

Delivering Profitable Market Linkages

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Why Avocadoes



According to James Gitau, a farmer in Maragua with 210 trees, avocadoes

- ▣ have higher production per unit of land occupied as compared to other crops;
- ▣ are less expensive to produce in terms of inputs; and
- ▣ require minimal labour because once the tree is planted it requires limited attention.



MSE Business Constraints



Low Individual
Production Levels

Limited capacity to
bulk fruit

Transport
arrangements not in
place

Payments delay in
processing and/or
assurance payments
will occur

Negotiating for next
order and delivering
consistently

Preparation for next
season



- ❑ Negotiations for fruit was done in 'heaps of fruit' or in extended bags.
- ❑ The result was:
 - Low prices
 - Unreliable collection schedules
 - Rejected fruit left on the ground as waste
 - Low Income Streams



Our solution: market linkages as a business service

- To address the constraints above, an intervention was designed to address the bulking and delivering of grade II fruit as a business service.
- This entails
 - a network of commercial group management officers (GMOs); and
 - a commercialized market-linkage business structure.

“WMG Consultancy” as facilitator

PLANNING

- ❑ Design the detailed strategy
- ❑ Identify geographical areas and clustering for each processor
- ❑ Recruitment and training of GMOs, geographical location & target setting
- ❑ Relationship building with processors & agreement on price
- ❑ Transporter(s) identification
- ❑ Establishment of commercial entity to perform market linkages

MONITORING & HAND HOLDING

- ❑ Tracking performance of the GMOs
- ❑ Overall transport coordination and payments
- ❑ Relationship management with processors
- ❑ Tracking payments to farmers and management fee

GMOs – the market linkage service provider

- ❑ The Commercial Group Management Officer is a locally hired field officer who provides the bridge between the farmers and processors.
- ❑ The GMO is responsible for quality control and ensures that the processor receives substantial volumes of fruit through out the season - consistently.





Role of GMOs

- ❑ Assess tree population
- ❑ Sensitizations and barazas
- ❑ Group formation and clustering
 - (ensure a formalized group with the Government, bank account, leadership, census)
- ❑ Data collection for centres
- ❑ Logistics for collection and delivery of fruit, including
 - Estimates
 - Scheduling
 - Quality control
 - Weighing & delivery
- ❑ Payment collection
- ❑ Monitoring cash payments to farmers

So how does the business work?

- Important parameters to ensure that GMOs break even and maximize on the economies of scale:
 - Volumes – source and mode of bulking
 - Price negotiated with processors
 - Percentage of management fee charged
 - A good network of officers
 - Operate as a business



Volumes



- ❑ First we assessed the areas with a high concentration of fruit and the volumes available.
- ❑ By default, these are the areas with export programs (for obvious reasons)
- ❑ They supplied 70% of fruit to oil processors (through the program) and we believe much more through brokers.
- ❑ We target these areas for collection centres.





Prices



- Supply substantial volumes to processors
 - 2005 we supplied 2%
 - 2006: 10%
 - Target: 30%

- Gives us a strong 'voice' to target a premium price



Management Fee

- ❑ This was a difficult one to sell because it was introduced in 2006
- ❑ Charge is 35cts/kg or 7% of sale price
- ❑ Held meetings with processors and farmers to discuss the role of the GMOs and importance of charging a fee for sustainability
- ❑ All were in agreement on the value added and agreed to pay the management fee



Network of Officers



- Payment is based on the amount of produce sold to the processor
- The entrepreneurial officer will therefore ensure maximized outreach
 - in terms of number of trees per group
 - amount of fruit delivered to collection centres
 - optimal performance of groups – the higher a group performs (cohesiveness and delivery) the more the produce and the higher the payment to the GMO.



Challenges that emerged...



- ❑ Maintaining quality assurance (standards)
- ❑ Difficulties in communication between the processors and GMOs.
- ❑ Processors preferred a one stop shop.
- ❑ Lack of a reliable and professional (trusted) partner – it is easier to negotiate and rely on an entity than individuals (for processors & transporters)
- ❑ Difficulties in bulking and enjoying the economies of scale for transport

The Solution - Agri Outlets Company



Directors

Manager

Coordinator

New Business
Consultant

Commercial Officers (4)
Maragua, Muranga, Thika

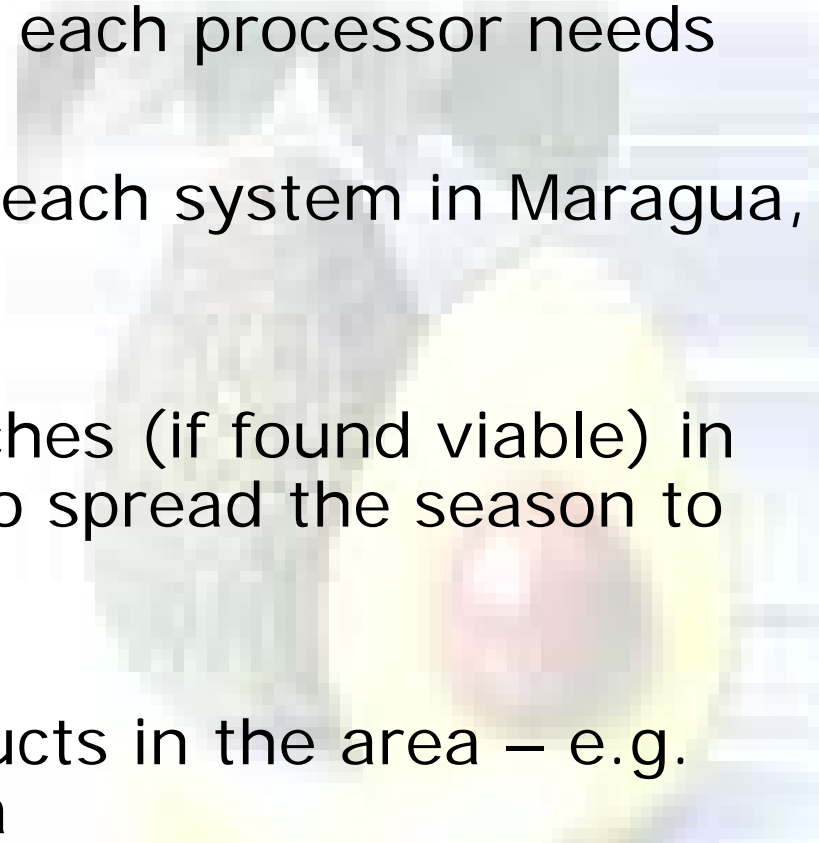
Clerk and Casuals
during peak season

- Registered Agri Outlets Company as a separate entity
- With an established staff and management structure



Our long term target



- ❑ To supply 50 per cent of each processor needs
 - ❑ To have an efficient outreach system in Maragua, Muranga and Thika
 - ❑ To have satellite outreaches (if found viable) in Limuru and Githunguri to spread the season to September
 - ❑ To spread to other products in the area – e.g. passion fruit and banana
- 

The difference to farmers – increased incomes

- In 2005:
 - Total fruit delivered: 178 tons, valued at Kshs 815,818.
 - Brokers value: Kshs 178,000

- In 2006:
 - Total fruit delivered: 410,848 tons Valued at Kshs 2.1m
 - From all groups: 804,948 tons valued at Kshs 4m

- Market response elicited: broker's price has continued to go up



Lessons Learnt

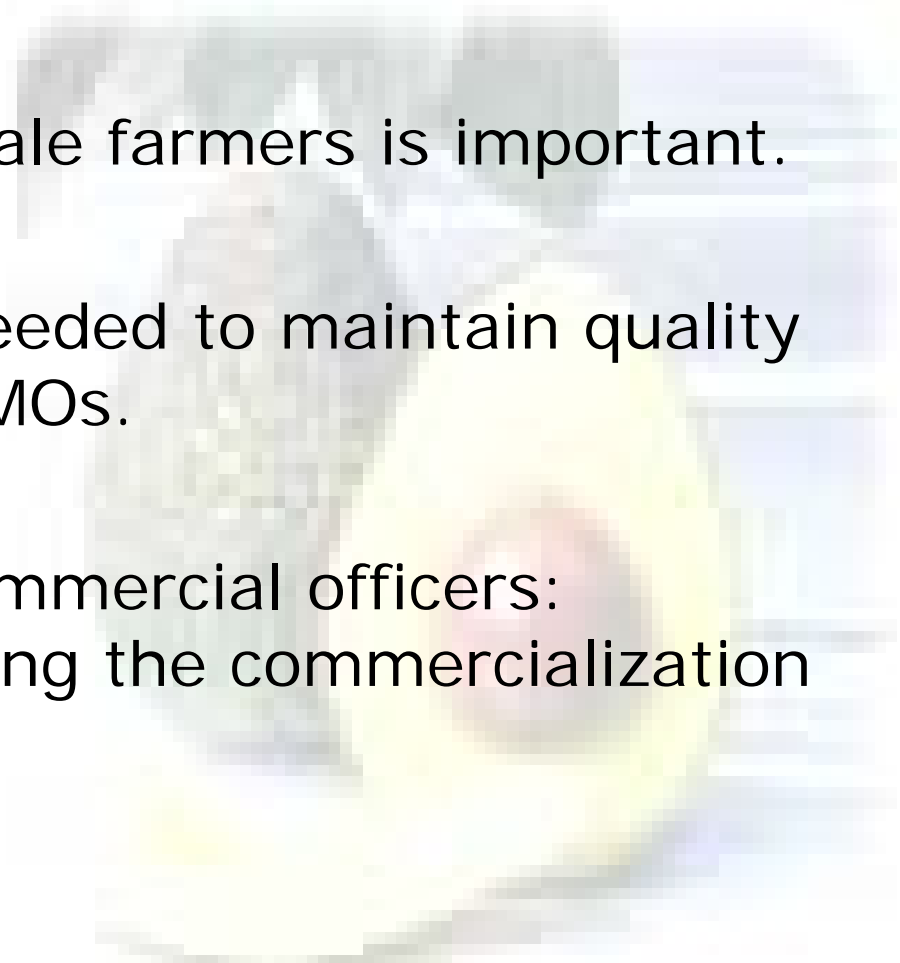
- Important to maintain focus on the value of the market linkage
 - For the farmers: market assurance throughout the season, improved prices and structured picking and delivery of only the correct (mature) fruit, no waste.
 - For the processors: consistent supply of mature fruit in an orderly and structured system.
 - For the GMOs: is an income and profitable business.



Lessons Learnt



- Identification of large scale farmers is important.
- An umbrella company needed to maintain quality assurance among the GMOs.
- Finding and retaining commercial officers: especially after introducing the commercialization approach.



Thank You!



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