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VISION AND ACTION PLAN TO DEVELOP THE GEORGIAN HAZELNUT SECTOR

PART I: A HIGH LEVEL VISION FOR SECTOR DEVELOPMENT

19 September 2014

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**PART I: A HIGH LEVEL VISION FOR SECTOR
DEVELOPMENT**

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Author(s):	Thomas C. Beck
Reviewed by:	Dennis Hall
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ACRONYMS

AACREA	Argentina Association of Regional Consortia for Agricultural Experimentation
AGG	AgriGeorgia (Ferrero's Subsidiary in Georgia)
EPI	Economic Prosperity Initiative
GHGA	Georgian Hazelnut Growers Association
HEPA	Hazelnut Processors and Exporters Association
NGO	Non-Governmental Organization
SMS	Short Messaging Service
USAID	United States Agency for International Development

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I. INTRODUCTION AND BACKGROUND

The Georgian Hazelnut Industry's market structure is little changed from that described in the 2012 "Behavioral Analysis of the Georgian Hazelnut Value Chain". At that time, the main actors referred to the market as the "Wild, Wild West." The majority of production comes from small growers with less than a ton of product. Analysis of EPI data indicates that this group represents roughly 64% of farmers. The next largest group, representing 33% of the market, produces one to three tons. Those producing three tons or more make up the remaining 3% of production.

Small farmers tend to trade among themselves and sell to speculators or collectors. The medium size and larger producers may sell directly to factories or collectors, yet may also engage with speculators, or sell in small lots. Tremendous variability in quality exists.

Speculators buy early from growers and/or strike deals with processors and collectors. Collectors may work for a processor, engage with a speculator, work for one processor in the morning and throughout the day, but then sell the collected goods to another processor at the end of the day. Quality checks are minimal. Uncertainty is the norm. As one farmer put it – "the only thing you can trust is the price."

At the beginning of the season quality tends to be good, with rapid deterioration as the season progresses. This season followed the normal pattern. Initial yields exceeded 40% in August, but by mid-September, were reported to have fallen to the mid 30's.

Much of the falloff in quality stems from post-harvest treatment of the hazelnuts. To combat this problem, processors have made significant investment in dryers and try to purchase as much product as possible right away. However, there are problems endemic to this approach.

Before the processor receives the stock to start the drying, the quality damage has already begun. By the time the nuts have been harvested, sold to a collector, and transferred to the factory, the quality level has already started to degrade (For more on this topic please see: *Quality, the "Wild, Wild, West," and the Road Ahead*).

Quality can be partially addressed throughout the season to improve orchard yields and limit insect, pest and other types of damage. However, the harvest and post-harvest handling process is vital to the ultimate quality level of the goods. Without husking and drying immediately after collection, little improvement will occur. (For more on this topic please see: *Quality, the "Wild, Wild, West," and the Road Ahead*). A great deal of investment in time, training and infrastructure will be necessary to address these systemic issues.

II. A VISION FOR THE HAZELNUT SECTOR

Georgia's future Hazelnut industry will see a more streamlined flow of stock. The number of intermediaries will be reduced, and regional centers will serve as drying and collection points. Drying and storage will move out of factories and closer to production facilitating rapid crop drying. The growers will ultimately become responsible for ensuring the nuts are dried (For more on this topic please see: *Quality, the "Wild, Wild, West," and the Road Ahead*).

Transforming the industry requires much more than building a few regional centers. The industry's development must be systemic, not simply an intervention here and there. Training and education to alter behavior should be conducted at all stages of the growing cycle, but with particular emphasis on post harvest handling practices. Improvements are needed in the access to, and availability of, input suppliers. Service providers, investments in facilities, loans to support the acquisition and development of critical inputs are all needed. Education, training and development throughout the industry on food safety matters must happen. Relationships with buyers must be cultivated and the

industry must demonstrate consistent levels of quality. To accomplish these measures the actors in the domestic industry need to be organized and represented by supporting associations at each end of the domestic value chain.

Currently the two associations are evolving. These two groups – the Hazelnut Exporters and Producers Association (HEPA) and the Georgian Hazelnut Growers Association (GHGA) – were formed recently and are still in the early stages of development. They will serve key roles in facilitating the relationships with, and access to, all of the major industry players. The continued development of the associations should be actively pursued. Their growth and strengthening must continue in order for them to become sustainable. The associations will be the voice of their membership, interacting with both the NGO Community and input providers, ensuring member needs are addressed.

Figure 1: The Current "Structure" of the Georgian Hazelnut Sector

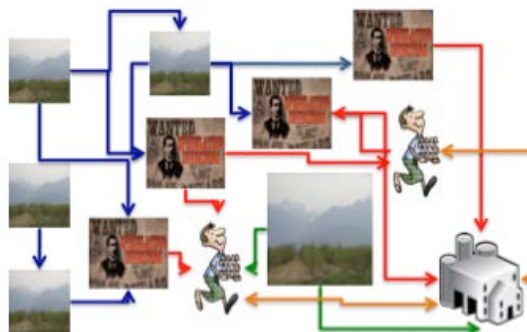
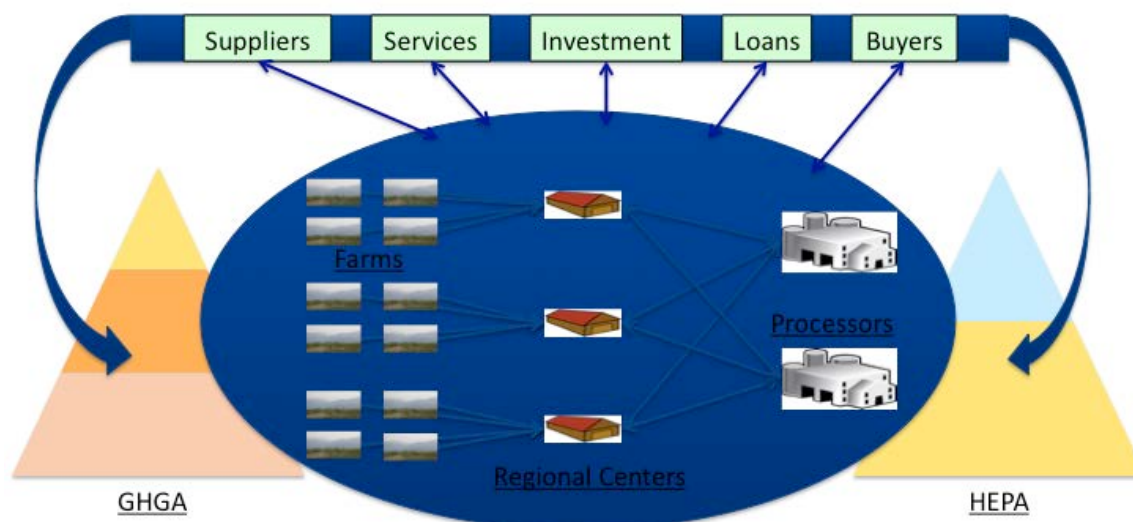


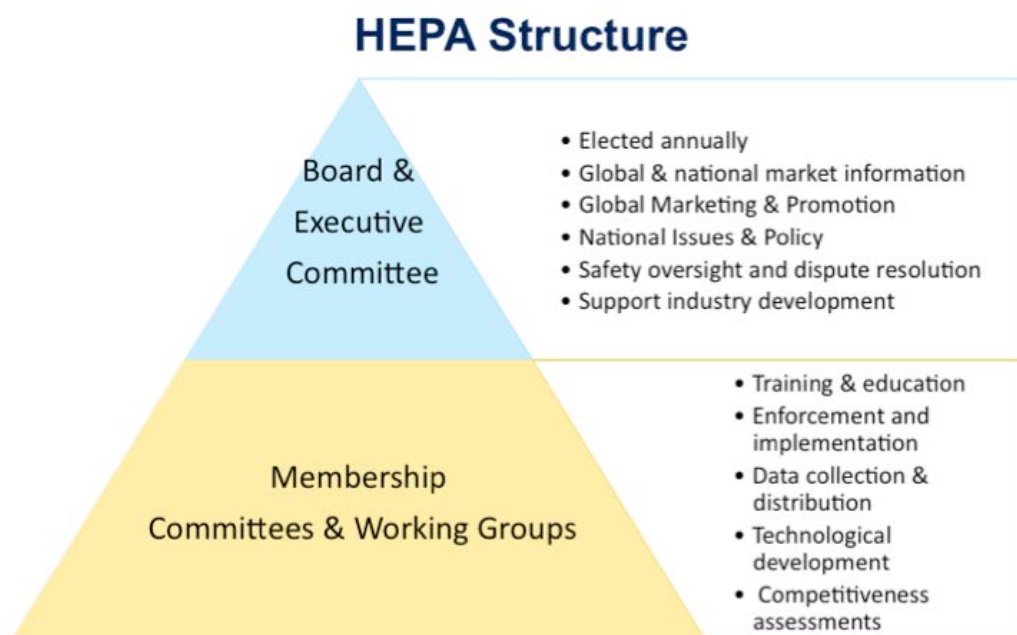
Figure 2: Long Term Vision for the Georgian Hazelnut Sector



The associations are key industry supports, driving development. In many cases the associations may well be the first contact the suppliers, service providers, financial players, and even buyers have with the industry. Certainly the players can contact growers and processors directly, but the associations will serve to aggregate numbers, ensuring broad access to the industry, as well as serving to raise and address priority issues of the membership.

An obvious example is to consider GHGA and the need of growers to have access to critical inputs. The association may in the future have the ability to ensure enough volume from members to secure the association members discounts from input providers such a prime fertilizer company or pesticide supplier. Another critical activity is for the association to lobby for changes to national laws that do not consider industry norms or required practices. HEPA is currently engaged in such a process with the Georgian government.

A. HAZELNUT EXPORTERS AND PROCESSORS ASSOCIATION (HEPA)



HEPA has a board and an active executive. As HEPA grows, the association ultimately will become two tiered. A small annually elected board and executive committee will set direction and tackle key national or international initiatives. The leadership group will focus on the national and global market, promoting processors domestically and abroad. HEPA will also gather and provide members with market information. The group will address national safety issues and strive to assist members in dispute resolution. International and national regulations and standards will be monitored and shared with the membership.

As the association strengthens, the second tier will develop membership committees and working groups to address practical local matters. These groups will ensure training and education of members on industry best practices and standards. The groups will collect and distribute data on activities such as volume, yields and quality. The association will engage with vendors and input suppliers to better understand developments in technology and practices, making such information available to the membership.

Table 1: HEPA Areas for Technical Assistance

Level	Initiatives
International/National Level	- Promotion & information sharing - International Branding - Global market/pricing data - Stakeholders & supporters database - Global Standards & best practices - International regulatory information
Regional/Local Level	- Food Safety Education - Standards compliance - Local testing needs - Yield & quality data - Technical development

A specific area where HEPA might seek technical and NGO assistance is with promotional matters and information sharing. Further, the association could take on an international branding effort to distinguish Georgia's product from competitors. The Georgian varieties have distinct flavors and characteristics, which perhaps could be positioned and branded in the market. A third area for support might be in developing an industry database to capture international and domestic market information as well as developing and preparing data on service providers, supporters and stakeholders.

Food safety and international standards are becoming increasingly important globally. A few processors have made significant strides in this area, but there is a great deal of work to be done throughout the Georgian processing industry. As these matters are important both domestically and internationally, developing food safety practices and compliance to international standards is a natural place for technical assistance.

Assistance might also be sought for technical development and training. Equipment of all sorts is needed to upgrade lines and factory processes. Simple fixes that could be addressed through awareness campaigns include putting protection around light fixtures to prevent broken glass from entering the line. More sophisticated and complex items like the incorporation of metal detectors and/or lasers to improve food safety and quality might also be targeted.

The above comprise a brief laundry list of possible initiatives. The association and its membership should determine the priorities and where to expend efforts and resources in light of the critical industry needs. Then they should consider which NGOs, other supporting entities, and/or stakeholders, to approach to address the selected priorities. The initiatives should be considered systemically to drive change at all levels of the industry.

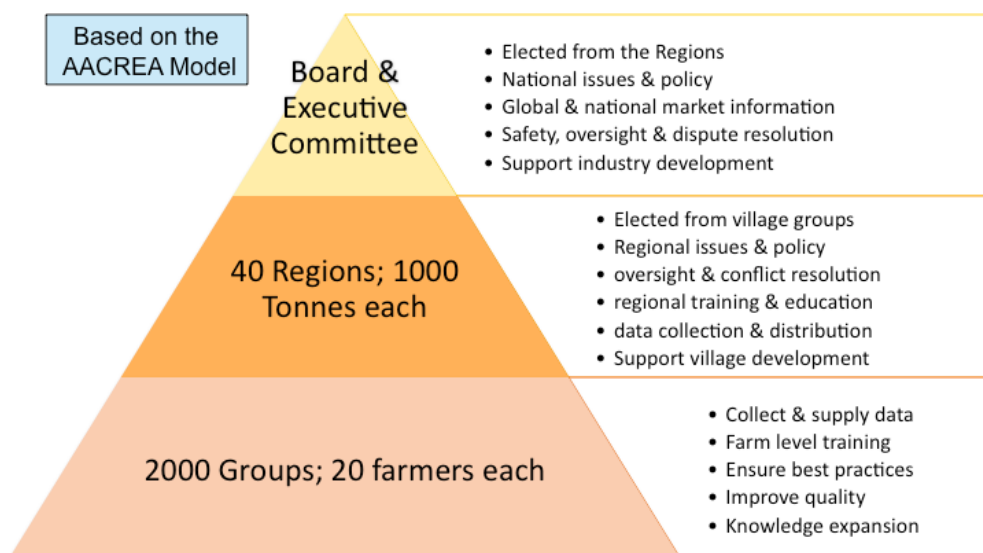
The most important domestic areas are in food safety, compliance to international standards, and traceability. Food production problems can be extraordinarily expensive and potentially crippling. A US food safety recall of tomatoes in 2008 cost \$250 million and a 2009 food safety recall of peanuts cost in excess of \$1 billion USD. Therefore addressing food safety, ISO compliance, and traceability are important factors in the international market and essential for Georgia's continued long-term development. Targets can be found at all levels of Georgia's industry. Broad based training, targeted facility improvements, national regulations and compliance, as well as demonstration of commitment to the international community and ultimately the end customers – all are areas to target. Needed NGO Assistance in this realm ranges from education and training, to equipment, to facility and procedure upgrades. Failure to address the food safety realm could be potentially crippling to the continued development of the sector, and therefore this area should be a high priority.

Addressing food safety, compliance and traceability will not only improve the local facilities and behaviors. Tackling these matters will be a strong signal to potential international customers who are seeking higher quality and risk reduction in order to engage with Georgia. Food safety improvement will further Georgia's national aims as the country strives to comply of the Deep and Comprehensive Trade Treaty negotiated with the European Union.

B. GEORGIA HAZELNUT GROWERS ASSOCIATION (GHGA)

The GHGA will be a larger organization than HEPA. Roughly 40,000 hazelnut farmers exist in Georgia; each is eligible for membership. The managing organizational structural being developed by GHGA is based on the Argentina Association of Regional Consortia for Agricultural Experimentation (AACREA) model. The structure will be three tiered.

Figure 3: Emerging Structure of the GHGA



- The base tier will be comprised of 2,000 groups, each containing 20 members. The organized base will be the source of the association's strength. The base level groups will be organized in the villages and focus on farmer training and expanding farmer knowledge. The groups will work together to spread best practices while improving quality. Data will be continually collected from the local groups as they make improvements and adjustments.
- The second organizational tier will be regional in nature. 40 regions will be developed. Each region will represent about 1,000 tons of hazelnut production, which equates to roughly 50 groups (1,000 members) per geographic region. Individuals elected from the basal groups will manage the regions and will focus on regional issues and policy. Like the local level, the regional level will also gather and share data, support village level development, and provide oversight and conflict resolution.
- The organization's top tier will comprise a board and executive committee elected from the regions. The top tier will focus on national issues and policy, as well as be market facing. They will aggregate national and international market data, and support national industry development. The top level will address regional conflicts, and resolve disputes.

GHGA is in the very early stages of development. AACREA members were in Georgia over the summer initiating groups and building the structure. Much more work by AACREA is anticipated in the coming months (See: "A High Level Vision and Action Plan to Develop the Hazelnut Sector: Part II: A 12-18 Month Action Plan") to further develop both groups and the upper tiers.

Groups currently range in size from ten to seven members. Through time more groups will form, gradually evolving, and ultimately growing larger. However, for the early stages of development the expectation is that groups will average between eight to ten members.

Table 2: GHGA Areas for Technical Assistance

Level	Initiatives
National Level	- Facilitate industry investment and infrastructure - Provide permanent consultancy - Develop labeling & traceability standards - Create national database of farmers
Regional Level	- Map farmers & annual production - Conduct a census of farmers - Ensure farms are properly recorded - Facilitate services such as dryer location
Local Level	- Educate on standards - Train on value of quality - Provide access to Jute bags - Develop Windbreaks

Opportunities for technical assistance to GHGA exist throughout the industry. The local levels require training and education on standards and best practices. Planting and development of windbreaks is needed for orchard protection. Jute bags are needed to facilitate storage and promote quality. Farmers also need assistance with land registration to ensure they have all required documentation in order. Better access to fertilizers and pesticides would help build volumes, increasing production. Further, soil testing is required to determine which fertilizers will be most effective.

How many growers are actually in an area? A regional census could be conducted to begin generating such information. These efforts feed into traceability and food safety matters. For regional infrastructure projects, NGOs could support the development of drying facilities or storage areas. Training of field experts to drive change and best practices throughout the regions could be provided.

National level infrastructure development and investment must be encouraged. Technical assistance ensuring insurance and micro finance availability could be provided. National training materials could be developed or support provided for traceability efforts. Technical assistance could be rendered to map and locate farms, volumes and facilities. Knowing where production occurs and under what conditions lays the groundwork for further improvements.

Sponsorship is required for AACREA's efforts to further develop GHGA's structure. Current organizational activities are funded until March 31, 2015. After that, no funding presently exists. AACREA's support is needed for developing GHGA's upper levels and forming additional groups.

Another important area for technical support is the "Knowledgebase." In this case a "Knowledgebase" refers a relational database with mapping components and other elements to enable linkages between people, activities, and geographic space. The knowledgebase will form the industry's technological backbone, providing long-term value to all members. Built and augmented by data collected from farmer groups as they grow, the knowledgebase will be national in scope providing key insights for development, while delivering practical local value to growers. Knowing where production is will facilitate the location of additional dryer and storage facilities as well as ultimately enable national level forecasting. Quick responses to farmer needs such as addressing pest infestations or other problems will be possible. (See also: "A High Level Vision and Action Plan to Develop the Hazelnut Sector: Part II: A 12-18 Month Action Plan") Such efforts will also support future traceability efforts and compliance with ever developing international requirements.

III. IMPLEMENTATION MODEL

Leadership & Oversight Task Force

- GHGA/HEPA – Industry Vision; In-Field Day to Day Oversight & Coordination
- Donor Groups – Approvals, Reporting & Updates as Required by Group
- Market Expert – Support Planning; Periodic Project & Market Evaluation/Alignment

Supporting Agencies		National Projects		Regional Projects		Local Projects	
NGO	Mission	Mapping	Land Registration	Dryers & Storage	Asscn Develop't	Standards & Quality Training	Inputs & Equipment
CARE							
MERCY CORPS							
OXFAM							
REAP							

The two industry associations must set a proactive agenda for industry development and support their constituents. They must play a significant industry role and have impact

In the near term the associations require significant assistance from the NGOs and the donor community for their continued development. As the associations strengthen, continue to demonstrate their value to their membership, and drive change through the industry, the need for such support will erode. Gradually the membership and industry base, combined with the association's own efforts to generate revenue, will become capable of sustaining the organizations.

While donor support is vital, to provide project oversight the formation of a "Leadership & Oversight Task Force" with each respective association would prove useful. GHGA or HEPA should provide vision and day-to-day oversight in the field. Key donor groups would conduct monitoring, reporting, and updates as required by their group. A third member of the task force would be a market expert to support initiatives and assist with planning, while periodically conducting project and market evaluations ensuring activities align with the market.

The task force activities will not just focus on individual projects benefiting a piece of the industry or certain members. Instead, thinking will be systemic, considering project sets that can be engaged to drive change at all levels. Industry priorities should be determined at each level – international, national, regional, and local. Then activities that create a multiplier effect, should be pursued.

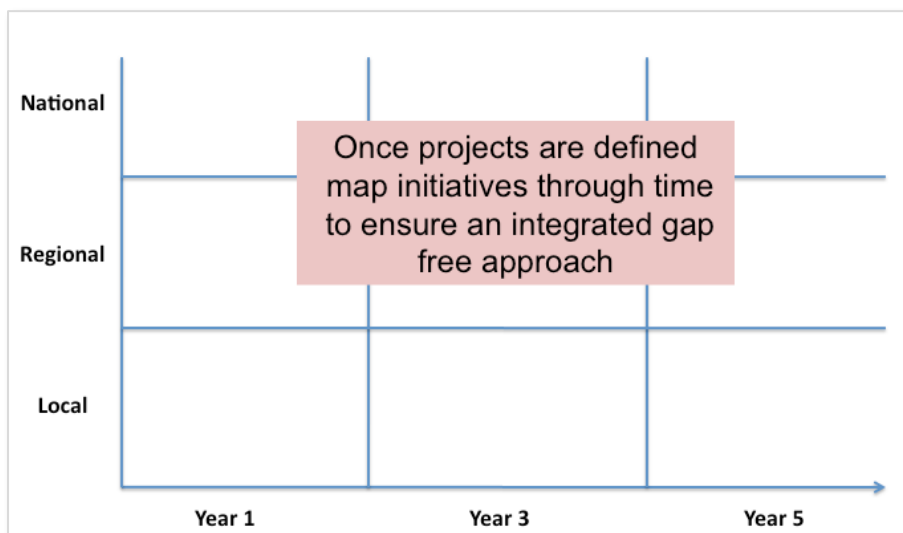
A hypothetical example from GHGA's side could revolve around quality. National level training efforts could provide expertise to support infrastructure such as laboratories. Regional efforts could be supported for the developing drying centers. Locally, jute bags could be provided to growers. The integrated efforts would then be multiplied. Personnel would be available for new drying center laboratories; growers would be able to dry stocks locally, in a timely fashion; jute bags would support postharvest handling and storage. Each project thus reinforces the others along a quality theme, targeting each level of need.

HEPA could pursue similar integrated projects driving food safety through the industry. The approach should be systemic with overlapping benefits.

The associations should map NGO activities and goals against systemic industry priorities to find strategic "fit". Association/NGO partnerships should then be formed around targeted projects coupling the project's strategic fit with the NGOs mission.

After forming the partnerships, the team should determine clear discrete projects. Responsibilities, objectives, resources, milestones and timelines should be clearly defined.

Figure 4: How to Build the Development Timeline



As partnerships are formed and initiatives launched, projects should be mapped, ensuring an integrated approach. The associations should guide the industry vision as determined by input from their constituents. Maintaining and sharing a development timeline that highlights ongoing activities will be important to ensure there are no gaps. A development timeline will also serve to illustrate continuous improvement to donor groups and players at all levels in the value chain.

IV. CONCLUSION

Today's Georgian Hazelnut Industry is a self-described "Wild, Wild West" where production is fragmented, quality poor, and "the only thing you can trust is the price." Development efforts seek to improve the economic situation of growers and other players throughout the value chain, raising the overall quality and competitiveness of the industry.

Due to domestic hazelnut varietal realities, drying and storage must move closer to nut production to improve quality. Doing so results in a more direct flow of product from field to factory. Further, doing so alters the product that flows from the grower to the factory. Instead of wet, improperly dried hazelnuts changing hands multiple times on the way to a factory drying facility, the nuts will be dried by farmers to a proper moisture level, progressing through regional drying and storage centers to the factory for processing.

The vision requires the support of the two budding associations. They must grow and become self-sustaining. The associations must represent their constituent base, and interact with input providers and the NGO community to encourage industry investment and guide systemic development.

USAID Economic Prosperity Initiative (EPI)
6 Samghebro Street
Tbilisi, Georgia
www.epigeorgia.com

Phone: +995 32 43 89 24/25/26

Fax: +995 32 43 89 27