

Export projects and local markets

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Scope of the paper

The author has 20 year experience in developing export oriented organic projects, starting in the time of the first organic bananas, coffee, tea and cotton to come on the European market.

Although he has experience in Central America and the Indian subcontinent, this paper is limited to experiences in West and East Africa. Unfortunately the author does not know much about the situation in South Africa where a local market is said to be rapidly developing.

Developing exports is a business

There are quite a number of export projects in development in East and West Africa, at the moment Agro Eco works with approximately 25 exporters in various stages. This is for example within the EPOPA¹ programme which is implemented in Uganda, Tanzania and as of 2003, Zambia, or the West African Fair Fruit project in Ghana and Burkina Faso, or an organic cotton project in Benin.

What is exported?

Exports from Africa is first of all about commodities, raw materials that are being made into final products somewhere else. Various exporters are into organic coffee, whether Arabica or Robusta. There is the cotton, sesame, peanuts group of products, there is cocoa, honey, cashew nuts. Frankly speaking, there is not much more, some tea perhaps but that is already there. Another product group is vanilla and various spices. That kind of leads to a second category, those of the processed or value added products. Traditional is the group of fresh, dried or further processed fruits, like dried and candied (sugared) fruits but also catering packed canned pineapple. Other products are frozen fish fillets, chilli sauce, instant coffee and retail packaged peanuts and cashews. Another group is the oils, although currently it is safflower oil only as the other oils do not look feasible as the local market prices are better then the unstable organic 'world market' prices. And then there is a category of high value, low volume products, like herbs, spices, cold pressed and distilled oils. If one refers to the local market one can ask oneself which of those products have a local market? It is basically the sesame, peanuts, honey and some dried fruits that have a local market, the other products are not consumed in the country.

Below, three types of export projects are described. They are all to a certain extend donor funded. That is a change away from the early days, when importers commissioned Agro Eco to develop organic variants of a certain product on their own cost. Since ten years donor funds are available to stimulate these export projects and very few importers/traders develop projects on their own steam. The involvement of the donors does mean that there is attention for the (sufficient and positive) impact on the rural population.

¹ Export Promotion of Organic Products from Africa, see also www.epopa.info

EPOPA

One particular programme is the EPOPA programme, funded by Sida in a cost sharing arrangement with currently 18 exporters. The programme is implemented by a consortium of Swedish consultancy Grolink and the Dutch based Agro Eco. It is indeed exporter based; the exporter employs field officers, pays for the certification, pays the farmers a substantial premium. EPOPA usually works with existing exporters who then develop an organic sideline to their existing export business. This way, EPOPA avoids problems with crop finance and a too steep learning curve when it comes to exporting. Within three years, the organic export premium should be able to pay for: the substantial premium to the farmers, the costs of a field organisation through which extension and the Internal Control System are implemented, the extra costs of organic storage and packaging, the certification cost and an extra profit for the exporter. This means that most projects are rather large scale to attain this economy of scale. All these projects are with smallholders, ranging from 100 (the canned pineapple) to 16.000 (cocoa) of them per project. What makes EPOPA differ from other programmes like GTZ ProTrade, CBI, SIPPO and ITC is the rather long time commitment to assist the exporter, from the field upwards throughout the chain, in some cases the supermarket shelf. There is an agreement with CBI to limit overlap and instead look for complementarities. There is some convergence with CTI activities as well.

To develop organic exports ...

The package of support includes the following services: feasibility study/business planning, management assistance, staff training, field/extension officer training in organic agriculture and extension methodologies, setting up demonstration gardens and other farmer mobilisation techniques, technical consultancy and agricultural improvements, seed money for farmer's inputs and for setting up of (shade) tree nurseries, development of secondary crops, new varieties and products, development and revision of Internal Control System, product quality management, conversion premium subsidy, (retail) product development, market surveys, matchmaking, follow-up on buyer contacts and/or sales, participation in organic trade shows, project presentations/brochures, costs sharing in early certification costs, assistance in obtaining import authorisations, certification to additional standards as required by the market (HACCP), advise on risk management. As one can see, quite a package of services that already existing exporters require. It shows that setting up an organic export project is not done overnight. Imagine what extra assistance it would require to add setting up farmer organisations to this, or working up a first time exporter. That would require substantial extra investments in time and money.

Flanking activities

Whereas 80% of the funds go to these export projects, the remainder is destined for so-called flanking activities. It was thought unbalanced not to pay attention to the development of an organic sector, it is bad to work on exports in isolation of what else happens in the country. Such flanking activities include the development of inspection and certification capacity and a training on organic sector development. There are also some funds to support the national development and herein funds can be allocated to support local marketing.

West African Fair Fruits²

This project aims to develop the export of 15.000 tons per year of sea-freighted organic fair trade, high quality bananas, pineapples and mangoes with melon, papaya and passion fruit as a side line. About ten different suppliers are involved in Ghana and Burkina Faso. These are co-operatives, an estate-outgrowers scheme, commercial farms and a plantation. Part of the project is to establish a modern cold chain and use fast and efficient banana boat logistics to get the product in time and in good condition in Europe. Whereas the bananas will be sold alongside the conventional bananas, the idea with the pineapple and mango is that it will replace the current conventional supplies. There is thus a sufficient volume of production which is not always sold in its entirety for organic and/or fair trade premium prices. The project is largely funded by EU Development. Agro Eco is contracted by a local NGO, CEDEP, that provides an Assistance and Development Unit alongside the commercial export company.

Ownership

Co-operative farmers and outgrowers own their own farm. Co-ownership/responsibility should also be worked out for the workers on the commercial farms and the plantation. They are likely to become shareholder or benefit otherwise from (extra) profits generated through their work. All Ghanaian and Burkinabé suppliers are member of a co-operative that owns 50% of the exporting company, whereas the importer AgroFair Europe owns the other 50%. In its turn, AgroFair Europe is 50% owned by all its suppliers of which the majority are South American. The other 50% are development agencies like Solidaridad in the Netherlands and Twin Trade in the UK. These have decision power but do not draw dividend from the company. This is an interesting model that allows the main stakeholders to have an insight, a say, a decision and a profit share in the business with their products.

Cotton, Benin

This is yet again another set-up. Here Agro Eco is contracted by the NGO Obepab³ to assist it in developing the production of organic cotton among 1.000-1.500 smallholders different parts of the country. This is financed through the Sustainable Development Treaty between the Netherlands and Benin, an outcome of the Rio conference.

Cotton is Benin's major export crop. Production has been intensified as much as possible like in the rest of West Africa. However, there is a crisis as pests have developed resistance to pesticides and soil degradation is evident. The entire cotton sector was a government affair. Under pressure from the World Bank this sector is being privatised which is causing some upheaval. Originally the established cotton sector viewed the organic initiative with a lot of suspicion, if not more.

A direct positive effect of the initiative was that particularly women farmers were aroused to go into organic cotton production. In the previous system where farmers would receive seeds, fertilisers and pesticides on credit, women were excluded because they did not own anything and thus did not have a collateral. For organic cotton growing no credits are needed and it is interesting to see that women have taken up this cash crop farming.

² For more information, search via www.agrofair.nl

³ Organisation Beninoise pour la Promotion de l'Agriculture Biologique

Farmer organisation

What became apparent is that the organic cotton could never be moved through the existing farmer organisations, the Groupements Villagois which could be described as a government enforced co-operative structure. Farmers had too many stories from bad record keeping to rampant corruption. It was thus necessary to set up new organic farmers' organisations. This is a process that takes time as one has to wait with a next step until the farmers are willing and ready to take it. Too often, farmer organisations are set up in an instant, with many problems as a result.

Manufacturing, marketing

The project runs parallel to a project to upgrade the existing textile industry in Benin and spin, weave/knit and manufacture 'sustainable' textiles in the country. This is done by a consortium of 4 Dutch textile companies under the name of the Timmermans consortium. Taking on the old state owned textile industry in Benin proved to be a tedious process. It is old equipment, old management, old debts and unrealistically high pricing. This caused for delays which meant that Obepab got stuck with a mountain of organic cotton, a role this NGO was not really prepared for. In the next phase (years 6-8), the production and marketing of the cotton is to be embedded in local organisations, of which the organic farmers' organisations are crucial, plus a ginnery and an alliance of Beninese textile industry.

Referring to the local market, quite surprisingly, the (Beninese) donor did not allow Obepab to work on the marketing of the other rotation crops. They found that the project was about cotton and the argument that the whole economy of organic cotton growing could be improved by marketing for example the already certified peanuts for a premium escaped them.

Local market

The first thought may be that what can be exported can also be used domestically. If one refers back to the classical exports from Africa, one can conclude that there are not too many export products for which there is a local market. In the case of East Africa it is sesame, peanuts and honey only. Transport prices are often horrendous and the sometimes high local prices are a threat to the business of the organic exporter.

Where do export initiatives interface with the local market/organic movement? That is with the people. There are very few people who know about or are into organics and the local scene is a valued hunting ground for exporters to find trainers, or someone who knows about organic pest controls, or knows already organic producers, etc. At the same time, the organic scene provides a good educational background for the field officers, it allows for farmer to farmer visits, etc.

Where they are certainly to meet is on the topic of inspection/certification. Although the exporters and the local market have different requirements they will find themselves when they want to identify local inspectors. The local market is of course a nice training ground for inspectors and an emerging certification body alike.

What is the local market?

There may be three outlets that constitute a local market. The first one are organic shops. These are usually NGO driven which means that they sell their members' products. Typically, such shops are commercially not viable without longer term donor support, because it is too much supply driven, the quality is not that good and NGOs are normally bad at commerce.

An outlet with a better potential is supermarkets, or a market stall close to a supermarket. These are operated by merchants and sell/react to what the consumers want. All over Anglophone Africa there is an expansion of usually South African supermarket chains like ShopRite although there are also some Lebanese or Indian owned supermarkets springing up. In Francophone Africa you see some PrixUnic and Leader (French) supermarkets. Whereas the dry products are imported, these supermarkets have a problem catering for the fresh produce, the fruits and vegetables. They thus develop local sourcing programmes. As ShopRite is into organics at home and it justifiably has some fears about pesticide lacing when it comes to local production it prefers organic supplies. It does not have to be certified, they can and will visit the producers themselves. Having said that, they usually work through intermediaries, people who bring them a whole range of products, every week. By the way, for those who wonder, the local market is there. The quantities that could be sold through such an outlet may be startling. When the right products are there, there is no shortage of consumers.

The quality requirements are very close to export requirements. The supermarket thus allows local farmers to hone their skills around the corner. However, this is easier said than done. Organic farms are often dispersed, causing high transport costs. Supermarkets request production throughout the year, a flexible ordering system, high product quality and nice packaging. They prefer some kind of a cold chain and efficient logistics to improve shelf life. Such an outlet thus requires a far higher form of organisation than the NGO shop where the organic farmer brings his honey, or not. It is rather challenging to organise the different NGOs, each running their own farmer groups.

Conclusions

There are various donor co-funded schemes to develop organic exports. Most of them have a benevolent character and a continuous improvement of the farmers' livelihood is guaranteed in one way or the other. There is as yet little movement on the local market where there is a lack of good product and of proper market(supplying) organisation. Invariably export initiatives start to co-operate as they draw on the same human resources to develop their thing, usually in the field of information, extension and inspection/certification. Let's see what happens in the coming ten years!

For more information: www.agroeco.nl and www.epopa.info