

## Linking Natural Product Producer & Processor Organisations to Natural Product Enterprises: a discussion of past, present and future models

Ben Bennett

### Introduction

The big idea for sustainability for indigenous natural product (INP) harvesting is that communities have a reason to protect and manage their resources when those resources pay them a suitable regular income. Forming a long-term healthy commercial relationship between harvesting groups (Producing and Processing Organisations - PPO's) and up-stream companies that develop and promote products from INPs is one of the essential steps along the pathway to proving this big idea works. Namibia has, arguably, one of the richest recent histories of developing such PPO/commercial INP enterprise models and there is much to learn from considering the range of approaches that have been adopted.

In this Chapter the aim is to share the range of models and enterprise/PPO interactions tested during the MCA-Namibia INP Programme period, many of which build upon a much longer history of similar efforts going back to the Colonial times. We shall draw some conclusions about what models might be suitable to meet the current and future problems facing the INP sector in Namibia and what important lessons we have learned.

Six main types of INP – SME relationships (sometimes called “models”) are identified. These are: the ‘Trader model’, the ‘NGO model’, the ‘Government model’, the local ‘SME led model’, the ‘PPO model’, and a ‘future model’. Considering the INP sector today, it could be said that all of these models are now present and working in parallel.

### The Trader led harvester – SME model

INP's have been traded for further value addition outside Namibia since pre-colonial days. !Nara (*Acanthosicyos horridus*) seeds, for example, were probably traded to the surrounding areas of Namibia and to the Cape long before tourists discovered Swakopmund. The largest INP exported as a raw material to be processed in Germany was, and remains, Devil's Claw (*Harpagophytum sp.*)<sup>1</sup>. Typically, trade in INP's up until Namibian Independence was between individual harvesters, traders or middlemen (and women), INP exporters, INP importers and companies making extracts. This model worked (e.g., people got paid, often with goods rather than money) but was far from the best way to do things because it failed to make the link between the management of the resource in the field, and the value of the product for its intended use. This has, in some cases, resulted in over-harvesting. It also resulted in a very small proportion of the final product value being retained by the original INP harvester. Estimates done in 2007 indicated that less than 2% of the on-shelf value of Devil's Claw in shops in Germany reached individual harvesters. This highly unbalanced and exploitative type of INP development might be termed the ‘trader led’ model because the key actor in this phase was the individual trader,

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<sup>1</sup> By both volume and value

commonly a local ‘commercial’ farmer seeking an additional income stream from INP sales.

#### The NGO led SME – PPO model

In the post Independence period (i.e., since 1990), a number of international Non-Government Organisations (NGOs) started operations in Namibia and many new local NGOs were registered. A lot of these had a conservation agenda and were associated in the early days with the emerging Community Based Natural Resource Management (CBNRM) movement. Notably, an NGO, CRIAA SA-DC<sup>2</sup>, moved into the INP field. This area of work was largely free from other development actors in the 1990’s. The model that emerged was of dedicated INP harvesting groups supplying raw materials or semi-processed product to a central harvesting group apex association who worked with the NGO to link with an international buyer for the raw material. In the mid-2000’s, with government and donor grant funding, this model added local processing of cosmetic oils and organic certification with the aim of increasing the proportion of final value retained by harvesters. Key elements of this model were based upon a cooperative idea: harvesters would be registered and paid a ‘fair’ price negotiated between the NGO and the end user. All buying and selling is seen by everybody. The cooperative has an elected management team, and the cooperative aims were to maximize member benefits rather than the individual’s profit. The two key examples of this the successful entry of marula kernel oil into the Bodyshop range of products and the organization of Devil’s Claw harvesting groups into Organic and Fair Trade cooperatives with full certification.

Since Independence, the Government of Namibia has, to some extent, intervened in the agricultural sector because it believes that markets do not work properly for the majority of farmers. Whilst shying away from direct purchase of INPs, the Government of Namibia has invested in INP development through the Ministry of Agriculture, Water and Forestry since the late 1990’s through the highly enlightened approach of financing the broadly representative national INP stakeholder group, the Indigenous Plants Task Team (IPTT). The creation of the INP governance and coordination body and the financing of a huge range small technical steps towards development of individual INP opportunities has, over the years, differentiated Namibia’s INP development experience from those of other countries even those most of Namibia’s competitors have more abundant INPs. However, Government go too far and sometimes well meaning policies can discourage private investment. In Namibia, there have been a number of instances where government, NGO and private sector have had points of tension. A good example in recent years was government policy changes aimed at ensuring local processing of natural resources. Whilst an excellent and sensible policy in principal, the consequences for some INPs that require huge investment in extraction plant with very low potential for viable cost-recovering throughput, could have been to drive these products out of the market. Some investors may have shied away from taking up Namibian INPs because of a fear that future Government policies might limit raw material supply, notably in the Devil’s Claw sector. It is the unintended consequences of government intervention

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<sup>2</sup> Centre for Research Information Action in Africa Southern African Development Consulting – see [www.criaasadc.org](http://www.criaasadc.org)

that is the greatest cause for concern and the biggest potential break on private investment.

The key problem with both the NGO and Government models has been that of PPOs becoming dependent on hand-outs. What will happen when donor funds, NGO support and government intervention is withdrawn? Is the business model sufficiently strong for harvesters and their representatives to take over some of the functions previously done by NGO's for example, such as negotiation with potential INP buyers, valorization of intellectual property, management of the financial aspects of group formation (i.e., paying for meetings and keeping accounts) and future investment in INP upgrading to capture larger share of value?

#### The local SME led model

Except for bulking, cleaning and consignment, traders add little value to INP's but do at least convert product into cash. A few SME processors have emerged in Namibia, notably in the cosmetic oil area. Traditionally, the SME's have chosen to buy INPs on the open market rather than from PPOs, and have not collaborated closely with NGO's because of different raw material pricing policies (e.g. NGOs tend to set higher producer prices and manage overheads with donor support, local processing SME's are unsupported and profit making). The Government of Namibia has strongly supported the emergence of INP PPOs and would like to encourage more. However, issues such as Access and Benefit Sharing, fair pricing and proper resource management have not been resolved.

#### PPO led model

Endeavouring to move the Namibian INP SME/PPO way of working forward and address these challenges, MCA Namibia has over the past four years, been supporting a new, PPO led model of enterprise/harvester interaction. The central element of this model is not to push out existing support actors such as NGO's but to raise the capacity of INP harvesting groups to undertake many of the key business functions of these NGO's themselves. This built on the idea that sustainability in business relationships will result from direct contact between up-stream INP processing and retailing enterprises and down-stream harvesting groups represented by PPOs.

To illustrate the evolution of the PPO model over the past four years we offer three case studies of different INP commodity/market groups. These are cosmetic oils, essential oils and medicinal plants. Value chains for INPs are far from uniform; fractured sources of demand and complicated ranges of actors are normal, so results are hard to generalize from. However, these three commodity groups do illustrate some of the Enterprise/PPO challenges.

#### Cosmetic oils

MCA Namibia has supported the further development of two major cosmetic oils, Marula kernel oil and Ximenia kernel oil. Whilst Marula has a well developed, government supported, production facility and a strong market pull from the Body Shop, at the start of the MCA Namibia INP PPO project, the value chain for Ximenia can be described as 'young'. The key issues facing Ximenia development were

quality control, increasing supply to meet the demands of a major international buyer and harvester organizational development. Focusing on developing the strength of the PPO's involved was a clear objective at the outset of the project. Challenges included: refreshing the leadership of the Ximania PPO assessing the possible volume of production available (given a series of droughts) and building the capacity of a Ximania producer cooperative to deliver economic volumes of Ximania to a high standard market. It was hoped that the Ximania producers would be in a position to own and operate their own oil extraction facility by the end of the project. The reality is that this is still a few seasons away.

### Essential oils

The launch on the international market of new sources of essential oils is very challenging. There are significant regulatory constraints to new product launch in this sector. The essential oil market is dominated by a small number of essential oil traders who hold stock for and supply the major users such as fragrance houses. Entering this sector requires a long view and significant investment in regulation and market development. At the outset of the MCA Namibia programme a view was taken that, in order to get 'buy-in' from an SME who would invest in the development of the 'basket' of oils available, we would have to offer some degree of exclusivity. As a result the young PPO groups in the Kunene Region were taken through a process of developing an agreement with a major fragrance 'house' in Europe. With the best will in the world, this did not really work. Not all the regulatory hurdles were overcome (there were many and it was ambitious to expect this to happen) and communication between the project, the various NGO's and the major enterprise involved was not good enough. When it was realized that the hoped for demand for essential oils would not be realized, the project took a new tack and re-focused on generating a range of new markets, both domestically and internationally – a diversified strategy in fact.

### Medicinal plants

The value chain for Devil's Claw from Namibia to processing companies in Europe can be described as 'mature'. A small group of Namibian 'buyers' take the entire harvest and consign unprocessed (e.g. sliced and dried) Devil's Claw to various phytochemical companies, largely in Europe. These buying 'houses' set the price. The MCA Namibia INP PPO programme focused on trying to shift this unhealthy and exploitative model of trade in Devil's Claw to a new 'healthy' model based on PPO's negotiating with traders from a position of strength. Initially, to achieve this, support was given to new trader in the Namibian market who was prepared to pay a sustainability/fair trade premium. This buy-in to the projects objectives was repaid with strong capacity building and infrastructure support to PPOs, particularly a large group of new PPO's in the Zambezi Region. In the final year of the programme, an open Expression of Interest was offered to all the Namibian Devil's Claw traders to buy from the programme supported PPOs under at least the same conditions as the first trader was offering. It is early days, but this seems to be challenging attitudes in the Devil's Claw trade.

Selected lessons from these case studies.....

- There is no one size fits all model of PPO/Enterprise development;
- Exclusivity is attractive, particularly at start-up, but probably not always the right option;
- There is no substitute for taking time to explain each step with the PPO's if you want full buy-in;
- The cost of supporting PPO, particularly in remote areas, is very high and threatens to marginalize these groups.
- PPO formation is essential for the INP sector, but takes time and needs regular 'refresh' (i.e., new office holders, more training, re-focussing etc);
- Business and marketing skills are easy to teach but very hard to apply – not all PPOs get issues like book keeping and price negotiation even after several rounds of training;
- Maintaining initial INP price points is not realistic – markets go both up and down – so diving efficiency gains at the harvesting end of the value chain is important for underpinning harvester income and maintaining the incentive for resource management.
- Creating competition for INPs can be healthy; and,
- It is important not to neglect possible local markets in the rush to meet the needs of an exciting international opportunity.

#### Future model

A fifth potential model for the MCA Namibia INP PPO and Enterprise interaction is emerging. This model revolves around the opportunities created by the new Access and Benefit Sharing legislation and aligns Namibia to new technical possibilities that might come from regional integration of INP valorization. With higher throughputs and, greater PPO equity ownership and new levels of investment, there is a potential for basic raw material processing at scale locally. More excitingly, the potential for real value addition through new intellectual property might emerge with the marketing of INP fractions created for specialist market applications.

#### Summary and conclusion

Drawing together the collective experience of INP/Enterprise development models in Namibia shows considerable depth of learning. Namibian INP stakeholders have tried to engage with producer groups to create new businesses in a surprising range of different and imaginative ways (and not all are discussed here – there are several others that could be mentioned such as Hoodia sp. and !Nara). Some have worked well but have bumped up against purely commercial models. This tension emerged in the 2000's when the NGO model came into conflict with a local businesswoman over harvester price setting. Both models were largely in the right: the NGO's objective was harvester price maximization, the oil extracting business wanted to maximize profit. Both of these aims are perfectly acceptable and supported by government policies. However, when it comes to wild harvested resources, this ideological clash proved too difficult for government to resolve and both parties have sought different geographies as a way to address the impasse. This problem will return when resource limits are reached.

We conclude that sustainable harvesting of INP and stewardship of the commons is probably best done through a model that includes some form of PPO. This conclusion

is particularly important if ABS requirements are to be met. However, experience suggests that there it will be necessary to support PPOs in their relationships with INP processing enterprises for some years to come.

## Bio – Ben Bennett

Ben Bennett is Professor of International Trade and Marketing Economics at the Natural Resources Institute, University of Greenwich, UK ([www.nri.org](http://www.nri.org)). He led the MCA Namibia INP PPO sub-Activity as Director. He was Chief Advisor to the Ministry of Agriculture, Water and Forestry on trade and markets from 1998 to 2006 and was a founding member of the Namibian Indigenous Plants Task Team.

ben.bennett@gre.ac.uk