

Entering the organic export market

A practical guide for farmers' organisations



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Agrodok 48

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Foreword

Global demand for organic products has been growing for more than ten years and farmers from developing countries can benefit from this niche market, which can offer premium prices. The EPOPA Programme (Export Promotion of Organic Products from Africa), which ran from 1997 to the end of 2008 in Tanzania and Uganda (and, for a while, in Zambia), aimed at increasing the income of farmers in these countries by linking them to the organic export market. At the end of the programme more than 100,000 smallholders were benefiting from participating in organic export projects. EPOPA was initiated and financed by the Swedish International Development Cooperation Agency, SIDA, and implemented by AgroEco Consultancy (the Netherlands) and Grolink (Sweden). All three authors of this Agrodok have several years experience working for the EPOPA Programme.

Agromisa is grateful that the experiences of EPOPA can be shared with others through this Agrodok. We hope that this Agrodok will help to spread the East African experience to other ACP countries, and that more small scale farmers and their organisations will become successful players in organic production and trade.

Special thanks go to Gijs Spoor of Zameen Organic, a pioneering farmer-owned marketing company for Fairtrade, organic and pesticide free cotton. Gijs provided us with information for one of the case studies, which illustrates many of the issues described in the text.

We thank everybody else, too numerous to mention, who has contributed to this publication.

Agromisa, January 2010

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1 Introduction

Organic production can offer different benefits. These can include: a better price for better quality and lower input costs; crop diversification; better natural resource management; conservation of biodiversity; improved soil fertility, and; fewer health risks for farmers and consumers. **Exporting organic products** can be attractive for farmers and their producer organisations; the specific market segments (niche markets) offer the opportunity to achieve better prices and acquire a more privileged market position.

It is tempting (and often misleading) to only look at the benefits of entering the organic niche markets. In order to avoid disappointments, it is necessary to prepare well and to have an understanding and knowledge of the key issues involved in these export markets.

1.1 The scope and focus of this guide

The aim of this Agrodok is to provide smallholder farmers' organisations and similar groups with the information that they need to decide whether organic export marketing activities might be right for them and what they need to do to become involved in these activities. This Agrodok provides the knowledge, information and links to resources to help you prepare yourself to start an organic export business. Supporting organisations, such as development NGOs, government departments and consultants, who are intermediates in developing organic chains will also benefit from this Agrodok, as will business people.

Not all agricultural produce is suitable for export. Traditional export crops include coffee, tea, cotton and sesame. There are also organic export markets for fresh produce, such as vegetables and fruits. New export products are being developed all the time, examples being flowers, medicinal and cosmetic products. For all of these products this Agrodok is useful.

Useful related publications to read are:

- **‘Marketing for small scale producers’** and **‘Starting a cooperative’**, published by Agromisa (www.agromisa.org) and CTA, the Technical Centre for Agricultural and Rural Cooperation ACP-EU (www.cta.int). An Agrodok on organic cultivation practices is currently in preparation and will complement this Agrodok.
- **‘Regulations, Standards and Certification for Agricultural Exports’** (2006), a practical manual published by CTA, EPOPA and FAO.
- **‘The Organic Business Guide’** (2010), published by IFOAM.

1.2 The structure of this guide

This guide describes the steps that have to be followed to prepare for entering the organic export market.

Chapter 1 –This chapter introduces some key issues that you need to be aware of before entering the organic export business.



Chapter 2 - The organic market: In general, farmers’ organisations will initiate export activities when their members are producing products which have a potential on the organic export market. The first step to take is to assess the organic market, to find out if there is a demand for the product and to know what the quality and entry requirements are for that market.

Chapter 3 - Organic production and certification:

The farmers next need to explore if their farms and production methods are organically certifiable. Organic products are produced in an environmentally friendly way that follows organic standards and are externally certified. When working with larger groups of smallholders, an Internal Control System has to be developed.



Chapter 4 - Feasibility and investments: The initiative must assess whether its business strategy will be feasible. Better ('premium') prices can be expected on the organic market, but there are also higher costs (e.g. certification). The business can only be sustainable if it makes a profit.



Chapter 5 - Developing the chain: An export business needs a chain of actors that links the producers with the consumers. Organic production is a long-term business and it is important to develop a value chain with committed actors, who will honour their responsibilities to sustain the chain and the certification process, which is the key to the organic market.



Chapter 6 - Marketing organic export: Marketing involves promotion, finding a buyer who will pay an acceptable price and exporting the produce to a market where there is demand. Specific knowledge and skills are required to do this successfully.

Chapter 7 - Planning, evaluation and management: Last, but not least, good management, including cycles of planning and evaluation, is a fundamental requirement for running a successful business. This chapter points out a few key management issues that are relevant to organic exports. It includes a check list on how to be successful in organic exports.



In the **Appendices** the reader can find:

- Internal Control System - requirements
- Price risk management
- Finance institutions
- Further reading
- Useful addresses
- Glossary

1.3 Issues to consider before starting

Entering the organic market is a business strategy

Starting an organic export business can involve making many changes in key areas of an organisation, such as marketing, administration, relations with farmers, etc. Organic exporting requires a commitment to working in an environmentally friendly way and to building a long term trading relationship. Many organic importers want to be assured that your organic business does more than just ‘abide by the rules’ but also want to see that you are an organisation that is ‘making a difference’.

Organising farmers

There are two reasons why farmers need to be organised to meet the requirements of export organic markets. First, export marketing requires relatively large volumes of produce, so many farmers need to be involved in the project. Secondly in order to be organic, they need to be certified and this is best done as a group. This requires an Internal Control System, which needs to be managed (see Section 3.3).

Export marketing

Farmers and their organisations have to make a realistic choice about getting involved with export marketing, which is a specialised business which requires capital, organised management, knowledge of the market (market contacts) and logistical capacities.

There are several options: here are three examples:

- Find an exporting company to do the exporting for the farmers’ organisation. This is appropriate when your organisation is primarily involved in production. The company can provide the experience, skills and logistics for the exporting. The exporting company can contract the farmers individually or sign a contract with the farmers’ organisation.
- Agree with a fellow farmers’ organisation, which is already exporting, to assist you or to take care of the marketing and exporting of your produce.

- Do the export marketing yourselves, taking the risks and covering the costs. It is advisable that your organisation already has a dedicated export department or manager and that you are sure that you have the necessary capacity within your organisation.

Export or domestic market?

Domestic and regional markets are usually much more accessible than export markets and should definitely be considered before starting with overseas exports. This is especially true for finished-products, which will face very strong competition in Western markets. For some products, domestic prices might be higher than export prices. It is then more sensible to compete for a position in the local market instead of exporting. Other aspects to consider are direct payment (cash), the shelf life of the product and less strict product and delivery requirements. A new company can learn and gain trading experience in the domestic and regional market, after which it can look into export marketing.

Certain products such as local vegetables and food crops (maize, yams, beans, etc), have no (or hardly any) significant organic export markets. In some places domestic organic markets are developing, which offer an opportunity to sell into a domestic or regional organic market.

Implications for management

Deciding for a strategy to enter a specific market segment (in this case organic) has implications for the management and activities of the organisation. It is beyond the scope of this manual to go into detail about all, including general, management issues. All chapters, on market knowledge, organic production and certification, feasibility and risks, building a value chain and export marketing, cover specific management issues that are important for organic businesses. Please read these carefully.

According to experienced exporters from Africa, first-class management is the most important factor for successful exporting: it is more important than achieving the highest market prices.

1.4 Other special products for specific market segments

Organic produce is one type of a special product for a specific niche market. There are other special agricultural products with specific market segments. These include:

- **Fairtrade** – ensures good social conditions for producers and workers, examples include Fairtrade tea from Kenya or Fairtrade mangoes from Burkina Faso. See also section 2.4.
- **Gourmet and speciality** – a product that is pure and of exceptional quality, such as pure Harrar coffee from Ethiopia or single origin Togo cocoa. Importing companies have their own quality standards to check if the product complies with gourmet quality.
- **Eco-friendly** – is produced in an environment friendly way, but agrochemicals are not completely forbidden. Eco-OK bananas certified by the Rainforest Alliance (RA) are one example. RA implements its own standards and auditing to guarantee the Eco-friendly quality.

2 The organic market

Demand for organic products has been growing steadily over the years. In reaction to this demand, organic production has also been increasing but the production capacity has not been sufficient to satisfy demand in recent years. Some traders and processors have had difficulties in finding reliable partners to provide sufficient and high quality organic products. Organic and other certified products generally are traded at a higher price. This premium is to compensate for the costs of certification and production. The premiums are market related and not fixed.

2.1 Market requirements

Organic consumers look for high-quality, healthy, environmentally friendly and socially responsible products. They are prepared to pay a higher price for products with these qualities.

High quality: Consumers buying in niche markets expect high quality. In a strict sense quality means ‘fit for use’, but in a more general sense it refers to the special or specific properties of a product: something that is above average. As organic certification requires compliance with standards, training of farmers and control of all the steps in the chain, organic certification provides a reasonable guarantee of good quality. Certified organic food processors often also have quality and food safety assurance systems.

Healthy: Consumers’ concern about health is a main driving force for the growth in demand for organic food. Many consumers wish to avoid eating food that contains the residues of pesticides, veterinary medicines or growth stimulants. Organic food does not contain these and certification is a guarantee of this. Many people also want to avoid artificial additives that are added to processed food, which are also absent from organic food.

Environmental aspects: Many consumers are concerned about environmental damage, such as the loss of forests, giving over large areas to monocultures and about animal welfare. Organic production methods and certification ensure that the environment is not damaged nor animals unnecessarily harmed. Organic production methods require active natural resource management and biodiversity conservation.

Socially responsible: Other consumers are concerned about the social aspects, also referred to as the fairness, of food production. Labour conditions (e.g. payment, safety, rights to unite) should meet acceptable standards and child labour should be avoided. These issues are increasingly being incorporated in organic standards.



Figure 1: In Europe and the USA organic sales are mostly through conventional supermarkets

2.2 Organic markets: an overview

Size and growth

Organic markets constitute only between 2% and 5% of the food markets in developed countries, which is why they are called niche markets. The United States, Germany and the United Kingdom are the biggest markets, but Sweden, Switzerland and Denmark have the highest consumption per head of the population. Japan's organic market is small for the size of its economy and imports can be difficult, although the Japanese market is good for certain products such as organic coffee and sesame.

Middle-income countries such as Mexico, Brazil, and South Africa are also seeing their organic markets grow. Rich Middle Eastern countries, such as the United Arab Emirates are also picking up on the organic trend.

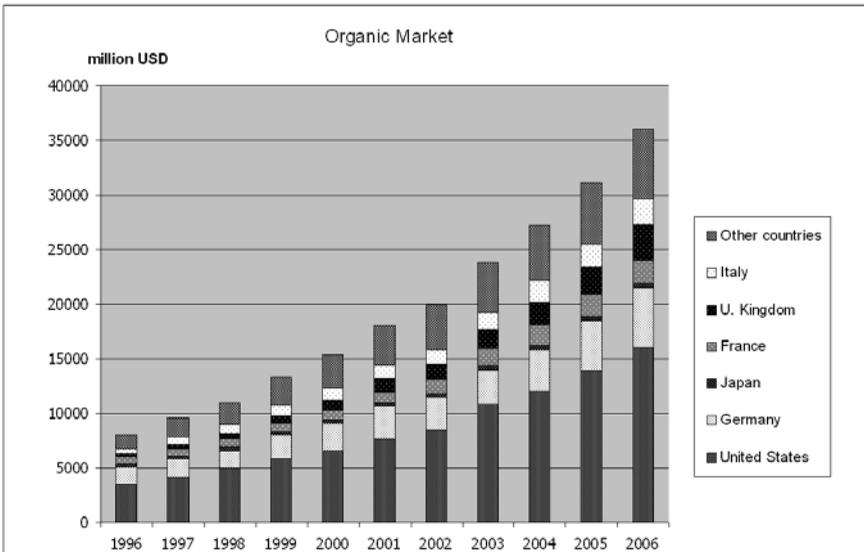


Figure 2: The development of the global retail organic market (Source: Grolink, 2006)

Many organic markets have had impressive growth figures, which is why many retailers, manufacturers and exporters wish to establish a strategic market position. The organic market has grown from US\$ 13 billion in 1998 to US\$ 25 billion in 2005.

Market structure

In the early days, organic producers in Europe used very specific outlets, such as:

- **On-farm sales** – Consumers come to the farm to buy;
- **Health-food stores** – Shops that only sell natural or organic products;
- **Box schemes** – Customers commit themselves to regularly (e.g. weekly) buying a box filled with a variety of organic products. This allows the producer to be sure of a market, especially of seasonal produce and to plan production.

Supermarkets

These days, organic sales are mostly through conventional supermarkets. In the United Kingdom and Sweden, which have few specialised organic shops, organic sales through supermarkets account for about 80 % of the volume of organic sales but in Germany and the Netherlands, it is about half. These differences also reflect the degree of interest taken in organic products by the supermarkets, which is relatively high in the United Kingdom, Sweden and Switzerland. The big supermarket chains are major buyers who usually work through a network of importers and packers who provide a product range. One effect of sales through supermarkets has been to raise quality requirements.

Imports and manufacturing

Most European importers that deal in organic products are located in Germany, the Netherlands, the United Kingdom and France. The organic-food industry produces a broad variety of products, mostly supplied through importers. Manufacturers processing raw agricultural materials into finished and packed organic products are located across

Europe. Most food manufacturers are not involved in importing but leave this to specialist importers.

Market shares

Market shares of different types of organic products can differ greatly. Fresh organic produce, including dairy, fruit, potatoes and other vegetables, generally have the highest shares, sometimes between 5% to 10% of the total sales of these products. Organic sales of these products is probably higher as people believe that these products are more exposed to pesticide residues and buy organic out of health concerns.

Quality and price differentiation

The organic consumer market is differentiated and at least three different strategies are used by producers and retailers:

- **Superior product quality** (gourmet), underlined by the organic certification and is at the top end of the market.
- **Original product development for acceptable prices** – the middle end of the market.
- **Copies of conventional products at a competitive price** – the low end of the market.

These strategies translate into different demands from traders and importers to suppliers. Importers supplying buyers focused on the first two strategies will be more concerned about quality. Traders supplying chains that focus on the lower end of the market will be more concerned about the price.

In general traders want organic products to be not more than 20% more expensive than their conventional counterparts. There is a longer-term trend towards lower prices which can even feed through to quality-focused importers who will be reluctant to pay significantly above the lower market price.

2.3 Food-safety and traceability

There is a strong tendency, particularly in the European and US markets, towards stricter food safety requirements.

Food safety

All operators in the food chain are required to have a Food Safety System in place that addresses food safety issues. Such systems enable the identification of food that is contaminated with germs, chemical residues, heavy metals, pesticides or any other harmful substance which might make it unsafe and unfit for use. There are well-known methodologies such as the *Hazard Analysis by Critical Control Points system* (HACCP) or ISO 9000 (see Box 1). While there are systems for external certification of food safety systems, these are not yet generally required for organic exports; however, this is likely to change in the near future since especially supermarkets demand the highest safety standards.

In the conventional fresh fruit and vegetable trade with Europe, Good Agricultural Practices (GlobalGAP) and Good Hygienic Practices (GHP) have become a condition for market entry (see Box 1). For products of animal origin (honey, fish, meat, etc.), additional legal hygiene requirements (based on EU regulations) are already in place and must be met. In particular, the establishments where these products are processed have to be inspected by the national food safety authorities, which have to be recognised by the EU.

Usually you can discuss and agree with the importing company or with the organic certifier, which Food Safety System is required and applicable for your export business.

More practical information on food safety and quality standards and methodologies is available in the manual 'Regulations, Standards and Certification for Agricultural Export', published in 2006 by CTA and FAO.

Box 1: Quality, food-safety and environmental standards

Global-GAP

Introduced by European retailers, GlobalGAP is a quality and food-safety programme for fresh produce (fruit, vegetables, fish, and meat). The majority of European supermarkets now require their suppliers of fresh produce to have this certification and it is increasingly demanded in the USA. Although not all organic foods are sold through supermarkets, this requirement is increasingly being applied to organic fresh fruit and vegetables (see www.globalgap.org).

ISO 9001

ISO 9000 (www.iso.org) is a quality management system that is widely used by companies all over the world. It is not a product quality standard, but requires that processes are in place that ensure due diligence.

HACCP

All EU food processors need, by law, to have a HACCP (Hazard Analysis by Critical Control Points) system in place. This starts from an analysis of food-safety hazards within the production process, after which control points and measures are designed to prevent such hazards occurring.

ISO 22000

The new Food Quality Management Standard ISO 22000 is an integration of HACCP and ISO 9001. It is generally not necessary to be certified to this standard, but it can give a competitive advantage.

Implementing these standards can be a very useful way to improve the internal management of a food company, even without certification. External certification is a useful way of promoting the credibility of a company and improving the awareness of staff.

Traceability

A traceability system provides the ability to track any food, feed or food-producing animal through all the stages of its production, processing and distribution. In recent years traceability has been adopted as the way of identifying the origin of a contamination or a product failure at the end of the chain. It enables the distributor or authorities to recall any product that turns out to be unsafe or unfit for use.

Since January 2005 all food products imported into the EU need to be traceable and have a system of traceability. This requirement is limited to recording the origin of the raw material and the destination of the

products sold and the links between them. If every actor follows these minimum requirements products can be traced back to their origin on a step by step basis. The USA also requires traceability to be in place and has its own regulations. See the section 'Further reading' for website addresses that contain more information.

Traceability and organic trade

Organic certification already requires each actor to record product information. Farmers and buyers are committed to a long-term relationship, bound by organic certification. This means that there is already a structure for sharing and passing on information along the chain and the actors already know, and communicate with each other. This structure is an advantage for starting a traceability system.

2.4 Fairtrade certification

Fairtrade is a fast growing niche market and a social standard that aims to improve the working conditions and welfare of small-scale producers and plantation workers. There is a growing market for products that are jointly Fairtrade and organically certified. These products are guaranteed to be pesticide free, environmentally friendly and produced in a socially responsibly manner. Examples include coffee and tea.



Figure 3: Fairtrade label

Fairtrade companies pay a guaranteed minimum price to producers, plus an extra allowance called the 'Fairtrade premium' - which producer organisations must use for organisational strengthening and community development.

Fairtrade has two differing sets of goals. For production in hired labour situations, the primary aim is to improve the conditions for the workers. For smallholder farmers it is to provide them with a fair price for their produce.

Producer associations must comply with certain standards to obtain certification. For example associations or cooperatives must function in a democratic manner. For plantations, there are a number of requirements relating to working conditions and the treatment of workers. These relate to issues such as: freedom of association and collective bargaining; workers' housing and sanitation; and their health and safety. They also prohibit child and forced labour. There are also requirements to enhance environmental protection.

At present Fairtrade certification covers some nineteen product groups, listed below:

- Small-scale producers: bananas, cane sugar, cocoa, coffee, dried fruits, fresh fruit and vegetables, herbs and spices, honey, juice, nuts and oil seeds, quinoa, rice, seed cotton, tea and wine.
- Hired labour situations: bananas, cut flowers, fresh fruit, juices, ornamental plants, tea and wine.

The Fairtrade Labelling Organizations International (FLO) is the worldwide umbrella organisation for Fairtrade standard setting and certification. Their website is www.fairtrade.net.

Organic certifiers and ethical trade or social standards

Some organic certifiers have developed social standards and/or ethical trade standards, which are applied in addition to the organic standards. Certifiers have different approaches, e.g.:

- Naturland (Germany) has included social standards as part of the organic certification.
- Soil Association (UK) will certify according to ethical trade standards if the client wishes to use the ethical trade label.

3 Organic farming and certification

There are several definitions of organic agriculture. Many people think that organic means ‘produced without any chemical inputs’. However, many traditional forms of agriculture are chemical-free but not necessarily organic, as they do not follow ecological management principles. Equally, organic is not solely dependent on certification. In local settings, where customers know, trust and can visit the organic producer, there is an understanding between the two about what organic quality means.

In more distant organic markets, particularly international ones, the customers and producers don’t meet; and this is where external (third party) certification comes in, providing a guarantee to the customers that the produce complies with organic standards. This chapter firstly describes the principals of organic agriculture, and then certification.

3.1 Principles and practices

Organic agriculture is based on certain principles, which are described below. The baseline definition for organic crops is that they are grown in sustainable farming systems and without the use of chemical pesticides and artificial fertilisers. After harvest any form of contamination is avoided and, if they are to be processed, the use of artificial food additives is avoided. The minimum definition for animals is that they were reared without the routine use of antibiotics, growth hormones and with access to pastures. Organic produce can not contain or come from genetically modified organisms.

Organic agriculture looks at the total farming system, rather than a single crop. Its key principles are: recycling nutrients, conserving soil fertility, promoting biodiversity and natural balance. Organic farming involves active management of the whole farm, where the farmer is constantly observing, learning and experimenting.

Recycling of nutrients

Nutrient recycling is a central practice of organic farming which reduces the need for external inputs. Examples are:

- Crop residues are fed to the cattle or composted.
- Cattle dung is used to fertilise crops.

Burning crop residues is prohibited in organic farming as it wastes nutrients and organic matter.

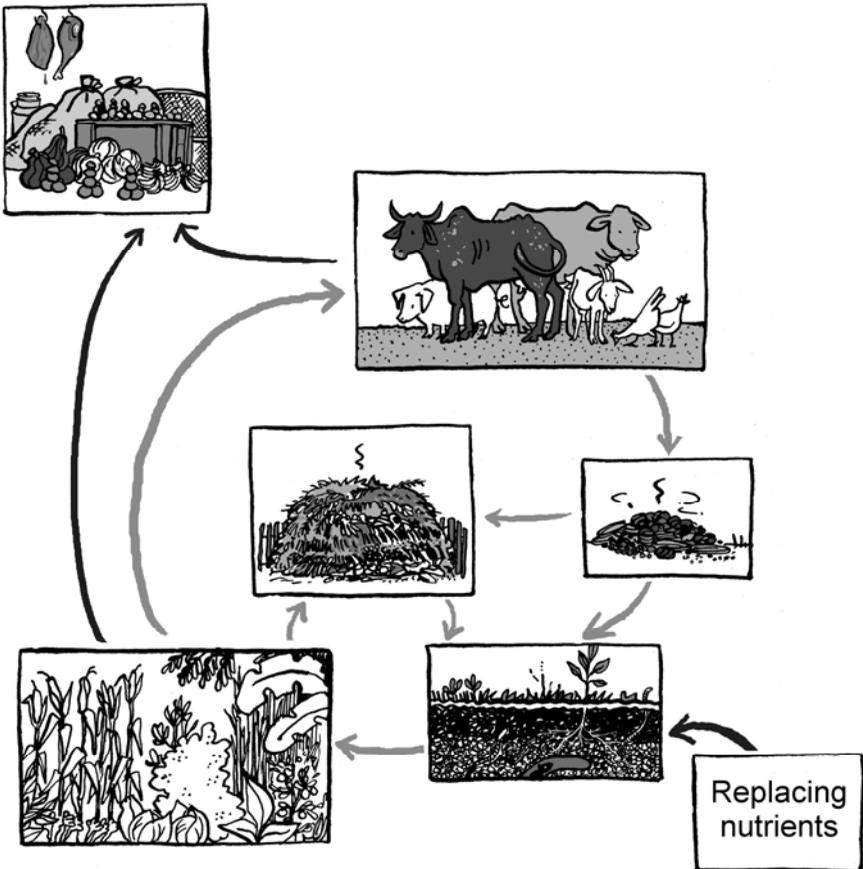


Figure 4: The recycling of nutrients in organic farming

Replacing nutrients

The harvesting of crops takes nutrients out of the farm system. Conventional agriculture uses artificial fertilisers to replace these nutrients. Organic farming uses other methods to replace and build-up nutrient levels (see Figure 4).

Green manuring – Legumes absorb nitrogen from the air and store it in their roots (nodules). Ploughing legumes into the soil when they are still green is beneficial for the soil, increasing nitrogen content and organic matter. Growing legumes for harvesting (e.g. beans) mixed with other crops or in rotation is not optimal but still beneficial for the soil. There are also legumes that are specially grown for soil improvement, including: Dolychos, Mucuna and Sunn hemp.

Rock phosphate – Many tropical soils are short of phosphate. Rock phosphate is a natural mineral. Organic agriculture permits the use of this mineral to improve fertility of the soils.

Planting trees or agro-forestry – Trees function as ‘nutrient pumps’, through their deep roots they pull up nutrients from deep in the soil and these become available to the crops through leaves falling and decaying. This is the basis of agro-forestry systems. Trees also provide other benefits, help stabilise the soil, increase water retention and provide habitats for natural enemies.

Manure from another farm – Animal manure can be imported from another farm. The certifier has to approve this and this will depend on how the animals have been bred and what kind of feed they received. Some organic farmers invite pastoralists to graze cattle on their fields after the harvest has been collected and this has a similar effect.

Composting with external inputs – It is possible to set up a unit to compost materials from outside the farm: e.g. reeds or water weeds from a river or lake, leaves from trees (hedges, woodlands), manure from a cattle or chicken farm, vegetable waste from a food-processing unit, etc. The certifier has to grant permission to use these materials, and will require information on the source of the materials.

Commercially available organic fertilisers – There are companies producing and marketing organic fertilisers. The certifier has to approve the use of these.

Conservation of soil fertility

Fertile soil is the basis of a good organic farm. *Organic matter* or humus is an important part of the soil which retains nutrients and water, gives structure to the soil and provides a living space for soil organisms, which ensure the availability of nutrients.

In organic farms soils are protected and soil fertility is maintained by:

- **Mulching** – to protect the soil from drying out, control erosion, add organic matter and suppress weed growth.
- **Erosion control methods** – to prevent fertile soil being washed or blown away.
- **Cover crops, green manure** – to control erosion, fertilise the soil and control weeds.
- **Natural fertilisers** - cattle manure, liquid manures, oilcakes and husks improve soil fertility

Diversity of plants, trees and animals

Ecosystems contain a diversity of plants, trees and animals in the same area. Together they make optimum use of the available resources: space, light, water and nutrients. In organic farms diversity can be achieved by practicing *mixed cropping*, *crop rotation* and *agroforestry*. Animals are an important part of the system because they eat organic materials that humans cannot eat, provide manure and can be an important source of food and income for the family.

Natural balance

Natural balance means that the interactions between plants, trees, animals, insects and micro-organisms create a stable system. Pests and diseases have less chance to cause serious damage in a balanced system, because of the presence of natural enemies.

An organic farmer can stimulate natural balance by creating diversity and the right micro-climate (through, for example, mixed cropping, planting trees and cover crops), which increases interactions among the living organisms.

Coffee production in a balanced system

Coffee is originally a forest plant and it grows best in a shaded, humid environment, with its roots in a soil which is covered by forest litter and humus. In such an environment the coffee plant is healthy and strong and less susceptible to diseases and pests. The shaded, humid environment provides habitat for natural enemies to control potentially damaging insects. These natural enemies include frogs and lizards which hide in the litter, birds that hide in the trees and spiders or predator insects that live in the bushes and trees. A coffee farm with shade trees and mulching mimics these naturally beneficial conditions. The coffee plants will produce better and the harvested coffee will be of better quality. Organic certification specifies that coffee growers must plant shade trees and practice mulching.

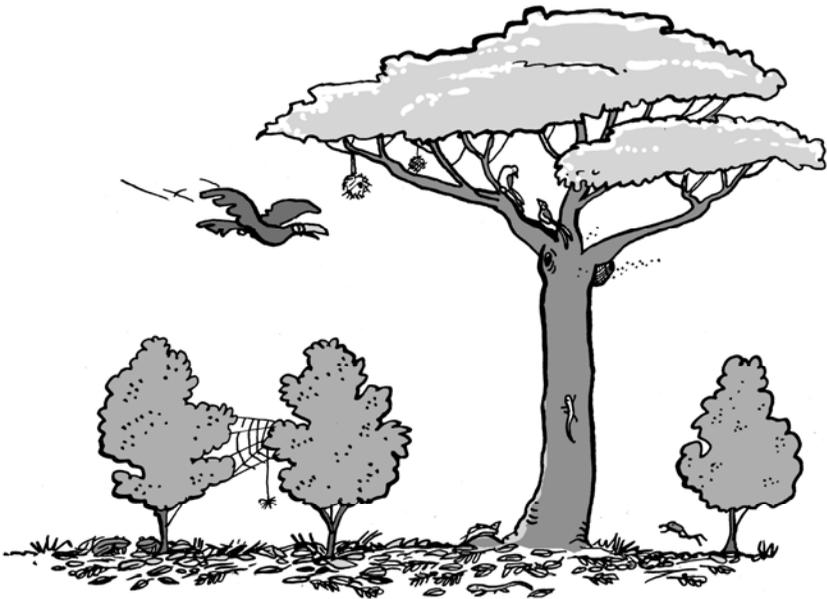


Figure 5: Coffee grows best in a shaded, humid environment, with a soil covered by forest litter providing habitat to natural enemies

However, a serious outbreak of pests or disease may still occur. Keen observation can identify the risk of such outbreaks reaching a critical threshold. In the worst cases these outbreaks can be controlled by the use of natural pesticides (provided they are permitted by the certifier). See the Section ‘Further reading’ for some resources on natural pesticides.

For more information about organic production you can contact your local organic movement or the International Federation of Organic Agriculture Movements (IFOAM) at www.ifoam.org. See the Section ‘Useful addresses’ for more resource addresses.

3.2 Organic certification

Organic certification (external certification) is required in order to access distant and international organic markets. This is done on the basis of organic standards. In the major organic export markets of the EU, the USA and Japan, organic certification is legally regulated. This means that the certifier, the certification process and the products all have to comply with minimum legal standards.

In the EU the legal standard is set by the EU, and inspection and certification is carried out by private certifiers. Many European countries have one or more private certification bodies, which have their own set of (more specific or detailed) standards. These are based on the EU minimum legal standard but might include some extra requirements.

In the US the National Organic Program (NOP) develops, implements, and administers the national production, handling, and labelling standards for organic agricultural products. The NOP also accredits certifying agents (foreign and domestic) who inspect organic production and handling operations to certify that they meet USDA (United States Department of Agriculture) standards.

Converting to organic

Farmers who wish to engage in organic exporting need to go through a conversion period in order to achieve organic certification. When production is already ‘organic by default’ (i.e. no agro-chemicals have been used in the last 3 years), conversion can usually be achieved in just one year (for export to the EU). The certifying body will monitor the situation in the first year although the products will not yet be certified as organic and won’t fetch a premium price. Usually the conversion period can start from the date that the farmers registered and signed an agreement committing themselves to following organic farming regulations. The precise requirements can vary between different certifiers and this will need to be discussed with your certifying body.

In places where agrochemicals have been, or are being, used or practices occur which are not allowed in organic farming, the conversion period will be three years. The certifier sets out a conversion plan for each farm, which needs to be followed. It is important to make early contact with the certifier to know the actual approach towards conversion and the specific requirements.



Figure 6: Farm inspection

3.3 Group certification: the Internal Control System

For farmers' organisations with many small-scale farmers, obtaining certification is a complicated process, as it involves inspecting many farms. In this case certification can be achieved through **group certification**. Group certification is a special form of certification that limits the costs of inspection for farmer's organisations or larger groups of small holder farmers contracted by an exporter. An Internal Control System (ICS) is used to guarantee the same level of control as individual certification. This involves the group itself taking responsibility for ensuring the organic integrity of the products and the production process, through internal monitoring. The external certifier will check the Internal Control System and inspect a sample of the farms before issuing a certificate.

The Internal Control System

An Internal Control System (ICS) enables a group of growers to ensure that all the registered farmers comply with the organic production standards. It avoids/prevents the need for individual inspection of each small-holder by the external certification body, which would be very inefficient and expensive. An ICS involves setting out clearly defined procedures (documented in the ICS manual) and the recording and filing of relevant information. This documented system is evaluated annually by the external certification body, which mainly evaluates how well and efficiently the Internal Control System is working. As part of this process a sample of farmers will be externally inspected.

The ICS arranges for the registration and annual internal inspection of all farms, provides a list of all farmers in the group and manages a buying system. It provides a protocol for dealing with problems and arranges for training the staff and farmers. See Appendix 1 for a detailed overview of the requirements for establishing and running an ICS. Every growers' group needs to tailor these general requirements to meet its own unique situation.

The Internal Control System (ICS) can be managed (or operated) by either the producer organisation or by the exporter. The ICS operator is the certificate holder and has to employ internal inspectors and maintain an ICS office where all the required documents are kept available for inspection.

In principle only small farmers can be members of the group covered by a group ICS. Larger farms can also belong to the group but must be inspected annually by the external inspection body. The certification body will decide on the threshold for this. Processors and exporters can be part of the structure of the group but have to be inspected annually by the external inspection body.

External certification

External certification of an ICS will involve inspecting the functioning of the ICS and obtaining detailed insights into the relevant business processes. This involves providing the inspectors with extensive information and may often require specific follow-ups according to the recommendations of the certifier. The organic certificate is issued for just one year, and the farmers' organisation will be reviewed every year to see if the conditions are still being met. If there are problems or reasons for suspicion, additional inspections may be carried out during the year. All this means that the process needs to be transparent.

Organic certification is a time-consuming process. Managing your relationship with the organic certifier is similar to managing customer relations. This means that the organic certifier should be involved in a project as soon as possible, since it takes time to build up the relationship and to implement the certifier's requirements and recommendations. Building trust with the certifier and creating a good working relationship will also make the inspection process easier.

Choosing an organic certifier

The choice of an organic certifier depends on the markets, channels and customers that you have decided to focus on.

- Often the importer has a specific certifier he wants to work with.
- A certain certifier might already be active in your country or region, costs might be reduced (through for example sharing travel costs) by working with a certifier that visits other local or regional organic producers.
- There might be a local certification body with existing links with certifiers from abroad.
- Some certifiers are not accredited (‘accepted by the competent authorities’) to certify to standards in some countries.
- In some markets, it may be advisable to also use a specific certification logo (though this may involve paying a licence fee).
- If you plan to address different markets, you will need a certification body which is accepted by the various authorities and importers.

In addition to the primary concern of the acceptability of a certifier in your target markets, other important aspects in choosing a certifier are:

- transparency, efficiency and credibility of the certification process
- service attitude and types of services offered
- total costs involved on obtaining certification (which will be more than the cost of an inspection visit).



Figure 7: Some examples of organic labels

See the Section ‘Useful addresses’ for some organic certifiers active in ACP countries.

4 Feasibility and work capital



Figure 8: It is advisable to do a feasibility study and risk analysis

Before going into a business venture, it is advisable to do a feasibility study and risk analysis to find out if it is likely to be profitable. These two analyses are essential aspects of developing a business plan. You will also need to assess what capital will be needed to cover the necessary investments and certain risks. If you are making an application for a grant or loan to a donor or a source of private finance they will expect to see such calculations. Also they are important preparatory step for the business, forcing you to think through all issues that are likely to arise when running the business. In doing a feasibility calculation, you should look at the first 3 to 5 years. It is quite common for a business not to make a profit in the first year and it may well make a loss. In the second year it might break even and in the third year it might start to be profitable.

In developing countries the business environment can be very unpredictable, with possibly insecure supplies of inputs or instabilities in government regulations, taxes, exchange or interest rates. These factors can influence the business and so should be included in the feasibility study. Use the study as an initial guide but regularly up to date it to adjust for changes (including in prices, which often change).

Expertise

It is advisable to look for a knowledgeable person to help prepare the feasibility calculation.

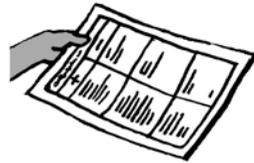
Business tool

A well designed spreadsheet makes it possible to use the calculations as a business tool to see where risks and opportunities are. For example, you can check:

- What will happen if the produce collected is only 70% of the estimation?
- What will happen if you hire extra staff and increase salary costs?
- Where do you make the most extra profit: by increasing quantity or quality (higher price)?

4.1 Feasibility

This section gives an overview of the type of costs that can be expected in the organic trade. Some of these costs are specific to an organic business (e.g. handling the produce separately) and others are common for all export businesses.



The overview of costs below is provisional and should only be used as guidance. The exact costs will depend very much on the type of produce, the set up of the company, etc. Check your own business step by step to analyse all the costs.

1. What is the demand in the market?

First make a realistic estimate of the quantity (tonnes) of product that can be absorbed by the organic market. It is advisable to invite an external expert to estimate the likely market demand. If you have already

a good link with an importer, you can ask him/her what (s)he anticipates buying.

2. How much can you supply?

How much is, or could be, produced by your farmers? Be aware that if there is a large supply (or many farmers), you need to look at the quantity that your organisation could handle, especially at the start. It is very easy and tempting to overestimate this! It is wise to start with a smaller quantity, build up experience and keep your risks low in the first years. Base the feasibility calculation on a quantity which is around 60% of the expected quantity, in order to allow for overestimations of capacity and unforeseen problems or losses.

Base your feasibility calculations on the lowest of estimates above: (i.e. either the demand or supply). When demand is higher than production, it is tempting to promise a supply that will meet this demand and assume that farmers will increase their production. This is very risky. Farmers will wait to see proof that the promised market actually exists and might not just follow your recommendations to increase production. Secondly if you make a promise to an importer and then cannot fulfil it, this will set your business relationship off to a bad start. Better to offer less than demanded and fulfil your promise.

3. What is the price for the product in the organic market?

It might not be easy to find a reliable indication of prices. Importers are often afraid to mention prices since these can differ, depending on quality of the product, season and the global supply or trends. Other exporters do not like to tell the prices that they get, as they are afraid that might be undercut by their competition.

You can get ideas about prices by hiring an external expert to do a market study, searching the web, talking to several importers or visiting trade fairs.

4. What are the costs of field organisation?

Running an Internal Control System costs money. The costs that need to be considered include:

- Payment of field staff and their facilities, such as transport, phones, etc
- Salary for an ICS manager (or part of a salary if that person is already working in the organisation and ICS management will be part of his/her responsibilities),
- Field office and furniture/equipment. Costs of establishment, rent and maintenance
- Stationery and photocopies for documenting the inspections and other activities
- Costs for training staff and farmers

5. What are the costs of buying and handling?

If the organic business is to be run side by side with a conventional business, extra expenditure will be incurred as the organic produce will need to be handled separately from conventional produce. There will be requirements from the certifier, depending on the product.

The costs of buying and handling can include:

- Premium for organic
- Extra (separate) stores for organic produce and cleaning these stores
- Separate transport and cleaning the trucks before loading organic produce
- Clean collection bags for farmers; produce can't be collected in old bags which have been used for conventional crops.
- Clean bags/boxes for graded and sorted produce
- Extra time (payment) for the buyers, as organic buying times are separate from conventional buying times.

6. What are the costs of processing?

If organic produce is processed somewhere where conventional produce is also processed, there needs to be separate storage facilities and the machinery will have to be cleaned before starting processing the

organic produce. Packing materials (for export) have to be new and clean. These costs will be in addition to the normal processing costs.

7. What are the certification costs?

Certification is a cost. Certifiers usually invoice a lump-sum for the actual certification, with an estimate of the number of days that the inspectors will need to carry out the inspection.

As the host organisation you will be responsible for the costs for transport, overnight stays and food for the inspector. While preparing the project you can ask for an estimate of costs from the certifier.

8. What are the exporting costs?

Exporting costs include:

- Transport costs to the harbour. Organic produce needs to be separately transported from non-organic produce.
- Handling, if the produce has to be stored in the harbour it needs separate storage.
- There are export taxes and probably other charges for agents.

9. How much will you receive and what will be your income?

You have to find an indication of the price that you can realistically expect to fetch for your product (see also Section 6.2). You then can calculate the prospective income. Knowing the costs, that you have calculated from the sections above, and taking in account other costs (e.g. fixed costs and depreciation of assets), you can calculate the estimated profit.

As mentioned before, it is quite common that a new business will not be profitable in the first, or even the second year.

Note: Importers pay either a FOB price or a CIF price. FOB and CIF indicate which part of the costs of transportation is paid by which party (see Glossary).

Table 1: Some common additional benefits and costs associated with an organic export business

Area	Benefits	Costs
Marketing	Higher sales prices ('organic premium')	Additional marketing costs due to limited volumes, different requirements, and separate channels
	Higher sales price due to improved quality (quality differential)*	
	Increased sales volume due to additional market	Lower quality differential if the specific product quality is not well rewarded in the organic niche (a problem for producers with very high or very low quality)
	For starting exporters: easier market access	
Internal monitoring and external inspection	Possible savings due to increased monitoring	Cost of external inspection and certification
Technological requirements		Cost of internal control system (ICS)
		Cost of separate processing and technical limitations
Building a stable supply chain with smallholders	Possible savings due to increased control and no intermediaries	Increased cost of raw materials due to farmer premium and higher quality demands
		Not possible to buy from other farmers if own farmers fail to supply

4.2 Investment capital and trade finance

In the start up phase of a business you will need capital to cover the investments and the costs in the first year(s) of business. You will need to invest even though the business is not yet running efficiently and will generate little or no income. You should not underestimate the amount of capital that you will need.



Trade finance

An exporter will generally need to pre-finance the production and export costs, yet often has to wait a long time before receiving payment for the exported produce. This can be particularly problematic for start-up enterprises and smaller export companies. Only occasionally will an importer assist with financing the trading costs. From the fea-

sibility calculation you can make an estimate of the finance you will need to start up your business.

Example: Pre-financing coffee exports

The cost of getting a container of organic coffee on board a ship might be US\$ 40,000; the exporter has to invest that amount and also continue buying and processing for future exports. While waiting for the importer to pay, he will also need to continue to pay the staff and cover other running costs. Exporters can often find themselves in a situation where they run short of capital and cannot buy any more produce because they are waiting for payment for products that they have already exported.

Letter of credit

One way to shorten the waiting time for payment is for the exporter to request a Letter of Credit (LC) from the importer. An LC is often used to cover the risk of exporting freight with a high value, but some importers may agree to use the LC to allow the exporter to receive payment before the goods have arrived. A LC is issued by importer's bank, at the request of the importer. It is then sent to the exporter's bank, who informs the exporter that (s)he can dispatch the goods. When the exporter presents the relevant documents to the bank, including the Bill of Lading, a commercial invoice and proof that the freight is insured during transit, the importer's bank transfers money to the exporter's bank. It should be understood that a Bill of Lading is not a guarantee for payment unless the exporter has fulfilled all the conditions laid down in the LC.

Credits for trade finance

There are several ways to obtain credit or working capital:

- Local commercial banks can provide trade finance, but their interest rates might be high.
- Certain donor organisations have programmes that provide trade finance at below market interest rates, sometimes working in conjunction with a commercial bank
- Some international institutes also have programmes to provide loans at below market rates.

However it is not always easy to qualify to obtain these below market rate loans, especially for start-up enterprises. Usually there are strict requirements to be fulfilled, which may include proving that you have already run a profitable business for a couple of years. This of course is impossible for a start-up business. Appendix 3 shows some institutes that have schemes for lending money.

4.3 Risk analysis and risk management

As part of the business planning process it is important to carry out a risk analysis. This is a technique to identify and assess factors that may jeopardise the success of your project or the goal you want to achieve (establishing an organic export business). You need to identify the factors that pose a risk to your business venture, the probability of them occurring and the costs or complications that this might cause.

In food exports there are many factors that pose risks, some of which are listed below:

- insufficient raw materials (through crop damage and loss, or through farmers selling to other buyers)
- poor transport networks and facilities
- product damage or contamination during transport, storage, or processing
- lack of essential, organically permitted, inputs (e.g. packing materials)
- lack of trained labour (e.g. internal inspectors or an ICS manager)
- tax increases
- market closure, lack of buyers
- buyer bankruptcy or fraud; no payment

Managing the risks

Managing risks means you look at what you can do to prevent or reduce the probability of a risk occurring and examine what countermeasures you can put in place to successfully deal with the problems that each risk will give rise to. Finally, you should ensure that you have the financial reserves to survive smaller risks (e.g. a crop getting

wet during transport leading to a loss of quality or additional drying costs) and/or a plan for dealing with larger problems, such as a major failure of the crop.

A risk is defined by the probability of the risk factor occurring in relation to the constraint it will cause. A frequently occurring factor that will cause little damage, e.g. side selling by farmers, can be dealt with by daily management. Rarely occurring risks that would have a devastating effect (such as an earthquake in an area not prone to earthquakes) should not be given much priority, as the probability of them occurring is small and your ability to plan for them will be limited.

It is important to prepare for risks that occur ‘sometimes’ (and often unpredictably) and which cause significant problems, such as a total crop failure due to drought. This involves being aware of how much damage (cost) it would do to your business, and by planning how to deal with that damage (cost).

Table 2: Example of simple risk analysis

What is the hazard/risk	How often will it occur (estimate)	What to do to prevent or reduce the probability	What to do to check	Countermeasure
Organic crop is contaminated during transport, as lorries are also used for non-organic produce	Every harvesting season	Agree with drivers that they clean the lorry thoroughly before transporting organic produce	Buying officer checks the lorry.	Buying officer does not allow a dirty lorry to transport the organic crop.

Logistical difficulties for African exporters

African exporters face major challenges in internal transport from the field to the ship. The state of the infrastructure and the quality of services are generally weak. This makes export services less reliable, and means more time between buying and selling goods (and therefore more exposure to price risk and capital costs) and the need to dedicate more management time to logistical issues.

5 Developing the chain

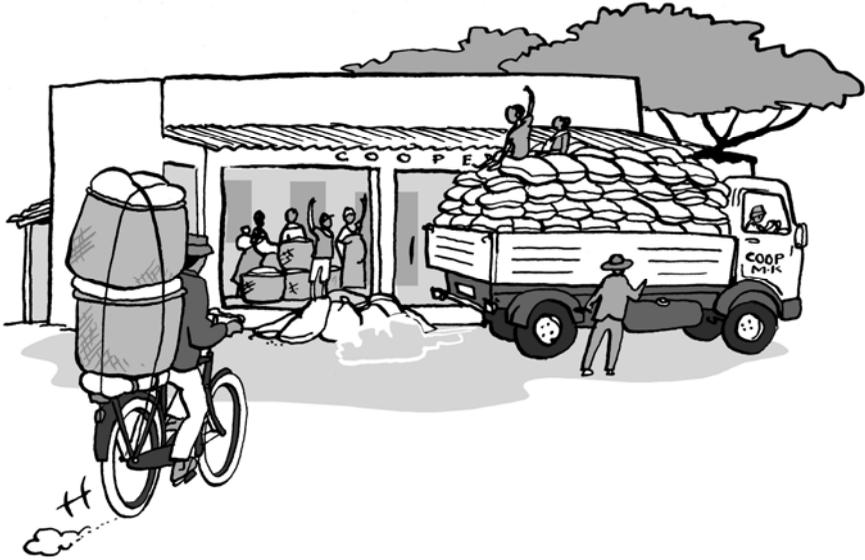


Figure 9: Supply of organic products

To access the organic market you have to develop a supply chain. The actors (up to the importer) need to be identified before the business can take off. All actors have specific roles and responsibilities. They may be supported by intermediate organisations such as NGOs, extension services or providers of business development services. This chapter only looks at the role and responsibilities of the farmers and farmers' organisations (who are responsible for exporting).

Within organic product supply chains, there is need for the actors to work together and recognise the importance of working towards a long term relationship. The actors depend on each other in providing and passing on information required for certification. Those looking for a long term trading relationship do not seek to maximise short term profit (often by exploiting others) but to fairly share added value and generate long term profits (this can be called a value chain).

Different ways of trading

Trading is often understood as something similar to what happens at auctions and commodity exchanges: the simple buying and selling of goods. Buying and selling, however, is only one face of trading. It is certainly not the situation of most exporters of organic products. These exporters try to build a stable value chain for the longer term, by investing in the relationships with their suppliers and incorporating mechanisms to guarantee quality, quantity, timeliness, and price. The key word is *investing*: time, money, and your reputation. This is why organic trading involves a long-term commitment. Most importers and manufacturers operate in the same way, aiming to build long-term relationships with reliable suppliers.

The actors in the chain and their responsibilities

The actors involved in the chain prior to exporting are: (1) the farmers who produce, (2) the farmers' organisation or exporting company who buy, bulk and grade the product and (3) the exporter who markets and exports the produce. After export the importer takes charge of the goods, usually distributing them to other traders, such as the processing industry, or to retailers, who sell to the end consumers.

5.1 Farmers, their roles and responsibilities

Farmers are responsible for producing and supplying an agreed quantity of a product of an agreed quality to the buyer (these terms will be set out in a contract).

- Experience teaches that farmers might occasionally sell to another buyer offering a higher price, especially when prices are fluctuating, rather than to the contracted buyer. It can take farmers some time to come to trust and be **loyal to their contracted buyer**.
- The farmers are responsible for **complying with organic** standards so that the produce can be certified. This will include a period of conversion (see Section 3.2) when farmers need to comply with organic standards even though the produce cannot yet be sold as certified organic. This can be a barrier for farmers to convert to organic methods. It can be helpful if the buyer will carry part of that burden in the first year.

- Farmers will generally need to be **part of a farmers' group** which will jointly participate in a group certification system (see section 3.3), administered either by the farmers' organisation or by the exporting company. This system requires that farmers are visited and/or inspected regularly and that they receive training to develop and improve their (organic) farming techniques. Farmers need to be willing to receive field staff and/or inspectors on their farms, to join training sessions and follow the advice of ICS staff.
- At the start of a new initiative it is likely that some farmers will be keen to join and that others will be slow to join. It is important to **attract innovative farmers**, who are motivated to adopt new practices and committed to complying with organic standards.
- **Geographical proximity** can also be an advantage as the farmers can then encourage each other. Proximity also makes it easier to visit and inspect participating farmers as part of the ICS. In areas where there is a high level of use of agrochemicals, this also reduces the risk of drift contamination from non-organic neighbouring farms. When the organic production area has this type of risk the inspection for certification will be more intensive and consequently more expensive.
- Typically, farmers who did not join in the first year might become motivated when they see their fellow farmers receiving training and a premium price for their produce. This may lead to higher levels of recruitment in the scheme but can also lead to **a risk of infiltration** (non-organic farmers trying to sell their produce as organic). Leaders of farmers' organisations need to be vigilant to prevent this and to manage any tensions between organic and non-organic members of a pre-existing organisation.

Farmers selling directly to the exporter or to a farmers' organisation

Farmers in an organic chain can sell their produce in one of two ways, either directly to an exporter or to their organisation. Selling to middle men is not allowed as an organic chain needs to be transparent with long-term contracts and investments; neither of which can be provided by middle men.

Farmers as contract farmers or out-growers

Farmers can sell directly to an exporting company as an individually contracted farmer or as an out-grower. In such a case the exporting company will be the certificate holder (i.e. the organic certificate will be in the exporter's name) and the company will take responsibility for running the Internal Control System. The contracts cover issues such as services, supply agreements and responsibilities.



This method of contract farming is useful in a situation where there is no farmers' organisation, or it lacks the experience and skills to run its own ICS. It can be a start up model which later evolves into a chain in which the farmers have more control (as described below).

Farmers selling to or through their own organisation

When farmers are organised in their own organisation they deliver to their organisation, which takes care of collection, bulking, grading and sorting the product and quality control. The farmers' organisation then sells to an exporting company or exports by itself. In such cases the farmers' organisation is usually the certificate holder, responsible for running the ICS and providing training to the farmers.



There are several advantages for farmers who sell their produce through a farmers' organisation:

- the farmers have a better position in negotiating with the exporter,
- they can fetch a better price as the organisation adds value by bulking, sorting and grading.

In this case individual farmers need to have a contract with their organisation and commit to the agreements in the contract (see comments on contracts in the above section).

Generally farmers in such an arrangement are expected to display more loyalty and only sell to the organisation, which is the sole buyer. These arrangements require a close relationship of trust between the organisation's leaders and its members and perseverance on the part of both. All the members should agree with and support the strategy of their organisation and be committed to comply with the requirements.

5.2 Farmers' organisations, their roles and responsibilities

Farmers can benefit greatly from having a producer organisation, if the organisation is democratic and has transparent structures and accountability is practised. Regular meetings should be held and farmers motivated to participate.

If the organisation is the certificate holder it will need to have a legal status.

Communication and trust

Organic production for export requires a trusting relationship between the leaders of an organisation and the organic members. There are also expectations which include: i) organic farmers expect to receive a higher price whatever the situation; ii) the farmers expecting 'central' to buy their products every year and 'central' expecting the farmers to deliver every year.

There are also risks: if an organic farmer who is closely related to a leader, violates the organic standards, it might be difficult to exclude this person from the certified group, even though (s)he is putting the whole group at risk. Farmers might also sell to others (side selling) when there are better prices on offer or when they are struggling to meet higher quality requirements; a signed contract won't prevent this from happening. Farmers might also side sell when the organisation pays a first payment topped up by a second payment at a later stage, but another trader pays the total price in one go (even if that is less than first and second payment together). Finally in an organisation that

has organic and non-organic members (i.e. one that previously existed) the non-organic members may find themselves receiving less attention and assistance from the organisation than the organic members, which can cause tension within the organisation.

Given these potential dangers it is clear that proper communication is needed and sufficient time is dedicated to sensitive problems such as price-setting, quality requirements and other trading and certification conditions. Most importantly the actors need to build trust between each other. The buyers and producers are part of the same organisation and need to develop a loyalty to each other.



Figure 10: Regular meetings should be held and farmers motivated to participate

Working capital

For an exporting organisation, there are a high administrative costs attached to buying from many individual farmers. Increased local organisation of farmers may offer a solution to this problem, provided

that the farmers can manage the primary processes of collecting, bulking, and perhaps grading more efficiently (and at lower cost) than the export organisation.

Case study: getting organised

In Uganda, an exporter of fresh and dried fruit contracted groups of 8-12 farmers in 6 different locations in 3 districts to supply her with fruit. The fruit was collected on fixed days. Originally she would just send a pick up and a driver to collect the fruit that the farmers had from their farm gates. Sometimes there was too much fruit, other times too little. The farmers then organised themselves into supply groups with one central collection point. The farmers would supply according to whom had the best fruit at the time (also related to the acreage planted). Before the collection day, the farmers received the order, decided who would supply how much and bring their agreed harvest to the pick-up point. There they would do a quality control, weigh and put the fruit in the crates provided by the exporter. The groups are now formally organised into associations and each group has a bank account. The members divide the money among themselves. The farmers have used the Fairtrade premium to build covered collection points which have become important meeting points. The points are also used for bulking and trading other farm produce to other buyers.

If the farmers' organisation is responsible for the Internal Control System, it needs to secure working capital to run the system and to pay costs such as certification and separate handling (e.g. separate transport, storage, new and clean packing materials). See also Chapter 4, on feasibility and working capital.

Staff and costs

Appointing an ICS manager is a priority for an organic export project. This ICS manager needs to be educated and skilled, as this person will be communicating with the external certifier and is responsible for maintaining the administration of all the farmers (usually on a computer). Certifiers require quite detailed documentation, including organisational reports, summaries of the growers list, etc.

There also need to be staff to internally inspect the farmers and collect the required information. These people might be selected from among the members, especially those who have received some education and

who are keen. While these people might not need a salary, their travel and other costs have to be paid and they will probably need some compensation for their time.

If the farmers' organisation is directly involved in exporting it will also need an export manager and staff. Exporting requires specific skills, specifically communication, and a good knowledge of the market. He or she will need to be able to visit buyers and trade fairs to get a good understanding of the market and build up relationships with buyers.

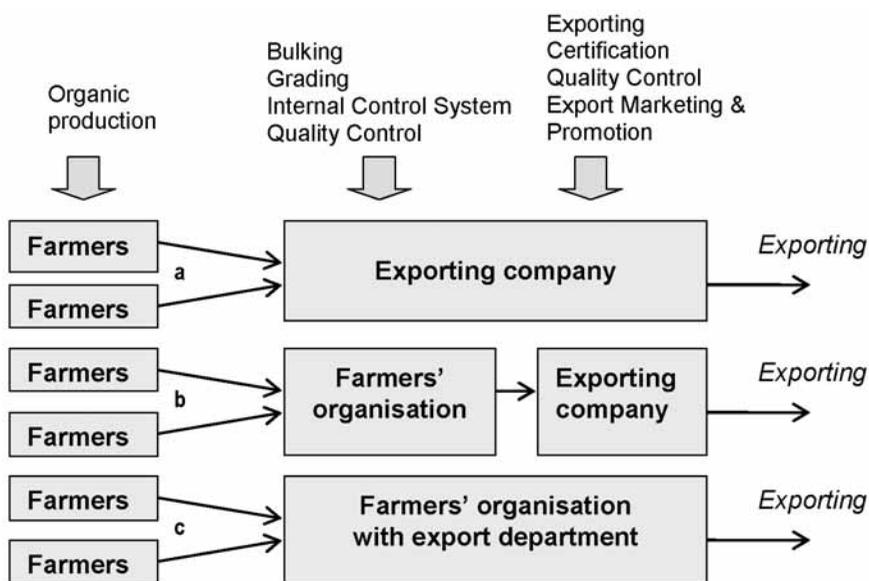


Figure 11: Schematic presentation of an organic chain, including the chain activities:

- a. Farmers selling directly to an exporter
- b. Farmers selling to their organisation, which sells to an exporter
- c. Farmers selling to their organisation, which exports the produce

Chain activities: buying, bulking, grading, processing, marketing and selling

The farmers' organisation is responsible for produce from the point it takes delivery of it until it is sold. Bulking, cleaning, grading, and packing are basic but essential processes that can be performed by either the exporter or the producer organisation.

Quality control has to be ensured at every step. It is strongly advised to put a traceability system in place, the delivered produce needs to be labelled, so that it can be tracked back to the individual farmers or small groups of farmers. (See Section 2.3).

Buying and bulking

When the organisation is the buyer it should establish a buying post that has a system in place to ensure that only organic farmers can deliver. Infiltration is a risk as other farmers will want to benefit from the better price as well. The organisation needs to seriously consider the quality of the delivered products. A farmers' organisation might feel duty bound to buy all the produce of its members, but buying low quality is not good business and if some farmers deliver sub-grade products then the whole group might suffer.

Grading and processing

Grading and primary processing are essential aspects of quality management in an export project. Simple or more complex processing may be required, depending on the product.

Bourbon vanilla requires a six-month curing process which is labour-intensive. Most importing and manufacturing companies like to receive the product ready for further processing; rather than one that requires additional cleaning and grading.

The minimum requirements of the purchaser must always be met. There is no export sector where cleaning, grading and packing facilities are not needed. Beyond the basic requirements, taking additional steps (e.g. assuring food safety) may add value to your operation and strengthen your position as a quality supplier. In organic processing

natural organic ingredients must be used and all additives and ingredients should meet organic standards.

Packing and preparing for export

Buyers often have strong preferences about the method of packing products, to both keep the product safe and to increase the efficiency of handling.

Western companies use machines for lifting and carrying rather than manpower. If manpower is used, there are legal limitations to the weight that workers may lift, e.g. in the Netherlands the weight limit is 25 kg. Most importers do not want to repack products but to be able to shift them around without opening them. This is why they want you to supply the right packaging, not only for themselves, but also for their customers. This has implications for the imprints on the packages. Being able to supply your products in the right packaging is an important part of your marketing strategy.

Apart from packaging there are other regulations that have to be adhered to, such as cleanliness, aflatoxin tests (for peanuts and other nuts), humidity of the produce, etc.

The FAO guide 'Export of Agricultural Products (2006)' provides a list of websites which give the exact import regulations.

Marketing and exporting

The farmers' organisation has the responsibility to market and sell the produce to the best buyer so that the farmers receive the best deal in the long term. The farmers have to trust that this is happening and so decision making needs to be transparent. Other issues on marketing and exporting are treated in the next chapter.

6 Organic export marketing

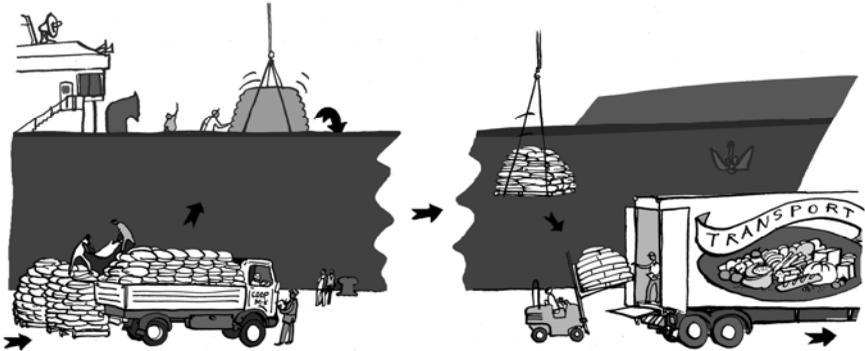


Figure 12: Exporting and importing

Many books have been written on marketing. This chapter does not intend to provide a complete overview of marketing issues; but rather to describe the activities, choices and strategies involved in organic export marketing. For an explanation of marketing issues and terminology in general, see *Agrodok 26, 'Marketing for small-scale producers'*.

Organic export marketing can only be successful as a joint effort between farmers and exporters. Even when some of the business decisions are made by the exporter (or the export department of the farmers' organisation), it is useful for farmers to know what kinds of decisions are made and on what basis, in order to feel that they are part of the chain, and maintain their loyalty.

Before starting an organic export business it is important to define your strategy, to know your market segment and to know that you can successfully reach that specific segment. This is described in Section 6.1 below. Section 6.2 onwards gives an outline of a marketing approach focused around the major decisions that your marketing strategy needs to address: what to sell, to whom, for what price, and how.

These elements are called the marketing mix and summarised as the 4 P's: Place, Product, Promotion and Price.

6.1 Marketing strategy

The decision to address organic export markets should fit well with the organisation's general marketing strategy. Marketing textbooks state that there are only three types of strategies that are viable in the long term: 1) Differentiation, 2) Focus and, 3) Cost leadership. Organisations that do not choose one of these strategies risk getting stuck in between them.

1) The **market differentiation strategy** is one that fits larger companies that produce a series of products, each aimed at a specific market segment. For example a car manufacturer makes several types of cars: including a 4 wheel drive pick up for farms and other businesses, a relatively cheap saloon car for families, a spacious 4 wheel drive station car with lots of seats for organisations that need to travel long distances and off-road.

2) The **focus strategy** is one where the company focuses on one market segment and only produces one (or possibly a few) products for that specific niche.

3) The **Cost leadership strategy** is one where the aim is to produce cheap products to attract sales. There is little or no attention to innovation or improving the product, just towards being 'leading' in low cost production. When a company with a cost leadership strategy starts to develop their products it moves towards a market differentiation strategy. Cost leadership normally works for the production of large volumes. Many Chinese producers choose this cost leadership strategy.

Organic exporters usually follow either a focus or a differentiation strategy. Cost leadership is hardly an option, since organic volumes are small and the costs are relatively high. Nevertheless, cost efficiency is important for all companies involved in the organic market.

Companies applying the focus strategy take advantage of their superior knowledge of their products. The downside is that they are also more dependent on that niche and are vulnerable when market dynamics change (for example, when buyers start demanding lower prices). It is also harder to deal with larger volumes.

The differentiation strategy is used by general commodity exporters that diversify into organic markets. In this case, the organic-product range is just another line of their business. Although these companies are experienced in their customary business domains, they are often surprised by the particularities of the organic export channel.

Some exporters combine a cost-leadership strategy for their general (conventional) business with an additional focus strategy on organic markets. This approach can easily lead to contradictions, since the small volumes of highly demanding organic products have to be fitted into a general system based on quantity, low cost and minimum effort.

6.2 The 4 Ps - Place, Product, Promotion, Price

The 4 Ps stand for:

- Place – where to sell, better to say ‘distribution’,
- Product - what to sell,
- Promotion – how to attract buyers and sell,
- Price - for what price to sell at

The 4 Ps are interdependent: successful marketing depends on the 4 Ps being in harmony with each other.

Place

Distribution: choice of regions and countries

The choice of an export market depends on many factors, which are:

- 1 existing freight connections (for shipping the products, either by sea or air)
- 2 existing travel connections (for personal visits)
- 3 market demand (in terms of volume, quality and potential growth)

- 4 Level of competition
- 5 Custom duties and non-tariff trade barriers (including quotas)
- 6 Other trade regulations
- 7 Existing trade contacts
- 8 Language and ease of communication
- 9 Knowledge of that market

Most African organic exports are directed to Europe. Connections between Africa and Europe are generally much more developed than those with the United States or Japan, both for passengers and freight. Africans often have more personal connections in European countries. Organic exports from Latin America, on the other hand, may either be directed to the US, Europe or Japan. Asia also supplies all of the developed organic markets.

In choosing a destination country, economic factors should be more decisive than cultural ones. Nevertheless cultural factors are still important. French imports still predominantly come from French-speaking countries, such as Madagascar, Cameroon and Senegal. English-speaking African countries often have good trade links with the United Kingdom. Germany, the Netherlands, France and the United Kingdom are the major destinations for organic imports and serve most other European markets. Switzerland is considered a more difficult country to export to, since the organic standards applied by importers for air freight are very strict. Italy has very complicated import procedures that discourage organic imports from outside the European Union.

Emerging organic markets in middle-income countries such as Brazil, Egypt, Mexico, and South Africa also provide opportunities and there is still limited competition. However these countries mostly depend on their own organic production. The high-income markets in the Middle East, for example the United Arab Emirates, rely heavily on imports and may be more promising. Since regulations for organic trade are not yet in place there are less strict demands for certification.

Distribution: channels, buyers, and market segments

For most organic commodities, there are only a limited number of importers in a region or on a continent. The importers typically serve customers in several countries and may serve very different market segments and therefore have different demands. It is very important for exporters to find the importer who is best placed to promote their particular type and quality of product and who is also keen to do so (see Box 6).

A marketing approach to selecting channels

A marketing approach means looking at the end uses of your product and analyzing the channels that lead there. By so doing, you can select the most attractive channel for your product. For instance, if you have a small volume of gourmet honey, there is no point in selling this to an importer whose business is blending huge volumes of honeys into a few standard types. Likewise, if you have jumbo peanuts, which are preferred in the conventional snack market, you should not expect a high price from importers specialising in the processed-peanut segment (e.g. for peanut butter). You may even find that in the organic market this specific quality is not sought after at all, or that the market still needs to be developed. Another example is shea butter, which has two clearly distinct end uses in either cosmetics or food (as a cocoa substitute). Channels and quality demands for these two markets vary.

Product

The product consists of the actual product (of a specific quality) together with the packaging, a certain brand and any services that come with the product. Every export market has its specific requirements for quality, taste, colour and packaging. It is important to know, and to take care of, these specific demands.

Bulk or finished products

Producing finished products for export is the ultimate way of adding value and would seem an attractive option. However, the retail and catering markets have requirements which are completely different from those of bulk/commodity markets. Retail and catering markets often require frequent deliveries of relatively small volumes, which imply having a very good logistical and management system in place.

It is strongly advised to start with bulk exports before moving into finished products.

Branding and labelling

Branding and labelling are ways of differentiating your product from others. In consumer markets, branding is a major focus of attention for manufacturers. For exporters of bulk materials, consumer branding is unnecessary, but it may be useful to consider an industrial brand or label. This is especially the case if your organisation has either a focus or a differentiation strategy based on quality (See 6.1). The industrial label can help to differentiate your products. Basically, the label involves naming and differentiating products of a certain quality. The Costa Rican cooperative ‘Coocafe’ is an interesting example of industrial labelling in pursuit of a focus strategy (see www.coocafe.com).

Quality differentiation and standards

In commodity trading, products from one supplier can be easily interchanged with products from others. To facilitate this, there are product-quality standards for any commodity. These standards may have been formalised by organisations such as the Codex Alimentarius, governments, sector organisations, commodity exchanges, or by traders themselves. So if someone buys a lot of coffee of Guatemalan origin, defined as ‘strictly hard bean and European preparation’, he knows exactly what to expect. This type of Guatemalan coffee is different from lower-grown Guatemalan coffees and from coffees from other origins. Because of its better quality, it is rewarded with a premium, called a quality differential. Quality differentials exist in all commodity markets. In some cases, producers have managed to create a (consumer) brand image for a commodity; for example Chiquita bananas, Del Monte pineapples, and Tasty Tom tomatoes.

While governments set legal standards for some products with health risks (e.g. meat and fish), standards in many sectors are created by the traders themselves. Individual traders may also apply a stricter standard than the general one. Governments are especially concerned about wholesomeness and safety of products and importers should know the details of legislation. It is useful to request product specifications from your buyer.

Promotion

Promotion includes all the **communication** activities that aim to increase the sales of a product. There are several ways to communicate

with the market. In organic business the most usual are direct mail, brochures, websites, personal contacts and visiting trade fairs.

In planning communications you can distinguish four elements:

- the message (its content)
- the form of the message (how to tell it)
- the media (which channels)
- how to organise it

Business communication should also include:

- The availability of your products
- The terms and conditions for obtaining them
- Specifications and directions for their proper use

In international marketing, a simple, clear, and straightforward type of presentation is usually preferred. The focus should be on the content of your message. Direct communication (personal selling) should be supported by standardised information in a brochure and on a website. Advertising in professional magazines or other media may also be useful, to reinforce the other means. In most sectors, participation in trade fairs is the most effective way to meet new and existing customers.

Two-way process

Product promotion is a two-way process; in addition to sending out messages, it is equally important to receive them. Feedback from customers should be seen as a valuable source of information, through which you can better understand what they are looking for and thereby adapt your products to their specifications and improve your position in the market.

Personal communication

Personal communication is of primary importance in organic export marketing, and more than in general exporting, because most buyers want exporters to show a long-term commitment. To maintain your relationship, exporters should meet their main buyers at least once every year. With current telecommunications and internet infrastructure, it is perfectly possible for African exporters to be in regular con-

tact with their customers. Inquiries from customers and potential customers should always be answered promptly!

A buyer may indicate that he/she wants to buy, say, 250 tons the next season, which you promise. But there are many unpredictable factors that make it difficult to plan production. These might include: rains failing, causing low production or rains coming late causing bad ripening and drying of the crop; other buyers coming into the area and buying the produce or, pests or diseases reducing production. Anyone of these factors might mean that you can only scrape 150 tons together. It is important that you regularly get reliable information from the field, and communicate with the buyers if you feel that you might not meet your end of the deal.

The story behind the product

Buyers (and consumers) increasingly want a good story behind the product and the organisation. This gives the product a face and an image. This means you should communicate about how the farmers benefit from the project and about what your organisation is doing about improving livelihoods.

Price

Generally sellers are primarily interested in the price that they can get for their products. However, there are more factors that should be taken into account. Sometimes accepting a lower price may be better for the business, for example when the buyer is willing to provide trade finance at the start of the season, or when it is clear that the buyer will continue to buy in the long run. In such a case there is a lower price in the short run, but a secure market in the long run.

Prices on commodity markets are influenced in two ways:

- Fluctuations in the world market price.
- The specific quality of your particular product. For example, if you produce a gourmet coffee, this specialty product will be less influenced by fluctuations in the world market price than an average quality coffee.

World market price fluctuations

It is difficult to predict price developments in world markets. Quite a few commodity export crops are perennial crops and the farmer cannot readily or easily change to producing another product, which increases their dependency on the world market price.

Many organic markets are increasingly behaving like ordinary commodity markets and are more influenced by general market developments. This means that:

- Organic prices are becoming more closely linked to conventional prices, and
- Organic prices change with supply and demand; due to the smaller market volume, relatively minor events may have a large impact on the market, like the failure of the harvest in one place, or the arrival of a new competitor.

Price Risk Management

There are ways to reduce the risk of losses due to low world market prices and fluctuations; this is called **Price Risk Management**. Although an important tool, it is not widely applied in organic markets. An introductory explanation on Price Risk Management is given in Appendix 2.

The quality of the product

If your market strategy is focused on quality, your price should reflect that. A quality product should not be priced too low but you should also deliver the quality you are promoting. If you have a standard product, you will not be able to charge more than your competitors unless you can win on service. If your market strategy is based on lowest costs, your products should be priced lower than your competitors.

However, your margin of choice is limited. As with the basic price, the quality premium is defined by the market. Any changes in your quality premium will have to be negotiated with your buyers. The market defines quality in the broadest possible terms, including origin, service,

volume and the reliability of the exporter. This means that exporters from unknown or unpopular origins are initially punished with lower premiums, even if they themselves supply an excellent product. The price will increase as your track record improves.

Transparent price setting may assist both the seller and buyer to reduce risks from fluctuating local and international markets while making sure that both cover their costs. This is only possible when buyer and seller trust each other.

Organic premium

The organic premium is defined as the price difference between an organic and a conventional product of the same quality. A buyer may have the aim of paying an organic premium of not more than 20 per cent on any of his commodities. In practice, the organic premium shows a much wider range, often between 10 per cent and 50 per cent (at import level), depending on the commodity and the market. In certain products the organic premium can be much higher, especially on rare or technically complicated products. In the case of canned pineapple, the organic premium has been as high as 200 per cent (import prices). It recently fell to only 100 per cent. When the premium is very high, there is a larger risk of a decline.

Products may also be doubly or multiply certified, meaning that have several kinds of certifications at one time, such as organic **and** Rainforest Alliance cocoa, organic **and** Fairtrade or bird-friendly coffee. In these cases the premiums are usually much higher.

Volume and scale of production

Size (sales volume) is an important element of an export project's marketing strategy and also determines economies of scale. A minimum sales volume is needed to make an attractive offer to buyers. Otherwise, the administrative hassle and management time dedicated to products may outweigh the benefits. For this reason, an exporter needs to limit the number of buyers.

In bulk trading, shipments generally consist of at least a full container load. When products such as fresh fruit (e.g. bananas) need to be regularly supplied, many consecutive shipments will be needed. This will require a large volume of supply and an exporter capable of managing this. When markets are too small to be supplied regularly by ship, or the goods are highly perishable, they may be supplied by air.

6.3 Marketing management

Larger companies often employ specific marketing people, who may also be responsible for promotion and brand management. These people are not the sales staff. In small and medium companies, there is usually no specific marketing staff and the marketing function rests with management and/or sales staff (e.g. the export manager).

Any export organisation should regularly go through a marketing planning cycle. Such a cycle should include the following stages:

- analysing the business
- drawing up the plan (objectives, targets, activities, tools, and budgets)
- monitoring and evaluating the plan

Market information, analytical skills and creativity are major inputs in this planning process

7 Management, planning and evaluation



Figure 13: Good management and planning, is fundamental for running a successful business

As mentioned in Chapter 1, good management, including planning, is a fundamental requirement for running a long-term successful business. Good management is especially relevant for farmer's organisations moving into business. Good farmer's leaders are not automatically good business people in the same way that good general managers are not automatically good marketing managers.

It is beyond the scope of this manual to go into detail about management issues. The preceding chapters on market knowledge, organic production and certification, feasibility and risks, building a value chain and export marketing all cover management issues that are important for organic businesses.

7.1 Evaluating the business

For every business it is very important to analyse and evaluate the business regularly (e.g. annually) and to use this to update your existing plan or draw up a new one for the following period of time. This process of monitoring, evaluating and planning should be done continuously and is called a planning cycle.

Planning cycle - SWOT

SWOT is a practical and widely used tool for evaluating the business. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats.

Internal factors	<p>Strengths</p> <p>High quality product</p>	<p>Weaknesses</p> <p>Lack of good drying facility</p>
	<p>Opportunities</p> <p>Interested buyer</p>	<p>Threats</p> <p>Sri Lanka produces same product with lower costs</p>
External conditions		

Figure 14: SWOT analysis

This analysis is done with the participation of both management and staff. It is comprehensive and flexible and, if done properly, creates a focused result. However, the SWOT analysis can only be as good as the data that go into it: if the participants do not have access to accurate information on market, legal and technological developments, the analysis may not be useful.

Evaluating viability

An organic export project should be evaluated on more than just its financial costs and benefits. We suggest a three-stage approach:

- a strategic-fit analysis
- a financial analysis of costs and benefits
- an evaluation of ethical factors

The strategic-fit analysis

Organic exports should fit into the general mission, culture and strategies of the farmers' organisation. The fit with the general market strategy is especially important. Companies seeking cost leadership (see section 6.1) probably should not get into organic exports. Companies with a focus strategy are best placed, while those with a differentiation strategy should carefully evaluate the compatibility of the organic market activity with their general business.

Organic certification can have other benefits too, including improved public relations, improved access to support networks (NGOs, for example) and laying the groundwork to acquire other standards, such as ISO, Fairtrade, and Global GAP.

Financial cost and benefit analysis

The bottom line for any commercial project is that the financial benefits should exceed the costs. This can be done through a feasibility calculation considering all the costs and benefits involved in the initiative (See Chapter 4).

In export marketing projects with a development component, a part of the costs may be subsidised by donor agencies. In return, they generally expect certain social and environmental conditions to be met.

Externalities and ethical factors

The decision to go organic is generally not purely commercial. Most organic operators consider organic agriculture to be a superior production system. They claim that it has less environmental impact, makes a positive contribution to biodiversity and is more responsible toward producers and workers. However, others dispute these claims. For example, organic certification implies farmers losing the opportunity to use productivity-enhancing inputs such as synthetic fertilisers. The conversion to organic can, in some instances, mean more work for women. It is recommended that you keep your eyes open to both the positive and negative effects of an organic project.

7.2 How to be successful in organic exports

Checklist

- **Product:** there is an exportable product of the right quality and in sufficient (potential) volumes. Investments have been made in grading, processing, and packing facilities. Quality assurance has been developed.
- **Certification:** there is the right organic certification for the target markets. The contact with the certifier is good. Invoices are paid on time and there is a regular flow of information.
- An agreement has been made with a local exporter to export the produce or the organisation has existing expertise on exporting.
- Buyers have been identified and an initial selection has been made. There have been initial contacts with positive results. Even better: agreements have been made with one or two selected buyers to develop the supply chain.
- Proper logistical arrangements have been made, in line with the demands of customers and the market.
- **Strategic fit:** changes in technology, internal monitoring, external certification, supply-chain management, and marketing are com-

patible with the general mission, strategy, and culture of the producer organisation, from the members to the management.

- Marketing fit: the organic market strategy fits with the general or previous market strategy of the organisation.
- Supply-chain management: farmers are interested and committed to supplying the organisation. The organisation will invest some of the profits back into its supplier groups.
- Financial costs and benefits: careful analysis shows that there will be sufficient profit.
- Risk analysis: analysis of the risks shows that the risks are acceptable or manageable
- Good management: the export organisation is well-managed and does not rely on just one person.
- Strategic marketing planning: this is done regularly. Market information is collected regularly.
- Promotion: a market strategy and a unique selling proposition have been developed. These are communicated to the market in a consistent way. There are clearly defined mechanisms for receiving feedback from customers and other stakeholders.
- Promotion (customer management): there is regular communication with the major or potential customers; if possible they are visited regularly. The export organisation has a keen eye and ear for their needs and demands, and look for ways to improve or add to its service.
- Communication: the export organisation can always be reached by email, phone, and fax and it responds rapidly. There are clear arrangements for decision-making when key staff members are travelling.
- Pricing: prices are set in accordance with market conditions and the market strategy. If the pricing is dynamic, there are clear and efficient procedures on how to define prices (in buying and selling). There is a consistent policy on handling price and exchange risks. The organisation is in touch with the latest market and price developments.

8 The case of Zameen: organic and fairtrade cotton

The story of a journey from an Indian village to fashion houses in Paris and London

Cotton in India is mainly produced by small scale farmers. Often their links to outside markets – for both inputs and their produce – are more or less controlled by local traders and merchants, who play a decisive, and often exploitative, role in the local economy. They provide credit and inputs and they put pressure on the farmers to use agro-chemicals to increase production, adding to the farmers' costs. This pushes many farmers into debt and desperation, borrowing money at extortionate interest rates and sometimes not getting a good enough crop to repay these debts.

The start

AOFG (Agriculture & Organic Farming Group India) is an NGO that has been supporting farmers to develop alternatives for high-cost chemical-intensive farming, using local inputs. Farmers in this group decided to jointly register a company to circumvent local buyers and get better access to the supply chain; the Indian textile industry and international fashion brands. The result was Zameen, a federation of farmers' groups that now represents more than 4,000 families in Maharashtra and Andhra Pradesh (South India).



Figure 15: Zameen members (Photo by Roger Reuver)

Maharashtra and Andhra Pradesh (South India).

Technical support for these initiatives has been provided by several networks, including organisations dealing with voluntary labels as Non-Pesticide Management (NPM), the organic certifiers and the Fair-trade Labelling organisation. The local government helped spread word about the Zameen initiative among other farmer and grassroots organisations. The district administrations supported farmers by providing subsidies for organic inputs and an international volunteer network played a critical in providing the initial manpower to run field operations.

The challenges

Building the organisation involved many challenges. There are high levels of distrust in rural India, as well as in the textile industry, with many factions competing for power and money. In the villages themselves the main challenges involved creating transparent leadership, accountability and governance. People were not prepared to collaborate with each other and all were competing for favours from powerful people. Zameen had to deal with a number of issues: Who is a good farmer leader? What are the responsibilities of members when holding the leadership to account? What should members do themselves and for which tasks should they employ staff? How to involve women, illiterate members and landless labourers? In addressing these questions Zameen had to find a balance between ensuring short term benefits to keep up motivation and a longer term vision to ensure the company stayed on track.

Buying produce from many farmers and maintaining multiple certification is a complex enterprise that requires a lot of administration. Each year contracts are signed, in which responsibilities of groups, clusters, regions and company staff are outlined. Internal Control Systems are used to maintain certification. Not everybody understands the importance of written agreements and the paperwork required. This remains a challenge.

At the management level there were also challenges, such as the difficulty of recruiting professional staff who were willing to stay in re-

mote areas and earn less than their peers working in corporate jobs or with international organisations.

The organisation and farmer empowerment

Zameen empowers farmers through providing them with ownership of their project and with training. AOFG helps the development of self-managed and legally-registered farmer associations. It focuses on strengthening the groups and building management teams, establishing offices and storage facilities and increasing the technical capacity of the organic farmers.

A four-tier structure

Groups (less than 20 members) are federated into clusters (around 200 members) each with their own registration, board and monthly meetings. These in turn are federated within regional associations – again with separate registration, board and monthly meetings.

Finally, at the apex level there are two bodies with specific responsibilities which report back to the clusters:

- The Producer Executive Body (PEB), registered as a society, responsible for the Fairtrade premium and for managing investments in rural development.
- The Mutual Benefit Trust (MBT), responsible for financial management, including management of the farmers' equity shares.

The farmers own the company and are requested to invest their own capital into Zameen. Zameen encourages farmers to contribute 1,100 rupees (3% of the buying price) for every ton of raw cotton sold, as an investment for organisation development for Zameen.

A central aspect of Zameen's work has been building an ethical supply chain (value chain) that distributes profits more evenly among the value chain partners, so that Zameen members get a fairer slice of the pie. This was achieved through extensive networking, getting to know factories and their management. Researchers, donors and certification inspectors played an important role in putting Zameen in touch with

chain partners. Face to face meetings between the different partners provided the glue to build trust between chain partners and to keep the partnerships alive.

The achievements

By joining Zameen, marginalised farmers have been able to escape spiralling debt and binding contracts to moneylenders. Farmers have regained their dignity through self determination and fair trading conditions.

Being members of a Fairtrade certified organisation means that the farmers are no longer vulnerable to distorted and volatile market prices. Fairtrade guarantees a minimum price which covers the costs of sustainable farming and guarantees a living wage. The Fairtrade premium, paid to communities as a whole, has been invested in water wells, children's education and back into the business.

In promoting organic cotton, and training farmers in organic farming practices, Zameen farmers have seen dramatic improvements in their health and are freed from their dependency upon expensive agrochemicals; their outgoing costs can be reduced by up to 50%. Soil fertility is maintained and replenished through green manure and crop rotation, preserving the natural resilience of the crops and increasing and sustaining yields.



Figure 16: Presenting the end product (Photo by Roger Reuver)

The volume of production increased from 200 tons of lint to 1,500 within 3 years. Side selling remains a challenge, with the company able to buy only 30 – 60 % of the members' harvest: if sales are slow so is procurement and vice versa.

Zameen has business relationships with several companies. The most important trading partnership is with ALOK Industries, a very large Indian textiles company. ALOK and Zameen agreed on raw cotton sales and joint promotion in the international market. ALOK agreed to charge no extra fees for processing organic Zameen cotton, which meant that the fabrics are available at affordable prices. When trading took off, other orders were received from sister companies and also from companies looking for ethically produced cotton. Intense communication and frequent exchange visits between factory and field have proved to be an important aspect of consolidating this trading relationship. It is a difficult task to ensure a happy marriage between a 'midget' and a 'giant', but the initial experience is positive and the opportunities are promising.

Zameen's participation in business plan competitions helped to create confidence among investors. These competitions were facilitated by social capital funds, including BID (Business In Development) and New Ventures India, and included access to business plan formats and coaching support. Several experienced professionals helped by sharing their skills with small farmers' organisations.

Good communication and promotion are an important part of Zameen's trading activities. The fashion brands find it important to tell the story of their suppliers: small scale organic farmers. Their consumers appreciate buying a product that has a story and this information can become part of the brand identity.

More information can be found at: www.zameen.org

Appendix 1: Internal Control System - requirements

This appendix details a number of the procedures involved in an ICS, and the documentation that will need to be kept. This list should only be used for guidance; your certification body will give you the exact requirements. It will probably be able to provide you with an example ICS document, with example forms for recording information.

Procedures that require description in the ICS Manual

- Farm registration and conditions for participating in the scheme
- Steps involved in getting the farmers certified
- Farm inspections
- Contracting of farmers
- Coding system (code numbers for farmers and production areas)
- Buying procedures and documentation
- Storage and handling procedures
- Processing procedures
- Packaging and labelling or marking of sacks/boxes
- Organic standards used (Internal Organic standard)
- Information dissemination to farmers
- Training of farmers and staff
- Procedures in cases where deviations are found
- Regulations regarding conflict of interest of staff
- Risk assessment (risk of loss of organic quality)
- Organisation chart and list of staff responsible for organic integrity and their qualifications

Information to be documented and filed

- Village and/or area map
- Farmers' registration forms
- Farm inspection forms
- Growers' list
- Growers' contracts
- Buying records

- List of internal inspectors
- Contracts for project staff
- Contract with the processing unit
- Excess delivery form (to check for possible infiltration of non-organic produce)
- Farmers' deviation records

More detailed instructions on how to set up an ICS are included in the IFOAM Training manual on Setting up and Harmonising ICS.

The steps for building up an ICS include:

- Finding qualified personnel and ensuring that they receive the necessary training in organic production and ICS development.
- Identifying farmers. If the farmers are not yet familiar with organic principles and practices, awareness raising and training will be necessary.
- Start developing adapted and suitable ICS forms and (preferably written) procedures with the guidance of the IFOAM manual. The ICS manual can initially be a fairly simple document. It is more important that the procedures and forms are actually implemented and understood by all staff than that the manual contains details on every eventuality right from the beginning.
- Check with the certification body to know the minimum ICS requirements that need to be implemented before the first inspection. These will include at least the farmer entrance forms on which the farmers commit themselves to following organic standards and a growers list.
- Either before or during the first inspection, the organic certification body must screen and assess the ICS document and will most likely offer some comments or conditions for improvement.
- Gradually improve the ICS document (procedures, forms, etc.) and its implementation by the ICS staff.

Appendix 2: Price Risk Management

In commodity markets, with their daily price fluctuations; producers and owners of stock are exposed to **price risk**. The price of the goods that one owns may go down (or up, but that is less of a problem). When margins are tight, or the fluctuations are large, these price fluctuations easily can lead to big losses and even to bankruptcy.

Monetary risks occur when your costs are in a different currency than your sales. In this case, changes in the exchange rate have the same effect as changes in market prices. They should therefore be managed in a similar way as general price risks. The major difference is that exchange rates follow different patterns from commodity prices and this will complicate your analysis.

Objectives of Price Risk Management

The key objectives of price risk management are to increase sales revenues, while limiting risks. Often there is tension between these two objectives. People have a tendency to wait for the best possible price instead of accepting a somewhat lower price that would still earn them a decent and secure profit. A basic rule is that traders should not be speculators. A strategy for price risk management is needed precisely to avoid that. Unfortunately, this is no simple matter, which is probably why many exporters deal with commodity prices and exchange rates in a rather intuitive fashion. And that, of course, is risky.

Price Risk Management strategies

Price risk management strategies should be tuned to the needs of the organisation and the dynamics of the market. They will also depend on the management tools you have available you. Some examples:

- Some companies try to minimise price risks by trading ‘back to back’ (when they only commit to buying when they have a known customer).
- Others have weekly communication with their buyer about price fluctuations on the farm gate level and at the importer’s level and use this information to decide on buying and selling prices.

- Applying a system of first and second payments, which is widely used by cooperatives and by some traders (e.g., fruit and vegetable importers).

Producer groups and exporters should have a strategy of taking price risks, but in a conscious and controlled manner.

Appendix 3: Finance Institutions

Here is a list of some finance institutions from different parts of the world with a **potential** interest in financing organic export initiatives. Each of these will have its own specific criteria and preferences for lending and conditions for that. It is beyond the scope of this manual to present these all. This list of addresses was built up in 2007 as part of the EPOPA programme.

Institutes by country	Email and website addresses
AUSTRALIA	
Investors in Community	iic@cafaustralia.org www.investorsincommunity.org
BELGIUM	
Credal	Credal@skynet.be www.credal.be
Netwerk Vlaanderen	info@netwerk-vlaanderen.be www.netwerk-vlaanderen.be
Réseau Financement Alternatif	info@rfa.be http://www.rfa.be
Triodos Bank (Belgian branch)	info@triodos.be www.triodos.be / www.triodos.com
FEBEA	febea@pi.be www.febea.org
CANADA	
Caisse d'Economie solidaire Desjardins	www.cecosol.com
DENMARK	
Merkur - den Almennyttige Andelskasse	Merkurbank@merkurbank.dk www.merkurbank.dk
FINLAND	
Osuuskunta Eko-Osuusraha	ekoraha@kaapeli.fi www.eko-osuusraha.fi
FRANCE	
Banque Populaire d'Alsace	www.alsace.banquepopulaire.fr www.prevoir.net
Fédération des Cigales	info@cigales.asso.fr www.cigales.asso.fr
Institut de Développement de l'Economie Sociale (IDES)	ides@esfin-ides.com www.esfin-ides.com
Société d'Investissement et de Développement International (SIDI)	comsidi@aol.com www.sidi.fr
Société Financière de la NEF	lanef@lanef.com www.lanef.com

Institutes by country	Email and website addresses
FRANCE - continued	
Socoden	cqcom@scop.coop www.scop.coop
GERMANY	
GLS Gemeinschaftsbank	Bochum@gls-bank.de www.gemeinschaftsbank.de
IRELAND	
Clann Credo Ltd Irish Social Finance Centre	www.clanncredo.ie
Tallaght Trust Fund Ltd	jkearns@partas.ie
Western Development Commission	info@wdc.ie www.wdc.ie
ITALY	
Banca Etica	posta@bancaetica.com www.bancaetica.com
CFI Compagnia Finanziaria Industriale	info@cfi.it www.cfi.it
Coopfond	www.coopfond.it
MAG 2 Finance	magfin@tiscalinet.it www.mag2.it
JAPAN	
Citizen Bank	bank@cyber.gr.jp
NETHERLANDS	
ASN	www.asnbank.nl
Triodos Bank	info@triodos.nl www.triodos.nl / www.triodos.com
Oikocredit	www.oikocredit.org/
Netherlands Development Finance Company	info@fmo.nl www.fmo.nl
SPAIN	
Triodos Investments España B.V.	mail@triodos.es www.triodos.es / www.triodos.com
BBK Solidarioa	bbksolidarioa@bbk.es www.bbksolidarioa.org
SWEDEN	
Ekobanken Member Bank	info@ekobanken.se www.ekobanken.se
Nordiska Sparlan	info@nordspar.se www.nordspar.se
DEMOCRATIC REPUBLIC OF CONGO	
Coopec-Kalundu	kizam@africaonline.co.tz nditafr@yahoo.fr Mail address in Tanzania but they are active in the Democratic Republic of Congo
Crédit Populaire Congolais	crepoco@yahoo.fr

Institutes by country	Email and website addresses
TOGO	
Microfund	microfund99@hotmail.com
UNITED KINGDOM	
Shared Interest	www.shared-interest.com
Triodos Bank (UK branch)	mail@triodos.co.uk www.triodos.co.uk www.triodos.com
The Charity Bank Limited	enquiries@charitybank.org www.charitybank.org
USA	
Women's World Banking	wwb@swwb.org www.womensworldbanking.org www.bancomujer.org

Further reading

Organic agriculture, trade and certification

CBI, 2004. **Export Planner, A comprehensive guide for prospective exporters in developing countries.** www.cbi.nl/marketinfo

CTA, (Walaga, C.), 2005, **Organic agriculture in Kenya and Uganda**, CTA no. 8033

CTA, (Holderness, M. et al.), 1999, **Organic banana 2000: towards an organic banana initiative in the Caribbean**, CTA no. 1003

CTA publications are available to members of the CTA Publications Distribution Service: www.cta.int/en/Departments/How-we-serve-you/How-to-order-publications-from-CTA

EPOPA, 2008, **Organic Exports – A way to a better life? The EPOPA experience.**

EPOPA, 2006, **Organic Exporter Guide** – hands-on help for organic exports from Africa.

Down load both documents from: www.grolink.se/epopa

FAO, CTA, EPOPA, 2006, **Regulations, Standards and Certification for Agricultural Exports. Practical manual for producers and exporters in East Africa.**

Download from: www.fao.org/docrep/010/a0791e/a0791e00.htm

FAO **Manuals on Certification for agricultural exports**, Download from: www.fao.org/ES/ESC/en/15/262/highlight_269.html

More publications find on: www.fao.org/organicag/oa-publications/en/

FiBL (Research Institute for Organic Agriculture), 2004. **A Guide to successful organic marketing initiatives.**

www.fibl-shop.org/shop/show.php?sprache=EN&art=1338

Grolink, **The organic certification directory**, published every year, containing a list of all organic certification bodies and data about their scope of operation and in which countries they operate.

Grolink, **Grolink guides**, with information on the steps towards achieving certification.

More information: www.grolink.se

IFOAM, 2010, **The Organic Business Guide, Developing sustainable value chains with smallholders**, Elzakker B. v., Eyhorn, Frank.

IFOAM, 2004. **Developing Local Marketing Initiatives. A Guide for Small and Medium Enterprises.**

Find these and more publications at: www.IFOAM.org/bookstore

IFOAM, **Internal Control Systems for Group Certification – Training Kit for Producers.**

IFOAM, **Training Manual for Organic Agriculture in the Tropics.**

Find these and more training documents at: www.ifoam.org > Growing organic > Training platform

ILEIA, Centre for Learning on sustainable agriculture. **‘Farming Matters Magazine’**, which is about sustainable small scale farming. Subscriptions are free to individuals and organisations from the South. www.ileia.leisa.info > magazine

Natural Pesticides

CTA, Agrecol, (Stoll, G.) **Natural crop protection in the tropics: Letting information come to life.** ISBN 38236 1317 0. CTA no. 1005

Agromisa, CTA, (Scheepens, P., Hoevers, R.), **Agrodok 30: Non-chemical crop protection.** 2007, 84 pages. ISBN 978 908573 074 3

Websites on Food safety

www.globalgap.org

www.iso.org

www.fao.org/ag/agn/food/

Websites on Traceability

EU Fact-sheet: www.ec.europa.eu/food/food/foodlaw/traceability/

United States requirements: www.ams.usda.gov/AMSV1.0/cool

Useful addresses

IFOAM Africa Office (IAO), mail to: h.bouagnimbeck@ifoam.org
or: www.ifoam.org/about_ifoam/around_world/africa.html

A list of national movements in Africa is available at:
www.ifoam.org/about_ifoam/around_world/aosc_pages/national_movements.html



CBI – www.cbi.eu , Centre for the promotion of imports from developing countries

FAO - Food and Agriculture Organisation: Publications, country data, glossary, bibliographic references, web links, link to research institutions, events etc. www.fao.org/organicag

ITC (International Trade Centre – Organic)

Link: www.intracen.org/dbms/Organics. Web portal serving the organic business communities, helping to link exporters and importers. Contains useful information about organic products&markets and special features on countries, publications and organic market news.

Agro Eco-Louis Bolk Institute: Development through trade

The Louis Bolk Institute is an international, independent organisation specialised in participatory research and advice in the fields of organic and sustainable agriculture, development, nutrition, and health care. Over the last 20 years it has developed over 50 value chains with farmers and entrepreneurs in developing countries. Its approach leads towards an increase in sales of sustainable agricultural products and improvement of the living conditions of participating farmers. Systems that work! The headquarters are located in Driebergen, the Netherlands. There are regional branch offices in Ghana and Uganda.

Further information: www.louisbolk.org

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Uganda: easternafrika@louisbolk.org



Market Information

www.greentrade.net

www.organic-market.info

www.organicmonitor.com

www.ota.com (North America)

Some European organic certifiers active in Africa

For guidelines on production, standards and certification

IMO: www.imo.ch

Naturland: www.naturland.de

Soil Association: www.soilassociation.org

Ecocert: www.ecocert.com

A complete list of certifiers active in Africa, can be found on:
www.ifoam.org/about_ifoam/around_world/aosc_pages/Organic_CBs_operating_in_Africa.html#K

African certification bodies

Tancert, Tanzania, Ph: +255-22-212 44 41 / Fax: +255-22-212 44 41

Email: lm@TanCert.org or Tancert@tancert.org

Ugocert, Uganda: Ph: + 256-41-269 416, Email: info@ugocert.org

Africert, Kenya Ph: + 254-020-828 857/8 / Fax: + 254-020-828 859

Email: rnyagah@africert.co.ke

Encert, Kenya: Ph: + 254-724-910 240

Email: musanjoka@yahoo.com

AFRISCO, South Africa, Ph: (012) 349 1070 / Fax: 086 518 0107

E-mail: afrisco@global.co.za, www.afrisco.net

Certification bodies active in the Pacific

ACO/BFA (Australia): www.australianorganic.com.au

Assure Quality (New Zealand): www.organiccertification.co.nz

BIOGRO (New Zealand): www.biogro.co.nz

ECOCERT (France): www.ecocert.com

NASAA (Australia): www.nasaa.com.au

Information on Organics in the Caribbean:

IFOAM Regional Group for Latin America and the Caribbean - El Grupo de America Latina y el Caribe (GALCI): www.Galci.net

Fair Trade

FLO, 'Fair Trade Labelling Organizations International' www.fairtrade.net (For more information see Section 2.4)

The African Fairtrade Network (AFN) is an independent, not for profit umbrella continental network of Fairtrade Certified African producer organisations: www.fairtrade.net/afn.html

FLO-Cert is an International Certification Company offering Fair-trade Certification: www.flo-cert.net

Rain Forest Alliance: www.rainforest.org

Always ahead in development

Grolink pioneers new areas and new ideas in the organic sector, for instance development of in-house quality assurance for organisations, developing of the PGS and ICS concept, policy development support to governments and NGOs. We train sector leaders and policy makers all over the world. We also have long working experience with the organic market.



We enjoy designing new ways (or discover old ways) to guarantee organic integrity.

Consultancy • Standards development
Advanced training • Market intelligence
Project design • Certification development

Grolink

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Glossary

Aflatoxin	A toxin produced by a fungus; aflatoxin is a hazard in harvested peanuts and other nuts, especially when the harvested produce is not dried properly.
Biodiversity	The variation of life forms within a given ecosystem or a certain area.
CIF	A term used in maritime transportation that stands for 'Cost, Insurance and Freight'. The seller must pay costs and freight to bring the goods to the port of destination. In addition the seller must arrange and pay the insurance. The ownership of the goods (and responsibility for risks) is transferred to the buyer once the goods are unloaded in the port of destination.
Codex Alimentarius	A collection of internationally recognised standards, codes of practice, guidelines and other recommendations relating to foods, food production and food safety, created in 1963 by FAO (United Nations Food and Agriculture Organization) and WHO (World Health Organization). www.codexalimentarius.net
Commodity	A product that is the same, no matter who produces it. Generally commodities are mineral resources and agricultural products; their price is globally set, fluctuating daily according to supply and demand. Examples are: gold, iron ore, crude oil, sugar, coffee and soy beans.
Competent authorities	A person or organisation that has a legally delegated authority, capacity, or power to perform a certain function.
Critical Control Points (CCP)	A point, step or procedure at which controls can be applied and food safety hazard can be prevented, eliminated or reduced to ac-

ceptable (critical) levels. The most common CCPs are for cooking, and involve minimum temperatures and cooking times. (See also below: HACCP)

- FOB** Term used in maritime transportation, stands for 'Free On Board'. Indicating 'FOB port' means that the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer is responsible for the goods from the moment they are loaded on the ship. The buyer pays cost of marine freight transport, insurance, unloading, and transportation from this port to the final destination.
- Food Safety** The issue of whether food is safe and 'fit for use'; food safety involves the growing, handling, preparation and storage of food, in ways that prevent health hazards.
- Global-GAP** A quality and food safety programme for fresh produce (fruit, vegetables, fish, and meat), initiated by a number of large supermarkets from Europe.
- Group Certification** Organic certification for a larger group of small holders whose farms are in geographical proximity and more or less similar (type of farming system, size).
- HACCP** Hazard Analysis by Critical Control Points system – a food safety system that starts from an analysis of food-safety hazards within the production process, after which control points and measures are designed to prevent such hazards occurring. (See also above: 'CCP')
- Internal Control System** A system that enables a group of growers (in group certification) to ensure that all the registered farmers comply with the agreed production standards.

ISO	International Organization for Standardization (ISO) develops standards for products, materials, processes and services when there is a market requirement.
ISO 9001	Varies a little from other standards as it is a generic management standard for quality management, this means it can be used by any (type of) organisation, whatever its product or service, in any sector (www.iso.org).
Niche market	A segment of the market on which a specific product, possibly of a specific standard or quality is focusing.
Organic premium	The price difference between an organic and a conventional product of the same quality.
Supply chain	The chain (sequence) of actors involved in moving a product from producer to consumer, and transforming the natural resource from raw material to finished product.
Traceability	The tracking of any food, feed or food-producing animal through all the stages of its production, processing and distribution.
Value chain	A strategic alliance of independent businesses, that co-operate in order to develop a supply chain in which there is trust and sharing of information among the chain actors, with the aim that they maintain their market share and economic gains and continue to (increasingly) gain in the long run. In the development sector, the value chain development concept is used to identify the disparity between those who do and who don't gain in certain sectors of interest and to develop potentially win-win strategies in the chain. In this process awareness is raised about a more equitable and transparent distribution of benefits along the chain, for sustainability purposes.