



Georgian Hazelnut Value Chain and the Potential of Cooperatives

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Today's Topics

1. Introduction and Objectives
2. Georgian Hazelnut Value Chain 2011/2015
3. Export of Organic and Fairtrade Hazelnuts – Challenges
Discussed by ETH Students
4. Cooperatives – opportunistic policy instruments,
indispensable next step or unreachable dream?
5. Conclusions and Discussion

Introduction

- Presentation based on master thesis written in 2012, field work in 2011 (data updated where possible)
- Seminar at the Swiss Federal Institute of Technology Zurich (ETH) and workshop at the Food and Agriculture Organization of the UN (FAO) with master students – case study about organic hazelnuts from Georgia
- Interested in feedback and discussion

Objectives

- Better understand how and at which level value is added
- Identify critical elements for a competitive hazelnut production in Georgia
- Reflect the potential of cooperatives for the development of the value chain and in particular for organic fair-trade hazelnuts

Georgian Hazelnut Value Chain (GHVC)

Why hazelnuts in Georgia?

- Agriculture still in transition, unexploited potential
- ~47% rural population, 42% of total agricultural are cultivated with hazelnuts
-> high poverty reduction outreach
- Hazelnut is a high-potential chain (3rd exporter globally, 6th producer)

Why Value Chain Analysis?

- Chain stakeholders as proactive participants
- Systems thinking is encouraged, linkages between farmers and SMEs



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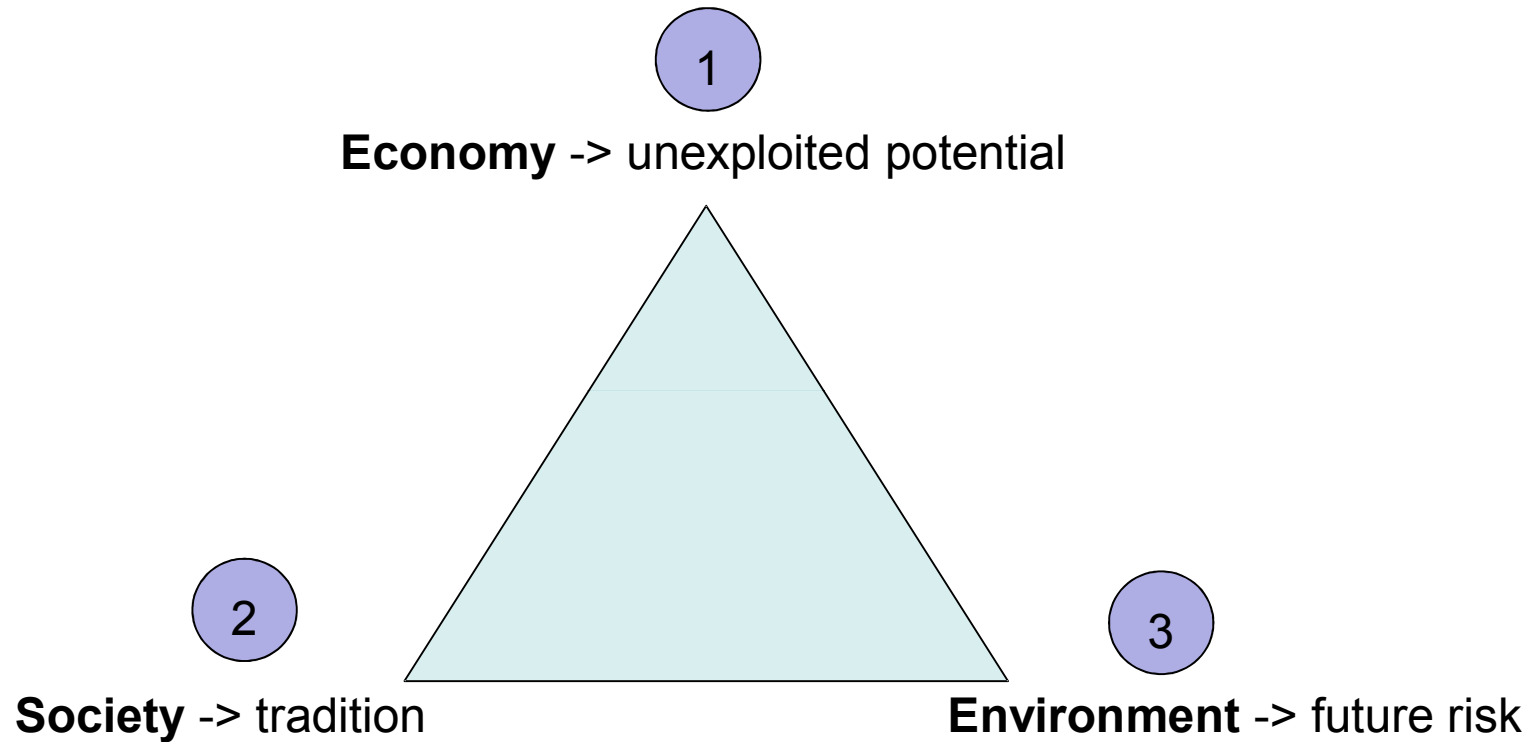
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Initial Hypotheses



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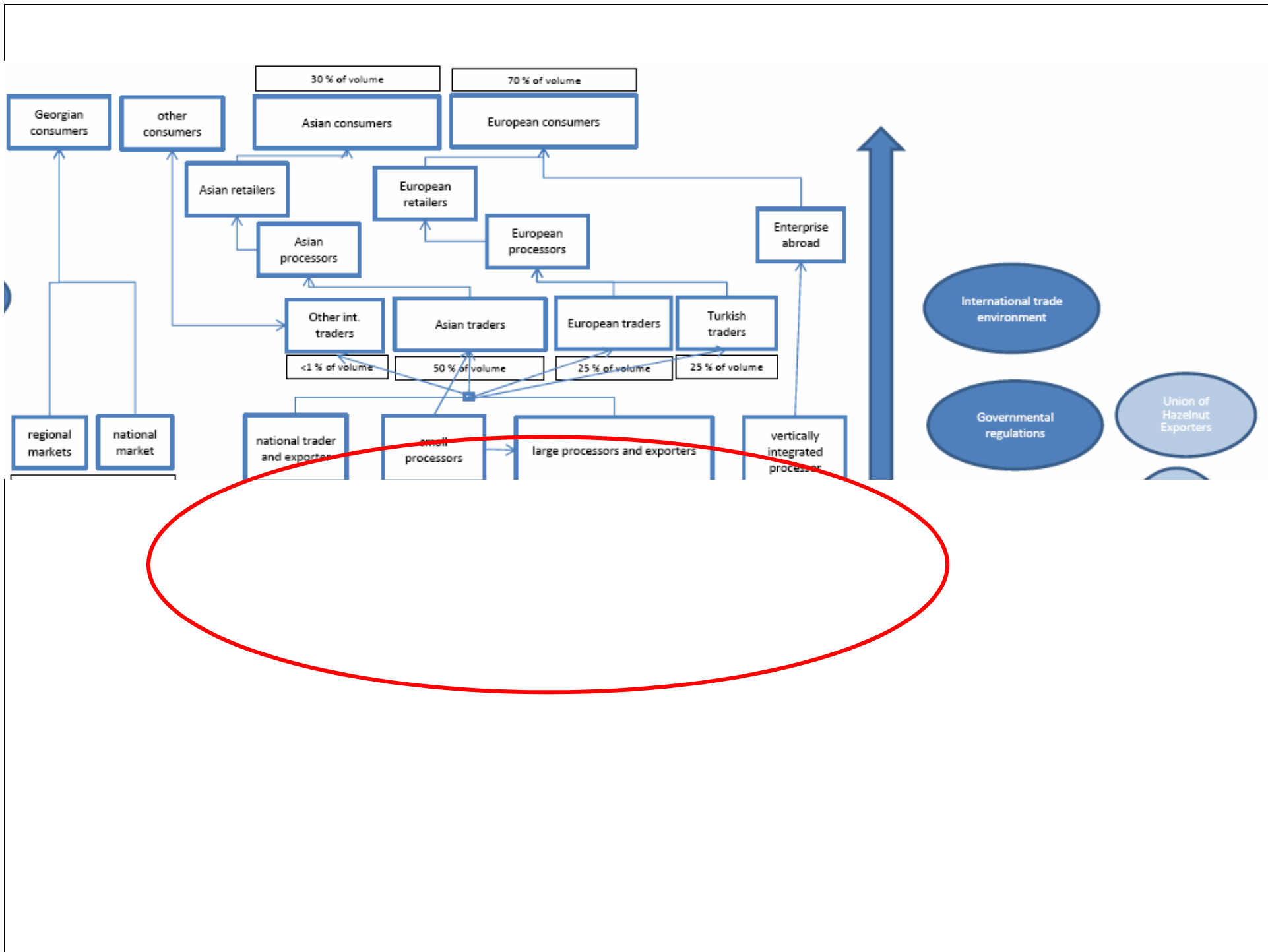
1. Hazelnut production contributes significantly to a sustainable economical development of the regions of Samegrelo, Guria, Imereti and Kakheti.
→ Major challenges: competitiveness & access to global markets.

2. Hazelnut production is fundamental for a socially sustainable development in the producing regions

→ Almost every family owns plantations: income generation & traditional culture

3. Traditional practices have a minor impact on environment because of limited access to chemical inputs

→ Future risk of inaccurate use of chemical fertilizers and pesticides

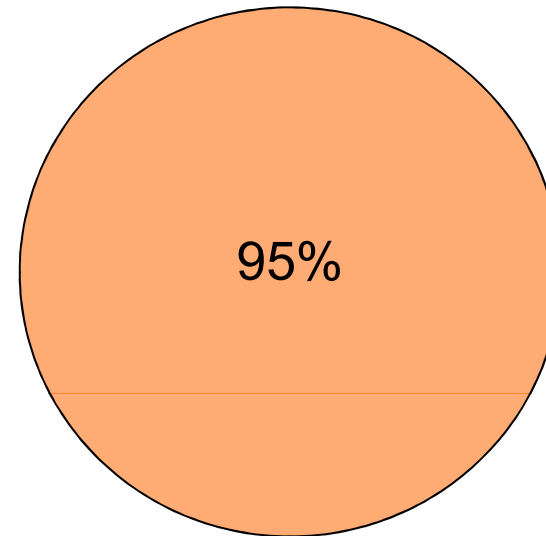


Results – Grid Map II

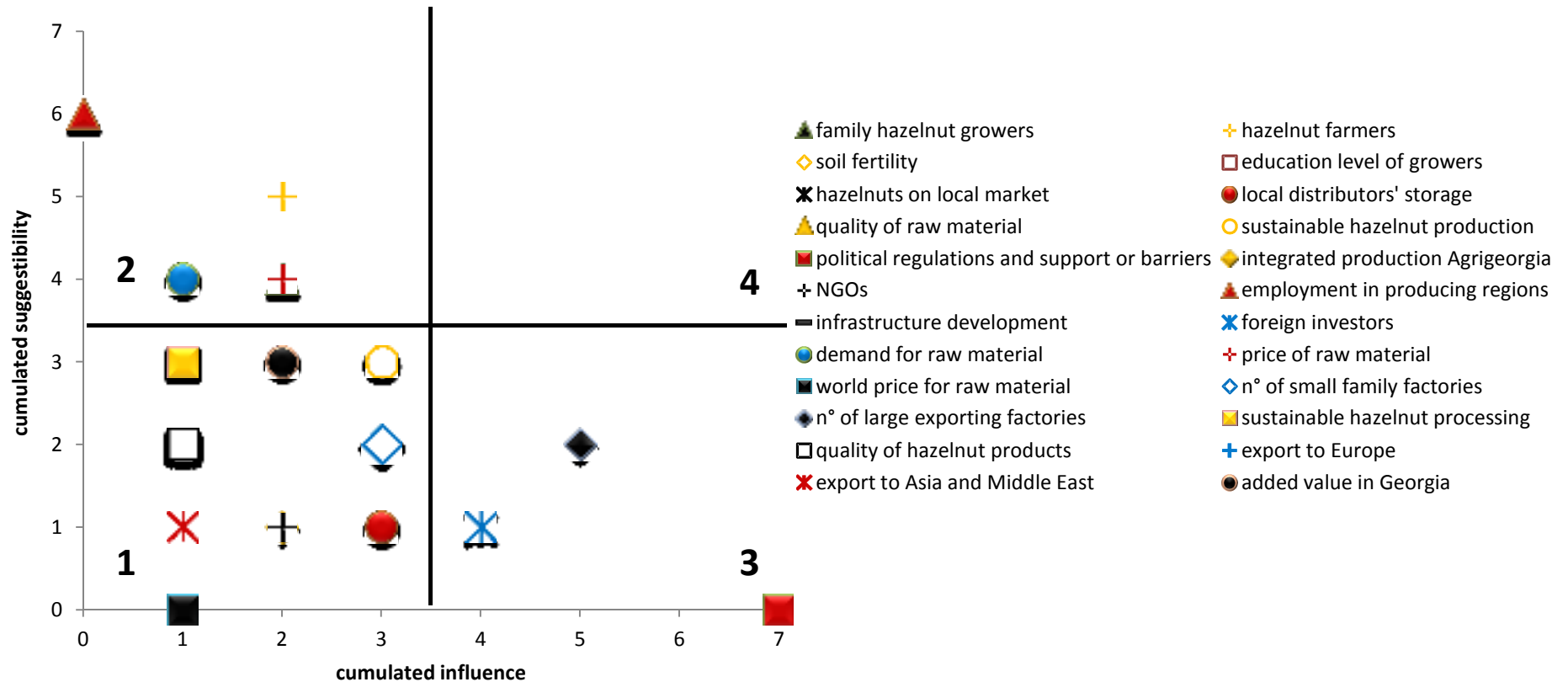
smallholder producers

Large-scale producers

Large-scale production vertically integrated



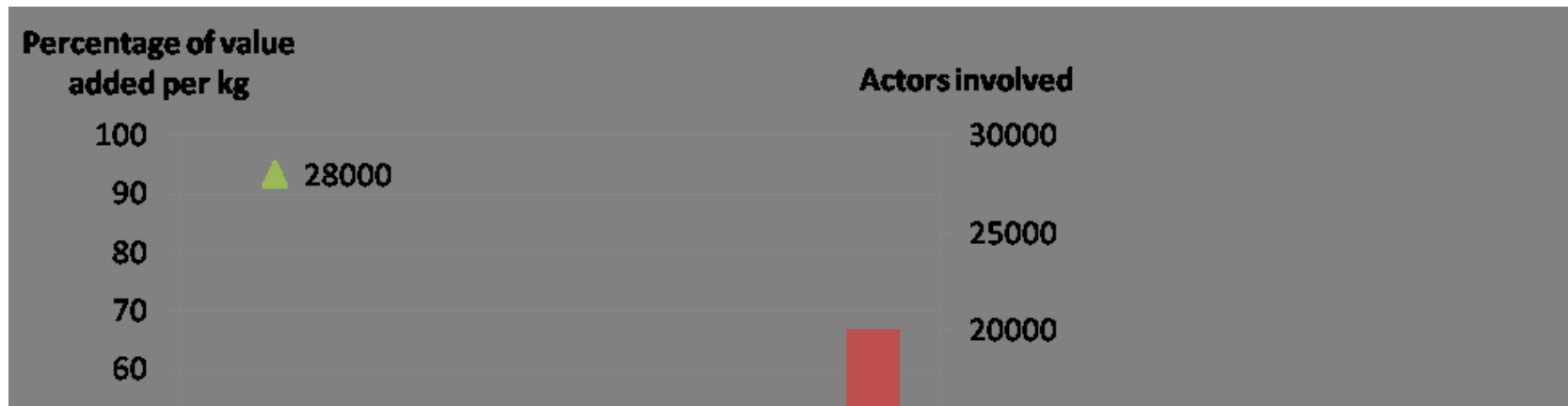
Results – Matrix of influence I



Results – Matrix of influence II

- Motor quadrant: no parameters
- Active quadrant:
 - ‘number of large exporting factories’, ‘foreign investors’ and ‘political regulations and support or barriers’.
 - very difficult to influence by introducing measurements as an external entity.
- Passive quadrant:
 - ‘soil fertility’, ‘education level of growers’, ‘infrastructure development’, and ‘quality of raw material’
 - still fairly active and easier to influence than active parameters

Results – Share of value added



Strengths & Opportunities



Weaknesses & Threats



Development Possibilities– Recommendations 2011

- Improving quality both in cultivation and while trading the nuts
 - Fostering contacts to European and Asian factories and retailers
 - Extending transformation processes in Georgia
- ➔ trainings for growers and processors, better marketing, forming unions of farmers

Situation in 2015?

- overall annual crop in 2013 reached about 40,000 tons in shell (without Abkhazia)
 - ~90% of Georgian hazelnut harvest is exported (80% of exports destined for Europe)
- Hazelnut first export product of Georgia in 2014

But still „in progress“:

- ➔ trainings for growers and processors, better marketing, forming unions of farmers

Export of Organic and Fairtrade Hazelnuts – Challenges Discussed by ETH Students

Developing a sustainable value chain for organic and fair-trade hazelnuts destined for export to Switzerland / EU produced by smallholders – links to agroecology and global food security

Workshop at FAO Rome, 8th – 10th of April 2015

Current Situation I

- Different developments:
 - Ferrero (Agrigeorgia) 3'500 ha under production
 - Efforts of organic organisations and private trade enterprise to certify and export organic hazelnuts (Pakka, Switzerland)
 - Rising interest of NGOs and development agencies in sustainable hazelnut cultivation and set-up of PES for carbon sequestration (<https://heks.exposure.co/haselnsse-aus-georgien?embed=true?embed=true>)

Current Situation II

■ Ferrero

- 2011: “Global Development Alliance” with USAID, training program for Georgian farmers
- Corporate Social Responsibility
- 2014: purchase of Georgian hazelnuts on a commercial scale

Portrait Pakka / Anka I

- Joint venture of two Swiss companies (Pakka Ltd and Anka Ltd)
 - Investing in own hazelnut supply chain focusing on organic and fair trade production
 - Aimed at ~200 hazelnut growers in a first phase (~1250 in the long run), mostly smallholders supported by Anka Fair Trade
- Public Private Partnership between Pakka & Anka and HEKS, Austrian Aid & Elkana (Georgian organic association)
- Organic extension service by Elkana

Portrait Pakka / Anka II

- Objective: support conversion to organic production, certification by Caucasert
 - Farmers will be paid premium for organic products
 - Processing and marketing of organic produce is mainly dependent on Pakka & Anka because of machinery, contacts etc.
 - Farmers are free to sell their hazelnuts anywhere after storage at Anka



Questions Adressed by the Students

- I. How to ensure positive impacts on farmer families (poverty reduction) while developing export value chains for organic hazelnuts?
- II. Export of organic and fair-trade nuts: What are possible incentives for farmers to join the Anka/Pakka initiative?
- III. What are Challenges and opportunities of fair trade certification?

Reflections of Students I

How to ensure positive impacts on farmer families (poverty reduction) while developing export value chains for organic hazelnuts?

Selected approaches elaborated by student group I:

- Education
 - Improve hazelnut quality, higher price
 - Enables farmers to control their production and actively participate in value chain
 - Profit from experience in other market leading countries

Reflections of Students I

- Seeking top-price segment
 - Organic (or close-to-nature) hazelnuts
 - Fair trade hazelnuts (but challenges related to certification)
- Value creation in cooperatives
 - Decrease production costs (service oriented cooperative: inputs, shared machinery etc.)
 - Knowledge sharing
 - Bundling raw products, economies of scale for organic processing
- Microfinance

Reflections of Students I

- Role models / model farms
 - Model farm that is progressive and well integrated in village community
 - Impulses and experience for other farmers
- Godparenting system
 - Similar approach in Switzerland for apple trees
 - Dividend in hazelnuts distributed by fair trade shops
 - Visiting trips
- Tourism
 - Promote hazelnuts together with the region, guided tours

Reflections of Students II

- Export of organic and fair-trade nuts: What are possible incentives for farmers to join the Anka/Pakka initiative?
 - a) What could motivate farmers to engage in cooperatives?
 - b) How could the percentage of training attendance be increased?

Reflections of Students II

- a) What could motivate farmers to engage in coops?
- Demonstration of benefits, farmer round tables
 - Facilitate knowledge transfer, Higher market negotiation power
 - Shared costs for organic certification and for machinery
 - Strengthen identity of Georgian hazelnut farmers through common brand emphasizing traditional production
 - Setting incentives, e.g. renting machinery to cooperatives / farmer groups only
 - Use or create a new Georgian word for collaborative groups
- > Farmers cannot be forced to cooperate – even if above mentioned measures are implemented, successful cooperative development needs time

Reflections of Students II

b) How could the percentage of training attendance be increased?

- Trainings offered by Elkana are irregularly visited by farmers
 - Some farmers ask for payments to attend courses
 - Benefits of training not convincing for everyone
 - Improve quality of trainings
 - Integrate farmers into trainings (as facilitators, knowledge provider)
 - Stress links and similarities with traditional production
 - Use internet or cell-phone applications for knowledge transfer

Reflections of Students III

- Challenges and opportunities of fair trade certification?

<p>Strengths (internal factors)</p> <ul style="list-style-type: none">• label is well known and recognized from consumers as fair traded products	<p>Weaknesses (internal factors)</p> <ul style="list-style-type: none">• lots of smallholders producing in family structure, difficult to form associations
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Reflections of Students III

- Challenges and opportunities of fair trade certification?

- Doubt: Fair trade certification without cooperatives possible? What is first?

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Reflections of Students III

- Time and efforts needed:
 - Pakka estimates that the definition of an FLO-standard for hazelnuts demands two years
 - Process slowed down by chocolate industry
- Alternative approaches to sell Georgian hazelnuts:
 - Use their own label of „supporting small farmers“
 - Alternative fair trade labels like Rapunzel
 - Inform consumers through packaging: fair, natural, without pesticides
 - Print story of hazelnut farmer on package

Reflections of Students III

- Alternative Packaging



Cooperatives – opportunistic policy instr., indispensable next step or unreachable dream?

- Identified as key element in every recent survey, study and student group work
- Biggest challenge for small exporting companies like Pakka/Anka
- Various attempts have been taken by NGOs, governments and private actors

Cooperatives ...

Farmer co-operations are

„an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise“

(International Co-operative Alliance, 1995)

Cooperatives...

- Alternative approaches:
 - Elkana works with producer groups for extension service, but no common market organisation
 - Anka continues to mainly work with individual farmers
 - Examples from other regions, e.g. farmer groups for training, participating in research and market development (reward system)
- May 20/2015:
 - Government of Georgia starts new program to assist and finance multi-member cooperatives in hazelnut sector
 - First one in Samegrelo with 500-1000 members

Conclusions

- Interesting VC with high potential, but it is only about increasing the margin of smallholders, hazelnuts can always be sold
- Caught attention of different stakeholders over last years
- Even though progress has been made and new projects started since 2011 – main challenges remain the same
- Cooperatives or alternative forms are the basis for enhancing competitiveness and develop VC

Discussion

- Is patience enough? (time will solve problems)
- Should cooperatives formation be fostered more intensely?
- Fast and big over small and slow?
- Alternative approaches to organizing farmers?
- Role models from other sectors or regions?

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Photos and Diagrams

- All photos and diagrams: Loredana Sorg, 2011-2015
- Expert interviews: Loredana Sorg, October 2011 and April 2015

Thank you for your attention



Questions?

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