



Improving Market Access among Smallholder Farmers through the Adoption of Alternative Business Models: Oxfam's Experience in the Caribbean

Dr. Kevon Rhiney

(The University of the West Indies, Mona)

Tim Chambers

(Oxfam Latin America & the Caribbean)

SALISES 50/50 Conference
Kingston, Jamaica May 10, 2012

Introduction

- Agriculture is a significant source of employment and livelihood for many small farmers in the Caribbean
- Yet still the sector faces tremendous challenges
- Access to key markets like tourism is difficult, especially for small-scale farmers (Leakage rates > 75% in some cases)
- Smallholder farmers are particularly vulnerable to larger-scale environmental and economic shocks
- Most intervention programmes have focused on improving farmers' productive capacity, paying little attention to marketing and co-ordination constraints

Background

- Over the last few years, Oxfam has been investing in linking smallholder farmers in the Caribbean to key local markets
- Using alternate business models aimed at:
 - a) offering farmers a stable market along with key support and inputs to meet exacting production standards in a profitable manner, and;
 - b) guaranteeing buyers a consistent supply of high quality products, to their specifications and meeting existing food safety standards
- The paper reports on the progress made by Oxfam in two Caribbean islands, namely St. Lucia and Jamaica
- The extent to which alternate business models provide an effective way to link small farmers to markets in a sustainable manner

Case Studies in a Glance

	St. Lucia	Jamaica
Population size	160,765	2.8 mn
Main economic activities	Tourism, manufacturing and agriculture	Tourism, mining, manufacturing and agriculture
Agriculture contribution to GDP	4%	6%
Agriculture contribution to total labour force (%)	20.99	18.14
Food exports	EC\$70.4mn (2009)	US\$200mn (est.)
Food Imports	EC\$292.9mn	US\$800mn (est.)

Background to Case Studies

The Case of St. Lucia

- In 2008 Oxfam GB in collaboration with OXFAM GB undertook a policy review of the relationship between farmers and the tourism sector
- Project objectives:
 - Assess the views of industry decision makers as to the viability and methodology of systematic agri-tourism linkages
 - Formulate a draft incentives plan to encourage hotels/restaurants to purchase local produce
 - Influence public policy at all levels towards creating an enabling marketing environment for small-scale agriculture in the Caribbean
- St. Lucia Market Access Initiative (MAI)
 - Strengthened marketing arrangements between 4 farmer cooperatives, hotel sector, food supply agents and supermarkets

Background to Case Studies

The Case of St. Lucia

- Activities under the MAI
 - Capacity training in farming techniques, production methods and postharvest handling to meet quality and quota requirements of targeted markets
 - Development of a “**farm fresh**” brand as a means of product differentiation and packaging and grading
 - Included more than 12 different fruits and vegetables
- Meetings held with hotel representatives to identify standards and quality requirements
 - Meetings sought to address concerns surrounding quality, quantity and availability issues
- Setting up of a buffer fund with a local credit union
- **Advocacy**

Background to Case Studies

The Case of St. Lucia

○ Achievements

Secure Markets

- Secured buy-in from tourism sector representatives
- Initiative expanded to include agro-processors (now targeting other local markets and souvenir markets)

Marketing Information

- Liaison officers now co-ordinate the flow and exchange of information between hotels and farmers
- Weekly hotel request lists
- Hotel registry of quality producing farmers
- Radio hotlines

Business Capacity

- Continued business training hand in hand with agronomic training
- Graduation and certification of farmers involved
- Provision of technical resources and manuals

Background to Case Studies

The Case of Jamaica

- In 2010, Oxfam explored the viability of setting up a social intermediary enterprise in Jamaica (i.e. JAMAI)
- Main aims of JAMAI:
 - stable market access for smallholder farmers along with key support and inputs
 - guaranteeing buyers a consistent supply of high quality products
- An alternative to conventional top-down, for-profit business models
- Despite their popularity, pro-poor initiatives have largely been left out of academic discourse

Background to Case Studies

The Case of Jamaica

- Project activities

- Undertook a feasibility study

Phase 1:

- (a) assessed the business opportunities for the establishment of a social intermediary
- (b) identify an appropriate business model

Phase 2:

- (a) identify gaps (relative to goods and services) that JAMAI could exploit;
 - (b) propose a market segmentation strategy for each potential good/service;
 - (c) propose a strategy for building a competitive advantage for JAMAI based on business model
- Business model analysis of social enterprises worldwide using the OBMC

Proposed Business Model

Osterwalder's Business Model Canvas provides a strategic business management template

<p>Key Partners </p> <p>Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</p> <p>Business Model Canvas © 2010 Alexander Osterwalder & Yves Pigneur www.businessmodelcanvas.com</p>	<p>Key Activities </p> <p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</p> <p>Business Model Canvas © 2010 Alexander Osterwalder & Yves Pigneur www.businessmodelcanvas.com</p>	<p>Value Propositions </p> <p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?</p> <p>Business Model Canvas © 2010 Alexander Osterwalder & Yves Pigneur www.businessmodelcanvas.com</p>	<p>Customer Relationships </p> <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?</p> <p>Business Model Canvas © 2010 Alexander Osterwalder & Yves Pigneur www.businessmodelcanvas.com</p>	<p>Customer Segments </p> <p>For whom are we creating value? Who are our most important customers?</p> <p>Business Model Canvas © 2010 Alexander Osterwalder & Yves Pigneur www.businessmodelcanvas.com</p>
<p>Cost Structure</p> <p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</p> <p>Business Model Canvas © 2010 Alexander Osterwalder & Yves Pigneur www.businessmodelcanvas.com</p>		<p>Revenue Streams </p> <p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</p> <p>Business Model Canvas © 2010 Alexander Osterwalder & Yves Pigneur www.businessmodelcanvas.com</p>		

Intermediary-farmer relationship

	Ownership models	
	Large agro-firms (few in numbers)	Individual intermediaries
General Quality of relationship	Fairly close; mostly informal; orders may be placed up to 3 months in advance	Relatively weak; mostly informal; Usually a week in advance or on-farm
Communication	Regular; telephone or face to face	Seldom; mostly face to face
Demand	Fluctuate (highest during the winter tourist season)	Same as large agro-firms but worse
Payment	Usually taken on credit (7-14 days)	Usually taken on credit (up to 3 months)

Intermediary-buyer relationship

	Ownership models	
	Large agro-firms	Individual intermediaries
General Quality of relationship	Very good relationship; some receive grants/loans from hotels	Weaker relationship; less personal
Market segments	Mostly hotels and supermarkets	Hotels, supermarkets, restaurants and produce markets
Communication	<p>Hotel orders made 1-2 weeks in advance via telephone/facsimile/internet; Semi-contractual</p> <p>Supermarkets take one or two days; Informal (short-term verbal)</p>	<p>One or two weeks in advances; mostly by telephone or face to face; mostly informal</p> <p>Ibid</p> <p>Restaurants more sporadic</p>
Payment	Hotels generally pay once per month; Supermarkets 7-14 days	Ibid ; Restaurants pay on delivery

Proposed Services for Farmers

Proposed services	Degree of interest (Average score)*	Willingness to invest (Average score)*	Proposed services	Degree of interest (Average score)*	Willingness to invest (Average score)*
Marketing	4.7	3.7	Transportation w/cold unit	4.3	3.7
Dividends/shares	4.8	3.8	Cold storage	4.6	3.8
Extension services	4.3	3.6	Soil management training	4.5	3.9
Business coaching	4.4	3.8	Provision of seed stock	4.1	3.6
Business planning	4.3	3.6	Record keeping	4.6	3.9
Crop insurance	4.7	3.8	Irrigation	4.4	3.9
Credit/small loan	4.1	3.0	Greenhouse technology	4.1	3.5
Packaging	4.3	3.7	Pest management	4.7	3.8
Labeling	4.4	3.8	Post harvest handling	4.8	4.0

Proposed services for clientele

Services to market clientele	Degree of interest (Average score)*	Willingness to invest (Average score)*	Services to market clientele	Degree of interest (Average score)*	Willingness to invest (Average score)*
Packaging	4.0	1.7	Cold storage	3.9	1.7
Labeling	4.1	1.4	Buying local	4.1	2.3
Transportation	4.1	1.7	Contracted prices	4.0	2.1
Sorting	4.3	2.0	Quality assurance	4.3	2.1
Grading	4.1	1.7	Traceability	4.3	2.1
Market forecasting	3.9	1.6			

Proposed features of the JAMAI

Method of payment. pay farmers upfront, either partial or full payment. This can be done through the setting up of a buffer fund. Though coherent with JAMAI's social nature but has to be implemented carefully to avoid liquidity problems.

The Social Enterprise/Ownership Model. The majority of the intermediaries are profit-driven and privately owned. Weak trust networks exist. Farmer ownership can promote commitment and loyalty towards JAMAI.

Quality assurance. JAMAI could facilitate food safety certification for suppliers (evolving service).

Packaging, branding, grading and sorting. Branding and packaging might work better for supermarkets since hotels (all-inclusive especially) require food in bulk. Grading and sorting is demanded more by the hotel market segment.

Partner Network & Services	Key Activities	Offer	Customer Relationships	Customer Segments
<p>- Smallholder associations: savings and credit for farmer members, extension services, business coaching</p> <p>- Government: extension services, business coaching and plans, irrigation & greenhouses</p> <p>- NGOs: extension services, business coaching, financing irrigation & greenhouses</p> <p>- Private sector: credit & insurance, financing drip irrigation & greenhouses, seed supply, and refrigerated transportation from JAMA I warehouse to buyers</p>	<ul style="list-style-type: none"> - Manage the supply-chain (match supply to demand and generate or collect relevant information) - Warehouse, store & process produce - Outsource and coordinate refrigerated transportation of products from warehouse to buyers - Provide (when required) transportation services from farmer to JAMA I warehouse - Provide technical and infrastructural assistance and training to smallholders - Coach smallholders on business concepts and record-keeping - Pay smallholders promptly 	<p>Goods</p> <ul style="list-style-type: none"> - Packaged first- & second-grade vegetables, fruits and root & tubers - Bulk first- & second-grade vegetables, fruits and root & tubers - Bulk third-grade vegetables, fruits, and root & tubers - Rejects <p>Services</p> <ul style="list-style-type: none"> - Supply-chain management (match supply of produce to market demands regarding crop, timing, volume, quality, price,) - Cold and cool storage - Post harvest handling (sorting, packaging, labeling) - Refrigerated & non-refrigerated transportation from warehouse to buyers - Technical assistance and training to smallholders on certain pertinent crops - Coaching smallholders on business concepts and record-keeping - Seed for certain pertinent crops - Prompt payment (maximum one week) to participating farmers 	<ul style="list-style-type: none"> - Close personal relation (attempt an alliance if possible) with main buyers, focused on crop, volume, pricing and quality demands - Close interaction with leaders of smallholder organizations, directed at crop, volume, pricing and quality of offering 	<p>First grade</p> <ul style="list-style-type: none"> - Non-inclusive hotels - Supermarkets - Larger restaurant chains <p>Second grade</p> <ul style="list-style-type: none"> - Local hotels, restaurants & traditional markets <p>Third grade</p> <ul style="list-style-type: none"> - Local agro-processors <p>Rejects</p> <ul style="list-style-type: none"> - Animal farmers

Key Resources

- Management/tech staff, business knowhow and market contacts
- Working capital and Buffer fund for prompt payment to farmers
- Warehouse, storage, cold rooms, & processing areas
- Offices, computers & software
- Plant equipment, scales, power washers, diesel-fueled generator , crates, one pickup truck
- Shareholders contacts and relations

Distribution Channels

Smallholders will transport produce to warehouse, where produce will be processed and then transferred to clients by means of refrigerated and non-refrigerated vehicles.

Cost Structure

- Cost of goods sold (variable or direct costs)
- Staff salaries (management, marketing, technical team)
- Salaries of warehouse workers
- Working capital
- Marketing and technical expenses
- Transportation expenses (outsourcing of refrigerated transportation from warehouse to buyers, drivers salaries, fuel, truck maintenance)
- Utilities (energy, water) and diesel;
- Seeds
- Financial costs (related to opportunity cost of Buffer fund)
- Taxes (33%)

Revenue Streams

- **Sales of first-, second- and third-grade fruits, vegetables & root and tubers and rejects**, that has to generate a gross margin (sales price to market minus purchase price to farmers) to cover services, fixed costs & profits. A quick estimate is 10-15%
- **Sale of seeds**
- **Donations and subsidies.** Due to its social nature & potential positive impact on poverty alleviation, JAMAI can be a good target for donations & subsidies from the private-, public- and NGO sectors
- **Transportation services.** JAMAI will expect farmers to take their produce to its warehouse, but will also provide, if necessary, transportation services to farmers at a cost.

Organization	Ownership Scheme	Social Benefits for Farmers
<ul style="list-style-type: none"> - An alliance between (a) one or more farmer associations, arranged in a network of specialized crop clusters, & (b) a social intermediary with management, marketing and technical expertise that manages the supply chain - JAMAI will have a minimal and efficient team of employees, and a strong relationship marketing approach forming close and intimate connections with both suppliers and markets 	<ul style="list-style-type: none"> - JAMAI will be a profit-making limited liability company whose shareholders will include one or more smallholder associations with male and female members, and an agricultural marketing enterprise. - JAMAI, financed by its own shareholders & local credit sources, has a Board of Directors with seven representatives: three from the participating smallholder associations, three from the agricultural marketing enterprise, and one from OXFAM. The Board of Directors will have a defined number of women. - JAMAI will be 50% owned by smallholder associations and 50% owned by the agricultural marketing enterprise. 	<ul style="list-style-type: none"> - Increased income - Prompt payment for produce - Stable, guaranteed market - Increased access to financial & non-financial services - Reduced transaction costs for marketing - Improved production capacity thru investment in irrigation/water supply/greenhouses

Lessons Learnt

Alternative Business Models can work but they are not without their challenges and limitations

Farmers groups possibly provide the best avenue for 'regoverning' local supply chains; social capital and trust networks are important

Multi-stakeholder partnerships are key

The most effective entry point for intervention may not always be at the farmers' level

For these prop-poor strategies to be sustainable, investors will have to balance service provision with cost structure and revenue streams.