

Peru's Chira Valley small banana producers compete in international organic markets

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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

Key features

Dole in Peru, a company that traditionally sources from large producers and company-owned plantations, implemented an Inclusive Business model that links small-scale banana producers to the company's value chain through a mutually beneficial relationship. Productivity and quality of production of 2500 small farmers was increased with 75% over a period of 3 years. This went together with the organic certification of their product, and forward integration of farmers in the chain: they are now obtaining added value to their product through packaging the bananas themselves. Certification, together with the transfer of processing capacities to farmers' associations generates increased sustainable incomes for the producers and improves employment conditions in an economically depressed zone that has considerable potential for agricultural business. The company gained through increased efficiency and larger export and trading of organic banana, a product with a growing demand in international markets.

1. Context and background

Production of organic bananas in northern Peru's Chira Valley (responsible for 75% of the country's national banana production) is in the hands of small farmers, who own an average of 1.2 hectares of land and for whom banana production is their main source of income. Traditionally, productivity among the farms has been low, due to the fact that farmers have very limited access to technical and financial resources, and levels of crop rejection during harvest and post-harvest times has been high. At the same time, production costs are high because organic fertiliser is particularly expensive in the locality. In addition, farmers that have chosen to commercialise their production primarily work through middlemen who establish unfavourable business deals and who in their pricing don't recognize the fact that the bananas are organic, since local demand for organic bananas is insignificant. As a consequence, banana producers earn as little as one-third of what they could earn from the export market for organic bananas. An average farm produces 1,350 boxes of 18.14 kilo bananas per hectare/year, for a price of US\$4,455 and a net income of US\$1,455 (as production costs amount to US\$3,000).

Under these circumstances and driven by the growth in the market for organic bananas, in 1998 Dole Food Company Inc. (the world's largest fruit and vegetable trader) decided to support Peru's Ministry of Agriculture and the International Network for the Improvement of the Banana and Plantain (INIBAP) in the implementation of an Organic Banana Programme in the Chira Valley. Through this programme, incentives were given to producers to encourage the use of guano — sea bird excrement — as organic fertiliser. At the same time, private companies were encouraged to seek and invest in organic certification. Banana producers were able to enter and take advantage of the benefits yielded by markets for organic certified produce. The first exports of organic bananas were made from Peru in June 2000.

Over the next ten years, exports of organic bananas from Peru grew; in 2008 Peru became one of the world's main exporters of the fruit, with sales of 80,000 metric tonnes (mt) for a total FOB value (free-on-board value, or price at which the product leaves the port) of approximately US\$45 million. Historically, Dole operated in Peru through local companies that sold to Dole on an FOB basis. In 2001 the company began buying through the Peruvian Banana Development Corporation (COPDEBAN S.A.C.), an export company that is the top banana exporting company in Peru with a market share of 45% in 2008 and US\$20.49 million in revenue. This reflects an Inclusive Business initiative developed by COPDEBAN-Dole.

COPDEBAN-Dole in the Chira Valley initially worked with individual farmers that had difficulty in the production, harvest and post-harvest treatments that Dole required. The company would therefore buy the crop directly off the tree from each individual farmer, and their workers would go in and harvest and package the bananas – convinced that the farmers would not be able to meet the company's quality requirements. The company also had difficulty to conceive of ways to improve the production and harvesting methods of hundreds of small individual producers.

2. Underlying business model

In 2007 SNV entered an initial agreement with COPDEBAN-Dole, which included the development of an Inclusive Business model that would integrate the banana producers more closely in Dole's value chain to the benefit of both the company and producers. The connection between SNV and COPDEBAN-Dole was established through the SNV-WBCSD Alliance. Later in the same year, SNV incorporated this Inclusive Business initiative in the portfolio of projects it was developing with support from the Multilateral Investment Fund of the Inter-American Development Bank (IDB-MIF). Dole would invest US\$100,000 in the initiative and IDB-MIF would contribute US\$120,000 over two years under grant conditions, while SNV would contribute technical assistance.

In 2008 and on basis of a previously conducted baseline survey, an Inclusive Business plan was developed. It involved the following:

- Training of the farmers in improved organic production methods
- Organisation of farmers in associations and a co-operative
- Creation of centres for product packaging
- Strengthening of the associations so that they could take care of harvesting and packaging

The underlying idea was to move from a model in which the company buys the fruit off the tree from each producer individually, to a one in which associations of producers sell the packaged product to the trader.

COPDEBAN-Dole was interested in transferring the packaging processes to the producers because it only gave the company low marginal benefits as a return on the labour they had to invest in. The transfer of that process to the farmers would generate additional benefits for the farmers in terms of income and capacity building. The model would involve 1,600 organic banana producers that were to be organised in 10 associations. The producers were small-holders with elementary-level education, limited access to financial services and in part – although they had been producing in an organic manner – unfamiliar with the technical requirements of organic certification.

The actors involved in the experience are:

1. COPDEBAN-Dole, investing in the preparation of small banana farmers and their organisations, and providing them with the infrastructure for packaging of their product. COPDEBAN supplies the product to Dole, who is responsible for the transport and trading in destination markets.
2. Small-holder producers of organic banana, who improve their production and take charge of harvest and post-harvesting process, up to delivering the packaged product Free-on-Board.
3. DALE-Peru Foundation (CSR foundation that receives funding from Dole), supporting the Inclusive Business initiative and helping producers' associations to develop investment profiles for the community and providing advice to help the associations attract investment. Dale Foundation channels the US\$1 received through COPDEBAN-Dole for each box sold on the fair-trade market (part of normal Fair Trade regulations, in this case channelled through Dale) and makes sure it is invested in line with the farmers' interests.
4. SNV, provider of technical expertise and assistance, facilitating the inclusion of small producers into the COPDEBAN-Dole supply chain.
5. Inter-American Development Bank through its Multilateral Investment Fund (MIF), co-financing the activities of the Inclusive Business model.

Within this Inclusive Business model, a series of activities were developed that aimed at transitioning from the individual purchase of fruit on the tree to the purchase of the packed fruit from the associations:

- The banana growers were organised in associations, through which they received technical assistance for improved production and harvesting methods
- The associations were strengthened in terms of technical and administrative capacity and leadership development, which were necessary in order to more efficiently manage the packaging process of the bananas and ensure better quality product.
- Packaging centres and infrastructure (formerly owned by COPDEBAN-Dole) were donated to the producers' associations in order to be managed by them

3. Evolution of the initiative

In 2009 COPDEBAN-Dole, with technical support from SNV, started investing in the training and organisation of the producers. This included strengthening an organisational culture in order to form associations that were able to function as small enterprises. Although the producers involved had many years of experience in organic banana production, there was a lot of room to improve agricultural practices in order to increase productivity and incorporate certification standards that assure stable access to international markets (Fair Trade and GlobalGap).

From there, the company went on to train the producers' associations in the packaging process and implemented the transfer of the packaging centres to the producers' associations. A programme was also developed for the workers in the producers' associations. The trainees were now made responsible for selecting and supervising personnel in the packaging centres. Since the packaging process was put in the hands of the producers' associations, the percentage of product loss in the packaging centres (which previously could have reached up to 40%) has diminished. This is due to the fact that the producers are in a better position to demand good services and performance from the workers, since they pay for the service themselves. On the other hand, the workers have better labour conditions, including medical insurance and social benefits, which did not exist under the sub-contracted company that formerly was in charge of packaging.

Seeing the results of the first 750 small producers that were involved in the initiative, COPDEBAN-Dole invested an additional US\$200,000 in the activities related to the Inclusive Business plan in order to widen the amount of included farmers to 2,500. The company also decided to transfer ownership of its packaging centres and related infrastructure, and donated them to the farmers' associations. These assets were valued at close to US\$1 million. Also, as a strategy to strengthen the competitiveness of the associations, COPDEBAN-Dole supported the creation of ASOBAN, an umbrella organisation that integrated the different farmers' associations. With support from the company and from the eDale Foundation, ASOBAN designed and developed two additional business ideas: 1) production and commercialisation of organic manure and 2) commercialisation of organic fertiliser. These projects will generate additional income for the associations in the future.

4. Impact

Productivity among banana producers has increased by an average of 75% over a period of 3 years. Their net income has increased, not only as a result of increased productivity and certification, but by forward integration into the value chain and obtaining added value for their product through packaging. Organic certification furthermore has provided the producers with secure access to international markets under sustainable conditions. The organisational culture that has been created in the associations has allowed producers to transition from individuals working in isolation towards an associative and empowering model, offering a better negotiation position, not only with COPDEBAN-Dole but also with their service providers.

Furthermore, the associations and the packaging plants have created employment, for which often family members of the producers are hired. This stable source of income has led to diminished migration.

At the same time, COPDEBAN-Dole has seen its total supply (i.e. not only the supply of the farmers integrated in the programme) of organic banana increase in volume (from 800,000 boxes in 2008 to 920,000 in 2011) and in the quality, meeting the stringent demands of their buyers. They have developed constructive and trusting relationships with the producers' associations and their purchasing process has become more efficient. Banana wastage has decreased from 40 to 30% and overall efficiency of the packaging process has been significantly increased.

Overall, COPDEBAN-Dole has improved its competitive position in the international market of organic bananas and has increased its levels of production efficiency. Costs have been reduced and export sales increased by 10%. The company has created long-term conditions for organic bananas purchasing with the associations that were formed, which has led to a reduction in operating risks. The establishment of trust and credibility between the company and producers has created a solid foundation for a long-term business relationship.

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

The results of this Inclusive Business initiative are currently demonstrating their sustainability, since after the closure of the project as such, and the departure of SNV in 2011, the business continues to function and grow. ASOBAN is installed within the value chain of COPDEBAN-Dole as trader and distributor of their product. The number of producers involved in COPDEBAN-Dole's Inclusive Business is expected to increase to 2,500 over the year to come.

The company has been able to establish a relationship of trust and credibility with small producers, acting as a solid foundation for a potentially long-term business relationship. Creating such a relationship has taken the producers and the company several years to achieve, but it now serves as a model for Dole as well as for other agricultural traders in Peru.

Due to a lack of training and organisation among agricultural producers being a widespread problem, the model is likely to be replicated by other companies. The experience has been shared at numerous national and international events, in order to motivate other companies to follow the example.

In addition, there is a potential for scaling this model to other countries where Dole sources its agricultural products. The experience for Dole to work directly with small farmers has been a pilot experience; in general, the company sources products from large producers or from its own plantations. For organic and fair-trade markets however, small producers offer attractive potential.