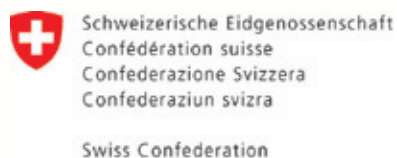


# THE ORGANIC BUSINESS GUIDE

## DEVELOPING SUSTAINABLE VALUE CHAINS WITH SMALLHOLDERS

by Bo van Elzakker and Frank Eyhorn



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English language editing: Sheila Taylor (Kulika, Uganda)

Layout: Catherine Reynolds, IFOAM

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Cover Photos (clockwise from top left): cotton storage in Kyrgyzstan (source: Helvetas), Feria Agroecologica in Costa Rica (source: Ecomercados), export (source: Gebana), and pineapple processing in Benin (source: Helvetas).

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## **FOREWORD**

What does organic mean for you? This question makes most people think, triggers emotions, and sparks the imagination. Seeing products branded as organic, the consumer expects a high level of ethics and integrity. It is clear for most consumers that organic may cost an extra price. At the same time it is also clear that the claims are expected to be true. Products ought to be of high quality, healthy and tasty; moreover, provisions should be made for animal welfare, the protection of biodiversity and a decent living for smallholders.

Organic developed into an internationally known and recognized philosophy of production and trade that is based on the organic principles of ecology, health, fairness and care, as articulated by IFOAM. Producers and consumers alike want sustainable systems in place that provide real solutions to global challenges such as hunger, loss of biodiversity, soil depletion and climate change. This only works if all stakeholders along the value chain are fairly treated and able to be competitive.

Smallholder farmers in low and middle income countries are at the core of IFOAM's attention. While they are the most important source for tropical organic products, they are also the group most vulnerable to poverty and malnutrition due to unsustainable practices. Organic is an opportunity for them. However, opportunities may fail if they are not properly managed and if they cannot be aligned with demand. Setting up an organic business is ambitious and requires skills. On the other hand, organic production is a successful model for millions of smallholders, who, taken together, are responsible for billions of dollars of consumer turnover around the world.

The recommendations and case studies in this guide are built upon a wealth of practical experience and in-depth research, and came out of a broad participation process. We are grateful to all those who committed to passing on their knowledge and hope to encourage and assist all those who strive for improvement or even dare to venture into organic businesses with smallholders in low and middle income countries.

We wish you good luck and prosperity!

Organically Yours,

A handwritten signature in black ink, appearing to read 'Markus Arbenz', written in a cursive style.

Markus Arbenz

Executive Director, IFOAM

# **1 INTRODUCTION TO THE GUIDE**

Sales of organic products are steadily increasing, and so is organic production in low and middle income countries. For good reason: for farmers it is an opportunity to improve their livelihoods and at the same time manage their land in a more sustainable way. It enables them to access promising local and international markets and to gain a better income.

There are many successful examples of how this potential can be turned into a sound business in which all stakeholders benefit. However, there are also less successful cases where it was found difficult to seize - and to maintain - a market. Some of them have struggled for a long time to become independent from external support. The main objective of this guide is to increase the success rate among organic farming initiatives in low and middle income countries.

## **1.1 WHAT CAN YOU EXPECT FROM THIS GUIDE?**

This guide should help those actively engaged in setting up or in managing organic businesses with smallholders, to do a better job, and thus to be more successful. They should know what they are getting into, be well prepared, and able to keep an overview once they are involved in an organic business. We purposely use the term “organic business”, as we strongly believe that organic production initiatives, even if they focus on improving the livelihoods of smallholders, can only grow and survive if they are economically viable.

In the guide you can expect to find the practical know-how and essential information you need to be familiar with in order to set up, manage and expand an organic business. By spending some time reading (parts of) the guide, you will:

- get a succinct but full overview of the main aspects and issues involved, including management principles needed in all businesses;
- receive practical guidance on how to structure and manage an organic business;
- learn about successful examples and the key factors that made them a success;
- learn about pitfalls so that they can be avoided;
- become familiar with systems and tools that can help you to be effective and efficient;
- get to know the most relevant information and linkages that help you to orient yourself further in this field

This guide was developed in a participatory process involving people who are active and experienced in managing or supporting organic businesses in Asia, Africa and Latin America. For the first step, the content identified by the editorial team was tested and expanded in an international workshop involving more than 30 practitioners. On this basis, and drawing from years of their own practical experience, the authors developed a first draft of the guide. Documents and websites on related topics served as sources of inspiration, and are referenced where useful for the reader. Drafts of the guide were reviewed by entrepreneurs, consultants and development experts active in this field.

Practitioners have the possibility to contribute to the online-version of this guide by editing the wikibook at [www.wikibooks.org](http://www.wikibooks.org).

## 1.2 WHO IS THIS GUIDE FOR?

The guide is primarily written for people who are directly involved in the set-up or management of an organic business that involves smallholders in low and middle income countries. These can be individual entrepreneurs, senior staff of companies, but also the management of producer cooperatives marketing organic products. In this guide, when we use 'you' we address this type of people (Figure 1).

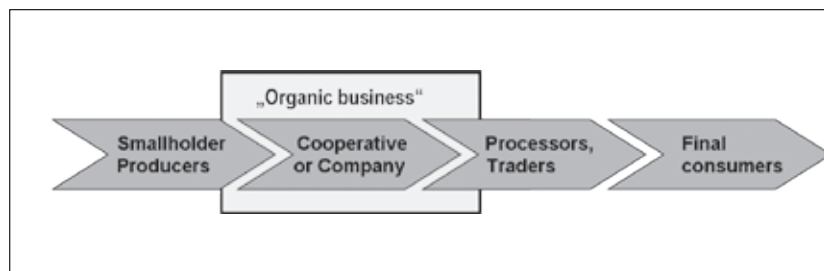


Figure 1: The organic business in the value chain.

Secondly, the guide should be useful for those who facilitate the development of such businesses. These can be NGOs focusing on sustainable development and income generation of rural communities, or consultants and business development services. Thirdly, the guide should help donors, financial service providers and government agencies active or interested in this field to better understand the particularities of organic businesses and to provide the right support to the right initiatives. Chapter 12 specifically addresses organisations that facilitate and support the development of organic businesses.

The focus of the guide is on organic businesses and where this is possible, organic in combination with Fair Trade. However, it is not about Fair Trade in conventional farming. The following examples from Africa, Asia and Latin America provide an idea of some of the different types of organic businesses:

- **Pineapple processing and export in Uganda:** An individual entrepreneur, who contracts 200 farmers producing organic pineapple, exports fresh pineapples and runs a solar based drying plant. He sells the fresh pineapple to Europe and sometimes to Kenya, and the dried fruit to Europe and on local urban markets.
- **Cocoa production in the Dominican Republic:** A Fair Trade-certified cooperative consisting of 180 producer associations which involve a total of approximately 10,000 farmers, most of them certified organic. The cooperative runs fermentation facilities and exports directly to Europe and the US. Fruits and vegetables intercropped in the cocoa are sold in the local market.
- **Cotton and pulses in India:** A farmer co-owned company that involves 5,000 cotton farmers who hold the majority of shares. The marketing company was set up in order to improve the livelihoods of smallholders by increasing efficiencies, lowering input costs and raising incomes through organic and Fair Trade certification. It established commercial partnerships with the local processing industry, and with textile brands abroad. Pulses and other rotation crops are currently sold in the local market.

### 1.3 ENTREPRENEURIAL OR DEVELOPMENTAL PERSPECTIVE?

Organic businesses may be developed by entrepreneurs who use their own funds or take up loans, or by producer organisations that use the shares or fees of their members. They may receive support from locally available funds for private sector development, or from development agencies. The approaches of these different actors, however, are often quite different. First of all, an entrepreneur needs to ensure that s/he will make a profit, meaning that revenues are higher than costs after an as short as possible initial phase. As entrepreneurs are using their own money, they are usually more sensitive about avoiding risk. They particularly need to be sure that their investments pay off, and that no one else reaps their benefits. At the same time entrepreneurs can also be opportunistic in the sense that they can easily change business focus from one product to another one, and in that way abandon groups of farmers.

Producer organisations have a longer term perspective with the wellbeing of their members in mind. They are not focused on profits; they are focused on getting their members a better deal.

#### **Examples of entrepreneur thinking**

- How do I become profitable in a short time?
- What is the minimum I have to do, and what extra if I want to do a really good job?
- What is the cost; can someone else pay for it?
- What are the risks, and how can I reduce them?
- How can I avoid farmers turning against me?

Development agencies are most concerned about the impact the organic initiative has on poverty reduction and on sustainable development of disadvantaged communities. They need to ensure that small farmers benefit, and that important cross-cutting issues such as gender equity and HIV/AIDS are given due attention. Unfortunately, many support programmes follow a project logic, and some businesses collapse at the end of that period as they are not yet self-financing. In some cases they have become addicted to donor support, and programmes are then extended for a long period.

#### **Examples of development agency thinking**

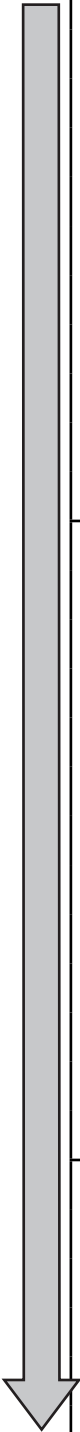
- How can we achieve development goals?
- How do we ensure that small farmers benefit?
- How does this integrate cross cutting issues (gender, social inclusion, HIV/AIDS etc.)?
- How can we make sure that public money is spent in a responsible way?
- How can we ensure that the objectives of the project are achieved?

A far-sighted entrepreneur will understand that his or her organic and certainly Fair Trade business will only succeed in the long run if the farmers benefit too. A far-sighted development agency as well as a farmer cooperative, on the other hand, will understand that farmers will only benefit if the production and marketing of their products is handled in a professional and competitive way so that it makes money. This guide is written for all of them.

In general it is a lot easier for existing companies and cooperatives to convert (part of) their business to organics rather than for companies and cooperatives to be started up for the purpose of going into organic business. However, in an existing business, it is necessary to separate the organic unit from the conventional one. Setting up a new business, developing an organic product line, or starting up organic processing are all very challenging tasks, certainly in a three year period; a good business person knows when and where to ask for assistance. Many entrepreneurs are reluctant to ask for help because of the paperwork involved or because they have to expose their figures. This is an unnecessary obstacle to the growth of their business (see chapter 4.4).

#### **1.4 HOW TO USE THE GUIDE**

You could read this guide from beginning to the end, thus covering all relevant aspects of an organic business; more probably, however, the guide will serve you as a reference manual which you can consult when searching for information or guidance on a topic that is relevant for your work at that time. In the back there is an Index that will help you to easily locate the topic of your interest. In addition to a table of contents, there is a flow chart of the typical steps involved in setting up an organic business (Figure 2). For each step, reference is made to the chapters where you can find the relevant information.



	<i>Steps</i>	<i>Chapters</i>
<i>Preparation</i>	Get familiar with the topic	2.1-2.4, 4.1
	Overview on market and requirements	3.1-3.4
	Define your product offer	3.2, 3.5
	Check interest of possible buyers	3.2, 10.3
	Understand certification options	2.5, 8.1
	Identify conversion needs at farm level	5.1-5.3
	Define the scope and objectives of your business	4.2, 6.3, 11.2
	Define your organisational set-up	6.2, 7.1, 4.4
	Identify the right field staff	7.3, 7.4
	Identify suitable partners and allies	4.2, 4.3, 11.4
	Identify suitable support	4.3, 10.4, 12.1
	Analyze the feasibility of your business idea	6.4
	Develop a business strategy and plan	6.1, 6.3
Financial planning, cash flow requirements	6.4, 6.5	
<i>Implementation</i>	Setting up your business	6.2
	Setting up the extension system	7.3
	Information and training of farmers	7.2, 5.1-5.3
	Define prices, premiums, payments	7.5
	Dealing with gender issues	4.4
	Choice of certification body	8.1
	Developing and maintaining the ICS	8.2, 8.3
	Product quality management	9.1-9.3
	Identify buyers, visit trade fairs	10.1-10.3
	Meet the requirements of the clients	10.2
	First business with clients	9.5
	Checking the cost price	6.4
	Checking customer satisfaction	10.3
<i>Consolidation</i>	Expansion to an optimum	6.3, 6.4, 11.1
	Building loyalty with the farmers	7.2
	Building a relationship with buyers	10.3
	Crop and product diversification	5.1, 6.3
	Developing local and regional markets	3.4
	Adding processing steps	9.4
	Additional certifications	2.5
	Revising the ICS	8.4
	Developing your organisation	6.7, 11.3
	Work towards a conducive business environment	11.4, 12.3

**Figure 2: Flow chart of typical steps to set up an organic business, with reference to the respective chapters in the guide.**