



EXPORT PROMOTION OF
ORGANIC PRODUCTS FROM AFRICA

Assuring the Viability of Value-Addition for Organic Exports from East Africa



March 2007



EPOPA (Export Promotion of Organic Products from Africa) is a development programme initiated by the Swedish International Development Cooperation Agency, SIDA, in 1997.

EPOPA offers African smallholder farmers opportunities for improved livelihoods through the development of organic products for export.

The programme has been evaluated twice and has been proven to be a valid instrument for African exporters desiring to improve their businesses and for thousands of farmers wanting to improve their livelihoods.

For more information about EPOPA visit: www.epopa.info



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Executive Summary

The EPOPA programme promotes export of organic agricultural products from Africa. The programme works with African exporters to promote export of both primary products (commodities) as well as those to which some value has been added through processing and packaging. These products have mainly targeted the European market, but markets in North America, Japan and the Middle East.

EPOPA commissioned a study to assess the progress and challenges of the value-addition projects in Uganda and Tanzania, with some comparison to other value-addition interventions promoted by other organisations in these countries. The study focused on the processing and packaging aspects of these projects, but also included other supply chain wide issues affected by or caused by these processing and packaging aspects. The study also looked at the managerial aspects of the projects that could help in maximising the benefits of value-addition projects for the exporters and the farmers.

The study reveals that the challenges facing exporters and rural smallholder farmers involved in these projects stem from the micro and macro business environment in which they operate, as well as the managerial constraints internal to their organisations – particularly, for the exporters.

The study found that there is strong demand for organic exports from Uganda and Tanzania as evidenced from the interest shown and orders given European buyers. The difficulties limiting the benefits of this potential trade taking place include difficulties in sourcing of packaging materials, processing ingredients, and in some cases not preparing well for the opportunity by addressing the requirements the opportunity puts on the exporter and the supply chain. These requirements range from understanding the process yields and process capacity requirements, developing and commercialising an export product in time, attaining quality and other certifications necessary to enter the market in time. The exporters target mostly the consumer organic market and thus anticipating and planning for changes in market and consumer preferences as well as the suitability of producer conditions is important. These challenges have contributed to the slow progress of the projects.

The study concludes that though these challenges are also reflected in other interventions supporting export of agricultural products from Africa, addressing these challenges affectively can go along way in enabling the export products from Uganda and Tanzania achieve better cost and product competitiveness, and deliver benefits to the exporters and the smallholder farmers supplying them. In other words, exports from Africa still have some comparative advantages in terms of being cost and product competitive. The challenge is to improve the management capacity of participating companies, leverage resources and goodwill of other stakeholders to systematically address institutional and other business environment aspects that affect specific sectors.

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1. Background

This report targets exporters, farmer groups, and other stakeholders involved in developing supply chains that serve certified organic export markets. It is the result of a study, commissioned by EPOPA, which was done with the view of assisting particularly the processor-exporters involved in value-addition, improve the performance of projects set up to take advantage of export opportunities in the organic market in Europe and elsewhere. The study was also to assist producers, processor and exporters, in EPOPA or otherwise, in deciding if value-addition is an interesting proposition for their situation, and if so, highlight which aspects to consider.

Six projects were covered in this study, covering six organic sub-sectors namely: Cashew Nuts, Ginger (in Syrup), Honey, Dried & Candied Fruits, Canned Fruit (Slices in Juice), and Vanilla. All projects were targeting organic export markets.

1.1 Study Methodology

Two consultants undertook the study. The six value-addition projects in this study were being implemented by EPOPA in Uganda and Tanzania. The study also covered similar organic value-addition interventions being implemented by other organizations in EPOPA countries and elsewhere.

The consultants met with EPOPA Country Managers, Project Leaders and the marketing team supporting the projects based in Europe. The consultants visited six processing facilities/company premises and had discussions with technical and management staff, as well as the proprietors of these businesses. Other stakeholders in the organic sector were also consulted in order to gain better understanding of the contexts of these sectors.

Specific aspects covered by the study included:

1. Appraisal of the current status of each project vis-à-vis set objectives and targets
2. Constraints and causes of any performance variations in the projects
3. Any lessons learned during project implementation by both EPOPA staff and the staff of Processor-Exporter companies
4. Possible corrective actions that will ensure better project performance

In order to draw lessons for EPOPA and other processors or exporting companies, the study findings were then evaluated on the basis of the following:

1. Whether the stakeholders of each project saw the same set of constraints or challenges facing the value-addition projects
2. Whether the current project support and the current input from the exporting company was appropriate to address these challenges or constraints and still attain agreed-to project objectives.
3. How best EPOPA can enhance the support it offers in these value-addition projects, so that future interventions have the best chance of success right from the start.

1.2 Limitations to the study

The study was designed to cover project experiences of value-addition along the entire project lifecycle. This included projects that were yet to export as well as those that had already done some exports. Most of the study findings are about projects where companies were yet to export. This is because out of the six companies covered in the study only one had exported. Thus, experience of companies with on-going export trading of value added products was not that much. Thus, the study findings dwell a lot on how best to establish a supply chain in a value-addition project and less on how best to benefit from organic export trading in a value-addition project.

Consequently, most findings are about that part of the supply chain between the farmers and the processor-exporter with little on the part between the processor-exporter and the final consumer. Therefore, whereas the study covers perhaps the most challenging part of value-addition in the region, it is by no means exhaustive.

Another limitation was that none of the processor-exporter companies under study were able to provide up-to-date transaction and cost information regarding project performance. This was due to three factors namely: (i) information about project operations was handled with that of the overall business operations, and therefore difficult to extract easily or accurately (ii) In two cases, project information had not been updated since the initial project feasibility studies were carried out with the EPOPA consultants. Some of the critical information like pricing had significantly changed compared to the situation at the time of the study, but had not been updated by the exporter. (iii) Some companies were not comfortable to offer full information regarding project progress. This occurred in two cases where clearly the companies had also invested their own resources in research to develop related products and equipment/processing upgrades that they considered to be outside the scope of the study and therefore proprietary information.

1.3 The EPOPA Programme

Since 1997, SIDA (Swedish International Development Co-operation Agency) has financed a programme to promote exports of organic products from Africa. Export Promotion of Organic Products from Africa (EPOPA) is a programme created by the Swedish International Development Agency (SIDA). The programme has projects present in Uganda and Tanzania.

EPOPA aims to give African smallholder farmers a better livelihood through developing international organic markets. The increase in agricultural production benefits rural communities, thus the farmers. Thousands of smallholder farmers get a premium price for their organic crop. Participating countries are given the opportunity to increase and diversify their exports, while at the same time the agricultural sector is exposed to innovative and environmentally sound farming techniques.

EPOPA works with different types of exporters like co-operative unions, local and expatriate entrepreneurs and subsidiaries of international trading houses. Most projects last for 3 years with participation of large groups of smallholders that are organized by the exporters, with assistance of EPOPA technical consultants.

In terms of products, EPOPA has concentrated on the traditional export products of a country, commodities like coffee, cotton, and cocoa, to make an organic variant on these raw materials. Besides this, EPOPA looks into:

- Developing second and third cash crops in the already organic areas, to improve incomes and to spread overhead costs like certification, extension etc.
- Developing value added products through processing, like canned pineapple, honey, dried fruits and herbs. Processing means more employment and that more money stays in the country of origin.
- Developing small volume but high value products, like essential oils, bark cloth and spices. High overland transport costs often inhibit the profitability of cash crops. In those cases, high value crops still have a chance.

EPOPA is also developing flanking activities like setting up of domestic certification bodies, providing training to a wider public, and linking up with national networks so as to provide a solid basis for the organic sectors in the countries.

2 Summary of study findings

Below is a summary of the study findings:

2.1 Common Constraints facing Organic Exports from the region

The organic industry is a relatively new one in the region, and is therefore an industry undergoing development. In this study, a number of constraints facing exporters of organic products from the East African region were identified. Some are specific to organic exports; others are common to most exporters of agro products from the region. These are highlighted below:

2.2.1 Constraints common to exporters of organic products

1. **Availability of organic inputs (ingredients) in the region is limited.** For inputs that have to be imported like organic sugar or enzymes the costs and time required seriously constrain the business' ability to deliver cost effectively and on time.
2. **In many cases, organic exporters get small order quantities that make it difficult to fill a whole container,** thus making single product shipments uneconomical. This occurs particularly for orders targeting retail consumer markets. In such cases, the exporter has to find additional organic products to fill a container. The exporter is often forced to consider other organic products with feasible export opportunities, thus being forced into new lines of business for which they may not have sufficiently prepared or indeed may not have enough interest in.
3. **Limited availability of organic raw material supplies, particularly in the early stages of the projects cause most of the processing facilities to operate below capacity.** In the study, most processing facilities were operating at 10 - 40% of their expected capacity of organic products either because supplies were still building up to the required volume for export, or because the processor-exporter had not finalised any orders from buyers, or packaging and transportation issues were still being worked out. For processing companies with relatively high fixed costs, capacity utilisation is a key determinant cost. In general, the longer it took to attain full production capacity, the more likely that project viability would be in doubt.
4. **Fragmented supply from (smallholder) farmers does not easily lend itself to gaining economies of scale.** This was demonstrated under the following circumstances: (i) Costs of transacting with farmers far away from the processing facility and also from each other accumulate, and for some companies in the study, exceeded budgets (ii) Improving communication efficiency within the chain so that logistics and post-harvest product handling and delivery minimises deterioration and waste of harvested produce takes time (iii) Maintaining product quality across these suppliers

can be a challenge, especially when the product is new to them and if product quality requirements are not consistent or yet to be standardised.

5. **Even when a supplier of organic ingredients or components is found, they are expensive and their delivery schedules unpredictable.** Most suppliers of secondary inputs identified were outside the countries where the exporters were located. Some were 'first time' suppliers of the exporter's requirements - particularly in packaging. The materials being ordered are often expensive and with considerable logistical challenges. The cause of this expense is that most suppliers often regarded orders from the exporters as one-off supply opportunities, and therefore order quantities placed by the exporter as not economical (in the short term). Often this being the first order, the supplier's costing incorporates some opportunity cost as the supplier-manufacturers usually have their usual orders to fulfil. In the end, the packaging materials like glass jars prove to be much more expensive than if processing would have taken place in the more industrialised consumer markets, where some economies of scale could be enjoyed by such manufacturers and processors. This can seriously undermine the competitiveness of otherwise interesting products.
6. **Organic exports are often a SMALL part of the exporter's business.** For a number of exporters, and in particular for companies under this study, organic exports and therefore EPOPA's intervention are a small percentage of the exporters' business. Often this leads to such value-addition projects receiving less priority in terms of resources and attention in comparison to other on-going business operations. However, it is recognised by processor-exporters that gaining access to organic markets of value-added products is an issue of strategic importance for their companies.

2.1.2 Constraints common to exporters of agro-products in general

1. **Ever-changing quality, safety and certification standards are a barrier** to entry that often requires development support in form of capacity building and financial support to enable the company access these markets. There are also cases where changes in taxation policies in the producer country have negatively affected cash flows from value-addition projects leading to eventual suspension of the projects.
2. **Changes in consumer markets during project life cycle, though inevitable, harm the Product Development/Innovation process.** Often the final buyer changes the packaging requirements, necessitating a transfer of new packaging specifications to the exporter or even changing a supplier altogether if the materials are very different such as aluminium to glass. In one of the cases, the supplier could only produce one component (glass jars) and not their lids. Changes in product features or process requirements are normal and can be frequent, making it difficult for companies to adjust and still have reasonable returns on investment. Rewards for innovations are therefore not guaranteed, limiting the company's willingness to respond to market demands. Other key changes identified by the study included

significant price changes and changes in taxation policies at a sub-sector level.

3. **Inadequate managerial and technical competences within exporting companies and their suppliers limit the benefits from the export opportunity while possibly increasing its cost.** It is also a challenge that some exporters cannot easily adapt to the work ethics (culture) of international buyers: the need for predictable supplies, consistent and clear communication, reliability, and quick and guaranteed responses.
4. **Many companies are undercapitalised** yet organic production and processing requires specialised know-how and in some cases technology, which call for investment. The cost of capital is high due to the perceived high risk on the part of lending institutions. At least one exporter had to buy machinery, originally not anticipated in the project budget, to cater for the packing that met organic export standards. The margins may appear high but where the volumes are low, risks not clear, and the cost of capital high, returns are often not enough to encourage firms to invest.
5. **Infrastructure constraints** mainly roads, electricity, and in some parts communication increase logistical challenges, reducing the ability of exporters to compete on at least two key aspects: timely and cost-efficient delivery. This reduces the reliability of supply, a critical aspect in export business.
6. Having **distant end-consumer markets makes new product development, including product adaptation, packaging design, and pricing difficult.** This is because without a physical presence in the consumer market, a common alternative of gaining market information is by developing strong and long-term relations with buyers or by developing their own market intelligence system through a network of contacts. Both of these are usually not available for exporters entering new markets, or if available, they are not easy to maintain over a long period of time.
7. **Margins appear attractive but the returns are low.** Even though on average, the feasibility studies done at the inception of these projects indicate margins of between 15 – 25% per annum, unless breakeven export volumes are achieved for each product, the returns being realised remain too low to attract more exporter investment in the projects. Yet more investment is required to push up volumes, develop new products to enable the necessary adaptation to changes in the market.

2.2 Problems constraining the performance of EPOPA Projects, and their causes

In general, all projects under this study had delays in achieving their year-to-year targets and the overall project objectives due to the following reasons:

1. The product development process was slow, causing projects to lose project time
2. Delays in establishing the required processing capacity, eventually delayed order fulfilment
3. Sourcing of key inputs like organic ingredients, packaging materials and equipment was difficult, and where possible, expensive
4. Management of the supply chains had some inefficiency, particularly, inventory management among processors and limiting of post-harvest losses
5. The projects were not fully utilising support provided by EPOPA

Below is an elaboration of some of the findings:

2.2.1 Product development process is slow

Delays in product development occurred in two cases, where the products introduced to the exporters were relatively new products in their existing line of products. In both cases, the basic raw materials from the farmers were already being produced though in small quantities and the process of organic certification was underway. In each case, the product required by the market had some new features, e.g. a fruit in syrup, or candied pineapple.

In both cases delays arose because the products did not meet the expectations of the market; in one case a product feature (being too sweet), and in the other case the main raw material used in making the product was not suitable for consumer tastes (too much fibre).

The period it took to develop most of the products for the export market, were periods of investment and adaptation to continuous changes in consumer and market preferences. With challenges in acquiring consistent and up-to-date consumer and market information, the process took too long and the cost turned out higher than expected.

2.2.2 Development of processing capacity delays order fulfillment

Some events and indicators identified during the study demonstrated how slow processing capacity was being developed in processor-exporter companies:

1. Testing of the processing (test run) often took place very close to the processing time for orders; there were some cases where the exporting companies were producing to fill an order, whose fulfilment is already trying to meet a deadline, on the very first test run.

2. Input-to-yield ratios were not confirmed in time to enable the company review the costing, the capacity of the processing line, and the feasibility of converting by-products into marketable products (co-products). For two companies this meant that they could not fully anticipate the amount of by-products that were to be produced during processing. Being unable to deal with the large volume of products in itself created a waste disposal problem for the processing facility. Learning about and improving the processing system to cope with these challenges cost project time, leading to project time overruns in these two companies.
3. Assessment of process requirements also delayed to take place. This implied that for some companies there were delays in establishing the key raw materials as well as the quantities required for a full processing capacity. It appeared to be difficult to ascertain if capacity planning of the processing facility could consistently match buyer requirements in volume and timing. For example ensuring that the right quantity and quality of material requirements e.g. sugar, packaging material, and the right variety of fresh produce – are known and could be procured in time. There were clear examples where this type of assessment delayed or was not considered at all in projects. This meant that capacity planning was not possible and monitoring of breakeven volumes and therefore profitability of the export opportunities difficult at best, or not possible.
4. Most of the processing facilities were operating at 10 – 40% of their expected capacity throughput of organic products – vis-à-vis set project targets. This was because in some cases supplies were still building up to the required volume for export as certified farmland also increased. In other cases, the processor-exporter could only buy little because orders from buyers were yet to be finalised, or packaging and transportation issues were still being worked out. Guaranteeing cost-effective operations was not possible, which worsened the risk of the projects
5. The lead-time that is required to produce a product is often a function of the amount of processing time required and the amount of time the materials under processing spend in between the different processing stages or machinery. For facilities handling different products, as is the case of four of the six exporters under this study, this implied areas of potential inefficiencies that were yet to be identified and quantified. This was particularly possible given that most produce, organic or non-organic was being harvested and processed within the same season, competing for processing space
6. Assessing the performance of suppliers of raw materials and equipment was also not being done in a manner that would aid rapid improvement or adjustments in operations. For example, though it was clear that supplies of inputs (ingredients) often delayed, an evaluation had not been done to understand how long such delays were and what impact a slight

improvement and further delay would have on the entire supply chain. This meant that supplier performance remained an unknown to some degree, making the order fulfilment unpredictable – with little insight about how best to overcome the issue. Such cases occurred in sourcing of packaging materials, organic ingredients, but also with supplies from farmers.

None of these identified issues is specific to an organic process. Most are a result of the human and physical capacity limitations of the processor-exporters. However, an organic process does impose certain rigorous controls in all operations of the chain. For the companies under this study some areas had not been fully tested against a full-scale operation, and were therefore potentially hidden constraint areas.

2.2.3 Difficulties in sourcing of process inputs and product packaging

All exporters mentioned having difficulties in sourcing material and equipment required by the value-addition opportunity. Below is a summary of the sourcing challenges:

1. Apart from the farmers, it was difficult to locate the right supplier of organic ingredients. Most suppliers identified were outside the countries where the exporters were located. Some were 'first time' suppliers of the exporters requirements – particularly in packaging.
2. Details of product specifications were in some cases difficult to pass on to the manufacturing supplier – again particularly for the packaging materials
3. The supplier normally requires some lead-time to make and send the ordered materials. However, the supplier did not always guarantee this delivery time. With limited options for sourcing, the exporters have tended to accommodate the timeframe of the supplier. This has implied reduced flexibility on the side of the exporter as to when processing should start, even when they should accept an order from the European buyers.
4. Often buyers changed the packaging requirements, necessitating a transfer of new packaging specifications to the supplier. Most of the exporters were producing for the retail market rather than the industrial markets like the catering and restaurant business. The retail market is more a 'moving target' when it comes to consumer trends and preferences than the industrial goods market that requires goods delivered in bulk.
5. Because of the need to order larger than necessary quantities dictated by the ingredient/component suppliers, the exporters in turn had to shoulder the related inventory costs. These include costs of holding the inventory and obsolescence costs resulting from the stored packaging material. One exporter had a stock of aluminium cans worth more than \$40,000 that were imported to meet an order, only for the buyer to change the packaging requirements and ask for glass bottles.

Other than the difficulty in sourcing secondary organic ingredients, which at the time of the study could only be sourced from suppliers outside the East African region, the other sourcing issues are not specific to organic exports.

2.2.4 Effective management of the supply chains is still lacking

Supply chain specific issues that also affected the performance of the projects were also identified. These are summarized below.

2.2.4.1 Weakness in managing total supply chain costs

In all the six projects studied, there was a general weakness of managing costs related to the supply chain. It was evident that cost increases had been registered ranging from higher costs of inputs, and therefore higher costs of production, to higher logistics and marketing costs (transportation and packaging costs). Because the supply chains were at different levels of development, the exporters, input suppliers and the farmers had not yet oriented themselves to cooperating and reducing overall costs and delays in the chain. Input suppliers and farmers were transferring all costs forward to exporters or exporters were transferring them backwards to farmers. This created pressure on the premium price promised by the projects to farmers and on the returns realizable by the exporter.

2.2.4.2 Supply chain performance indicators or measures not developed

Measures that enhance the performance of the overall chain were also noticeably missing in all project documents. These would help the respective partners gauge how well each individual partner is progressing as well as the whole chain. This may have been a result of most companies focusing mostly on their performance as individual entities rather than on the whole chain.

Examples of such measures include (i) how much of an order accepted from the buyer has been fulfilled, (ii) in what time this has order has been fulfilled (iii) the total cost of a product across the whole chain (iv) the time it takes for a chain to covert cash invested in raw materials to into cash paid by the buyer (cash-to-cash cycle) etc. Such measures would then become indicators in the project documents.

2.2.5 Support from EPOPA is not fully utilized

2.2.5.1 Clarity of roles between Project and Exporter's staff

The EPOPA program is designed in such a way that it provides guidance and technical expertise as well as some financial support on a cost-sharing basis. This implies that the exporting company has to take the Project Management roles in establishing the supply chain. In effect this implies that while EPOPA provides the guidance, monitoring, initiates corrective action, and to some degree may enforce accountability and responsibility for actions, the exporter's roles are largely in planning and executing day-to-day tasks, ensuring timely delivery and availability of the necessary resources. This is something that did not always appear apparent to the exporter's staff that tended to wait for leadership from EPOPA.

2.2.5.2 Dealing with project risks adequately

Risks to the project are inevitably risks to expected project benefits in the exporting company. In many instances, though the exporter was aware of the risks, there was

often lagged response as most exporters looked to EPOPA to enable them overcome these risks. This limited the exporter's capacity to leverage the support or environment created by the project to understand and develop capacity to deal with similar risks themselves.

2.3 Feasibility of exports from the region

2.3.1 Value addition experiences elsewhere

Two examples of value addition projects that seem to have progressed quite well are the MOOF organic oils in Kenya and Olam/Technoserve cashew nuts in Tanzania. In both cases, the buyer participated from the beginning of the project and in some instances, gave more impetus to the product development drive. In the case of cashew nuts, Olam the international commodity trader is actively participating in the processing and development of the supply chain¹. Another point worth noting in these examples is that they had taken sometime to reach the level of progress as recorded.

The common theme in the examples is that considerable investment goes into the development of the supply chain, on top of what goes into developing the processing aspect of the business and in developing the markets abroad. Where an experienced vertically integrated marketing company is involved they often take care of the marketing operations (and associated problems) and might be prepared to develop the supply chain in the exporting country. A lead company in the exporting country (in EPOPA case the exporter) has strong links with the marketing company abroad and both work together on product development and on the supply chain. EPOPA also involves buyers from the beginning of the project, however the experience has been that buyers tend to commit to the chain once the product has been fully developed. Further still, where commitment from the buyers is secured, they have tended to ask for exclusivity of supply from the processors. This has posed a challenge, as the programme prefers the exporter to be free to supply where the best opportunities are for the chain.

Thus the processor/exporter in the case of EPOPA projects needs to know how to balance the tendency by buyers to seek exclusive supply, against the benefits of securing as much support from them. In some cases it may be a choice of either or; in some it may not necessarily be. There may be different preferences among buyers or different products have different needs from buyers. The processor can also pursue an intensive relationship with a buyer, if it will allow them overcome recurrent barriers to entry in the market in the short term, and in turn give them some competitive advantage in the future.

In addition, developing the farmer groups and getting them to be responsive to the demands of the new venture needs to be given sufficient attention and this is where another entity might help, EPOPA plays a similar role to what Technoserve is doing

¹ Olam is both an importer and an exporter in this case. However, the fact that they chose to operate in this fashion also points to a need for stronger involvement in the chain, which in many ways guarantees good progress and a secure market.

in the examples given but may be disadvantaged by being a program (time bound) and not an organization (going concern), which potential partners may not be easily work with in ventures of this kind which take time to develop.

3 Realising Benefits from Value-Addition Opportunities

The organic market targets consumers who attach more value to the quality, origin, health and other ethics around the production, processing, and marketing of products. It is a market with high entry barriers, as it requires time and investment in order to acquire the necessary certifications, and needs on-going compliance and expenses to maintain the certification. It is a market quite different from the commodity markets in which most African exporters are operating.

3.1 Requirements for implementing a value addition export project

Below are some basic requirements for export business targeting European buyers of organic products:

1. *A minimum of 1 year of company (organisational) experience, and preferably more than 2 years of senior management capacity in export business.*
2. *Direct contact and relationship with at least two export market buyers as well as an understanding of the general buyer's requirements in the organic sub-sector. Good understanding of organic markets and trade is essential among senior managers and direct contact with buyers is important to sharpen this understanding.*
3. *An established and stable local, regional or export market on which the organic export business can be built. The local market is good for absorbing excess production, cushioning the company in lean times, helps keep supply chain contacts alive, and functioning whilst the orders are low or project development is still underway. Examples where this has been helpful are honey and canned fruit juices from the same raw material as the intended export product, which are not juices.*
4. *Stable and predictable positive cash flow or a sustainable financial base or arrangement to overcome initial investment and hurdles of the organic export business. The opportunity to export organic products can be fairly capital-intensive and sometimes unpredictable in terms of how much investment will be required particularly in product and process development. Stable cash flows are some kind of insurance that the required capital investments can be achieved, and the main business remains a going concern even though perhaps more financially strained. Exporters with weak cash flows or in sectors with weak cash flows should*

carefully evaluate the financial risks of such a venture and plan their financing accordingly.

5. *Understanding/or experience with logistics requirements* and the suitability as well as availability of logistics service providers – particularly those handling transportation, some level of storage or warehousing, and clearing and forwarding.
6. *Understanding of the legal and private standards regulating trade* in agricultural products; the health and safety requirements and standards – particularly HACCP, EUREPGAP for exporters targeting European retailers.
7. *Adequate and stable base of suppliers of organic raw materials* as well as identified feasible sources of packaging and machinery that meets the market and standard requirements. To build such a base, it is necessary to understand the local (supply side) sub-sector dynamics: e.g. trends, demand and supply cycles; local vs. world market prices; global supply situation; awareness of the effects of the local regulatory environment on the sub-sector and the export business.

3.2 Key success factors for an export business of agro-based value-added products

Value-added products provide an alternative, and often-specialised market with higher premiums. Value-added products are often products customised for a specific buyer or segment of a consumer market. For an exporter to compete successfully in such highly customised markets, a focus on some fundamental competitive factors is required, as suggested below:

1. *Targeting niche markets*: This will allow the exporting company to focus on a limited range of products, but probably grow the product lines or extensions in line with shifting consumer needs and preferences. This is in contrast to exporters targeting different product categories, which result in different lines of businesses, being a jack-of-all-trades, which is not appreciated by organic buyers.
2. *Delivering consistent quality to buyers, and gaining a reputation for this in the market*: this attracts other potential buyers and creates avenues for positioning the company well in the market as well as bargaining for better terms and possibly price premiums.
3. *Start with established products within the business* and converting these into organic products for the export market. Combining new product development with entry into a new export market moreover within a 3-year project timeframe has more challenges and hence risks, which not all processor-exporters can overcome.

4. *A strong and on-going relationship with buyer(s):* Often exporter-importer relationships tend to be transactional; i.e. they follow orders made and orders fulfilled, and from the point of view of the exporters, the relationship is often reactive (e.g. responding to an inquiry) rather than proactive (seeking together with the buyer opportunities for increasing sales or improvements). Communication 'blackouts' should be minimised if not eliminated completely. It is important that the buyer-exporter relationship develops beyond the transaction level to becoming more of a 'partnership' or a collaborative relationship, and that such a relationship should clearly be based on long term mutually beneficial transactions and targets. This would go a long way in enabling exporters, particularly those from sub-Saharan Africa, develop their capacity to supply competitive markets, as well as provide a basis on which to build a stable cash flow that will allow the exporting company meet increasing market requirements and growth requirements.
5. *Strong product development capability to match the changing demands of the niche markets:* This capability should be developed with direct collaboration of buyer(s), to minimise product failures or rejections, and increase the ability to innovate, as this is a requirement in such niche markets. This competency can only be developed over time, and incrementally within the exporter's company. Thus, this competency reinforces the necessity to have strong on-going buyer relationships.
6. *Strong supply chain management capability, with particular emphasis on working with smallholder farmers,* as well as other input/materials suppliers: The objective would be to lower total costs of the export product across that chain as well as increase the capacity of suppliers to adjust supply in response to demand from the buyers. This would help in reducing the disadvantages exporters are facing vis-à-vis the bigger suppliers that have economies of scale as well as lower freight costs. This however, requires strong and sustained orientation within the exporter's company as well as the other chain partners, who often have on and off business relationships. This capability also develops with time, and again reinforces the need for strong relations with buyers with the aim of having long-term mutually rewarding trade.
7. *The need to develop key measures of performance across the supply chain* so that a culture of performance is developed across the chain – from farmers through to the buyer (importer). This would assist in the orientation process of all the other members, and give confidence to the buyer about expected levels of performance. Such performance measures may focus on three or four parameters, e.g. reducing the total supply chain costs, reducing the time lost in between ordering and delivery of supplies among the chain partners, profitability or sales targets.
8. *Strong capability to obtain and use market intelligence:* This is to avoid incidence where an exporter or other partners in the chain act on

speculative information or invest in building productive capacity that will not recover the investment costs. This is particularly common in environments where sometimes the information flows are weak, the quality of information poor, and sources of information unreliable. Acting on limited and speculative information may also occur in companies that are strong on seeking market opportunities, and not equally prepared, or too slow, to utilise them. Acquiring good marketing intelligence implies having strong relations with buyers, with other chain partners, with other industry stakeholders – including competitors and non-commercial actors.

9. *Making the necessary financial provisions and investments* to gain and maintain the necessary health and safety standards as well as the certification and ethical requirements demanded by the consumers in European markets. Very few exporters seem to have internalised that for export, they will need to have quality assurance schemes with certifications of various sorts.

3.3 Other Success factors

The study was also able to identify other factors that are important, but which can be adopted depending on the capacity of the exporter, the suppliers, or the peculiar circumstances of the market, the product or the industry. These are listed below:

1. *Ensuring the export opportunity fits with the exporter's other lines of business.* This is to ensure that the export opportunity is not starved of resources at critical times. For example, ensuring that the overall cash flows of the businesses can sustain the development phase of a new export opportunity, that there is no understaffing of the new initiative that will create sub-optimal performance, and that senior management's attention and action will be adequate.
2. *Identifying the business requirements needed to succeed with the organic export opportunity.* Such requirements include:
 - a. The right personnel to start it off and those that will manage it in the long run; these need to have a mixture of technical and managerial expertise, as well as problem solving and communication skills
 - b. The fixed costs (investment, salaries etc) arising from the value-addition opportunity are added on to the business. This will enable the proper calculation of breakeven volumes of the new product and for the whole company, as well as plan for the right cash flows or financial policies that fit such an opportunity.
 - c. The systems and practices that need to be developed and training (skills enhancement and attitude change) of staff to enable the company meet quality, health, and safety certifications, as well as the overall competitiveness
 - d. The relationships that need to be developed and sustained within the industry with both commercial and non-commercial stakeholders, to increase chance of collaboration, acquiring the right

- market intelligence, and addressing industry wide constraints hampering trade development in the sector
- e. Starting and progressing with the right market information and the accurate market potential. This is achieved by ensuring that the market research done initially is thorough enough to support the investment and expectations of the company
3. *Making and documenting the business case of the export opportunity*: identifying the investment required, returns expected, risks associated with the opportunity and how they measure up against expected profit, and why this export opportunity is better than other alternatives the exporter should be considering. This also requires the exporting company to state the criteria that will be used to assess whether the export opportunity has been a success or not. This is to enable the senior managers rationalise and remain motivated on an on-going basis, right through the whole project life cycle.
 4. *Managing the export opportunity as a Business Project* by the company to distinguish it from other company operations and give the necessary resources and attention. This approach requires that on top of what has been highlighted above, the company sets up a basic project management structure drawn from staff within the company and other technical staff from outside the company as may be necessary. This structure should preferably have a manager or project responsible who has exclusive focus and responsibility for delivering the project success, as well as a distinct communication, reporting and decision making structure, and should be under the direct supervision of a senior manager or the Chief Executive.

3.4 Developing a supply chain organization from the export opportunity

A challenge identified during the study was that exporters did (or could) not focus on developing the entire supply chain beyond their interaction with the farmers, making the product and selling it. If they could however, it would be a forte for the company, obtaining considerable competitive advantages over local and other international suppliers.

3.4.1 Transforming the Value-addition Project into a supply chain organization

Because projects are time-bound interventions it is essential that during their duration the company focus on the transition the project intervention into a long-term going concern. Designing and implementing this transition should be part of the intervention and therefore incorporated at design stage. Sometimes the personnel in the project phase may be different from the personnel in the later stages when the new products are stable in the market. Some competencies are acquired in the course of implementing many activities many activities in the project phase. However, not all such competencies are resident in the export company, some being with the project implementing agencies like EPOPA, others

with consultants and so on. It is important that the exporter secures future operations by ensuring that such competencies are transferred to staff within the company, or trusted third parties.

While the project is underway, a formal record should be kept of all events, meetings, decisions, challenges and experiences and kept up to date throughout the project life cycle. Management would use this resource later to start another cycle once the current products have been established and are regular outputs from the company.

As a way of detailing steps for the transition, a formal transition of project staff or structure into three of the main functions of the company: finance, marketing, and operations may be done. This could be done in stages. In the first stage the company groups all the activities related to the supply chain under existing functions or personnel. In the second stage, appoint a senior manager within the company to oversee all the activities related to the supply chain and the export opportunity. In the third stage, a separate office or business unit may be created to manage all the activities and opportunities related to the supply chain and the transition of the key functions in the chain like input supplies, product and process development, and finances. This office may have full profit and loss reporting responsibility to the company as well as managing the export opportunity as a fairly independent unit.

3.4.1.1 Managing the supply chain activities with others

The exporting company may adopt an informal or semi-formal arrangement on how to handle activities with other chain partners.

In the informal set up, the main activities may be coordination of supply chain activities together with other stakeholders. In this coordination is achieved through cooperation and the use of agreements to ensure activities are done as agreed. The use of committees involving farmers, the exporting company and other development stakeholders to steer activities may be worthwhile. Alternatively, a third party organization like an NGO supporting the farmers can be made responsible for the supply of primary materials to say a factory gate.

The point is to ensure that support towards development of the supply chain properly transitions from the project towards either the exporter or a third party organization, in order not to lose the momentum, goodwill, experience and other related opportunities.

4 Maximising the benefits from development support

4.1 Understanding development support

Development support is often short term and can only address so much regarding sustainability of activities or operations. This is because being a time and funds constrained intervention, development support has to set limitations in terms of the scope of activities that can be undertaken. Development support also comes with its own set of objectives and expectations. A key aspect of these objectives may for example be how much of this support reaches as many people as possible (out reach). This interest of reaching as many beneficiaries as possible does not necessarily lend itself to fitting into the economics of the exporter's business. This is an adaptation that the exporter has to take on together with the support organization, in order to match the scale of outreach required by development and the economics of the business.

Another area that needs careful attention is the roles and responsibilities shared between the exporting company and the support organization during an intervention. Often, in order to move fast and achieve set project objectives, these roles are shared or taken over depending on which organization; the exporter or development agency most suited to take it up. However, all this is okay in as far as project implementation is concerned. Later, when the project closure process begins, these functions have to be taken over by the company, public institutions or another development organization. Without having clarified before the start of a project which roles each stakeholder is playing during implementation, it may be difficult to fully understand the capacity requirements needed of the exporting company to take over these roles or responsibilities. In order to enjoy the long-term returns of the export opportunity and recover any investments done, the exporting company has the responsibility to see that they can meet all key functions, responsibilities, and requirements by the end of the project. It is important to identify early enough what the commercial and development roles and responsibilities are, and ensuring that the more developmental roles are incorporated within the business or are sustainably taken over by another stakeholder. Not addressing this may jeopardise an otherwise good business.

4.2 Aligning development and business objectives

Business objectives may not necessarily be the objectives of a development organization in a project intervention. However, both organizations often have the same project goal, e.g. increase incomes for stakeholders or utilise an export opportunity. Worth noting is that the two organizations may have different outlook in terms of the focus of the interventions: development could be largely focused on rural smallholder farmers, who are the intended beneficiaries, while the exporter is focused on developing their own capacity. To ensure that both of these interests are

catered for, there is need to develop a set of objectives that will meet the interests of both organizations, and also enable them achieve the project goal. This is a key activity that is preferably done early in the project initiation stages and laid down in the project document or memorandum of understanding.

4.3 Need to refine project benefits and success criteria to chain stakeholders

Sometimes, because the project is initiated by a development organization and a business, other commercial stakeholder interests may not necessarily be explicitly addressed. In the case of projects that revolve around establishing supply chains, commercial stakeholders include all input suppliers, logistics service providers, financial and business service providers and others. For the supply chain to succeed and be sustainable, the benefits and risks have to be balanced out so that overall supply chain objectives like cost reduction, speed, and flexibility may be achieved. On top of stating the benefits of the supply chain to the exporter and to farmers, the exporter in particular has to further communicate the benefits other stakeholders will gain from participating. This may be assumed obvious, but may hinder a vital negotiation or a development stage. The exporter may also have to refine the stated benefits in form of an internal document stating the business case for engaging in the project, so that all key functions in the company buy into the project.

It is also important for the export company to define what project success means to them by having clear criteria. Project success for a development organization may constitute part of what constitutes project success for the company. For example, incomes for the farmers and the company may double, but for the company, attaining a market position or building on the company brand may also be important for the long term. This would help in reducing incidence of unmet expectations from the project.

5 Assuring success of value-addition projects

5.1 Dos and Don'ts for value-addition export projects

Based on the study done and a review of literature regarding experiences of exports involving value-addition, below are some activities that can enhance or limit success.

Dos	Don'ts
<ol style="list-style-type: none"> 1. Do own or co-opt initial market research to suit the company's information needs, and where possible follow up with a complimentary one close to the start of the project; update the research with a strong market intelligence system on an on-going basis 2. Have strong on-going relations with the buyers and intimate knowledge of the consumer needs, trends, or preferences; these two are irreplaceable. 3. Have the necessary certifications in time to ensure timely utilisation of the opportunity (return on investment), and to sustain buyer interest 4. Clarify on responsibility for decision-making and action with the company; prepare for delegation of authority and decision-making to enable project operations proceed with minimum time lost – during project implementation 5. Put resources aside or put in place an arrangement to support the development phases of the project; key resources include finances, personnel, and management time 6. Plan for the opportunity as a project to achieve quick and dependable results, but have long term plans to transform it into a full business operation 7. Have a business case for going into the project; ensure the responsibility for project success lies with the company 8. Develop success criteria for the project and monitor performance against this along the project lifecycle, to confirm benefits will materialise 9. Have long term stakeholder collaboration to ensure capacity to address recurring constraints e.g. roads, power etc at industry level is possible, and has stronger impact 	<ol style="list-style-type: none"> 1. Development support should not be perceived as being for free or a long term support; it should be used as if one pays for it, to achieve a goal within a limited time frame 2. Relations with key supply chain partners should not be left at transactional level; in the long term they may have to develop towards some form of 'partnership' 3. Project cost and time overruns should not be treated as an expected occurrence; they often indicate a key aspect of the project that could jeopardise project success. They should be interpreted in terms their effect on project feasibility and what new requirements they dictate to the project and the company 4. Do not let product development and process development processes consume the larger part of project time; otherwise consider project extension and the resultant implications, early enough 5. Do not confuse commercial roles and responsibilities with those of development; the commercial purposes have to be strongly present, or the investment may not bear fruit 6. During project implementation separate the role of guidance from that of the project manager; project leadership must reside up in the company hierarchy and not in a support organisation; project management role should be done by the company to build hands-on capacity to manage the export opportunity later 7. Do not underestimate the business requirements dictated by the export opportunity, which may lead to under - resourcing of the activities 8. Do not leave contingency planning to future events; this should be part of the project planning process earlier on

5.2 Checklist for ensuring success of value-addition projects

1. Market research that demonstrates export potential and its suitability to company ability and future prospects should be the first thing done and should be continued. There should be constant contact with the market, directly by the exporter.
2. Develop a full product concept and test it against potential buyers (at least two buyers by sending test samples, asking for actual product samples in the market, and using expert opinion. Confirm if:
 - a. The market potential still exists,
 - b. The business operation (model) as planned still holds
 - c. The assumptions made in the market research still hold e.g. desired product features are actually the same, the target market is still the same, the price range is still feasible
3. Complete the product development with a prototype from which process development will be based; confirm if:
 - a. Total development time still fits within the project time estimates
 - b. Total development costs still fit within the project cost estimates (budget)
 - c. The impact of product development in terms of cost and time on the business is as anticipated
 - d. The impact of prototype on labour, material and equipment availability, as a means to gauging the full process requirements once production moves to full capacity
 - e. The yield of the desired product and the proportion of by products is as anticipated, and establish procedures to handle by-products and any variations in outputs, profitably.
 - f. The potential for adjustment in processing in order to cater for changing demands from the market will be high; for example when the buyer changes packaging requirements.
 - g. The finances required are available, and their availability has an impact on overall costing and pricing of the product
 - h. The target market is still the same
 - i. The product features are still the same as desired by the target market
 - j. The supply chain has sufficient capacity to fulfill orders (per container) within a reasonable time and what the elasticity is to quickly supply additional orders when the product is a success.
4. Consider the first financing of the operations, in particular:
 - a. Which aspects are covered by development support, and which will be covered by the company, especially regarding market testing and processing
 - b. If suppliers will help in addressing any working capital constraints that may develop
 - c. Review or seek new financing or financing arrangements based on the experience gained so far
5. Carry out pilot processing operations, in particular to:

- a. Assess suitability of materials being supplied by farmers and other input suppliers as well as their uniformity. E.g. are bottle covers fitting
- b. Assess processing costs and skills requirements
- c. Assess investments that need to be made to improve the processing capacity
- d. Understand the potential reject percentages as well as the costs implications of this and the opportunity this may offer the company for example as by-products
- e. Determine the quality control requirements for both the process
- f. Determine the processing specifications, run time, and maintenance; these will give a good idea about the process capacity
- g. Determine the training needs of production staff, in case skills upgrade become inevitable

Early information about this particular stage can improve performance and cost estimates. It may also reveal new opportunities for sourcing materials and for cost reductions

6. Ensure that organic certification can be achieved at least 2 months before the first order is accepted
7. Complete market testing of the product e.g. at events like Biofach², by looking at:
 - a. Will the buyers really buy?
 - b. Is the product different or in anyway superior to other competing products
 - c. Is the price holding? Are the cost estimates valid?
 - d. Is the product meeting the expectations of the consumers and the buyer?
 - e. How should the estimates of market potential/share be reviewed? What of the target market?
 - f. Also take into account the impact of this information on the project plans and timing, as there may be considerable changes.
8. Start the production process, in particular looking at the following:
 - a. The outcome of the pilot processing matches the estimates of the cost price calculation e.g. the yield
 - b. The costs of producing a one-off or of a steady flow of the product match the cost price.
 - c. The time the processing takes and its impact on other business operations like sales, financing arrangements, purchases, packaging, and delivery requirements. Determine the realistic time of order fulfillment, from organization of supplies to arrival in Europe.
 - d. How to minimize rejections and waste
 - e. Understanding the necessary build up of finished stock and other inventory that will ensure smooth operations and on-time delivery
 - f. To check if project milestones are still valid

² This is the most important organic trade fair, taking place annually in Germany. See www.biofach.de

9. The first big sale or order fulfillment of the company, in particular:
 - a. Evaluating feedback from the buyer on product performance regarding quality, packaging, delivery, timing, and product features
 - b. How the product compares with competition at this scale of production (packaging, delivery, size of order etc)
 - c. Whether to alter how the chain partners are working
10. Check for any reaction from other input suppliers regarding any changes in the product offers or in the supply chain
11. Identify any big changes, trends in price, and whether the project is still feasible

5.3 Suggested decision support tool for producers considering value-addition

1. Confirm the long term demand for, and competitiveness of the product, or similar products to be exported, 2 – 3 years ahead
2. Confirm expected premiums on price and any factors likely to influence these premiums
3. Assess the costs requirements and confirm this against the price offered by the buyer; make sure all the potential bottlenecks that will hamper production and delivery are addressed in this costing
4. Do breakeven analyses for product and sales to determine the minimum production volume that will ensure survival of the venture
5. Confirm times frames required to attain certification and timing of achieving organic certification of farm land and full production; confirm if this fits within general or expected time-to-market vis-à-vis other competing suppliers in the industry and the overall project time frame.
6. Include all the identified bottlenecks in a list of potential risks of delivering to the exporter; rank the potential risks and draft some feasible mitigation strategies where possible
7. Assess the producer organization in terms of capacity to organise, negotiate, achieve consensus, trouble shoot, and certification requirements
8. Check for available institutional support to the producer organization or group beyond what is being offered by the development organisation. E.g. what can the exporter do, what can the government do
9. Understand the order handling process and scheduling from the final buyer, and what requirements this puts on farm production, timing, and quality requirements. Aspects like how the order will be communicated, contracting, sharing of order quantity within the producer organisation, and reporting on order fulfillment to the exporter need to be considered
10. Ensure enough time is given to acquire certification as well as other health and safety requirements, and that production undertaken before this has a reasonably profitable alternative market.
11. Ensure the necessary resources and services can be accessed during full scale production by most farmers in the producer group
12. Ensure discussions with the buyer are on-going regarding the suitability of produce and input supplies, transportation, communication, post-harvest

handling practices, and minimum fair price guarantees per season as well as the payment terms

13. Ensure that commitments of both producers and the importer are documented, transferred to a MoU or a contract with the buyer as appropriate.

6 Conclusion

Investing in organic value-addition ventures targeting export markets can be a worthwhile venture for both processor-exporters and smallholder farmers. However, it is not for all who would like to try. It requires considerable resources (money, time, human capital, and networks), which have to be invested upfront in order to qualify to enter a market. For companies located in the East Africa (or the wider sub-Saharan Africa), the macro business environment provides additional challenges that often require stimulating support from development and government as well as private sector collaboration, to overcome.

The nature of this investment (upfront investment with unpredictable market risk), as well as the characteristics of businesses located in the East African region that seek these opportunities (relatively small, constrained resources, without established presence in their target end-markets, often weak managerial capacity) necessitates a rigorous, unassuming, and almost relentless ability to adapt, strong managerial competence in decision making and execution of actions, as well as deep knowledge of the business, the sector in which the opportunity exists and the markets to be supplied. These are not capabilities many companies have.

These challenges appear strong, particularly for producer organisations. But these conditions also provide opportunities with good margins, and products with good comparative advantages for those who make it. The challenge is to maintain those margins and operate at volumes that make the extra effort and the risk worthwhile. This is the main challenge for the type of businesses in the region as well as the supply chain organisations in which they participate to serve export markets.

As has been demonstrated through numerous interventions in Africa and particularly in the East African region, success in entering and competing effectively in organic export markets is possible. Though experiences are still relatively few, and the organic sector in the region still in development, the study has identified specific areas in the field of value addition, which if addressed could go a long way in improving the chances of smallholder farmers and their respective supply chains succeed in competing for these global markets. This through interventions like those supported by EPOPA.

Development through organic trade

Since the early 1960s there has been a growing market in Europe, Japan and the USA for products grown in a sustainable manner and without the use of agro chemicals. The organic market has grown from US\$ 13 billion in 1998 to US\$ 25 billion in 2005. This is due to the increasing environmental concerns by the consumers in these developed countries. As such, they are willing to pay premium prices for certified organic products. Slowly but surely, governments, as well as development cooperatives, are recognising the contributions that organic agriculture can make to environmental, health, bio-diversity and food security issues.

The aforementioned situation made for an ideal opportunity for African countries to find premium export markets. Thus, the EPOPA programme – Export Promotion of Organic Products from Africa – was birthed by SIDA in 1997.

The first two phases of EPOPA-programme from 1997-2001 and from 2002-2004 proved to be successful. In 2004, more than 29,000 smallholders participated. It is encouraging to note that the first two projects initiated by EPOPA, involving another 30,000 farmers, are self-sustaining to this day.

The price that the farmers receive for their cash crops is 15 to 40 percent higher. Many farmers report a significant increase in productivity due to more intensive crop management measures. The farmers also produce their own food organically.

The farmers also appreciate the extra attention given to them by the extension workers and generally respond to that by caring more about farming.

The higher prices are not achieved by the organic qualification only but also by better quality products and in some cases, by more direct trading structures. In one project, the exporter is also on the fair trade coffee register. These three aspects together resulted in a 50 to 100 percent increase in income.

Read more about EPOPA at: www.epopa.info



EXPORT PROMOTION OF
ORGANIC PRODUCTS FROM AFRICA