



## OPPORTUNITIES *for the* MAJORITY

# Small Farmers, Big Dreams: Creating Value at the Base of the Pyramid in Mexico

### PepsiCo Brings the Base of the Pyramid into its Supply Chains

In rural Mexico, small farmers tend to grow staple crops like beans and corn, and sell them only in their immediate communities. With little access to national supply chains or the working capital they need to expand their farms, they remain at subsistence levels. Meanwhile, Mexico is developing ever-higher rates of obesity and related health issues, leading the government to call for food companies to cut their use of saturated oils and trans-fats, and to implement public incentive plans to diversify the country's agricultural profile.

Sabritas, a leading Mexican snack foods producer owned by PepsiCo, has decided to take action. With support from the Opportunities for the Majority (OMJ) initiative and the local financial institution Agrofinanzas, it will scale a pilot program that incorporates small farmers into its sunflower supply chain. The new production of sunflower oil will reduce the company's dependence on expensive, unhealthy imported palm oil, while giving small farmers the chance to expand their crop output and enter the formal economy.

### Reaching Scale with Effective Business Models

Sabritas has already conducted two pilot programs to test sunflower cultivation in Mexico, supporting the conversion of 350 hectares of farmland. A key obstacle to scaling production proved to be the lack of working capital loans to support smaller producers. Agrofinanzas, a financial institution that specializes in working with the agro-industrial sector, will provide such loans to the farmers so they can purchase seeds and expand their production of sunflower crops.

The Inter-American Development Bank's (IDB's) Opportunities for the Majority initiative has been instrumental in helping Sabritas structure a market-based business model that will be sustainable in the long run. Thanks to the IDB, the project also has a sound financial structure. In creating a risk-sharing model, the IDB established a new alliance between Agrofinanzas and Sabritas to collectively provide the needed financial resources for the projects. Agrofinanzas will finance loans to producers; Sabritas will finance the costs related to supply chain management and will cover a portion of potential losses; and the IDB will provide a partial credit guarantee to further mitigate the underlying credit risk.

When the project reaches full scale, as many as 2,000 microloans will have been made and a new sunflower supply chain will be launched. In addition to increasing their income by selling their crops, the farmers will build up credit histories and be able to access other financial services, like insurance or loans for purchasing homes or for higher education.

### Added Benefits for Health and the Environment

Besides addressing concerns about saturated fats and their effects on health, the conversion of farmland for the production of sunflowers is also in alignment with another Mexican government priority: diversifying crops and reintroducing native crops whose production has fallen off in recent years.

"This project is a great example of the kind of base of the pyramid business model we are working to support and promote," said IDB project team leader Elizabeth Boggs Davidsen. "It will enable small producers to have access to otherwise unavailable financing to expand their production. We are pleased to play a role in helping small farmers and Sabritas scale up this program to address both the demand for more nutritional oils and the working capital needs of low-income farmers in rural Mexico."

The project is expected to serve as a model of how the private sector can align its operations to advance public policies while still making smart business decisions. This is a model that the IDB expects to replicate in other countries and industries.



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