

Embedded Services and Supply Chain Efficiencies – Facilitating Backwards Linkages from a Lead Firm

*Developing Markets for Business Development Services: Pioneering Systemic
Approaches*

Fifth Annual BDS Seminar

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Presentation
by

Muli Musinga and Nipul Dodhia



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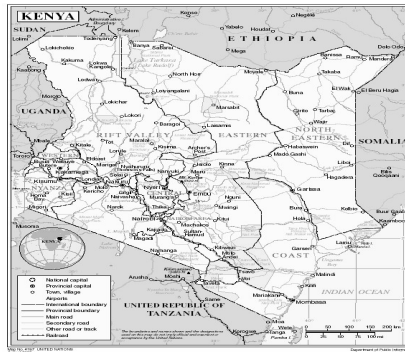
Presentation Agenda

- Kenya BDS
- Kandara Avocado Program
- EAGA – A Lead Firm's Perspective
- Achievements, Challenges, and Future Direction

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I. Kenya BDS



Kenya BDS – Program Objective

A USAID-funded activity to increase growth and income among rural micro- and small-enterprises through increased access to business services.

- Access to Markets: MSEs cannot make money unless they have access to commercial market opportunities
- Access to Skills to Compete: MSEs require specific skills and knowledge to remain competitive

⇒ Treefruit and Lake Victoria Fish Subsectors selected

Kenya BDS – 5 Key Principles in BDS Facilitation

1. Intervention must be grounded within an existing market opportunity
2. Intervention must address a specific constraint in the supply-chain
3. Facilitator must adopt a minimalist approach
4. Commercial signals must be maintained at all levels
5. An exit strategy must be applied in a timely manner

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Kenya BDS
Kenya Business Development Services Program



II. Kandara Avocado Program



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Kenya Business Development Services Program



Background

- Kenyan avocados account for over 50% of total export earnings from fruits.
- Strong demand of Hass and Fuerte varieties in Europe
- Kenyan avocados have a weak name on the international market (poor marketing)
- Collapse of avocado industry in early 90's has left farmers without markets
- Inefficient marketing channels have resulted in heavy broker exploitation

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 Kenya BDS
Kenya Business Development Services Program



Approach

- Kenya BDS to assist East African Growers (EAGA) go “down-market” through assistance with identification, formation, and capacity-building of producer groups
- Kenya BDS provides capacity-building of EAGA agronomists and extension officers
- As an objective party, Kenya BDS “hand-holds” the deal
- EAGA provides crop husbandry TA, pesticide application, and collection and transport services through embedded service arrangements
- EAGA provides guaranteed market through supply contracts with committed groups

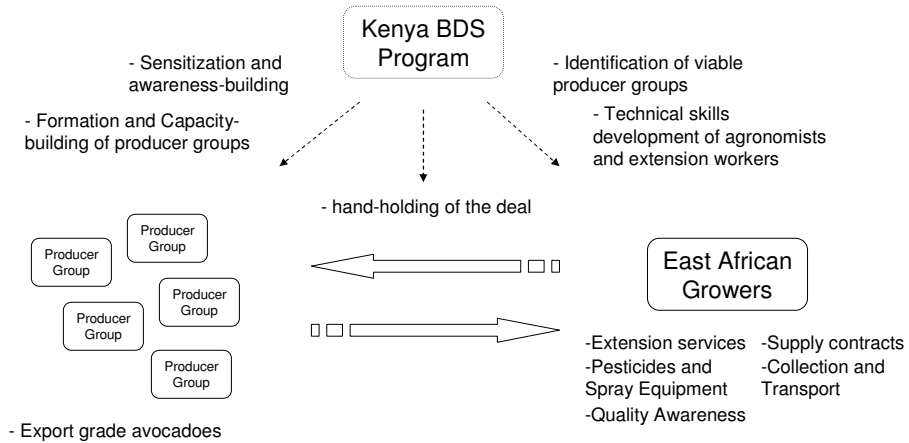
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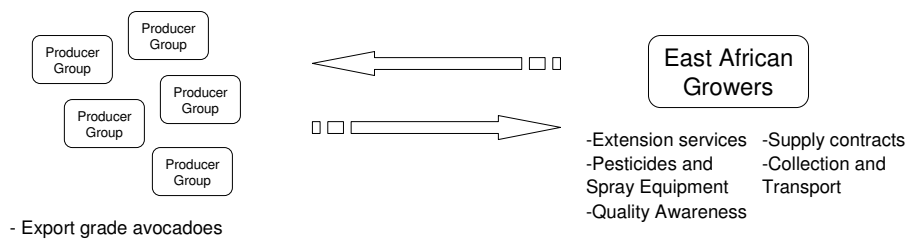
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Facilitation Stage



Post - Facilitation



Critical Steps in Facilitating the Linkage

1. Identification of production clusters
2. Lead firm MOU
3. Sensitization and awareness-creation
4. Producer group formation
5. Supply contract development
6. Facilitation of embedded services
7. Harvesting, grading, collection, packaging, transport
8. Development of payment systems
9. Continuous monitoring and evaluation

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III. EAGA – A Lead Firm’s Perspective



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EAGA Introduction

- Company started in 1966 –origins from a fresh produce family business started in 1901
- Currently the largest fresh produce exporting company in Kenya, with over 5,000 employees
- Produce comprises of vegetables (60%), fruits (25%) and flowers (15%)
- Avocados a major component of company's fruit exports – EAGA commands 20% of avocado exports from Kenya
- Until program with Kenya BDS, all fruits were sourced from middlemen – quality problems

Rationale for Joining Program

- Need for high quality mature fruits – Constraints of diseased and under-ripe fruit.
- Need to streamline the supply chain – Problems of coordination and inconsistent supply from smallholders
- Need to forward Integrate - Increasingly rigid traceability standards with EUREPGAP, as well as need to transition from speculative wholesale to high value retail supermarkets.

EAGA's Role

- Assume Program Ownership – Total commitment from EAGA Board and Management.
- Develop and Honor Supply Contracts – Agreement to purchase all grade 1 fruits produced by participating farmers.
- Provide Embedded Services – The company provided a variety of services, the costs of which were embedded in the transaction.
- Expand Market Outlets – With increased supply, the firm would strive to enhance direct supermarket linkages in Europe.

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IV. Achievements, Challenges, and Future Direction



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Achievements

- Increased incomes and market access for smallholders – 405 farmers with guaranteed market and increased incomes (250-300% price increase).
- Sustainable access to business services – embedded services provided, and 66 commercial service providers developed.
- More efficient and competitive supply chain – avocados sold directly to EAGA.
- Revitalized sector responsive to international standards – farmers sensitized and trained on EUREPGAP, currently undergoing in-house audit for eventual certification.
- Activity is commercial – Zero subsidies or direct involvement with commercial transaction.
- Multiplier effect among other lead firms

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Challenges

- Relationship with farmers is fragile – Farmer suspicion and ongoing enticement of middlemen is a continual challenge.
- Initial “shake up” of participating farmers – Exercise of “costing” embedded services into the commercial transaction and conducting harvesting reviews resulted in an offload of free-riders and non-performing farmers.
- Poor reputation of Kenyan avocados – Although grade 1 quality is on par with South Africa, Kenyan avocados are still commanding a price of 25–30% less on the international market.
- Program yet to significantly impact EAGA bottom line – Initial expectations of avocado production were overestimated due to delayed startup of spray regime, as well as slow pace of “culture change” among smallholders. Investment return is long term.

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Future Direction

- **Program expansion** – expand to neighboring locations that had shown keen interest in participating (from 10,000 to 16,000 trees).
- **Conversion to disease resistant, high value varieties** – collaboration with South African Avocado Growers Association (SAAGA) to assist in top-working of parent indigenous trees and conversion from Fuerte to Hass.
- **Fair Trade Certification** – to enhance the rights of disadvantaged smallholders and achieve premium returns for produce.
- **Branding of Kenyan Avos** – pursue establishment of a “Kenyan label” to enhance brand recognition in Europe.
- **Inter-firm Cooperation** – establish horizontal linkages with avocado processors (i.e. crude oil for cosmetics) to maximize intake from smallholders.