

A JUICY STORY – USING THE PULL FACTOR TO BUILD AN AGRICULTURAL SUPPLY CHAIN

EBBE JOHNSON

In parallel with IFC's investment in the Sandora juice company in Ukraine, IFC implemented an advisory project to help build Sandora's supply chain. The project's broader objective was to improve market access and long-term sustainability for vegetable farmers working in the Mykolaiv region of Ukraine. We needed to bring local farms to a level where they could meet the requirements of Sandora and eventually of the international markets. How was this to be done?

Background

Ukraine's vegetable sector has a strong potential: good natural conditions, a large domestic market, and good possibilities for exploring the markets of neighboring countries, including the very large European Union (EU) market. The vegetable processing industry in Ukraine has historically been relatively well developed, and a number of firms are now at a level to be able to export their products to international markets.

Sandora is an example of such a firm. A Ukrainian juice processor, Sandora has about a 45 percent share of the market. The company has received a \$40 million loan from IFC in order to expand and modernize production facilities. Yet, while investment in local processors is growing quickly, driven by market growth, the farms in Ukraine are not as advanced. Low efficiency and lack of

investment and resources at farm level hamper the development of the entire sector, in turn affecting the growth potential of the processors.



In 2005, IFC's Private Enterprise Partnership (IFC-PEP) launched an advisory project linking in to the Sandora investment. IFC has experience in building agricultural supply chains – we had just finished a similar project about 100 kilometers to the south, in Kherson oblast. Key staff from that team, including the project manager, had transferred to the Sandora project. This not only had an important impact as regards skills transfer, but it also became a vital selling point for Sandora, increasing the company's interest in cooperating with the project. Sandora's CEO said: "I know what you did with other supply chains, and I want you to do the same for ours."

The project was structured to not only address technical improvements to farms within Sandora's supply chain. One of the key lessons learned in IFC's previous work is that in order to implement improvements to their production processes, farmers need not only markets but also money. Thus, the Sandora project has three components: supply chain development (advice to farmers to allow them to increase efficiency and yields), access to finance and to markets other than Sandora, and an outreach/advocacy component, which includes an educational campaign aimed at the sector at large, as well as work with regional authorities.

Lessons Learned

A strong anchor firm makes the difference in advisory work



Processing tomatoes

Improving an agriculture supply chain usually requires efficiency and quality improvements, which in turn require access to financing and to new markets. Often, the major bottleneck turns out to be access to ready markets: you can build capacity of farmers for many years, but if market conditions do not require them to implement improvements, changes simply do not take place. A business will make improvements only if they see how this will directly lead to higher profits.

In this project, local farmers were able to tap into Sandora's growing input demands for vegetables. Farmers saw the market possibilities and responded with improved techniques and increased efficiency and yields. The "pull factor" of the anchor firm greatly increased their willingness to introduce changes. At the same time, working with Sandora, a firm with a strong regional image, gave the project credibility when addressing local stakeholders: the farmers, input-suppliers, banks, and local government.

Agreement on the common issues facing the producer and the sector is vital. This calls for open communication between the project and the anchor company, at the highest level.

Detailed discussions were held with Sandora's CEO from the launch of the advisory project. These discussions focused on factors limiting the processor's supply chain. At the same time, the project interviewed farmers and other stakeholders in order to ensure it was obtaining a full view of the problems facing the local vegetable sector.

As it turned out, issues of efficiency and quality were relevant for both the processor and the vegetable sector at large. Sandora wanted more tomatoes, delivered on time, and with better quality ("Brix"). They also saw the need for farmers to improve efficiency, as Sandora's raw material costs are high from an international perspective. The farmers wanted higher yields, better returns, and access to credit.



Sandora suppliers lined up on the way to the plant

Sandora staff and top management were actively involved in the project's work. They participated in project study tours, roundtables, and demonstration field days. Having farmers and staff from the processor listen to the same message at the same time led to valuable discussions and development of a mutual understanding of key

problems and potential solutions. The direct link to Sandora helped the project to understand the company's concerns and address the raw material quality issues in a focused way.

Other stakeholders in the supply chain need to be actively involved: financial institutions, input suppliers, and regional authorities. This allows the project to achieve impact across the entire sector.

When the project came to the region, local financial institutions regarded agriculture as generally complicated (specifically vegetables!) and as high risk. Given the strong growth in consumer credit, extending credit to local farmers was not high on the list of priorities. Another difficulty for farmers was obtaining quality inputs, such as seed and machinery. Sandora's CEO commented that "farmers complain about access to finance, they cannot find good seeds, they have problems finding people in harvest season; they need to mechanize!"



Tomato combine harvester at a project pilot farm. The first combine in the region.

This allowed the project leverage with banks and input suppliers. "Sandora and farmers are complaining about a lack of access to finance; we can help you better understand this business opportunity, and to correctly assess the risks involved."

Seed companies, chemical companies, and machinery suppliers came to the region in close cooperation with the project. We organized demonstration fields together, we organized field days and regional study tours, and we had their specialists (often from Western Europe) taking part in our technical work. The basic idea is to support the industry to start working in the region, and this is "sustainable development."

The project trained credit officers from the main agriculture banks in the basics of the vegetable business and in evaluating the risk involved. We organized workshops for banks and insurance companies to highlight the development and bottlenecks in the sector. Leveraging another IFC investment, we invited Reiffeisen Bank Aval to become our main partner bank.

After two seasons, the situation has improved. The project's pilot farms have attracted over \$2 million in financing, while the volume of bank credits to vegetable farmers in Mykolaiv region was nearly \$6 million in 2006, up from \$2 million when the project was launched.

All this work could not have been done without close involvement and cooperation with the regional and local authorities. We learned that it is simply not possible to do any real work without having authorities on board to deal with water issues, state support programs, etc. Local administrations also can provide great support to seminars and workshops.

Select a group of pilot SMEs (farms) that are responsive to advice, and allow them to learn by doing.

Based on our previous experience, we learned that it is better to begin with a small group of highly motivated farms than trying to incorporate all farms at the same time. The "pioneer" farms will form the critical mass starting to move the sector, and at the same time serve as the good examples for others to follow.

There are around 500 farms growing vegetables in the project's target region. Many of these farms are small-scale growers. The project decided to focus on six "entrepreneurs" as initial pilot farms, while ensuring that other components of the project addressed outreach to the entire sector. Pilot farms were judged to be able to respond to advice and to be capable of improving their way of operations. These farms were willing to share key information about the project and were open to detailed questions; thus it was possible to make a realistic estimation of their capacity to deliver. The project therefore chose its partners based on delivery capacity as well as on transparency in their dealings with the project team.



Demonstration field day in Mykolaiv, Ukraine

An additional important criterion for selecting these farms was their willingness to share their experience with others, participate in the dissemination process, and give interviews in the local press and on TV and radio. Many farms had hesitated on the “sharing part.” The project needed to repeatedly stress that private business information would never be shared publicly, and to confirm that the intention was not to turn their farms into “open institutions” for anyone to visit at any time. When these issues were clarified, the pilot farms came on board quickly. Project plans with the pilot farms were always discussed with the principal owner/manager of the farm.

Conclusion

The Sandora case serves as a good example of **how an active anchor firm can help an advisory project to reach its goals**. A number of factors contributed to the success of the advisory work. First, in this project, the presence of Sandora was a key motivating factor for quality improvements at supplier farms: farmers saw the immediate benefits of innovation and enhanced yields in increased sales to Sandora. Secondly, IFC structured the supply chain project not only to provide advice to farmers, but also to work with local banks in order to improve farmers’ access to finance. Lastly, IFC carefully chose a few pilot farms for the detailed work, while a significant outreach component was introduced to ensure that the project’s advice reached a wide range of farms in the region.

About the Authors

Ebbe Johnson manages IFC PEP’s Southern Ukraine Vegetable Supply Chain Development Project. Before joining IFC in 2001, Ebbe had extensive experience with different agribusiness supply chains, mainly in Europe but also in countries of Central and Eastern Europe. He holds an MSc from the Swedish University of Agriculture Science.

Approving Manager: Ivan Ivanov, Senior Operations Manager, Linkages, Private Enterprise Partnership for Eastern Europe and Central Asia.

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