

Integrated Biodiversity Management, South Caucasus

Lessons Learnt from
Promoting Wild collection products in Azerbaijan



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Report

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Integrated Management of Biodiversity, South Caucasus

Based on an internal report prepared by Stephanie Kaupa in 2015

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List of Abbreviations

GIZ	German International Cooperation
IBiS	Integrated Biodiversity Management, South Caucasus
NTFP	Non-timber forest product
POS	Points of Sale
SMBP	Sustainable Management of Biodiversity Programme, South Caucasus
SME	Small and Medium Enterprises

1. Context

The report at hand was initially prepared by Stefanie Kaupa, EZ-Trainee within GIZ SMBP in 2014/2015, aiming at summarizing the experiences of SMBP between 2008 and 2015 with the support of value chains for wild collection products in Azerbaijan within the framework of a programme evaluation mission conducted in March 2015. It is based on inputs prepared by Serdar Hajiyev, responsible for implementing the related activities. The report was later revised by Alexandra Joseph and Oliver Kögler

1.1 SMB Programme 2008-2011

The previous phase of GIZ-SMBP focused heavily on wild collection by supporting small and medium enterprises (SME) in obtaining ecological and social certification such as is described in the FairWild Standard. The key motivation for this was the understanding that certification will create a sound foundation of hygienic, labour and procedural requirements for future upscaling.

Consequently, eight companies were certified according to the FairWild standards, nine more received the necessary training in ecological and socially sustainable harvesting techniques.

For domestic markets, a downscaled certification scheme was proposed, and the *Caucasus Wild Plant Certification Centre* was approached to adapt the certification standards to the context of the countries of the South Caucasus.

Concluding the project phase in 2011, the final project evaluation recommended the downsizing of the related activities as their ecological, social and economic impacts were found to be limited. Furthermore, certification was perceived to be too costly, bureaucratic and time-consuming by producers, warranted only for large quantities and export markets.

In Azerbaijan, the approach to increasing sustainable use of wild collected plants therefore shifted from efforts to promote and financially support certification, and focused rather on supporting production companies in accessing markets in Baku without certification. This was part of a step-wise approach towards exporting, which consisted of improving companies' production processes for subsequent compliance with the requirements of export markets and certification likely required by those markets.

1.2 SMB Programme 2011-2015

In the new program the approach to increase sustainable use of wild collected plants focused rather on supporting production companies in accessing markets in Baku without certification. This was part of a step-wise approach towards exporting, which consisted of improving companies' production processes for subsequent compliance with the requirements of export markets and certification likely required by those markets.

As European and other foreign markets commonly require a high degree of traceability and certification of origin, organic certification is often chosen as a proxy for ensuring a well-documented chain of custody. The support offered by GIZ-SMBP was consequently shifted

towards fulfilling requirements of different international standards, creating the possibility for eventual certification and export.

In Azerbaijan, efforts to promote and financially support certification were less fruitful, and the approach shifted towards supporting production companies in accessing markets in Baku without certification. This was part of a step-wise approach towards exporting, which consisted of improving companies' production processes for subsequent compliance with the requirements of export markets and certification likely required by those markets. Adhering to these standards can also prove beneficial on domestic markets (in Azerbaijan, for example, food hygiene is persistently low¹ and the quality of local products is generally considered low by locals).

In the current programme, demonstrating sustainable approaches for farming and wild collection is one of the four core components, to be achieved in the fields of agriculture, pasture management and wild collection.

Result C3.2 targets wild collection: "Turnover of firms doing business with processing of wild products are increased by 30% in two countries".

It is adapted for Azerbaijan by result G, "Sustainable production and marketing of wild collection products is improved" and measured by the indicators G1, "Turnover of advised companies with products that contain wild collection products is increased by 30 %", and G2, "30% of the total turnover for products of advised producers are sold under the Eko-Zaqatala label".

The results are delivered through the support of the producer group Eko-Zaqatala. The selection of the Zaqatala region followed from the proposal of a Biosphere Reserve surrounding Zaqatala State Nature Reserve (under consideration since 2007) and a feasibility study on the potential of the region with regards to wild collected plants and products incorporating them was conducted².

2. Wild Collection Activities of SMBP Azerbaijan

2.1 Support delivered to Amin Organic

The company Amin Organic signed a memorandum of understanding with GIZ, agreeing on standards of sustainable collection, processing and marketing of collected material. With the support of GIZ, the Institute for Market Ecology (IMO) certified two products of Amin Organic according to the FairWild standard in 2013. They also attended international exhibitions in Germany and Turkey.

¹ See Goulding. 2014. Food Safety in Azerbaijan – Strategic Summary: Strengthening the legislative Base and institutional capacity of the Government of Azerbaijan on Food Safety Control and Certification System for Food Products with a Particular Focus on Hazelnuts. (EU report)

² See Hirsch, Hacıyev & Omarov. 2010. Proposal for the Sustainable Use of Natural Resources in the Districts Zakatala and Balakan, Azerbaijan. (GTZ report)

The certified products were sold, however, on the “informal” market, i.e. outside of supermarkets. For 2012, Amin Organic reported a turnover of AZN 7,750 and for 2013, of AZN 3,400.

After the phase-out of financial support by SMBP for (FairWild) certification, the company discontinued certification.

2.2 Support delivered to Eko-Zaqatala

The second strand of activities to achieve indicators G1 and G2 targeted the producer group Eko-Zaqatala. As mentioned above, the support offered by GIZ-SMBP was geared towards fulfilling requirements of different international standards, creating the possibility for eventual certification and export.

Specifically, GIZ-SMBP facilitated the creation of the producer group Eko-Zaqatala in 2010, advising the integration of (initially eight) existing production companies of products incorporating wild collected material (eventually tea, honey and jam) into one production group. This amalgamation was proposed to enable joint marketing in Baku and other regions. As a precondition to successful marketing, a considerable share of the consulting service was directed towards increasing and ensuring quality in production and processing. This included the development of a local brand “ZaqatalaMountain” as well as support to improved packaging, distribution and presentation of products.

Advisory services were delivered from January 2011 to February 2014 and test sales with financial support from GIZ were conducted from December 2012 to July 2013.

Two study tours to Germany and Turkey, respectively, were conducted in 2010 and 2012 to visit production facilities of certified organic companies, as well as exhibitions and local producers in Turkey.

In February 2014, a workshop on the planning of future activities was conducted. Test sales in Baku were assessed positively by the producers, and despite a decrease in turnover, they expressed interest in continuation and expansion of product range under the brand ZaqatalaMountain. By July 2014, however, the activities were discontinued as interest expressed by the producers plummeted.

2.2.1 Production and processing

GIZ-SMBP facilitated the setup of the producer group on an organizational level and the improvement of production and processing conditions on production unit level (former standalone producers).

In total, seven workshops were held with the members of the producer group and an international consultant in order to define the statutes of Eko-Zaqatala, draft a business plan and define the organizational structure of the group (production and contract management, book-keeping) was hired. On the level of production unit (e.g. jam producer), GIZ-SMBP advised on the improvement of production, packaging and storage facilities, terms of lease and equipment to ensure quality and hygienic standards as well as uninterrupted workflow.

Trainings on the HACCP³ standard on food hygiene and the FairWild Standard on ecologically sustainable and social wild collection were conducted, and an internal control system was introduced for quality management according to the standard ISO 9001⁴. In order to sell in supermarkets, a health and hygiene certificate from the Ministry of Health and a production license are required. While the training offered by GIZ-SMBP is not a guarantor for obtaining such certificates due to opaque awarding procedures, it can be considered helpful.



Figure 1: Eko-Zaqatala production facilities after (top; honey) and before (bottom; tea and jam) support by SMBP.

2.2.2 Marketing

The motivation for the measures was to reach affluent and also expatriate customers in Baku through up-market supermarkets, hotels and other points of sale. Product labels and stalls for presentation were therefore designed which reflected the origin of the products, also consulting supermarkets and hotels for their respective demands on products and product presentation. Hotels catering to tourists, for example, had requirements in packaging (quantity, type of dispenser) different from the demands of supermarkets.

³ The *Hazards Analysis and Critical Control Point* is an approach to ensure food safety by controlling biological, chemical and physical hazards in the production processes

⁴ Improvement of health and hygiene of food products was targeted for a lack of legal framework and clear responsibilities within governmental bodies regarding food safety. These conditions provoke a great number of health hazards and lead to numerous health problems each year. (see Goulding 2014. Food Safety in Azerbaijan)

In addition to sales in Baku, it was also planned to place products in hotels in Zaqatala as tourism and passing traffic was considered a viable market.

The logistics of marketing were also supported with regard to selection and import of packaging materials and the training and designation of a sales manager based in Baku. Lastly, GIZ supported Eko-Zaqatala test sales by covering stall fees in three supermarkets for a trial period from 2012 to 2013.



Figure 2: Packaging of jams and muraba after (left) and before (right) support by SMBP.



Figure 3: Packaging of Eko-Zaqatala teas and honey, and stall for presentation in supermarkets.

3. Impacts of SMBP activities to promote Wild Collection Products

3.1 Impacts on economic performance

- All products produced under the label ZaqatalaMountain were successfully sold
- Nevertheless, total turnover of the producers had decreased for the tea and jam production unit since 2010 (with a slight recovery for jam in 2013); the honey production unit reported an increased turnover for 2012 and a drastically reduced turnover for 2013 (see Fig. 4)
- Test sales statistics for each product line under the label ZaqatalaMountain are available for the period from late 2012 until July 2013 (see Fig. 5) and show a steady decrease for all products (*Indicator G1*)
- Around 6% of the turnover of the three producers was sold under the label ZaqatalaMountain in the period from December 2012 until July 2013 (see Fig. 6). (*Indicator G2*)

3.2 Impacts on brand recognition and awareness of sustainable wild collection

- The company Amin Organic had products certified for two consecutive years, but sold only on the informal market
- In July 2014, jam producer Mr. Allahverdiyev (Tebris A) had plans to export to Russia, Germany, and Saudi Arabia. Training on production and processing, and

experiences from test sales are highly appreciated for its impacts on the quality of collected plant material and access to foreign markets

- In February 2014, honey producer Mr. Gurbanaliyev was considering organic certification according to the requirements of the EU regulation on organic farming later that year. Furthermore, he attracted financial support for bee-breeding from abroad in mid-2014, and was going to focus on the breeding rather than the production of honey
- GIZ-SMBP increased market power⁵ of small producers by paving the way to supermarkets in Baku, which is commonly restricted to international and large brands from Azerbaijan.

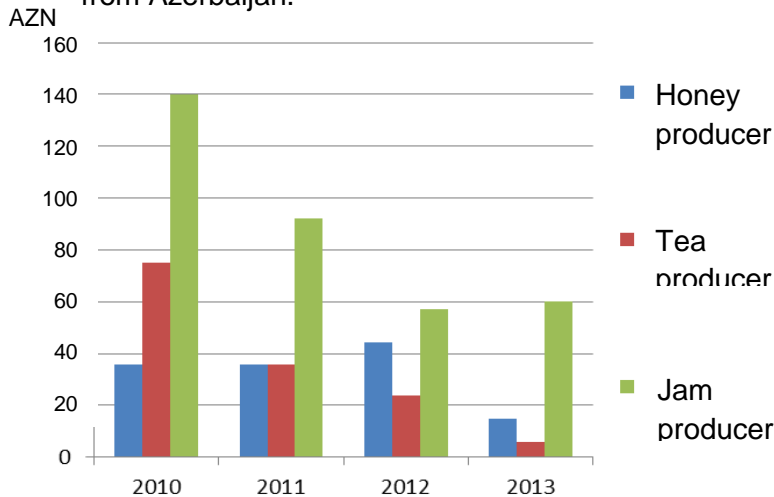


Figure 4: Annual turnover of Eko-Zaqatala producers (individual production units) 2010 -2013

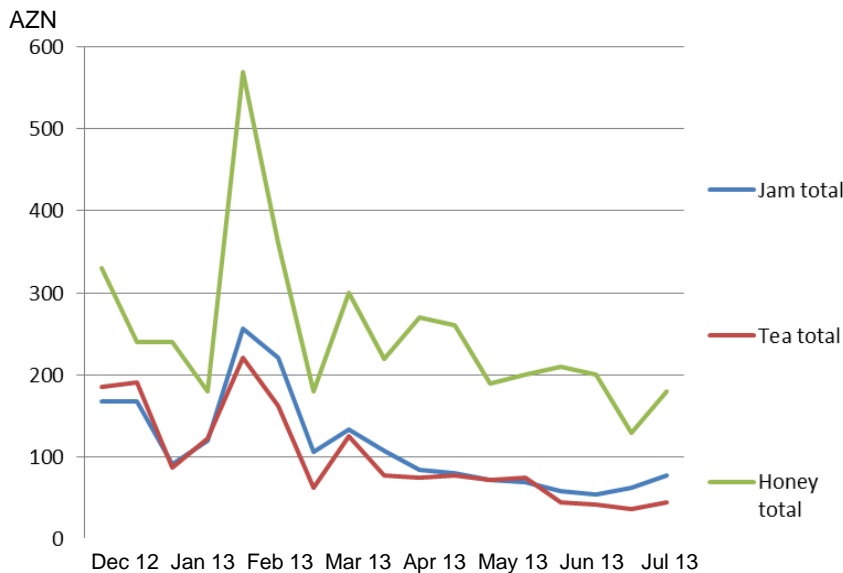


Figure 5: Eko-Zaqatala turnover during test sales (from Dec 12 to July 13)

⁵ defined as the “capacity of an actor to impose his or her trade terms on another actor”; see Marshall, Schreckenber & Newton (eds.). 2006. *Commercialization of non-timber forest products. Factors influencing success*. UNEP WCMC, Cambridge, UK. P. 102

4. Obstacles to Promoting Wild Collection: Evidence and Accounts from Zaqatala

The activities conducted with Eko-Zaqatala have not had the desired impact on the turnover (G1) nor on the volume traded under Zaqatala Mountain label (G2) so far, and have not been able to incite ownership and continuing interest in the participating producers.

Specific reasons stated by producers and project experts for the decreased motivation to engage with GIZ SMBP are related to the **legal framework** and **economic climate**, low and fluctuating **production volumes**, **competition with informal and international markets**, **management capacity**, **logistics** and **limited demand** among the targeted clientele.

Legal and economic framework conditions. The legal framework for the collection of wild plant material consists of the Law on Wild Collection (1998 No.26), however, de facto it is currently not applied. A national standard on organic agriculture which is likely to include wild collected material is currently being drafted (March 2015). Processing and trade of natural products in supermarkets is subject to licensing which is uncontrolled and relatively costly.

The general climate for investment and doing business in Azerbaijan is strongly determined by the presence of large companies which shape official policies and have great influence on the set of actors in the respective market segment. Smaller producers have limited *market power*, defined as the “capacity of an actor to impose his or her trade terms on another actor”⁶.

Furthermore, analyses for wild collection in the South Caucasus have previously attested a rather low potential, as described the sector as marginal with limited potential for export and high and production costs⁷.

Production volumes. The assessment of the production capacity done for the initial business plan concluded that supply could be increased at short notice and low costs (Business Plan 3). In reality, the production volume turned out to be variable and often insufficient to stock market stalls and therefore posed a major challenge for marketing under Zaqatala Mountain.

Only to some degree, can the lower production volumes due to unfavorable weather conditions between 2013 and mid 2014 be linked to the low percentage of products marketed under the label. The reasons for which the producers did not supply Eko-Zaqatala with a higher volume of products are manifold and possibly reinforcing each other. Producers did not want to sell more under the label because – for the reasons mentioned below – it was less profitable. In turn, as the volume provided was fluctuating (either for deliberate withholding of products or low production), test sales in supermarkets decreased.

Competition with informal markets. On the domestic market, competition between the “formal”, i.e. supermarkets and shops requiring barcodes, and “informal” sector is high. The informal sector is often preferred as costs for transport and packaging are negligible; before

⁶ See Marshall, Schreckenber & Newton (eds.). 2006. *Commercialization of non-timber forest products. Factors influencing success*. UNEP WCMC, Cambridge, UK. P. 102

⁷ See Progress Report to BMZ 5 2012-2013

and throughout the support of GIZ, transportation costs to Baku were considered too high, and more generally, Baku was a too “unfamiliar” market for the producers⁸.

Since July 2014, direct marketing in Zaqatala is preferred by the producers as prices are good⁹ and investments necessary to continue sales in Baku (health licenses and logistical requirements such as bar codes, transport, distribution and branding) are currently not a financially viable option for the producers.

Licensing is uncontrolled and very costly (ANZ 550, in 2011). These costs greatly decrease the appeal of the formal market and have negative impacts on profits and investment capacity.

Management capacity. Initially, one of the challenges in working with independent, standalone producers was the low level of cooperation and sharing of information among them¹⁰.

First, in the business plans at hand (Business Plan 3, 2012), profit margins could thus not be calculated per product but only aggregated for the whole producer group. The target value was 25% of the turnover, however, the business plan leaves room for interpretation as to the further distribution between the respective production units. The division of profits and detailed calculations for financial planning were not done in the workshops, but were postponed to a later point in time. To complete the picture, ex post profit margins including and excluding financial support of GIZ (stall fees, AZN 134 /month) were calculated by GIZ staff with test sale data, including a rough estimate of transportation costs to (AZN 80/month & production line) and within Baku (AZN 20/month & production line) (see Fig. 4).

Second, the fluctuating volumes of tea provided to Eko-Zaqatala partially despite sufficient stock, may have negatively affected test sales. Two *points of sale* (POS) were closed, for example, when tea supplies were finished and sales plummeted.

Logistical challenges. Packaging material of sufficient quality was not available within Azerbaijan and had to be imported. Lack of storage facilities in Baku initially contributed to the unstable supply to supermarkets. Transport to and distribution in Baku was not clearly laid out in the business plan and relied on a volunteer sales manager, with occasional support from the GIZ expert.

It was also a concern of the producers that the product family of three products was too limited for supermarkets and should be diversified¹¹.

Limited demand from targeted market segment and export markets. With the exception of honey, trust in local produce and products among local customers and recognition of

⁸ See Hirsch, Hacıyev & Omarov. 2010. Proposal for the Sustainable Use of Natural Resources in the Districts Zakatala and Balakan, Azerbaijan. (GTZ report)

⁹ See SMBP Azerbaijan Results-based monitoring, Monitoring Period 4

¹⁰ It would be of interest to investigate whether this remained an issue throughout the support of Eko-Zaqatala or whether this is now unfounded and obsolete.

¹¹ 7th workshop of the producer group Eko-Zaqatala

labels or “caring for” (organic) certification is still very limited^{12,13,14} and so is the demand for certified products.

Moreover, minor marketing glitches such as initially, inadequate presentation of stalls, and at a later stage, insufficient stock, may have negatively influenced the attractiveness of the brand and products.

Lastly, the standstill in the planning of the prospected *Biosphere Reserve* in Zaqatala has been detrimental for the expected increase in demand and brand recognition.

Regarding export, producers complained that limited access to foreign markets was another reason for the decline in overall turnover¹⁵.

5. Recommendations

- **Mind-set.** Advised producers should elaborate visions for business development and be encouraged take calculated risks
- **Market survey.** Demand for the product at the targeted market must be substantial and should be corroborated by a sound market survey
- **Management.** Technical support with business plans should be comprehensive, considering financial planning and likely risks (bad harvests, access to new markets)
- **Supply.** Producer group could be diversified to reduce risks of disruptions in supply
- **Marketing.** Diversification of products should be tested to increase appeal of label, and expand consumer base
- **Logistics.** Storage space close to points of sale and reliable distribution (through e.g. sales agents) should be budgeted for by producers and agreed by contract
- **Placement.** Trial sales and shelf space could be financially supported through governmental subsidies to small and medium enterprises
- **Placement.** Products should also be sold at “tourist attractions” and major roads in region of origin, if touristic potential allows for it
- **Presentation.** High quality packaging material should be budgeted for, could be financially supported through governmental subsidies to small and medium enterprises

¹² See Deutsch-Aserbajdschanischer Wirtschaftsverband, DAWF. 2010. Marketing Study on Natural Products from Zagatala Region;; and.

¹³ Hirsch, Hacıyev & Omarov. 2010

¹⁴ Goulding. 2014

¹⁵ See SMBP Azerbaijan Results-based monitoring, Monitoring Period 3

6. Conclusion

The support to the promotion of wild collection products in Azerbaijan by SMBP generally showed the following successes:

- Three local producers from Zaqatala were cooperating to jointly promote their products on the formal market in Baku
- They successfully improved their facilities and procedures to meet up-to-date hygiene standards
- They successfully developed a set of products containing wild collection products,
- They successfully established a local brand and developed attractive portioning and packaging of their products
- All products more or less successfully sold in the formal market in Baku

However turn-over volumes of the involved producers did not improve in the time support was provided. This can be in parts be explained by unfavourable weather conditions in the relevant period leading to decreased production. At the same time producers did also not show sustained interest in further promoting their products through the newly established channels. This was mainly due to the high costs to access the formal market in Baku, limited demand there, and the competition with informal and international markets.

To successfully promote wild collection products or any other locally branded eco-product on the formal local market in the future, the following issues should be addressed:

- Increase demand for local products by improving safety standards, introducing sound eco-labels and actively promoting locally branded products
- Decrease costs for accessing the formal market by supporting/jointly organising transport, storage, distribution, marketing and selling of products,
- Improve knowledge and skills of involved producers, especially in regard to business planning



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