

DEVELOPMENT OF THE ORGANICS INDUSTRY IN KWAZULU-NATAL

MOTIVATION FOR FUNDING NEEDS

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1. INTRODUCTION

This document has been prepared as a follow up from the Organics Workshop arranged by the Department of Economic Development and Department of Agriculture & Environmental Affairs which was held on 22nd and 23rd November 2005 at the Inchanga Hotel, eThekweni Municipality. The workshop ended with delegates identifying development components which would be specifically scoped and written about as a means to motivate the funding needs required to assist with the development of the Organics Industry in KZN as a whole. To this end, this document attempts to outline the spectrum of development components which require funding and thus provide an overview as to why all components require funding together in order to address the holistic needs of this industry.

This motivation firstly provides some very broad marketing background which highlights the incredible economic growth of this industry and its potential for making a huge socio-economic impact amongst marginalised communities, whilst simultaneously ensuring that sustainable development is achieved. This follows with an outline of the development components before providing a budget and time frame for implementation. Needless to say, as each development component is scoped in more detail by specific task team attendees from the Organics Workshop, the need may arise to perhaps revisit the budget and programme of specific development components proposed within this document. This motivation concludes with some proposals for implementing this initiative in a holistic manner under the direction of a dedicated Organics Development Forum.

2. GROWTH OF THE ORGANICS INDUSTRY

The statistics presented in this section regarding the growth of the organics industry worldwide and in South Africa have been extracted from the presentation given by Mr. Leonard Mead, Chairperson of Organics SA, at the Organics Workshop mentioned earlier.

The international market for organic products is forecasted to grow at an average of 10-15% per annum until 2008. Thereafter, it is possible that this growth rate may be sustained for a few more years. However, it is likely that growth rates will start declining but still be amongst the leading growth markets worldwide.

The Datamonitor forecast for the worldwide organics industry four years ago for 2006 was \$26.5 billion. However, given the Datamonitor returns of \$23.8 billion in the European organic market - only, for 2004, it is likely that the 2006 forecast will easily be surpassed. New forecasts predict the US organic market alone reaching \$30 billion by 2007.

Statistics for the SA Organic Market have only recently been determined simply because SA produced such little organic produce. It is known that up to two years ago, organic sales in SA were about R5 million per annum. Now the forecast for 2005 is around R135 million.

The worldwide growth of organic products is now also being demand driven by consumers who desire organic products that are cultivated in accordance to sound ecological principles and also by fair trade practises. Although organically certified does not automatically mean that it qualifies as a fair trade product, there are many instances where the two initiatives do overlap, especially when organic produce is grown by historically disadvantaged small scale farmers.

The ever increasing threat of global warming and climate change is making consumers more aware of sustainability issues which can be enhanced by reducing ones ecological footprint. This means the support of local farmers and local produce which is often distributed through new networks such as “vegetable box-schemes” or “community supported agriculture”. The speciality health shops have also seen a huge growth as consumers desire organic soaps, shampoos, essential oils, toothpastes, etc.

The National Organics Producers Initiative (NOPI), is also promoting the development of the organics industry in SA simply because it makes meets sustainability criteria insofar as mitigating against global warming and climate change; promotes ecological ways of farming; promotes small scale emerging farmers; and, ensures that local economic development takes place.

In SA there are currently some 200 certified operations covering about 515,000 ha. Approx 77% of these operations have been certified in past 4 years. Approximately 500,000 ha is pasture whilst some 11,000 ha is rooibos. The balance is fruit (58%), vegetables (32%), essential oils (6%), and, wine(4%). The largest fruit crop by area is – bananas, avos and mangoes, whilst the largest vegetable crop by area is – cucumber, tomato, asparagas, brassica and potato.

It suffices to say that an incredible opportunity exists for SA to grow its organics industry and start supplying both local and export markets. In SA, there are many struggling small scale historically disadvantaged emerging farmers who have not contaminated their soils by harmful fertilizers and pesticides simply because they did not have the resources to do so. This past “handicap” now stands them in good stead since their soils are poised to be certified organic relatively easier than conventional farmers who may have to revert to a longer “organic in-conversion process” if the latter soils have been contaminated by harmful fertilizers and pesticides.

Given the above information, a tremendous opportunity exists in KZN to benefit from this growth in the organics industry. However, if such benefits are to be realized amongst both small scale and large scale commercial farmers, then a dedicated initiative is required in order to develop all aspects of the organics industry in KZN.

3. DEVELOPMENT COMPONENTS

This section unfolds the various development components discussed at the Organics Workshop and starts to formulate what further studies need to be undertaken in order to prepare a development strategy and framework for establishing an organics industry in KZN.

3.1 Organics Co-ordinating Workshop

Several organic workshops have been arranged by government during the past few years and many more development proposals for organic farming have been made. However, whilst the workshops create a platform for much excitement about the prospects for this industry, this initial enthusiasm is subdued as a result of very poor follow ups by government and industry stakeholders alike. For this reason, an initial Co-ordinating Workshop will be required to unpack the development components described hereunder and task industry representatives to undertake the various studies and also nominate representatives for the Organics Development Forum.

However, besides establishing small task teams to undertake various studies for the organics industry, a key output of this initial workshop should be to clearly outline the strategic intent of this entire initiative and to define its values and principles, and, the overall mission statement. This mandate will then be taken forward by the representatives on the Organics Development Forum and the various task teams.

It is strongly suggested that the same invitations should be issued as for Organics Workshop held in November 2005 and that the forum representatives and task teams will then be resourced from people attending this initial Co-ordinating Workshop. Similarly, it is also suggested that the same facilitators be appointed to guide the outcomes of the initial Co-ordinating Workshop. It should be borne in mind that the outcomes of this initial Co-ordinating Workshop and the ensuing establishment of small task teams are crucial to the successful undertaking of various studies that lead to the formulation of the Strategic Development Plan for the Organics Industry in KZN.

3.2 Organics Development Forum

A dedicated forum is required with resources at its disposal to co-ordinate and direct the development of this industry. Forum members should be drawn from key public officials from the Department of Agriculture & Environmental Affairs (DAEA), and, the Department of Economic Development (DED); and, private sector individuals representing organic commercial farmers, NGOs, training agencies, marketing specialists, agro-processors, and, development consultants.

This Forum cannot be effectively implemented unless a group of the right people are committed to make it happen, which requires payment for their time and resource, particularly private sector. Despite how passionate people may be, if it is done on a voluntary basis only, there will be inconsistent levels of commitment and involvement resulting in delays, unhappiness and ultimately failure. The Forum should also have a dedicated secretariat which should be provided by a private sector entity.

It is envisaged that after the initial Forum has directed and co-ordinated the various study components towards the Strategic Development Plan, the Forum should broaden its representation and establish a formal “organics industry body” to ensure that the entire organics industry is well represented. This organics industry body will then be tasked with the ongoing planning, co-ordination, monitoring and evaluation of the implementation of the Strategic

Development Plan for the Organics Industry in KZN. To this end, it will be appropriate for this industry body to have a physical home with a strong identity and presence.

3.3 Marketing Analysis

Whilst it is acknowledged that the organics market has been achieving phenomenal growth rates in recent years and is expected to continue this growth, there is still a need for marketing intelligence to identify new niche markets and expand current markets. There are several obvious retail markets which are strongly promoting organic products, but nonetheless, there is still a need to liaise with these retailers and identify specific product lines which can be supplied. Furthermore, there are numerous agro-processing markets which are calling for organic products, such as, the baby food industry. Again, liaison is required with these agro-processors to clearly identify specific products and volumes required. This marketing analysis should identify all possible organic products which can be supplied to either retailers, agro-processors, and exporters.

This marketing analysis must also include the international market, after all, this is where lucrative niche markets can be identified and matched with domestic supply side opportunities for the export market. A value chain analysis of these organic products should also be undertaken in order to determine any specific logistical requirements, cost factors and possible economic returns.

A survey of domestic consumer attitudes and public sector attitudes should also be undertaken in order to assess how organic products are perceived and what more can be done to expand their related benefits.

3.4 Logistics Analysis

It has already been long identified that Small Grower Groups (SGGs) have vast potential to supply the expanding organics market, but, these SGGs are not well organised and lack much needed logistical infrastructure. In other words, SGGs need to be formalised into Primary Co-operatives with the associated logistical infrastructure. Thereafter, a network of strategically located Secondary Co-operatives, or, Regional Agricultural Markets (RAM), are required to provide a value adding service to not only the Primary Co-operatives, but also commercial organic farmers. The RAMs will then be responsible for the logistics of getting organic products to various organic retailers and agro-processors.

There are a number of RAMs that have been planned, and some that are being established, namely, the Ugu Agricultural Market. However, whilst the latter is currently being constructed with its commissioning scheduled for July 2006, there are concerns that this scheme has gone ahead on more “positive sentiments” about the agricultural markets in general rather than a specific marketing strategy. Most of these RAMs are being planned to process non-organic produce, which presents a problem towards achieving organic certification. Given the huge growth anticipated in the organics market, the question to be asked is : “If the Ugu Agricultural

Market is supplied with the 40,000 tons per annum of non-organic produce required to sustain its viability, will all 40,000 tons be sold outright to various retailers, agro-processors, etc? And, what if the 40,000 tons is all organic produce?”. There is no doubt that 100% of the 40,000 tons of organic produce will be sold, whilst it is not too sure what percentage of non-organic produce will be sold.

Given this background on Primary and Secondary Co-operatives, there is a need to more fully understand what, where and how these facilities ought to be located and how they should operate. Furthermore, these Secondary Co-operatives / RAMs also make for ideal Agri-BEE empowerment equity by the Primary Co-operatives they serve.

How the RAMs compliment each other and how they feed into an export processing / distribution centre is a further aspect that needs to be explored, especially given the planned export platform created by the forthcoming Dube Trade Port.

All these facets should be explored in order to provide support to the marketing value chain analysis described above and also to outline the extent of funding needs to establish a network of RAMs.

3.5 Funding policy for Organics Development

It is acknowledged that in order to realize economies of scale, group organic certification is the most cost effective entry level to the organics market for SGGs. This means that SGGs need to be in a fairly contiguous area and number at least some 50 odd members who have access to sufficient land where the minimum size land required per member should be at least one hectare. However, in order to establish such SGGs as organically certified producers, a holistic development approach is required, namely;-

- Identification of SGG and initial organics orientation
- Preparation of a holistic development plan
- Training in organic farming methods
- Establishment of sustainable infrastructure, such as, keyline dams, rainwater harvesting systems, percolation dams, sub-surface dams, drainage channels, wind breaks, tree lines, minor irrigation systems, etc.
- Establishment of quality control management systems and organic certification
- Ongoing mentoring for at least 12 months and interfacing with DAEA extension services for aftercare
- Establishment of a Primary Co-operative per SGGs
- Marketing and distribution of organic produce

Currently, there is no holistic funding policy for the development or organic SGGs. There are several other funding policy instruments that can be used to fund some of the above development aspects, but even then, it becomes a major co-operative governance effort to co-ordinate such funding and only delays the eventual holistic implementation. In any event, the use of “rules” of

existing funding policies will need to be “bent” in order to contribute towards organic development aspects. For example, the DAEA’s “mechanisation” policy will need to utilize machinery for earthworks and stormwater aspects in lieu of tilling; the “liming” policy will need to be used for organic soil conditioning; and so on. For these reasons, it makes sense to develop a specific funding policy for the development of organic SGGs. This funding policy ought to encompass an entire contiguous area for a SGG and thereby attempt to bring about a more holistic agricultural development approach for not only a specific SGG, but also a more wider area within traditional authorities or other similar areas.

3.6 Education, Training and Mentorship in Organic Farming Methods

Whilst Agri-CETA has done much to establish formal agricultural training courses, the specific organics modules have struggled somewhat to be established in comparison to conventional agricultural training modules. However, further work is still required to develop additional modules on organic farming and related LEISA techniques, such as, conservation farming systems, no-till techniques, keyline and rainwater harvesting systems, run-off agricultural irrigation systems, etc. Moreover, there is a need to extend the organic farming modules to schools, FET colleges and universities. To this end, a study is required on what it will take to broaden education and training aspects in organic farming methods. After all, the students of today are the farmers of tomorrow. Another aspect that needs to be considered is the ongoing mentorship to organic farmers and how this can be effectively achieved through economies of scale.

3.7 Strategic Development Plan for the Organics Industry in KZN

Given the aforementioned development components, each of which are to be explored in more detail, there is a need to co-ordinate these components into an overall strategic development plan for the organics industry in KZN. This strategy will then clearly outline the overall funding requirements and milestone targets to be achieved over an agreed time frame. The Strategic Development Plan then becomes the mandate of the Organics Development Forum who will be tasked to oversee its implementation.

3.8 Marketing & Branding Plan

A key outcome of the Strategic Development Plan should be the parameters for a marketing and branding plan. The latter is what creates the identity for the organics industry in KZN and then starts to actively pursue how this can be achieved. It is envisaged that with a clear marketing and branding plan that has been conveyed to the farming sector at large, the private sector will start mobilizing resources towards the development of the organics industry in KZN, provided of course, that government funding will be directed towards strategic catalytic elements that stimulate the industry as a whole.

4. SCOPE OF WORKS

#	Development Component	Scope of Works
1	Organics Co-ordinating Workshop	Facilitation of initial workshop to unpack the various development components; establish a mission statement for the organics industry and establish small task teams to undertake the various studies.
2	Organics Development Forum	Establish the forum with 6 public officials from DAEA and DED; and, 6 private sector representatives from organic commercial farmers, NGOs, training agencies, marketing specialists, agro-processors, and, development consultants. Establish a dedicated secretariat for the forum.
3	Marketing Analysis	Undertake a marketing survey of the organics industry; identify new niche markets; value chain analysis; liaison with retailers, agro-processors, etc.; and, write up into a report.
4	Logistics Requirements	Investigate and critique existing Regional Agricultural Markets (RAM); define the parameters for Primary Co-operatives and Secondary Co-operatives / RAMs; identify linkages between Primary and Secondary Co-operatives; identify logistical and transport arrangements; and, write up into a report.
5	Funding policy for Organics Development	Define the project cycle for the development of SGGs and associated funding norms; research LEISA practices; establish a data base of best LEISA and appropriate technology practices; and, write up into a report.
6	Education, Training and Mentorship in Organic Farming Methods	Analyse existing training schemes; identify training gaps and opportunities; outline how organics can be introduced into teaching curriculums at schools, FET colleges and universities; analyse mentorship models, and, write up into a report.
7	Strategic Development Plan for the Organics Industry in KZN	Review all the above development components and compile into a holistic development programme with overall resource requirements.
8	Marketing and Branding Plan	Charting of a plan and actively promoting it amongst the agricultural industry in order to start mobilizing enthusiasm and confidence within the industry that local organic products are “lekker” and will be sold to satisfy the growing domestic and international markets.

5. SHORT-TERM BUDGET REQUIREMENTS

The short-term budget resources to undertake the aforementioned development components are contained in Table 5.1. Funding to implement all development components will be determined as the conclusion of the Strategic Development Plan for the Organics Industry in KZN, and hence, a more detailed long-term funding plan / budget will be prepared in due course.

Table 5.1 - Short-term budget resources

#	Development Component	Resource Estimate	Budget
1	Organics Co-ordinating Workshop	Workshop facilitators for 40 hours at R450/hr . Other workshop attendees should be willing to attend at no charge with the understanding that opportunities for remuneration will arise through involvement in task teams and/or the Organics Forum.	R18,000
2	Organics Development Forum	Team of 6 public and 6 private sector representatives to drive this initiative. Private sector will require approximately 540 hours at R450/hr comprising;- 144 hours for attendance at 6 No. x 4 hour meetings; 240 hours input as 8 hours of professional review time per individual for each of the 5 development components; and, 60 hours for 6 No. x 10 hours per meeting for the secretariat.	R243,000
3	Marketing Analysis	Sub-team of 3 public and 3 private sector representatives to undertake this study. Private sector will require approximately 600 hours at R450/hr comprising;- 120 hours liaison, 160 hours market intelligence gathering, 120 hours surveys, 120 hours value chain analysis, 80 hours report writing.	R270,000
4	Logistics Analysis	Sub-team of 3 public and 3 private sector representatives to undertake this study. Private sector will require approximately 320 hours at R450/hr comprising;- 120 hours liaison, 120 hours policy application, 80 hours report writing.	R144,000
5	Funding policy for Organics Development	Sub-team of 3 public and 3 private sector representatives to undertake this study. Private sector will require approximately 320 hours at R450/hr comprising;- 80 hours liaison, 80 hours policy development, 80 hours best practice data base, 80 hours report writing.	R144,000
6	Education, Training and Mentorship in Organic Farming Methods	Sub-team of 3 public and 3 private sector representatives to undertake this study. Private sector will require approximately 320 hours at R450/hr comprising;- 80 hours liaison, 120 hours identify education opportunities, 40 hours mentorship models, 80 hours report writing.	R144,000

#	Development Component	Resource Estimate	Budget
7	Strategic Development Plan for the Organics Industry in KZN	Sub-team of 3 public and 3 private sector representatives to compile this strategic plan. Private sector will require approximately 400 hours at R450/hr comprising;- 160 hours liaison, 80 hours to review other development components, 80 hours resource planning and scheduling, 80 hours report writing.	R180,000
8	Marketing & Branding Plan	Sub-team of 3 public and 3 private sector representatives to compile this strategic plan. Private sector will require approximately 200 hours at R450/hr comprising;- 80 hours liaison, 80 hours plan development, 60 hours promotions and communications.	R90,000
Sub-Total			R1,233,000
VAT			R172,620
Total			R1,405,620

Note :- This budget makes allowance for private sector contribution only, and assumes public sector contribution is absorbed within current budgets.

6. PROGRAMME AND RESOURCE DISTRIBUTION

The programme for undertaking all of the development components outlined in the aforementioned sections is shown in Schedule 6.1 and should be accomplished within 6 months, whilst the budget requirements and resource distribution are contained in Schedules 6.2 and 6.3, respectively.

Schedule 6.1 - Programme

#	Development Component	M1	M2	M3	M4	M5	M6
1	Organics Co-ordination Workshop						
2	Organics Development Forum						
3	Marketing Analysis						
4	Logistics Analysis						
5	Funding policy for Organics Development						
6	Education, Training & Mentorship						
7	Strategic Development Plan						
8	Marketing & Branding Plan						

Schedule 6.2 - Budget requirements

#	Development Component	Hours	Rate	Amount
1	Organics Co-ordination Workshop	40	R 450	R 18,000
2	Organics Development Forum	540	R 450	R 243,000
3	Marketing Analysis	600	R 450	R 270,000
4	Logistics Analysis	320	R 450	R 144,000
5	Funding policy for Organics Development	320	R 450	R 144,000
6	Education, Training & Mentorship	320	R 450	R 144,000
7	Strategic Development Plan	400	R 450	R 180,000
8	Marketing & Branding Plan	200	R 450	R 90,000
Sub-Total				R 1,233,000
VAT				R 172,620
Total				R 1,405,620

Schedule 6.3 - Resource distributions

#	Development Component	Amount	M1	M2	M3	M4	M5	M6
1	Organics Co-ordination Workshop	R 18,000	R 18,000					
2	Organics Development Forum	R 243,000		R 48,600	R 48,600	R 48,600	R 48,600	R 48,600
3	Marketing Analysis	R 270,000		R 135,000	R 135,000			
4	Logistics Analysis	R 144,000		R 72,000	R 72,000			
5	Funding policy for Organics Development	R 144,000		R 72,000	R 72,000			
6	Education, Training & Mentorship	R 144,000		R 72,000	R 72,000			
7	Strategic Development Plan	R 180,000			R 60,000	R 60,000	R 60,000	
8	Marketing & Branding Plan	R 90,000					R 45,000	R 45,000
Sub-Total		R 1,233,000	R 18,000	R 399,600	R 459,600	R 108,600	R 153,600	R 93,600
VAT		R 172,620	R 2,520	R 55,944	R 64,344	R 15,204	R 21,504	R 13,104
Total		R 1,405,620	R 20,520	R 455,544	R 523,944	R 123,804	R 175,104	R 106,704

7. IMPLEMENTATION PROPOSALS

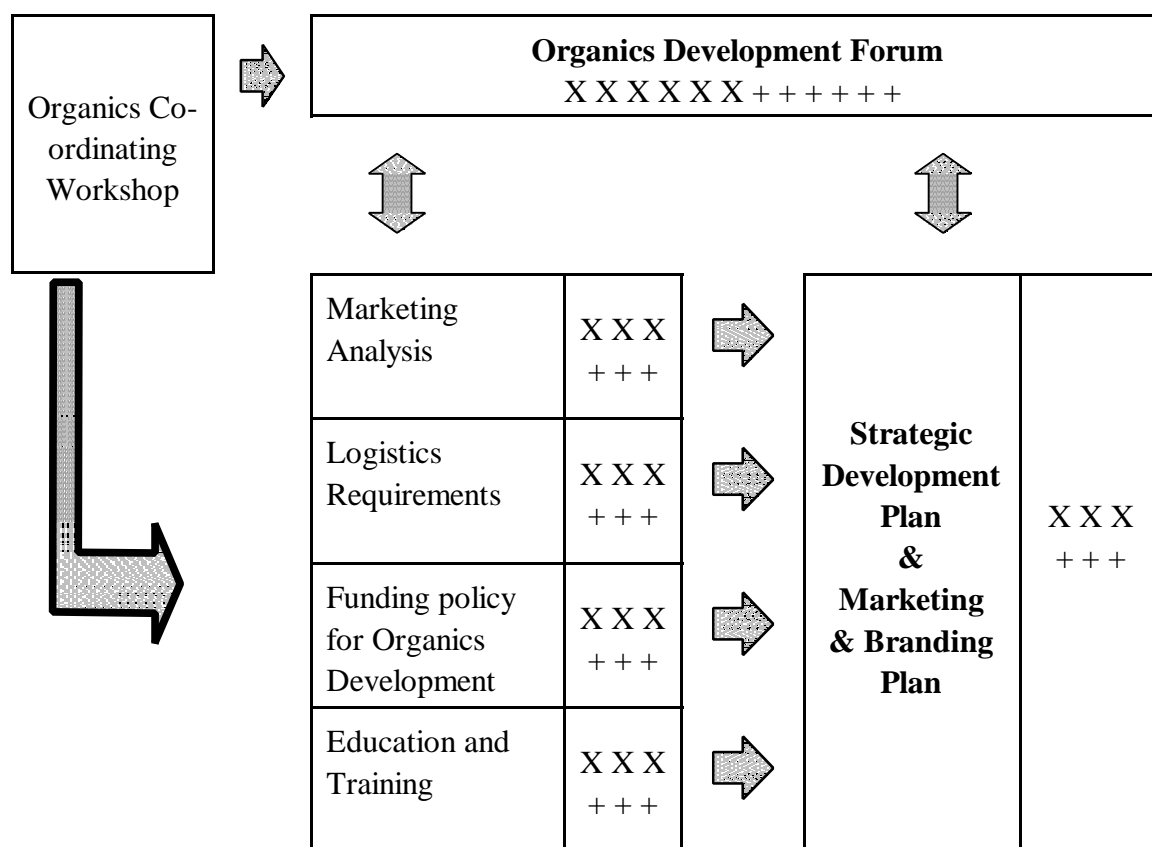
There is no doubt that a tremendous development opportunity exists to provide much needed guidance and impetus to the fledgling organics industry in KZN. Without government assistance, the organics industry will continue to limp along expanding slowly with beneficiaries most likely to be the larger commercial farmers. In a struggling industry, the agro-processors who may be keen on developing organic product lines may also hesitate and postpone these projects until sufficient critical mass has been established.

With government assistance of some **R1,406,000** to fund the aforementioned development components, the organics industry in KZN will be able to chart a holistic development programme that will broaden the beneficiary base to include emerging small scale farmers and also provide much needed confidence to the larger commercial farmers to enter this industry and thereby start generating confidence amongst agro-processors that turnovers in organic produce will increase

and thereby warrant the development of organic agro-processing facilities. A marketing and branding plan will also provide the catalytic stimulus to mobilize enthusiasm and confidence for organics within the agricultural sector. Catalytic government intervention will also create many opportunities for realizing Agri-BEE transformation.

In order to prepare this holistic development charter for the organics industry in KZN, it is proposed that the facilitators of the Organics Workshop held in November 2005 be tasked to arrange and facilitate the initial Organics Co-ordinating Workshop and guide the input towards the various development components and the ensuing Strategic Development Plan. External resources may be co-opted to boost the expertise undertaking this work. This process is illustrated in Figure 7.1 below.

Figure 7.1 - Proposed implementation process



Nomenclature :- X = Government officials, + = Private sector representatives