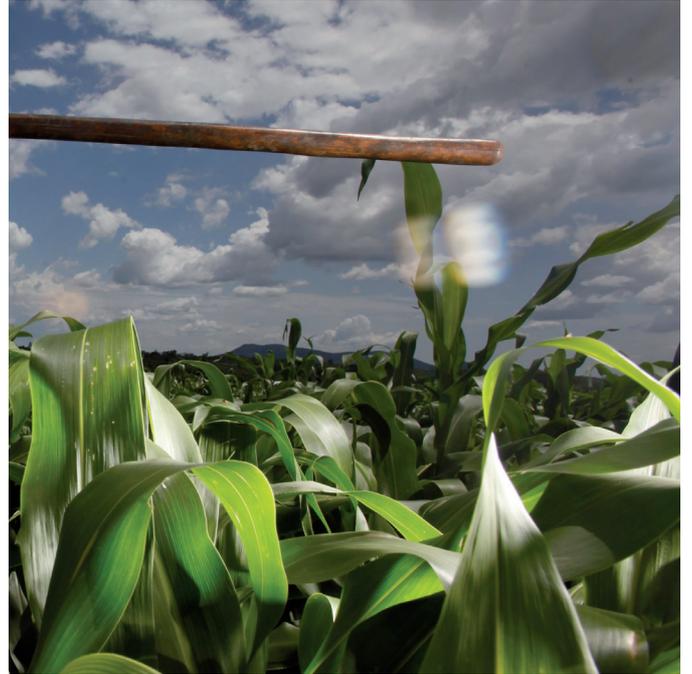




Farming Better Futures



*Farming
Better
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An introduction from Mark Bowman, Managing Director, SABMiller Africa



SABMiller originated in Africa, where we have been brewing beer for over 100 years. We may now be a leading global company but our roots remain here. South Africa and the rest of the continent still accounts for 40 per cent of our business. The future of Africa and its economic development matters deeply to us.

So, too, does the future of Africa's agriculture. Increasingly, we are looking to the continent's farmers to supply raw materials for the beers we brew here. The same farmers are also, I believe, critically important to the future of Africa and to its hopes for progress and prosperity.

Agriculture and food security are, of course, now high on the entire world's agenda. In a year in which the global population has reached seven billion – and we expect it to grow by two billion more by 2050 – there is rising concern about the challenge of providing enough food.

Africa and its farmers are at the centre of this challenge. One in three of the world's hungry lives here. Africa remains the only continent which does not grow enough food to feed its citizens.

We must not underestimate the difficulties ahead. But there is another, more optimistic, side of the story. Africa has abundant land and natural resources and contains around 60% of the world's uncultivated lands. Its hard-working farmers, with the right support, have in their hands the power to transform agriculture and, in turn, the entire continent's future.

It is in all our interests to ensure this potential is released. In doing so, Africa can not only meet its own food needs but in time help feed the hungry around the world. The good news is that, after decades of chronic underinvestment, the fundamental importance of farming and agriculture for Africa has now been recognised by Governments, investors, business and donors.

This brief report focuses on our Farming Better Futures initiatives in four of the African countries where we operate, to show the role being played by local agriculture in SABMiller's value chains. It highlights the innovative efforts we are making to use new locally produced crops for our beers, to source more of our raw materials directly from small-holders and to build skills and share best practice. Innovation and partnership are key to the way we work. We are keen to help farmers not only grow more crops for us but to find and supply other customers.

But the report also underlines that there is no contradiction between what is good for business and what is good for development. On the contrary, they go hand in hand provided companies operate in a responsible and accountable manner, as we are committed to doing.

Buying and processing crops locally whenever we can, for example, can reduce transport costs, shorten supply lines and ensure high-quality raw materials for our breweries. By guaranteeing markets for crops and paying a pre-negotiated and jointly agreed price, we offer security and help create jobs, incomes and prosperity in the community and economy. This, in turn, should help increase sales of our products. So sourcing more raw materials locally has a positive impact on both our business and the communities where we operate.

We have more to do to expand our partnerships with Africa's farmers and we are committed to increasing local raw material sourcing in Africa to 50% over the next two years. But as I hope this report shows, by the way we operate as a business, we are committed to helping them play their full role in building the continent's future prosperity.

Mark Bowman, Managing Director, SABMiller Africa



Case study **Uganda, Nile Breweries – sorghum and barley**

- Poverty: (% of population below national poverty line) 24.5% (2009)
- Agricultural employment: 73% of working population (2009/10)
- Agricultural Sector Growth Rate: 2.1% (2009/10)
- Agriculture % of GDP: 25% (2009)
- Number of farmers involved:
 - Sorghum: 8,500
 - Barley: 6,500
- Average farm size is between 0.2 to 3 hectares

Source: World Bank Data, Ministry of Agriculture, Animal Industry and Fisheries, Uganda¹

The 'Eagle Project' in Uganda is SABMiller Africa's most established smallholder sourcing programme, demonstrating the commercial, economic and wider social benefits of an effective, inclusive value chain.

SABMiller first invested in Nile Breweries (NBL) in 1997. It has a single brewery, located in Jinja, at the source of the Nile. A 2008 study of NBL's socio-economic impact conducted by the INSEAD Business School demonstrated that NBL's presence in Uganda supports 44,000 jobs in the wider economy. With a direct workforce of around 450, this represents a multiplier effect of 100.

Eagle, a clear beer based on sorghum supplied by local smallholder farmers, has become a major business and agricultural development success since its launch in 2002.

In 2001, Nile Breweries was operating in an extremely competitive environment, with a beer market that was stalling. The strategic business challenge was to find a way to grow the market in a country where beer was unaffordable to the majority of the population.

The decision was taken to explore locally-sourced raw materials which would create more affordable products, appealing to a wider proportion of the population. Discussions were held with various stakeholders to understand which crops which might be suitable for local cultivation and used as a brewing ingredient. A particular variety of sorghum – Epuripur – was identified as the most viable. The greatest technical hurdle was to modify the brewing process and equipment in order to replace malted barley with sorghum.

Having determined the crop, recipe and brewing process, Nile Breweries was then in a position to establish the sorghum value chain and began engaging with smallholder farmers. The project was initially met with some scepticism; however a small number of farmers were recruited and given the new seeds to plant.

After the first harvest, when Nile Breweries honoured its commitment to buy the sorghum at the agreed price, enthusiasm amongst the farmers increased significantly and the project has since grown to encompass around 8,500 farmers. What were previously subsistence-only farmers now have an income and are able to send their children to school, buy books and have access to medical care.

The Eagle Project has not been without its challenges. It has provided valuable lessons in terms of matching farmers' yields with the requirements of the brewery. In particular it highlights the need for good forward planning when working with smallholder farmers.

From a business perspective, the brand has been extremely successful and now accounts for over 50% of all NBL's sales. Eagle also has consumer benefits – it is sold at a lower price point than malt-based lager and typically attracts lower income consumers, some of whom are currently consuming illicit, untaxed and unregulated alcohol.

Nile Breweries is also now working with smallholder barley farmers in Uganda, to reduce reliance on barley imports from Europe for its mainstream brands, creating more local jobs.

NBL liaises with extension officers and coordinators who work directly with the farmers. One of the ways in which this is done is through the use of model farms and demonstration gardens. These are used for training the smallholder farmers and to encourage the adoption of good farming practices.

Farmers are assisted to form and register groups to facilitate access to credit, inputs and plan investment. Thus far, seven farmer associations have so far been formed and loans worth Ugandan Shillings, UGX 100million (US\$ 35,000) have been extended to lead farmers by banks for purchase of barley.

Nile Breweries has also extended its work testing and treating HIV/Aids in the employee base into the supply chain, working with farmers, truckers and taverners with the support of HIPS, a local NGO, to make that supply chain more resilient.

¹ <http://www.agriculture.go.ug/userfiles/Statistical%20Abstract%202010.pdf>

Case study

South Sudan Beverages – cassava

- Poverty: 55%
- Number of farmers involved: 2,000

SSBL commissioned its brewery in South Sudan in 2009 and invested US\$37million to build the facility in Juba. In 2010 SABMiller won nearly US\$1million funding from the Africa Enterprise Challenge Fund (AECF) to introduce an innovative local sourcing model for cassava, which will provide the ingredients from which a new beer will be brewed.

In South Sudan, despite agriculture being the mainstay of the economy, decades of conflict have left the sector struggling to fulfil its potential. Whilst South Sudan is currently a net importer of agricultural goods, the region has a good natural resource base for the production of a wide range of crops.

SABMiller is partnering with FARM-Africa to implement the initiative, which will bring direct and significant long-term market opportunities for around 2,000 smallholder farmers with dependants and other employment effects ensuring approximately 15,600 people could benefit in three years.

Through Farmer Field Schools (FFS) farmers are using demonstration plots to test improved cassava seeds, giving them the chance to grow a larger, higher quality cassava crop. FARM-Africa also uses these plots as a practical demonstration site to train the farmers in improved farming techniques.

Through FARM-Africa farmers will receive training to strengthen their business, finance and collective marketing skills and be provided with the support needed to access the assured market provided by SABMiller and other markets outside SABMiller's supply chain in order to get the best price for their crop.

A major hurdle to any process involving cassava is its relative instability. Cassava has a very high proportion of starch which makes it extremely suitable for brewing, but as soon as the root is harvested it undergoes physiological deterioration which very quickly renders the plant unusable. Therefore the cassava needs to be processed as soon as possible after harvesting.

To overcome this, SABMiller has partnered with DADTCO (Dutch Agricultural Development and Trading Company) which has pioneered an Autonomous Mobile Processing Unit (AMPU). The AMPU travels to remote agricultural regions where some of the poorest smallholder farmers live; and processes the freshly-harvested cassava in situ, preserving the integrity of the all-important starch, and eliminating the need for farmers to sell their produce through third parties.



Case study **Zambia – Zambian Breweries, barley and sorghum**

- Poverty: (% of population below national poverty line) 59.3% (2006)
- Agricultural employment: 85%
- Unemployment: 50%
- Agriculture % of GDP: 22% (2009)
- Number of farmers involved:
 - Barley: 130 (mainly commercial)
 - Sorghum: 3,500

Source: World Bank Data, Wikipedia

SABMiller has been involved with Zambian Breweries since 1994 and acquired National Breweries in 1999. The business has two clear beer breweries and five opaque beer (Chibuku) breweries around the country. Beer per capita consumption is seven litres.

Zambian Breweries (ZB) has traditionally sourced the majority of its malt requirements from Zimbabwe. However, recent events in that country led to unstable supply and ZB had to turn to alternative suppliers in Europe to assure business continuity. Since Zambia is landlocked and the nearest port approximately 2,000 km from the breweries, freight costs resulted in an approximate doubling of the landed cost of malt with a significant impact on profitability and inevitable logistical challenges.

Zambia has a well-developed agricultural sector with many large private and corporate commercial farms growing a variety of summer crops, whilst wheat has traditionally been grown under irrigation in the cool dry winter. The country is self-sufficient in wheat supply and there is excess irrigated land available for cultivation of an alternative crop. Farmers have been seeking an alternative crop in order to utilise this spare capacity and, when approached by Zambian Breweries, embraced the opportunity to grow barley.

In 2009 a trial was carried out consisting of 200 hectares split between four farms in two distinct agricultural areas – Lusaka and Mpongwe. Two varieties of barley that have been successfully grown in Zimbabwe for some years were selected and seed was obtained from Zimbabwe from Delta Corporation and Seedco. The season proved remarkably successful with an average yield of 6.33 tons per hectare.

In 2010 the first full commercial crop delivered around 12,000 tons of malting barley which effectively made Zambia self-sufficient in terms of barley supply for the first time ever. As there is currently no malting plant in Zambia this material is being shipped to Kwekwe in Zimbabwe and then returned to Zambia for brewing.

Following the 2010 harvest, Zambian Breweries had sufficient material for its own domestic consumption as well as a surplus which will be used as a buffer stock for future years or may be supplied to sister companies in neighbouring countries if required.

In 2011 exceptionally high price predictions for wheat crop led to a reduction in the acreage of barley planted. Nevertheless around 1,100 hectares were planted with an expected crop of around 9,000 tons of malting barley.

The 2012 crop is currently being planned, with a proposal to deliver around 20,000 tons of malting barley.

The success of the local barley programme in Zambia has demonstrated the country's potential to become a major centre for the production of high quality malting barley in the region. By moving away from imported raw materials and sourcing instead from local farmers, Zambian Breweries is not only able to better manage its only supply chain, but significantly increases its contribution to the Zambia's economy. Jobs have been created and supported and a valuable new cash crop introduced into the agriculture sector.

A full scale study has now been commissioned to examine the feasibility and viability of a maltings industry in Zambia.

Sorghum and Maize

Eagle Lager has been brewed in Zambia since 2003, targeting low income consumers with a high-quality, affordable beer brewed using locally-grown sorghum.

Chibuku, a traditional African beer, is brewed by National Breweries, a separate subsidiary of SABMiller. This uses maize as a principle ingredient requiring around 30,000 tons per annum, all of which is bought from local, small-scale farmers.

Case Study

Tanzania, Tanzania Breweries (TBL)

- Poverty: (% of population below national poverty line) 33.4% (2007)
- Agricultural employment: 8%
- Agriculture % of GDP: 29% (2009)
- Number of farmers involved: 500+
- Crop: barley, sorghum

Source: World Bank Data, CIA World Factbook²

SABMiller first became involved with Tanzania Breweries Ltd (TBL) in 1993, when the business was privatised. Its fourth and newest brewery was commissioned in 2010. Per capita consumption of beer in Tanzania is 7 litres per annum.

In Tanzania, there have historically been limitations to growing barley such as the lack of modern farming techniques, basic farming equipment and variable rainfall patterns. These challenges have led Tanzania Breweries (TBL) to establish its 'Project Saidiana' programme which aims to increase the local production of barley by providing support and education for smallholder farmers.

In 2010, TBL signed agreements with ten organised groups consisting of approximately 170 smallholder farmers from the Southern Highlands region – in total the company has signed contracts with over 500 farmers.

The company organises training and networking days for farmers from around the region, to enhance their agricultural capability through exhibitions of cultivation techniques and demonstrations from the company's agricultural experts. In addition, these events introduce the farmers to other agricultural stakeholders and financial institutions to ensure that they are aware of and have access to opportunities for microfinance.

The barley industry in Tanzania is still evolving, with farmers struggling to produce the 14,000 tonnes of barley required by TBL annually, to the required quality standards. However, the business aims to increase its locally-sourced barley each year and continues to invest in its farming programmes, providing funding, seed and assisting with machinery such as power tillers. The long term objective is to malt 100% locally including significant input from smallholder farmers.

Programmes such as Project Saidana are encouraged by the efforts of the Tanzanian government through initiatives including the Southern Agricultural Growth Corridor of Tanzania, a public-private partnership which aims to boost agricultural productivity in Tanzania and the wider region to the benefit of smallholder farmers and local communities.



² <https://www.cia.gov/library/publications/the-world-factbook/geos/tz.html>

