

# From Saplings to Satisfaction: Increasing market access for small apple farmers by brokering the relation with national agribusinesses

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This case is one of a series specifically prepared by SNV and local partners for the “Seas of Change” event, taking place in The Hague, 11-13 April 2012. The cases cover a range of commodities and approaches in value chain development across Africa, Asia and Latin America. They usually include several of the following elements: strengthening of producer organisations, productivity improvement and value addition, business development services, inclusive business ventures, contract farming, marketing arrangements and improved chain financing. The work has been done with local entrepreneurs, NGOs and government bodies. Among the international collaborative partners are: IFAD, FAO, EU, USAID, DANIDA, Helvetas and IDB. For an overview of these SNV cases please see [www.snvworld.org/en/sectors/agriculture](http://www.snvworld.org/en/sectors/agriculture)

## Key features

The case study presents a relatively small but meaningful pilot project that is presently scaling up from 400 to 3,000 farmers (with an ultimate goal of 10,000 participants) in Nepal’s most important apple growing district. The project focuses on increasing market access for small farmers from a remote district through brokering improved commercial relationships with agribusinesses operating in the national market. A concrete account is given of a value chain development intervention that addresses demand, transactions, supply and policy issues. Farmers’ incomes improved as apple prices increased with 200 to 300%. Business have benefited significantly due to more reliable supply, improved quality grading and certification, and import substitution.

## 1. Context and background

Despite Karnali being known as the most remote, poor, and food insecure region in Nepal, it offers good prospects for developing high value commodity chains (including temperate fruits, off-season vegetables, vegetable seeds, and non-timber forest products inter alia). Although the large majority of the districts in the region still remain inaccessible via road, the opening of the Karnali Highway renders connectivity to some mountainous districts to Nepalgunj. This is one of the major market hubs through which products can make their way to India as well as other market centres in Nepal.

Jumla, despite being one of the most mountainous districts in the region, is the largest apple producing district in the country, contributing 19.4% to the country's total apple production. More than 10,000 farmers are involved in apple production (Ministry of Agriculture & Co-operatives and SNV Nepal, 2011). In Nepal more than 37,000 metric tonnes (mt) of apples, worth more than US\$12 million are imported from India and China. Annually, only about 10% of the apples from Jumla make their way out of the district.

Presently, the rough road from Jumla to Surkhet remains partly closed during the monsoon, which also coincides with the apple harvesting season. This poses a challenge in the marketing of Jumla apples, despite huge demand in urban market centres. It is expected that road access will improve within the next two years. In view of this and in combination with increasing demand for Jumla apples, potential for impact, pro-poor growth potential and an increasing interest among companies willing to buy apples from Jumla, SNV decided to develop a High Value Agriculture Inclusive Business pilot, financed by the International Federation of Agricultural Development. The main thrust of the pilot was to connect Jumla apples to the national market by facilitating links between agribusinesses and apple producers.

BH Enterprises is a private company which has been involved in the apple business since 1996. The company currently imports around 2,000 mt of apples from China and India annually. The company is also engaged in wholesaling, retailing and Direct to Home (DTH) services in Kathmandu. Established in 2008, the Organic World and Fair Future (OWF) is an emerging value based company, associated with the International Federation of Organic Agriculture Movement (IFOAM), Nepal Permaculture Group and Fair Trade Group Nepal. OWF has been sourcing and distributing various organic products in Nepal. Its products are sourced from places certified by Organic Certification Nepal (OCN), NASA and ECOCERT, as organic. It has been marketing fresh vegetables, seasonal fruits including Jumla apples, dried beans and pulses, honey and cereals.

Incentives for these two companies to engage in the project and aid in the sourcing apples from Jumla are economic related – there is an increasing demand for Jumla apples as they are considered to have a unique taste and quality; and marketing related – Jumla apples enable companies to profile themselves as socially responsible and environmentally friendly; as well as supply chain related – securing and optimising their supply of apples.



Table 1 Main Interventions SNV Nepal

Area	Main Interventions
<i>Demand side</i>	<ul style="list-style-type: none"> <li>• Create awareness of Jumla apples in major market centres</li> <li>• Identification and due diligence of agri-businesses</li> <li>• Support development inclusive business plans</li> </ul>
<i>Transaction</i>	<ul style="list-style-type: none"> <li>• Facilitate buyer-seller meetings between producers, District Chamber of Commerce and Industries and the District Co-operative Federation</li> <li>• Broker fair and transparent contracts between agribusinesses and producers</li> <li>• Support development of embedded services provided by the agribusiness</li> </ul>
<i>Supply side</i>	<ul style="list-style-type: none"> <li>• Capacity building of co-operatives and federation (technical, organisational, marketing)</li> <li>• Capacity building and support for organic production and certification</li> <li>• Support to District Agriculture and Development Office for developing service provision by Local Agriculture Resource Facilitators</li> </ul>
<i>Policy</i>	<ul style="list-style-type: none"> <li>• Support dialogue for apple production comprising actors from the private sector, government and civil society</li> <li>• Facilitate knowledge development, studies and lobbying for pro-organic policy and practices</li> </ul>

### 3. Evolution of the initiative

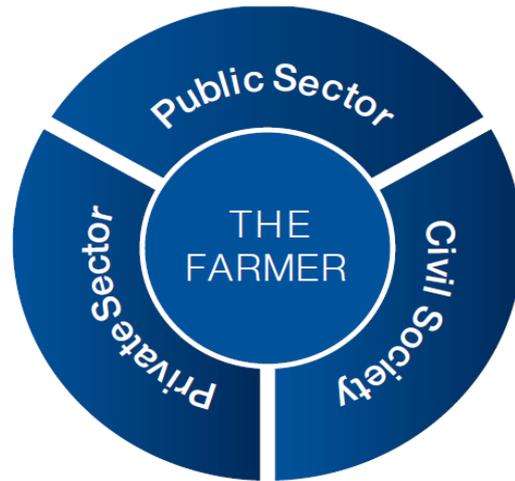
#### ***Towards a market development approach***

Jumla and apples are synonymous in Nepal. Until the start of the pilot, interventions were mainly production oriented. According to the Jumla District Development Committee (DDC) household survey in 2008, around 10,000 households had apple orchards and were producing over 1,800 mt of apples, of which only 30% of the apple trees were at fruit bearing stage. Apple production is expected to rise significantly in the coming years; due to the local government policy of “one orchard per household”, stimulating an aggressive approach to the plantation of apple saplings. This has already led to a situation of production fairly exceeding sales; Jumla apples were sold at NPR 2/kg in the local market in Jumla in 2008. Jumla declared itself as an organic district in 2007, and in 2009, the District Agriculture Development Office (DADO) initiated certification of Jumla apples for three villages. This period also witnessed increased awareness on nursery improvement, orchard management, training/pruning, grading, packaging and market linkages with wholesalers. The pilot adapted a market oriented approach and started working with agribusiness as an entry point for interventions. Because of this, considerable price increases have been realised (up to Nrs. 26-35 per kg for Grade A and Nrs. 22-24 for Grade B).

**Towards a multi-stakeholder approach**

Initially, the pilot focused on the commercial agreements between the agri-businesses and the co-operatives. The project was instrumental in supporting co-operatives to identify business partners, to make business deals, and to realise a supply arrangement through the District Co-operative Federation (DCF) – a coalition of nine co-operatives in Jumla. A link between the DCF and the Kathmandu based private company B.H. Enterprises was established. This company is involved with the wholesale distribution of Jumla apples in Kathmandu and based on the pilot would now like to increase its supply base from Jumla.

Figure 2 Multi-stakeholder approach<sup>1</sup>



In the course of the project, the focus shifted towards a multi-stakeholder approach. The two agribusinesses were obviously key drivers and their deal with the District Co-operative Federation acted as the core of the business model. They guaranteed buybacks and were involved with crop monitoring, supply of packaging materials, and certification. The District Agriculture Development Office in collaboration with I/NGOs was instrumental in getting villages certified as organic and in building demand based technical and organisational capacities among apple producers. SNV, in collaboration with a local NGO facilitated market development via a number of interventions on the demand side, the supply side, transaction and at policy level (see also table above).

**Towards scaling up**

Figure 3 Basis for Scaling



Unmet market demand and production potential coupled with the commitment of the private sector and improving transportation infrastructure conditions provide a good basis for up-scaling the pilot initiative. Building on the pilot, the High Value Agriculture Project in hilly and mountainous areas is facilitating this in a follow up phase. BH Enterprises used to rely solely on Chinese markets for apple imports. However, after the project intervention, some part of its apple imports have been replaced by Jumla apples. As the demand for Jumla apples surpasses current supplies reaching the national market and road connectivity is improving, B.H. Enterprises and Organic World and Fair Future (OWF) are seeking to increase their supply base from Jumla.

<sup>1</sup> Source: Realising a New Vision for Agriculture, a roadmap for stakeholders, World Economic Forum, 2010

The current business plans of BH Enterprises and OWF indicate fairly progressive and realistic targets on increasing the trade volume of Jumla apples. While BH Enterprises plans to market 200-500 mts of apples, OWF intends to gradually increase their Jumla apple transactions from 80 mts in 2012 to 150 mts in 2016. These two enterprises will thus increase their supply base from 400 farmers during the pilot phase to 3,000 farmers within a year from now. Furthermore, there is an emerging interest from other national and regional businesses to source apples from Jumla. In 2011, around 40 mt of Jumla apples were sourced by regional traders (in the districts of Nepalgunj and Surkhet). Further “crowding in” would widen the distribution network, increase sales and could cater for unmet consumer demand.

#### 4. Impact

**Income:** the intended results were an increase in the volume of transactions and increased income for producers. The two year pilot has resulted into mutually profitable contractual agreements between the producers and buyers. In 2010, the District Co-operative Federation (DCF) signed a contract with B.H. Enterprises for the supply of 100 mts of apples, of which 40 tonnes were certified, with the remainder non-certified. Cumulative figures obtained from Jumla District Co-operative Federation show that total transactions involving apples in 2010 and 2011 reached 120 mt. Against the base price of NPR 10/kg, in 2010, DCF records indicate total additional revenue from organic apples at Nrs. 2 million (US\$ 27,800) For 402 smallholder farmers, including 84 women, this means that on average they were able to generate US\$69 in additional income.

**Value addition:** the 402 participating households were organically certified (Grower Group Certification) through Organic Certification Nepal (OCN). As a replication and copying effect, three additional villages were also certified (in-conversion in 2011). So as to meet the essential criteria for Grower Group Certification co-operatives in Jumla now have a robust Internal Control System (ICS) that oversees technical and management aspects for external inspection and certification. For the first time, a grade based pricing system has been introduced and higher grade apples are able to fetch a premium price.

**Service Provision:** 15 well trained Local Agriculture Resource Facilitators (LARFs) are providing services to farmers. These LARFs presently work voluntarily, but could potentially evolve as commercial service providers and could be attached with co-operatives so that producers can avail of production related services provided by co-operatives, thereby fostering the extension of co-operatives into rural production pockets.

## 5. What are the key implications for scaling inclusive business?

**Trust is critical:** establishment of trust between the company and producers requires patience, but at the same time creates a solid foundation for a long-term business relationship. As an external facilitator it was quite challenging at the beginning to see a large number of agribusinesses willing to deal with apples from Jumla but reluctant to engage because of the transportation problem. Once the company agreed to enter into a contractual agreement, it also took a considerable amount of time to establish mutual trust and confidence among the contracted parties. The key learning point here was that 'the role of external facilitator goes beyond the mere establishment of formal contracts'.

**Focus on 'crowding in' of buyers:** scaling has been initiated as both agribusinesses involved have now developed business plans to substantially increase sourcing from Jumla. A number of wholesalers have also shown an interest in developing business relationships with Jumla. As a facilitator, this crowding in needs to be promoted as this will discourage a monopolistic market and promote competitive practices. This will also enhance the bargaining power of producers and ensure that they are rightfully paid.

**Embedded services:** involvement of the agribusiness in service provision is important for quality assurance and better business relations. It also contributes to the sustainability of the service delivery.

**Key factors for scaling:** finally, the apple case in Jumla shows that for scaling inclusive business a number of inter-related key factors need to be in place: (i) market demand, (ii) production potential to meet this demand, (iii) a committed private sector and a business model which is mutually beneficial for agribusiness and farmers and (iv) infrastructure that facilitates the movement of products.