FEASIBILITY STUDY

CARIBBEAN PRODUCE MARKETING CORPORATION

Prepared for:

CHF – PROPEL PROJECT

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ACRYNOMS AND ABBREVIATIONS

ACP	Agricultural Policy Programme
AMIS	Agricultural marketing information systems
BS&T	Barbados Shipping and Trading Company Ltd.
CaFAN	Caribbean Farmers Network
CARDI	Caribbean Agricultural Research and Development Institute
CARICOM	Caribbean Community and Common Market
CATCO	Caribbean Agricultural Trading Company
CET	Common external tariffs
CF	Contract farming
CFC	Caribbean Food Corporation
CFL	Consolidated Foods Limited
CHF	Formerly called the Canadian Hunger Foundation
CIF	Cost, insurance and freight
CPMC	Caribbean Produce Marketing Corporation
CROSQ	CARICOM Regional Organisation for Standards and Quality
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FTA	Free Trade Agreement
GAP	Good Agricultural Practice
HVM	High value market
IFAD	International Fund for Agricultural Development
IICA	Inter American Institute for Cooperation on Agriculture
Kg	Kilogram
LCL	Less than container
NGMC	New Guyana Marketing Corporation
NTM	Non-tariff measure
ODC	Other duties and charges
PRA	Pest risk assessment
PROPEL	Promotion of Regional Opportunities for Produce through Enterprises and Linkages
SPS	Sanitary and phyto-sanitary

TEUs	Twenty foot equivalent units
TTABA	Trinidad and Tobago Agribusiness Association
UK	United Kingdom
US	United States
USAID	United States Agency for International Development
USD	United States Dollar

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1.0 BACKGROUND

The Promotion of Regional Opportunities for Produce through Enterprises and Linkages (PROPEL) project is acting as a catalyst to increase the value of Caribbean fresh produce accessing high value markets (HVMs) in the Caribbean and internationally. PROPEL is focusing on eight countries—Barbados, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago.

A key part of the original design for PROPEL is the establishment of the Caribbean Produce Marketing Corporation (CPMC).[1] The CPMC would be a self-supporting non-profit corporation that would act as a facilitator between the small producers and high value market buyers on three levels—local markets such as hotels and supermarkets, intra-regional markets and extra-regional markets. The CPMC is intended to overcome a range of issues which are blocking the development of linkages between HVM buyers and small and medium producers.[2]

With PROPEL now underway, a preliminary assessment of the CPMC is needed to better define CPMC's potential nature, role and function. A critical part of this is defining the conditions under which it can be viable over the long term. This includes taking into account lessons learned from other similar mechanisms in the region and beyond and re-examining the rationale for the CPMC, prospects for it securing 'fair deals' for small to medium-sized producers and the availability of quality fresh produce required by large buyers.

To review the viability of CPMC, interviews were undertaken in Barbados, Trinidad and Tobago, Jamaica, Guyana and St. Lucia. These covered PROPEL staff and partners, HVM buyers, consolidators, producer groups, national marketing agencies, marketing specialists, financial institutions, governmental agencies, shipping and transport companies, produce consultants, CARICOM officials and donors. In addition, a range of documents were consulted including market studies, reviews of non-tariff measures (NTMs), import regulations, project documents and reviews of specific sub-sectors.[3] A variety of databases were also accessed to better understand the patterns of current production and trade and where opportunities might exist.

This report represents an initial review of the feasibility of the CPMC including the prerequisites necessary for it to work. It was intended to provide information to allow CHF to move to the next level of decision making regarding proceeding or not proceeding with the CPMC. In addition, the terms of reference listed a number of areas to be covered in terms of operational considerations including potential markets, staffing, legal structure, governance, development services and financial assessments. These are presented here in terms of suggestions for how a CPMC could be organized.

[1] The term CPMC was used in the original documents but there is a need to use a different name if the entity moves forward. The term "marketing corporation" is too closely aligned with the governmental agencies that have developed through the region and have not effectively performed.
[2] The term producer is used throughout and can refer to either individual producers or associations.
[3] See Annex A for a partial listing.

2.0 RATIONALE, POTENTIAL ROLE AND LESSONS FOR CPMC

2.1 Rationale and Potential Role

The original rationale for the CPMC was based on an analysis of the relationships among HVM buyers and smaller producers and the obstacles faced in building the linkages. The CPMC was seen to be a mechanism to overcome a number of these issues. The key issues were:

- Mistrust between large buyers and small to medium scale producers, often based on "bad" experiences in the past where both parties have not respected the arrangements agreed upon;
- Desire for minimal transactions by buyers which were reluctant to source products from a wide range of small producers;
- Inability of small producers to meet the standards and quantities required by the HVM buyers;
- Inability of small producers to be competitive in terms of pricing and productivity with buyers sourcing produce from other lower cost countries such as Costa Rica;
- Desire by buyers to not use contracts with small producers until the producers proved they could meet the quality and quantity of products needed; and
- Need to spread supply contracts to different areas in the region to ensure year round supply or reach a critical mass of products to be able to meet the needs of intra-regional and extra-regional orders.

In the original design, the CPMC was seen as a regional body that could tackle some of these issues by acting as an intermediary between the buyers and producers. It would negotiate the supply and delivery of fresh produce into markets at the three levels—local, intra-regional and extra-regional. The CPMC would be responsible for quality control and assuring the buyers that the fresh produce they procured conformed to the quality and food safety requirements negotiated as part of the procurement contract. CPMC would have contracts with the buyer and individual producers and would provide technical assistance to the producers as needed to meet the orders. This arrangement could also allow leveraging of financing from banks and other financial institutions for the producers. It was expected that the CPMC would be commercially viable after three years and use its profits to deliver services to producers.

A majority of people interviewed indicated that the general concept of and rationale for the CPMC was still sound. The issues identified previously were still in play and the CPMC could assist in overcoming them, particularly at the intra-regional level.

They also indicated that there will be large obstacles in terms of implementation and that care needed to be taken in how the CPMC was approached and implemented. The issues cited were ones that a wide range of groups including private and public sector had tried to tackle, without success. These issues included whether:

- Small producers were interested in and would respond to the opportunities;
- Producers that did respond would be committed to meeting the requirements of the markets on a consistent basis;
- Cost of production would be internationally competitive;

- A volume of produce could be generated that would allow the CPMC to be financially sustainable and provide development services;
- Products sourced from a number of islands could be consolidated to fill extra-regional shipments given logistical and sanitary and phyto-sanitary (SPS) intra-island restrictions; and
- CPMC would compete with existing players which were trying to accomplish similar objectives.

These issues and other factors have been integrated into this review and the proposed recommendations.

2.2 Similar Experience in Caribbean

2.2.1 CATCO

Throughout the interviews for the feasibility study, the past failure of the Caribbean Agricultural Trading Company (CATCO) was mentioned as an important factor to consider. Why CATCO failed and what its failure could mean for the CPMC was raised since some of the same problems could potentially be seen again with the CPMC.

CATCO was incorporated in 1981. Its major shareholder (51%) was the Caribbean Food Corporation (CFC) which was wholly owned by the CARICOM governments.[4] The remaining shares were held by eight private sector companies, with Grace Kennedy of Jamaica taking the lead. The funding was provided by USAID through a USD 4 million loan.[5] The company was intended to be commercially viable focusing on developing intra-regional and extra-regional markets. It also had a developmental objective and was to provide on-going technical assistance to small producers to access those markets. It stopped operation in the early 1990s.

What went wrong with CATCO? According to documents and the interviews a number of factors contributed to the problems.[6]

- *The extensive work bringing producers to levels required by the buyers made responding to buyers' needs more difficult and the operation costly.* – When CATCO started, the initial supply of quality produce was not available. As a consequence, they had to work extensively with producers, including using the extension and research services available, to increase the volume and quality of products. The extent of the work required caused three problems. First, it was difficult to respond rapidly to market signals and buyers' needs. Long timeframes were required to mobilize the products in the quantity and quality demanded and by then market opportunities were often gone. Second, even with the extensive technical assistance to producers, the volumes remained low. It was difficult to get the productivity of the producers to the levels required to be competitive. This impacted CATCO's financial sustainability. It was estimated in 1988 that to breakeven required trading over 9,000 tons per year. In 1989,

[4] CFC was started in 1976 to provide equity investments to small and medium agricultural enterprises. In 1999 CFC was absorbed into CARDI.
[5] Note that the actual amount of the loan disbursed was approximately $1 million.
[6] A number of people interviewed had a direct role or had worked with CATCO and provided many of their insights into what to avoid for CPMC based on that experience.

CATCO was only at 1,572 tons of sales. Third, the development work was costly, further exacerbating the financial problems.

- *The initial management of CATCO proved ineffective and increased CATCO's liabilities.* – The management problems with CATCO were mentioned consistently as being one of the biggest issues regarding CATCO's failure. Two factors influenced the management approach. First, Grace Kennedy was initially placed in the management role but was not able to take a "private sector" approach. The CARICOM governments consistently tried to influence the hiring of staff and management of the corporation. The initial managers hired from the region were not qualified and were often hired for reasons other than their skill sets. The CATCO Board did not apply commercial standards to CATCO and encouraged the staff to focus more on development issues. To make the situation more complex, Grace Kennedy had limited expertise in fresh produce which was a different market from their processed products that they exported. In 1985, after four General Managers in three years, FINTRAC Consultants of the United Kingdom (UK) were brought in and they began to turn the company around.[7] Volumes substantially increased and new markets were found in Europe for West Indian ethnic products. However, by that time, CATCO was having to service the USAID loan which it did by borrowing at commercial rates. Between that and the developmental costs to get the volumes of products, CATCO was not able to reach sustainable financial levels quickly enough to save the organization.

- *CATCO faced competition from established Caribbean market players* – CATCO attempted to compete with existing players, including higglers, in both selling inputs and trading products. It was not competitive against existing traders and underestimated the resistance from other private sector players. No attempt was made to work with the existing players, despite the fact that the private sector had an interest in CATCO. In addition, government marketing boards were also competing for the same products and markets and were being subsidized.

- *CATCO management underestimated the amount of time required to monitor the quality of the production and the buyers* – It quickly became clear that issues were arising on both the producer and buyer fronts. In terms of the producers, there was an expectation that they could supply products without meeting quality standards. From the buyers' perspective, particularly importers in the United Kingdom, they sometimes refused to pay CATCO saying a shipment had arrived spoiled when in fact it had not. This lack of monitoring meant that CATCO was paying for products that were not of the agreed quality and not being paid by the buyers. This placed a further squeeze on the financial situation.

- *Striking a balance between development and commercial approaches was difficult.* – The CARICOM partners felt that CATCO could fill a development role that indigenous institutions were not filling. CATCO was expected to act as a catalyst for changes among small producers and fully fund that role from profits. At the same time, CATCO was facing increasing international competition in export markets from Central America and Brazil where the private sector was able to more easily source products. The decisions by the CARICOM governments to expand the development role beyond what was needed for the actual CATCO operations made the organization uncompetitive.

[7] Funding for FINTRAC was provided by the European Union on a grant basis.

What implications does this have for the viability of the CPMC? All of these issues continue to be potential problems for the CPMC's viability. As will be discussed below, these need to be taken into account in terms of how to approach the CPMC in order to ensure that, if the CPMC moves forward, it has a chance of succeeding.

2.2.2 TTABA

A range of other groups have tried to undertake similar work to CPMC combining development and commercial operations. One that is currently operating is the Trinidad and Tobago Agribusiness Association (TTABA) and lessons are also relevant from its development. TTABA was established in 2006 as a non-profit. It has 33 member associations which include farmers associations, Supermarket Association, Hotel and Restaurant Association, Agro-Processors Association and Exporters Association. Over USD 30 million have been provided to TTABA by the Government of Trinidad and Tobago, Inter-American Institute for Cooperation on Agriculture (IICA) and European Union (EU).

The TTABA combines both developmental and commercial activities. The developmental work (primarily funded to date by the Government) has focused on institutional support to producer associations, research and development of value added products and market and product development. The commercial operations includes investments in 3 processing plants covering products such as frozen root crops, fruit purees and juices, sauces and precut chilled vegetables. It has 3,000 acres available for contract farming. The operation is large and directly employs 189 persons, provides direct employment of approximately 1,150 people at the farm level, 1,500 temporary workers during harvesting and 350 individuals along the value chain.[8]

TTABA enters into contracts with producers to supply the produce demanded for the markets they are serving which include HVMs such as supermarkets (e.g. Hi-Lo). The TTABA has focused initially on areas of domestic import substitution. They have developed bakery products using local cassava and sweet potato that has replaced approximately 70% of the imported wheat in final products. In 2012, TTABA purchased over 285,000 kilograms (kgs) of cassava from local producers. They are now focusing on new products such as hot pepper mash—purchasing over 118,000 kg of hot peppers from local producers in 2012.

The biggest issue facing TTABA is financial sustainability. Sales on the domestic market are over USD 6 million per year. The test marketing of new products in 2011 generated sales of over USD 2 million and a gross margin of 23%. The organization, however, has continued to incur losses.[9] Some issues were seen with payments from retailers where TTABA had paid farmers but was not able to collect from the buyers. Others were due to the phasing out of funding coming from the Government. Running the operation at 50% capacity means that the overhead are also too high for the products produced.

Contributing to this, however, is their inability, even with extensive services and provision of inputs to producers, to secure the supply of produce they require to fill the market demand they currently have. Few producers are interested in engaging in contracts and supplying products on a consistent basis. Substantial time and money has been spent working with subsistence farmers to bring up their production but few results have been seen, with many side selling the produce. This leaves only a small pool of producers but many of these have a cost of

[8] IICA. 2012. Choices: *Caribbean AgriCulture Our Way*.
[9] Newspaper accounts report the losses between 2007 and 2011 being approximately USD11.3 million.

production that is too high for TTABA to compete with international suppliers. For example, National Canners is trying to source local pepper mash for its sauces but the supply available in Trinidad is less than their requirements. They import it from the Dominican Republic and Costa Rica. TTABA hopes to move into this market but currently has a price twice that of the imports. Unless the price can be substantially lowered, few local or regional markets will be opened. Even TTABA has resorted to importing some products to use in their processing operations.

TTABA is currently being restructured under new leadership and is hoping to be profitable within the next year. Even with the extensive technical assistance and other inputs provided to a wide range of producers, they still face constraints on mobilizing products, however. While TTABA has been focusing on the domestic market primarily, they are now looking to expand and undertaken both intra-regional and extra-regional trade. This includes starting to source produce from other islands for the processing operation in order to more fully utilize their facilities.

TTABA is similar to the concept of CPMC, albeit at a national level. The problems it has faced, however, reinforce the continuing difficulty seen in mobilizing producers for the HVMs. This same issue has been seen on a series of projects funded by various donors and governments. Various models of technical assistance have been tried to link producers and buyers but most relationships have eventually deteriorated after the closure of the project. The relationships were sometimes not built on commercial terms (e.g. producers receiving subsidies from a project to make the linkages that could not be provided by the buyers or the producers after the project ended). The projects also had limited mechanisms to decrease the level of effort for the buyers to consolidate the products and monitor quality after the project ended.

2.3 Lessons on Contract Farming

CPMC would be undertaking a form of contract farming (CF). Contract farming is defined as an agricultural production system carried out according to an agreement between a buyer and producers that establishes conditions for production and marketing of farm products. A range of potential models are seen with how these systems operate. What is clear is that the arrangements are complex and require a strong commitment from all parties to the agreement.

A number of recent papers have identified the success factors related to contract farming.[10] Annex B provides details from one of the documents to illustrate the key success factors and the complexity of variables that need to be taken into account. Key elements to consider are the following:

- Trust and scope of the negotiations;
- Economic viability and incentives;
- Contract farming arrangements and risks;
- Technology transfer and innovation;
- Investment climate and third party support; and
- Sound analysis and planning.

[10] See for example: GIZ 2013. “Contract Farming Handbook”; FAO. 2012. “Guiding Principles for responsible contract farming operations”; and Technoserve and IFAD. 2011. “Technical Brief: Outgrower Schemes – Enhancing Profitability”.

Past experience shows that sufficient time and resources must be given for the formation, start-up and scaling up of CF schemes. Few arrangements breakeven in the first year and many take 3-5 years to be sustainable.

3.0 OVERVIEW OF PREREQUISITES FOR THE CPMC TO BE SUCCESSFUL

From the analysis and discussions to date, potential HVMs exist at all three levels.[11] Certainly, buyers in the region are interested in sourcing products from local and regional producers. Servicing those markets, however, faces a series of challenges which may or may not be able to be overcome by the CPMC. Some are specific to the particular product, others more generic.

Four prerequisites need to be in place for the CPMC to have a chance to be viable.

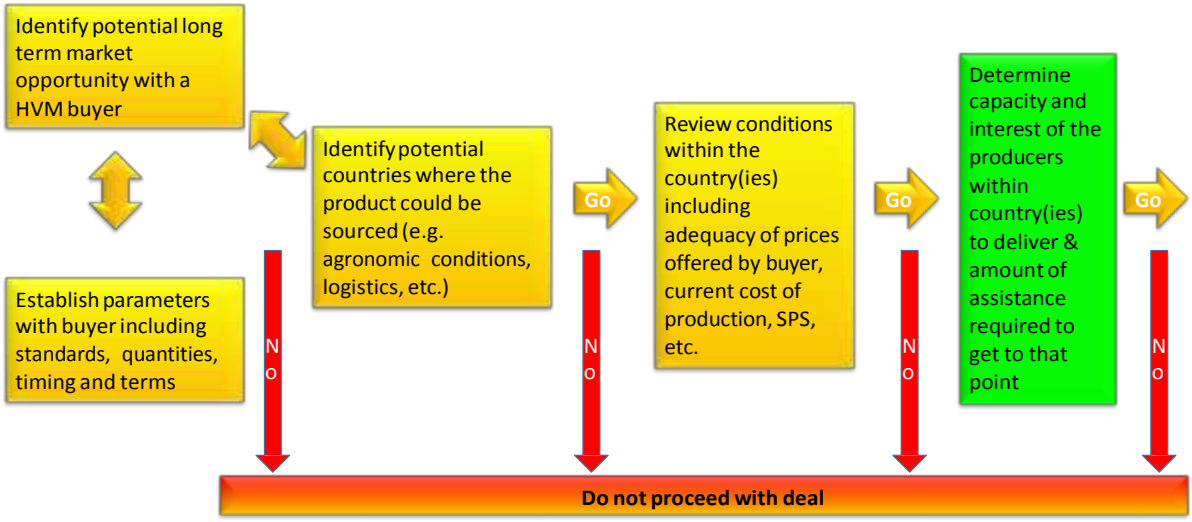
3.1 Pool of Producers

Ability to increase the pool of small producers capable and willing to meet the demands of HVMs

To effectively deliver to the HVMs, the CPMC will have to have a pool of producers to meet the standards, quantities, timeframes and prices required for the markets. Figure 1 provides a very stylized graph on the potential decision making around a specific market opportunity. The ability to secure long term markets will be dependent on a series of factors as the opportunities are identified. This includes agronomic conditions, logistics for the supply (e.g. from one country or multiple countries and transportation modes), productivity levels of producers, ability to meet pricing and sanitary and phyto-sanitary conditions.

[11] A more in-depth review of the potential markets and specific problems associated with them is contained in the Operational Considerations section 4.1.

Figure 1 - Simplistic Representation of Initial Decision Making on a Sale



Where the largest potential obstacle lies is in finding the producers that are able and interested in servicing the market under the conditions necessary for the deal. The CPMC needs to ensure that business considerations in the selection of producers over-ride development interests (e.g., bringing on poorer producers). Clear criteria will have to be established in terms of the qualifications and standards necessary for each deal.

It is anticipated that CPMC will use a two tier approach to finding and selecting producers. Initially it could contract more established producers who would be interested in the opportunity and could quickly grow to the requirements. This would allow a more rapid response to the buyer as the relationship is being established and a testing of the market and relationships.

To be successful in the long term will require bringing on a stream other producers, however, in order to meet bigger volumes. This second tier of producers would have to already have: certain basic skills such as understanding cost of production; a readiness to take a risk on a new market; willingness to commit to the standards and conditions required; and readiness to adopt new technologies if required to increase productivity. While the CPMC would provide the technical support to meet the specific opportunity as needed, it would need to carefully select those who were participating to ensure they can meet the requirements quickly and efficiently.

A vast majority of those interviewed indicated that the current extent of this pool for this second tier and its potential for expansion is unclear and likely varies substantially by country. There is a consensus that the pool overall needs to be expanded to meet new opportunities. This is clearly an issue facing the HVM buyers currently.

Identifying and/or developing this second pool of producers is where there will be issues. While there are a plethora of small producers, many will not be suitable for inclusion in the HVM arrangements with a CPMC (or other HVM buyers) or be interested in meeting the requirements. This latter element is particularly important since an underlying assumption of PROPEL is that smaller producers are actually interested in becoming more businesslike and

tapping high value markets. This is an area where many people indicated that the proportion who were interested in contracts and the opportunities could actually be very low. The question is not technical capacity but interest by producers in treating farming as a business.

A variety of factors will influence the availability of the producers for supplying CPMC and represent the primary obstacle. First, a majority of producers in the countries are operating at a subsistence level and are not interested in meeting the standards of HVMs. While they are happy to participate on donor projects and government programs, where they often receive "freebies", they do not view their farming as a business and are simply interested in generating the maximum revenue for their household. This means they often expect prices that have no relationship to their cost of production but represent the amount required for their household. As a consequence, they would not be reliable as supplier for a CPMC since they would likely side sell if the local prices increased regardless of the CPMC's support. Also, their requirements for on-gong subsidies would not be tenable for the CPMC financially.

Second, there is competition for good producers within the existing markets. As producers increase their skill sets and become more business-like, a range of opportunities are currently available to them besides CPMC. CPMC may have an advantage here in terms of the relationship it can offer with the provision of contracts, rapid payment to producers, long term relationships, etc. However, this is not guaranteed. There are also companies that are now contracting farmers directly to substitute for imports. For example, Jamaican Red Stripe beer is now contracting farmers directly to produce cassava and sorghum to replace the imported barley. This means that more domestic opportunities could be opening that will draw producers from the CPMC.

Third, countries throughout the region are pursuing policies to promote local food production and substitute for expensive imports. Many governments now have in place policies to promote local production and have extensive targets with support programs to meet these domestic food needs. This sometimes means that the prices on local markets that producers can receive are greater than what is seen for the HVMs. This would act as a disincentive to producers to shift production to the CPMC even with longer term contracts.

Fourth, existing producers are also facing issues in scaling up such as the ability to find and keep workers and praedial larceny. The funds to invest in new technologies could also be an obstacle. This is more acute in some countries than others but when combined with an aging population, this further limits the producers willing to expand or upgrade their investments.

The ability to reach a critical mass of producers able to meet standards was consistently raised as a major obstacle to the success of the CPMC. The experience to date is that, regardless of the technical support provided, the pool of producers ready for and/or interested in HVMs is small. Some of those interviewed believed that if producers were presented with an opportunity for a consistent contract with an entity (in this case the CPMC) that they would be interested and would be able (with some support) to perform to standard. This needs to be further tested across the eight countries of interest.

3.2 Strategic Niches

Ability to find space within the local, intra-regional and extra-regional markets and structures to allow market entry and fair competition with existing players

While a range of market opportunities are seen at the local, intra-regional and extra-regional levels, it will be important that CPMC carefully selects the opportunities to pursue. The opportunities should not undermine existing players or relationships. Since the time of the original PROPEL design, a number of players have expanded their recruitment of producers and sourcing and handling of products. Barbados Shipping and Trading Company Ltd.'s (BS&T) hub in Barbados has expanded substantially in recent years and moved into the space that the CPMC originally thought it could fill within Barbados. Consolidated Foods Limited (CFL) in St. Lucia is providing services to producers in St. Lucia but is also now increasingly looking for opportunities for sourcing produce from other islands such as Jamaica. TTABA, as discussed above, is now starting to focus on intra-regional trade and product sourcing.

Competing in the same niches as these and other companies, including government marketing corporations, will not be productive and will trigger competition that will make it more difficult for CPMC to become self-sustaining. Crowding out existing players or competing for the top producers will not provide overall value to the Caribbean.

The opportunities for intervening as an intermediary at the local, regional and export levels need to be carefully identified. A collaborative approach with existing players needs to be taken. While competition will develop over time, initially it will be important to strategically pick the niches that are not currently being filled where there are buyers and pursue those to demonstrate the potential for the CPMC as a player within the market.

3.3 Leveraging Existing Resources

Ability to leverage existing resources and infrastructure to assist in the operation of the CPMC

The CPMC will operate across at least the eight countries covered by PROPEL. It will not be viable to have full scale operations in all the countries including not just complete staffing but infrastructure to handle the produce trade. This means that the CPMC will have to rely on contracting existing groups to provide key elements such as the storage and packaging facilities and much of the technical assistance.

CPMC cannot build new facilities in countries but needs to leverage and use existing ones under specific contracts with performance standards on both sides. A number of groups interviewed such as the New Guyana Marketing Corporation (NGMC) indicated that these types of arrangements are welcomed. Some other groups will likely require convincing. Almost all the public and quasi-public sector groups are now striving for self-sufficiency which could be a lever for the cooperation. Strict monitoring would be required to ensure that both sides meet their commitments, however.

As well, contracting existing agencies to provide extension to producers and monitoring their production will likely be a more effective approach than direct technical assistance delivery by CPMC. Operating across countries does not allow an efficient method to provide direct technical support on an on-going basis using CPMC staff. Developing contracts with groups to provide support to producers as needed will be important as a supplement to what can be provided by the CPMC. Supervision of the work would need to be done by a CPMC staff member, however. CPMC should also leverage existing resources and programs. Training courses and other support are available from a range of sources and these should also be

leveraged. For example, a number of projects are providing training in areas such as good agricultural practice (GAP).

It is important that the CPMC staff remain the face of the relationship to the farmers and maintain the liaison at the producer level. This also means delivering the good and bad news to producers about their performance and continuation of a contractual relationship.

3.4 PROPEL Orientation

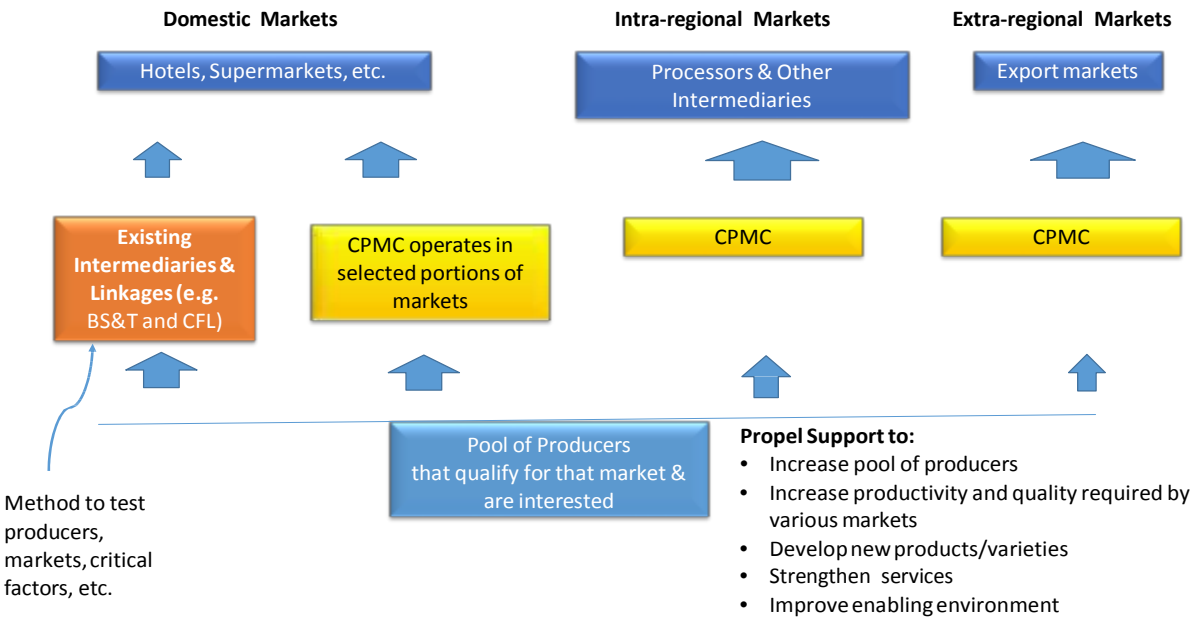
Ability of PROPEL to orient its approach to supporting the start-up and development of the CPMC

PROPEL is going into its third year of operation and is currently working with buyers that are sourcing local produce but require better quality or quantity of products. This initial work is important for assessing the markets and potential producers' capacity and interest.

While the governance structure and management of the CPMC will differ from PROPEL as a project[12], it will be important that PROPEL orient its work towards ensuring that the CPMC has the best chance of becoming sustainable. The two parts of the project need to be in synch, with PROPEL being a testing ground and the CPMC then moving forward on the opportunities. If the two aspects of the project are not working towards the same goal—that is ensuring that the CPMC can become the sustainable mechanism to meet the overall objectives of PROPEL including the $100 million—CPMC will not succeed. The development costs would be too great for the CPMC initially.

Figure 2 provides an overview of the types of roles to be played by PROPEL that will be important for making the CPMC viable.

Figure 2 – Synergy Between PROPEL Project and the CPMC



[12] See section 4.4 for suggested governance arrangements.

This issue of the potential pool of producers is what needs to be tested by PROPEL in the short term. Some preliminary experience from PROPEL has confirmed that this is an issue and finding appropriate suppliers will be difficult. Identifying these suppliers and assisting them in increasing productivity and quality of produce will be critical for meeting the needs of the various markets. In the longer term, as PROPEL winds down, the CPMC would be able to take on more of the development work and bring in new producers to the supply chain—basically developing the third tier of producers. During the project, PROPEL will need to provide support in a range of areas.

4.0 OPERATIONAL CONSIDERATIONS

4.1 Possible Markets for CPMC

For over a decade, a wide variety of studies and investigations have been done on potential markets for Caribbean produce at the local, intra-regional and extra-regional level. This information and the interviews indicated potential markets exist. The question is--can they be supplied competitively?

Without having a producer base at this point, the discussion here is meant to illustrate the possible markets that could be open to a CPMC. The market focus is on the HVMs as defined by PROPEL—supermarkets, hotels and restaurants, processors, distributors and extra-regional market wholesalers. The products that are included cover a range of possibilities including roots and tubers. The exclusion of roots and tubers would make the CPMC unviable in the short term given the need to have a volume of products to trade extra-regionally to reach an initial stable financial situation.

It should be noted that it is difficult to separate out the demand in many cases by HVMs from overall demand at the local and regional levels. For example, the food import bill for CARICOM is estimated at USD 2.8 billion. It is estimated that the tourism industry accounts for only about 20% of the overall import bill.[13] Few estimates are available for supermarkets. Therefore, it is difficult to distinguish in current trade figures what products are used by the HVMs and what is destined for the local markets.

4.1.1 Local Markets

A wide range of surveys have been done over the years on the openness of hotels in particular to acquiring products from local sources. The HVM opportunities have been expanding. With this expansion at the local level, the landscape has also changed in the last three years since the PROPEL was designed. Some of the niches that would have allowed an intermediary to broker deals between producers and HVM buyers have now been targeted by private sector players such as BS&T. This is particularly true in the areas of supermarkets where more focus is on consolidating supply from local sources, with groups such as PriceSmart and Hi Lo purchasing directly from local suppliers.

[13] World Bank. 2008. *Organization of Eastern Caribbean States: Increasing Linkages of Tourism with the Agriculture, Manufacturing and Service Sectors*.

As a consequence, the general perception of those interviewed was that the opportunities for a CPMC at the local level were more limited. The issue at the local level is finding niches where the intermediary function to HVMs is needed **and** where a markup can be applied. Much of the pricing at the local level is highly price-sensitive. Many of the relationships between producers and HVM buyers have already been established.

A few niches might exist but would need to be further investigated. One potential market not currently being served is linking producers to hotels on St. Lucia. Sandals had put in place a temporary arrangement that sourced a wide range of products from local producers. The linkage arrangements with 60 local producers were initiated by the purchasing manager at Sandals, saving the hotel substantial money.[14] With his departure, the subsequent Manager was not interested in dealing with a range of local producers and the unpredictability that entailed. The hotel went back to importing products.

In St. Lucia, the CPMC may be able to play a role in making these connections by being responsible for mobilizing the products and acting as the conduit between the producers and the hotels. It could also assist in overcoming many of the issues raised at a grower-buyer meeting in St. Lucia in 2013 including assisting with improving scheduling, quantities, quality and reliability.[15] It is not clear, however, how large these volumes might be. Table 1 shows the current imports of certain products from the United States and total in 2012.[16] A portion of this would be going to the tourism sector.

Table 1 – Current Imports into St. Lucia (USD) 2012

Product	Imports from United States	Total Imports
Tomatoes	23,000	23,000
Cabbage	25,000	25,000
Potatoes	125,000	859,000
Onions	0	325,000
Carrots	292,000	292,000
Melons	10,000	10,000

Source: International Trade Centre, Trade Map

It is not clear whether there are similar opportunities in other countries. For example in Barbados, BS&T is currently focusing on supplying supermarkets. Hotels and restaurants still have produce that they would like to source locally and a recent study showed there was unmet demand.[17] Currently, some products are already being locally supplied including melons, sweet peppers and butternut squash. Other products are not being produced locally to the standards required by the hotels.

The tourism sector accounts for 60% of the imported vegetables in Barbados and overall consumption of vegetables in the tourism sector was 2.128 million kgs in 2012. The following table provides an overview of some of the major current imports and the local production of

[14] The manager indicated that it was over USD 1 million over the period of time although this could not be substantiated and appears to be very high.
[15] CaFan. 2013. "Report on Saint Lucia Buyer Grower Forum".
[16] Note that the ITC TradeMap constructs the St. Lucia statistics based on "mirror data" which takes the reported exports of countries and reflects them as imports to St. Lucia. This is necessary since the latest data from St. Lucia is 2009.
[17] Mascoll, Clyde. 2013. "The Promotion of Greater Inter-Sectoral Linkages with the Tourism Sector in the Barbados Economy." Prepared for Barbados Private Sector Association.

those products. Some products such as tomatoes, cucumbers and hot peppers currently have a production base that could allow greater gains in terms of supply to hotels. Other products would require substantial increases in local production to meet the demand.

Table 2 - Imports and Local Production of Some Products in Barbados - 2012

Products	Imports (000 kgs)	Local Production(000 kgs)
Cabbage	411.6	311.2
Carrots	629.9	244.5
Lettuce	606.0	170.7
Melons	543.2	194.6
Sweet peppers	153.0	175.1
Pumpkins	340.6	188.0
Tomatoes	163.1	1,033
Cucumbers	31.0	813.9
Hot Peppers	16.9	64.8

Source: Barbados Statistical Service and Ministry of Agriculture and Rural Development

Overall, it will be important to clearly identify and find the local market niches in the region in order to determine whether they can be supplied domestically. The CPMC will likely want to start with a few buyers such as hotels and a limited number of products to source them domestically. Higher volume products such as melons may provide the basis for having a profitable linkage between the buyers and producers in the short term. A challenge at the local level is the price sensitivity of the HVM market.

4.1.2 Intra-Regional Markets

The potential of intra-regional markets is strong with demand being seen by a range of processors, distributors and consolidators. These groups are unable to supply their needs from local producers and are looking for regional options. This is the area where many people interviewed felt some substantial gains could be made in terms of increasing trade linkages.

Some of the opportunities are based on import substitution where regional products could replace imports. Table 3 shows the total imports into CARICOM in selected products and the portion of those currently supplied from within CARICOM. The amounts of intra-regional trade are extremely low in almost all cases regardless of whether it is going to local or high value markets.

Table 3 - Examples of Current Imports to CARICOM and Intra-Regional Trade in those Products - 2012 (USD)

Products	Total Imports to CARICOM from World	Total Intra-Regional Imports to CARICOM from CARICOM Countries
Onions	14,663,000	22,000
Garlic	26,831,000	54,000
Potatoes	25,003,000	32,000
Carrots	10,106,000	1,000
Mushrooms	2,037,000	1,000

Products	Total Imports to CARICOM from World	Total Intra-Regional Imports to CARICOM from CARICOM Countries
Cabbage	3,324,000	1,000
Lettuce	4,463,000	0
Hot peppers	4,220,000	43,000
Celery	1,112,000	0
Tomatoes	5,417,000	6,000
Sweet Potatoes	2,050,000	954,000
Cauliflower and broccoli	5,654,000	1,000
Cucumbers	26,000	251,000
Eggplant	218,000	4,000
Melons including watermelons	4,517,000	189,000
Papaya	786,000	168,000
Avocado	687,000	204,000
Peppers dried, crushed or ground including mash	669,000	41,000

Source: International Trade Centre, Trade Map

Table 4 provides an overview of the current trade patterns among selected countries in the produce of interest for a CPMC. The intraregional trade in food products has, in fact, been declining as producers face stronger competition from countries outside the region.

Table 4 - Intra-Regional Trade in Selected Fruits and Vegetables 2012 (USD)

Products	Importing Country				
	Barbados	Trinidad & Tobago	Jamaica	Guyana	Saint Vincent
Guyana - Exporter					
Melons	86,000				
Cucumbers	25,000	1,000			
Tomatoes	17,000				
Eggplants	11,000				
Hot Peppers	5,000				
Citrus	29,000				
Misc. vegetables	246,000				
Trinidad and Tobago - Exporter					
Papayas	144,000				
Watermelons	111,000				
Eggplant	2,000				
Hot peppers	29,000				
Cucumbers	23,000				
Tomatoes	4,000				
Misc. vegetables	137,000				
Onions					21,000
Garlic					14,000
Potatoes					29,000
Dried mushrooms					14,000

Products	Importing Country				
	Barbados	Trinidad & Tobago	Jamaica	Guyana	Saint Vincent
Jamaica - Exporter					
Oranges	394,000				
Mandarins	16,000				
Grapefruit	3,000				
Saint Vincent and the Grenadines - Exporter					
Watermelon	1,000				
Grapefruit	10,000				
Avocados	41,000	23,000			
Guava, mangos & mangosteen	115,000				
Sweet potatoes	17,000	914,000			
Yams	7,000				

Source: International Trade Centre, Trade Map

These patterns highlight a number of issues facing intra-regional trade expansion. One of the biggest is the divergent product standards across countries. Companies trying to undertake larger investments that source products from various countries have been blocked by the varying standards across the region. The establishment of the CARICOM Regional Organisation for Standards and Quality (CROSQ) in July 2012 was intended to tackle these issues. However, two problems currently face CROSQ. First, the funding from the member states has been slow in coming, limiting the work they have been able to do to date. Second, in areas where they have developed common standards that were negotiated and agreed across the countries (e.g. tomatoes), there has been limited movement by countries to adjust their domestic policies to the new guidelines. The regional standards are dependent on countries changing domestic standards including in some cases laws to conform. PROPEL and the CPMC can work with stakeholders facilitate this process.[18]

The locations and products need to be carefully selected to minimize the effect of the non-tariff measures. These NTMs have been an obstacle to developing trade but they are also slowly changing. Many of those interviewed indicated that these were annoyances but could be overcome by focusing on specific products and countries. Requests for pest risk assessments (PRAs) are starting to be done to allow entry on a product by product basis.[19] Trinidad and Tobago has had the most restrictive regimes as also reflected in Table 5 but they are also starting to deal with these issues by putting in place bilateral agreements for specific products from specific countries.

Table 5 - Agricultural produce allowed for import from Dominica, Grenada, Guyana, St Vincent and the Grenadines and St Lucia into Trinidad and Tobago

Island/Country	Plant items (for consumption) allowed entry into Trinidad and Tobago subject to the conditions on the import permit
Dominica	Banana, dasheen, dry husked coconut, eddoe, ginger, plantain, sweet potato, tannia

[18] For example, one of the things that was suggested was providing technical consultants to assist in drafting new regulations or laws.

[19] For example, PRAs are being done in Jamaica to allow the export of products to CFL in St. Lucia.

Island/Country	Plant items (for consumption) allowed entry into Trinidad and Tobago subject to the conditions on the import permit
Grenada	Avocado, banana, breadfruit, chennette, clove, dasheen, dry husked coconut, eddoe, ginger, grapefruit, lemon, lime, mammie apple, mango, nutmeg, passion fruit, plantain, plum, pommecythere, saffron, sapodilla, sour cherry, soursop, spice, sugar apple, sweet potato, tannia, yam
Guyana	Bodi, coconut (both green and dry husked), eddoe, ginger, plantain, pepper(both hot and wiri wiri), passion fruit, pineapple, pumpkin, rice, sweet potato,
St Vincent and the Grenadines	Avocado, banana, breadfruit, chennette, clove, dasheen, dry husked coconut, eddoe, ginger, grapefruit, lemon, lime, mammie apple, mango, nutmeg, passion fruit, plantain, plum, pommecythere, saffron, sapodilla, sour cherry, soursop, spice, sugar apple, sweet potato, tannia, yam
St Lucia	Banana, dry husked coconut

Source: Plant Quarantine Service, Trinidad and Tobago

The second big issue is the intra-island transport. While over 475 vessels serve the Caribbean region, the intra-Caribbean trade is handled primarily by 25 vessels with a total capacity of 17,200 twenty foot equivalent units (TEUs).[20] The vessels are small in size averaging 700 TEUs. These groups specialize in less than container (LCL) cargo which would be appropriate for CPMC needs. There are also a wide range of informal vessels that operate specific routes. These vessels carry more than 47,000 metric tonnes annually. The costs of intra-regional transport can be high for many of the smaller islands and timetables are not always respected. This puts some of the smaller countries at a disadvantage to support products to the larger Caribbean countries since their shipping costs are higher.

The final issue is one of cost of production and pricing of products. The classic example is hot peppers for pepper sauces. Both the regional and international markets has shifted towards using pepper mash more than not importing peppers. This cuts down on the cost of de-stemming by the processor. In recent years, Costa Rica and other countries have moved into this market, replacing local producers. The costs out of Costa Rica for pepper mash are half the price of the local mash in Trinidad. As a consequence imports have been steadily increasing.

4.1.3 Extra-Regional Markets

The primary markets that could be targeted for expansion of exports are Canada, United States (US) and the European Union and more specifically United Kingdom. In all cases, the initial exports would have to focus on lower value, higher volumes products such as sweet potatoes and yams not fresh produce. While other products such as fruit and some produce have potential for export, these would require a more sophisticated supply and handling arrangements as well as greater work at the producer level. It is anticipated that building these links and expertise will take time. These products would presumably be added after the CPMC was established and operational for a period of time.

The focus on higher volume and lower price products takes into account a number of factors. First, the transportation of fresh products has to be by air freight and there are a limited number

[20] Isik, Gozde. 2012. “Logistics Connectivity in the Caribbean: Current Challenges and Future Prospects”. World Bank.

of spots available along with a limited number of countries with good direct links. The cost of transporting produce to the UK by air is high, approximately USD 0.50 per kg, with the spaces limited.

Second, this market approach fits with the demand that is now being seen for what are considered "ethnic" vegetables. For example, the changing demographics in Canada is fueling a growth in the ethnic vegetable market. Analysts have estimated that the overall ethnic grocery industry in Canada is worth more than $4 billion annually.[21] A survey in 2009 showed that over $700 million per year was spent on ethnic vegetables, with the Caribbean community accounting for $84 million.[22] Some of the most highly sought products by the Caribbean community included yams (yellow and white), okra and sweet potatoes.[23] Figures for 2010 show an increase in sales of vegetables to $800 million. According to the survey, purchases of these vegetables are made in supermarkets and ethnic food stores. A vast majority of the produce is imported currently. This is true for the supply of both small specialty stores and large supermarkets. For example, Loblaws currently imports 85 to 90 percent of its ethnic produce. Traditionally, there has been demand by small wholesalers in the UK for ethnic products from the Caribbean. Now there is also growing demand for yams, sweet potatoes and peppers in the UK market by large retailers such as Asda, Morrisons and Sainsburys.

Third, many other products coming from the Caribbean are not competitive given the yields, cost of production and the costs of shipping from the Caribbean. For products such as yams and sweet potatoes, the prices vary substantially by the type of produce and Jamaica is currently able to export to all three countries and can be competitive even with higher prices above the averages listed below.[24] The imports of both yams and sweet potatoes have increased in all three countries since 2008. However, with the new entrants such as China, the market is becoming more price competitive.

Table 6 - Examples of Products Imported 2012 by UK, Canada and US

Importer	Imported Value 2012 (USD 000)	Principal Exporter by Share of Imports	Average price per kilo (USD)
Sweet potato			
United Kingdom	42,322	#1 – US – 73% #2 – Honduras – 4.1% #3 – China – 3.7% #4 – Jamaica – 3.5%	$0.89
Canada	39,388	#1 - US – 89% #2 – Jamaica – 5%	$0.79
United States	9,836	#1 – Dominican Republic – 49% #2 – Peru – 29% #3 – China – 19%	$0.90
Yams			
United Kingdom	10,321	#1 – Ghana – 80% #2 – Costa Rica – 6.4% #3 – Brazil – 6.2%	$1.10

[21] Andrew Perkins and Kristin Walker. 2011. "An Opportunity for Ethnocultural Vegetables in Canada".
[22] http://www.vinelandresearch.com/Default.asp?id=1&l=1
[23] FarmStart. 2010. Growing International: Exploring the Demand for Culturally Appropriate Foods.
[24] For example, the yellow yam exports to the US from Jamaica average USD 2.37 per kg.

Importer	Imported Value 2012 (USD 000)	Principal Exporter by Share of Imports	Average price per kilo (USD)
		#4 – Jamaica – 4.9%	
Canada	15,350	#1 – US – 63% #2 – Jamaica – 20%	$1.28
United States	54,513	#1 – Jamaica – 32% #2 – Costa Rica – 31% #3 – Ghana – 16.7%	$1.72
Ginger			
United Kingdom	15,811	#1 – China – 78% #2 – Netherlands – 10% #3 – India – 5%	$0.96
Canada	8,705	#1 – China – 80% #2 – US – 6% #11 – Jamaica - < 1%	$0.77
United States	48,058	#1 – China – 66% #2 – India – 11% #17 – Saint Vincent and the Grenadines - < 1%	$0.99

Source: International Trade Centre, Trade Map

These exports also face a series of issues. First is the competitiveness of the products from a range of countries. Jamaica has been the only one that has capitalized on the export market even though other countries such as Guyana and Trinidad have potential.[25] Ginger has some potential for increasing exports but here the Caribbean faces a distinct price disadvantage. For example, the domestic farm gate price for ginger in Jamaica, Trinidad and Tobago and Saint Vincent and the Grenadines is greater than the average landed price in the three export markets above.

The market for fresh fruit and vegetables is also becoming increasingly competitive with domestic production going up in Canada, the US and UK and new third country producers entering the markets. The new entry of countries such as China is making all the markets more price sensitive. This will become exacerbated as new free trade agreements (FTA) are put in place. This includes the prospects of the conclusion of the EU-India FTA in 2014. India is focusing on the development of clusters of producers of high quality, export standard products. They are also developing information technology solutions for food traceability to meet market conditions.

The competition has made the market more price sensitive, particularly for suppliers into EU supermarkets.[26] This price pressure is seen less in the niche markets such as ethnic foods since there are fewer suppliers. There is also increasing demand for new products such as exotic fruit so future opportunities could be seen here.

Second, the standards within the importing countries are all becoming more stringent. The passage of Food Safety Modernization Act in 2011 by the US has had an impact on Caribbean

[25] This was an issue identified in a 2008 study of the potential for sweet potato exports. See "CARICOM Regional Transformation Programme for Agriculture: Sweet Potato Industry in CARICOM"
[26] Centre for the Promotion of Imports (CBI), Netherlands. 2013. "CBI Market Competitiveness for Fresh Fruits and Vegetables".

exporters already. The situation has become further complicated by the announcement in January 2013 of further revisions to the US food safety legislation pertaining to fruits and vegetables including imports.

The technical standards to supply into the EU market including the UK are complex. In recent years, the EU has been shifting toward stricter application of its sanitary and phyto-sanitary standards. They are also now requiring full cost recovery from importers for inspections which will put more price pressure on suppliers. A recent study by the Barbados Private Sector Trade Team provides detailed steps and the regulations on areas including classifications, labelling, and traceability.[27] The biggest hurdle would be to find Caribbean producers willing and capable—with support—of meeting the rigorous standards. Global GAP certification is becoming more important.

Third, the transportation costs are an issue, particularly if there is a need to consolidate products across islands. However, from a number of islands the transport to the three markets is less of an issue. The character of the trade to the region provides some cost advantages. There are far more imports coming into the region than exports, meaning that containers are backhauled empty. This means that produce from say Miami may cost 30% of the FOB value of the goods while transport costs to Miami would be only 10%. Ocean freight is obviously less expensive the air freight. Air cargo can be done for smaller quantities. The routing relies on the existing networks of airlines which is more problematic for products to Canada or most parts of the EU. The US and UK are more accessible.

Fourth, the products are also ones that are currently being traded, although from a narrow production base. Care will need to be taken not to compete with existing exporters.

4.2 Operations and Staffing

As mentioned under the prerequisites, the CPMC operation needs to be as streamlined as possible. This means that the number of staff directly working for the CPMC needs to be minimized. Existing infrastructure and resources should be mobilized through partners in areas such as technical assistance, post-harvest, packaging and monitoring.

Table 7 provides the suggested staffing for the first three years. Only two individuals are suggested as new hires in Year 1 during the start-up and viability stage—CPMC Manager and Admin Officer. It will be critical to find a CPMC Manager that is entrepreneurial, understands business and has an existing network within the region. The CPMC, while being a non-profit, has to operate as a business. As will be discussed in the governance section below, this person should also report directly to CHF Headquarters, not through the PROPEL Project staff.

Table 7 – Potential Staffing of CPMC

Position	Year 1	Year 2	Year 3
CPMC Manager	100%	100%	100%
Marketing Manager	50%	75%	100%
Agronomist	25%	50%	25%
Finance and Contracts	50%	100%	100%

[27] Barbados Private Sector Trade Team. 2012. "Exporting to the EU: Sector Study – Fresh Food: Fruit, Vegetables and Meat."

Position	Year 1	Year 2	Year 3
Admin Officer	100%	100%	100%
Production Manager	0.25	100%	100%
Field Personnel - Jamaica	0	50%	100%
Field Personnel - Guyana	0	50%	50%
Field Personnel - Trinidad	0	25%	50%

It is anticipated that a portion of the time of the PROPEL Marketing Manager and Agronomist will be allocated to the CPMC in the initial stages. The Production Manager would be hired when the CPMC has established contracts. This person would be in charge of monitoring progress, relationships with partners and quality. PROPEL currently has two branch offices—Jamaica and Guyana. A portion of their time has been assigned to the CPMC when sales began to be generated along with a part time person in Trinidad.

The contracts undertake with the producers need to facilitate transactional transparency. They must be clear about the standards and volume of the products required. The obligations of both the producer and the CPMC must be clear. The elements in the arrangement need to allow a building of trust between the CPMC and the producers.[28] The relationship, however, needs to be performance based.

Contracts with other groups providing services such as packaging or farm level monitoring must also be transparent and performance based.

4.3 Legal Structure

The intention is to form a non-profit corporation that would be registered in either Barbados or Trinidad and Tobago. Both govern the establishment and operation of non-profits through Companies Acts.[29] A non-profit is considered a company without share capital. In both cases, the key determinant of whether a CPMC type "commercial" operation could qualify as a non-profit is dependent on whether the profits generated would continue to be used for the furthering the business. Since this is the intention of CHF, it is likely that the registration could move forward.

In both cases, the non-profit must have a minimum of three Directors. There is no residency requirement but it was suggested by the lawyers that one person from the country of registration be included to deal with signing documents or questions. There would be no personal liability for the Directors in either location. Only the corporation would be responsible for paying debts. If the company is dissolved, in Trinidad, the assets need to go to another non-profit or the non-profit needs to convert to a "profit making status" and then can sell the assets. In Barbados, the articles of incorporation can specify the dissolution of the assets.

The flow of funds from the main corporation to operations on other islands is not governed by the Companies Acts where the Headquarters would be located. However, to establish bank

[28] Note that the sources cited in Annex A on contract farming have extensive information on how contracts should be approached and implemented.
[29] For Trinidad, the primary section is Part V, Division 1, Companies without Share Capital. Barbados it is Part 3, Division A, Companies without Share Capital.

accounts and operate in the other countries, either branches of the main entity or local subsidiaries would have to be established. The rules for each jurisdiction would dictate which made more sense. This would allow bank accounts and payments to more easily flow throughout the region.

Which would be more appropriate as the headquarters for the CPMC? Legally, there is little that distinguishes the two locales. Trinidad may have better transport linkages but it also has more stringent SPS. This could be a potential problem if there was a need to consolidate shipments before sending them to intra-regional or extra-regional locales. For this reason, Barbados may be better.

4.4 Governance Structure

The issue of the governance structure for the CPMC was discussed with a number of stakeholders. The consensus was that the CPMC governance needed to be separated from the PROPEL project structures (e.g., Project Steering Committee and Strategic Advisory Committee) and only include direct stakeholders in the decision making. These could include producer associations, processors, private sector companies and partners in delivery (e.g., monitoring, packaging, etc.). The feeling was that for the CPMC to be successful, decisions need to be made by the groups directly involved in the deals. This buy-in was seen to be important in terms of ensuring that the groups dealing with the CPMC were committed to the organization and the relationship. The Board composition could also shift as partners came on board or left. The point was that they needed to have a stake in the operations of the CPMC.

For the incorporation, as discussed above, initially CPMC would need three directors, carefully chosen. CHF would have the primary decision making at start-up, with CHF taking a declining role as the organization develops partnerships and deals and becomes more self-sufficient. As mentioned previously, the CPMC Manager should be reporting to CHF Headquarters and the three initial directors to ensure that the decisions around the CPMC are clear and business driven.

In the initial years of operation, the CPMC will need to be subsidized through PROPEL and this funding for the CPMC would have to be allocated through the regular PROPEL approval mechanisms. As mentioned as a prerequisite, the evolution of the PROPEL project and the CMPC must be done in unison in order to maximize the benefits from both.

4.5 Development Services

Technical Issues

It is assumed that the profits generated from the sales of produce will be used to increase the access of producers to buyers in HVMs.[30] Three types of support are likely to be needed.

First is the obvious one—supporting existing CPMC producers and expanding the pool of producers ready for HVM. It is anticipated that a certain degree of technical assistance will be needed to improve the operations of the first tier of producers including assisting with areas such as scheduling. The next round of producers will need more extensive support in a range

[30] Some funds will need to be kept in the company to cash flow the operations since the CPMC would be paying producers before it received the payments from the buyers.

of areas from understanding the cost of production to how to meet Global GAP requirements. As mentioned previously, the CPMC should leverage existing resources, including other donor project, as much as possible to deliver this support. This would include providing some funding to existing service providers (e.g. extension workers) to work with the CPMC producers.

Expanding the use of information technology should also be pursued. Powerful new tools for farmers have been developed around the world in terms of managing their production and maximizing their profits. This ranges from having on-going access to information on market prices to apps that allow an easy method to track traceability. These technologies have been instrumental in providing some African producers with greater access to EU markets. In the Caribbean, few of these are available.

Second, there will likely be a need to expand the range of products available particularly for the export market. This will require development and testing of new varieties, technologies and approaches to improving productivity. Working with groups such as Caribbean Agricultural Research and Development Institute (CARDI) to develop and test these products will be important to maximize the commercial options.

Third, the NTMs that are preventing the intra-regional trade possibilities can be tackled but sometimes require funding in areas such as pest risk assessments, testing of produce and convening country level partners to find common ground. With resources stretched at the national level, some of these issues are not dealt with simply because of more pressing priorities.

Financial Support

Direct provision of financial support to producers through input credits where the CPMC would supply inputs to the producers on credit is not the best approach to take. Experience shows that this exposes a group such as the CPMC to the risk of side-selling where producers sell their products to another group for a higher than contracted price. While this risk would decrease over time as the relationship was built between the CPMC and the producers, it would also potentially exacerbate the short term risk to the CPMC and place a larger administrative burden on the CPMC which absorbs the limited resources available.

A better approach is for the CPMC to leverage access to financing through a financial institution. This currently exists with consolidators and other groups where they can leverage improved access for their suppliers. Financial institutions are willing to do this.

It should also be noted that the experience with contract farming shows that there should not be an over-reliance of credit for the purchase of inputs. Farmers need to have some resources to support their own cash flow, otherwise the CF arrangements will not work.

4.6 Financial Assessment

To accurately assess the financial viability of the CPMC would require having buyers and producers identified along with their requirements, including pricing. Obviously at this point, these are not known and were beyond the scope of this study. Therefore, the following estimates set out one possible scenario, highlighting some of conditions for viability but also the issues that will be encountered in reaching that sustainability.

As mentioned above, the success of the CPMC revolves around the ability to find producers who are willing to meet the standards of the buyer, the quantities required, the timeframes and at a price which is competitive internationally. A wide range of studies, surveys, buyer-producer fora and interviews revealed the types of products in demand. These were used as the basis for selecting a few products for the initial sales scenario.

When reviewing the products that could actually be the initial trades by the CPMC, two barriers were seen—cost of production and current farm gate prices. The cost of production varies substantially across countries for various products and is a barrier for accessing many of the intra-regional and extra-regional markets in particular. Much of the calculations of cost of production in the region are contained in studies that are now out of date but highlight the past variations. The interviews confirmed that these patterns still exist. PROPEL is starting to undertake work on cost of production with Caribbean Farmers Network (CaFAN) and this will be very valuable for the CPMC in terms of its approach with producers.

Overall, the consensus is that the proportion of currently efficient producers is low and these are the ones that are already in demand by the HVM buyers. It is certainly possible to improve the efficiency of other producers to make them more competitive (what are called here the second tier). Increasing yields, decreasing costs and developing scheduling of produce that allows more volume over the year are all feasible. This should lower the cost of production and expand the potential producer base by offering the producers long term markets once the quality was met.

However, for some products there may be little incentive for producers to change. This is due to the fact that the farm gate prices for some crops are so high domestically that producers can make a substantial profit with current techniques selling into local markets. For example, in key countries, both carrots and onions have equivalent or higher farm gate prices than the imports from the US. Most producers simply look at the price and do not take into consideration the cost of production and the profits being generated. Little incentive would exist for those farmers to change techniques and improve quality if they perceived that they were not getting a price premium. The fact that they could increase their overall revenue with improved practices and stable markets would only appeal to a small pool of producers who looked at their operation as a business.

Table 8 provides an overview of the initial assumptions for the financial projections below. The initial mix could cover a wide range of products and will likely be substantially different once the buyers are identified. This analysis should be taken simply as an illustration only of some possible products.

In all cases, the approach to the projections is to be as conservative as possible. The volumes of products have been kept low since the CPMC will likely have to begin more slowly in terms of finding market niches at the three levels and negotiating with delivery partners. It also keeps the overall requirements for number of producers low until more can be brought on stream. The projections are only for this start-up phase. If the markets and producers prove viable, the volumes could accelerate substantially and the product mix shift and expand in future years.

Table 8 – Overview of Initial Assumptions

Product	Volume in Year 3 (tons)	Price to Producer from CPMC (USD per kg)	Price to CPMC from buyer[31] (USD per kg)
Local Market			
Melons	100	1.30	2.18
Carrots	40	0.50	0.65
Tomatoes	30	1.00	1.40
Onions	30	0.75	1.05
Lettuce	20	1.00	1.43
Intra-Regional			
Melons	100	1.30	2.18
Sweet potatoes	50	0.40	0.70
Carrots	50	0.50	0.70
Onions	150	0.70	1.05
Hot peppers	20	1.09	1.54
Extra-regional			
Sweet Potatoes	4,500	0.50	0.85
Yams (yellow and white)	4,500	0.95	1.50
Ginger	300	0.75	1.27

Where possible, the prices to farmers are targeted at above domestic farm gate. However, local farm gate prices vary considerably across countries and the sourcing of products will have to take this into account. In some countries, the local prices may provide little incentive for selling to the CPMC. As discussed above, in a few cases, the producer price from the CPMC is less than the local farm gate prices by necessity. However, the producers would still be able to make a profit. The incentive to the producer then would be having a firm long term contract that assisted the producers to improve their competitiveness and therefore overall revenue and profits.

For the local level, the prices to the CPMC are based on being competitive with the CIF price of imports from the US since most of the supply—particularly for hotels—comes from the US. At the intra-regional level the prices reflect overall imports from around the world to the Caribbean.

The Common External Tariff (CET) of 40% on extra-regional imports has not been included in this pricing calculation since this does not always apply. For example, in Barbados the structure of the CET and other duties and charges (ODCs) is equivalent to 110% during the periods of local production for a product and 0% otherwise. [32] If local producers were able to produce year round, this seasonal application of the CET would influence the import prices.

The exclusion of the CET for the purposes here allows a cushion in terms of pricing by the CPMC, which would also translate back to the producers if higher prices are available. A number of surveys of hotels have indicated that their prices for various products such as melons and carrots are substantially above those reflected in the average import costs so there will

[31] The price to the CPMC needs to cover the producer payments, cost of post-harvest, packaging and handling and transport plus a small margin and be at or below the import or export prices.
[32] The CET is levied on agricultural products from extra regional sources, however, it varies for countries that have a free trade agreement with Barbados such as Costa Rica.

likely be some flexibility here and the possibility of higher prices to the CPMC and the producers.[33]

For the produce to be competitive in the extra-regional markets, the landed cost needs to be below the wholesale price at the terminal markets given the markups of importers. There are only three commodities included in the short term as discussed above. These are also products were there are some current markets—although primarily from Jamaica. The ability to have producers in other countries participate will be important for CPMC's contribution to the overall export picture. It will also be important to look at other products that have potential and start adding them.

Table 9 provides an overview of the revenues and expenditures based on these sales. It was assumed that the CPMC would take up to six months to establish the operation and develop a business plan for approval by the Board. Another six months would be required to identify and negotiate with buyers, review the feasibility of the deal, select production areas and producers, provide technical assistance and support the production of the produce according to the buyer contract. For this reason, the sales are listed as starting in year 2, although this could be moved forward if some buyer needs could be more quickly met. It is also assumed that the local level, which likely will have more limited volume in the long term, will be able to start more quickly than the intra-regional trade. The latter may require more negotiation on SPS and other NTMs and also establishing the transport links among the islands. For this trade, there will be a more rapid growth as some of these issues are resolved.

Table 9 – Financial Projection for Start-up Phase (USD)

	Year 1	Year 2	Year 3
Revenues			
Local Sales		235,115	313,487
Intra-regional Sales		215,821	431,643
Extra-Regional Sales		2,484,273	9,937,092
Total Sales		2,935,209	10,682,221
Expenses			
CPMC Operations			
• Staff	152,400	269,400	291,900
• Travel	62,500	125,000	150,000
• Office	26,500	85,000	100,000
Cost of products			
• Payments to producers		1,818,784	6,597,790
• Post-harvest, packaging & handling		475,015	1,760,860
• Transport		317,644	1,212,970
Development services to existing producers		100,000	150,000
Monitoring and extension costs		75,000	75,000
Total Expenses		3,265,843	10,338,520
Revenue required from PROPEL	(241,400	(330,634)	

[33] See for example, the ITC, 2010, "Jamaican Agriculture Sub-Sector Strategy".

	Year 1	Year 2	Year 3
Profit generated			342,702

In terms of the CPMC operations, the staffing reflects the staff positions outlined in section 4.2. It is assumed that the initial office will be shared with the PROPEL staff in Barbados and a portion of the costs are allocated here. Starting in year 2 some of the regional office costs are also included as they begin to provide more support to the CPMC. It is assumed that substantial travel will be required regionally and internationally.

As mentioned previously, the assumption is that the CPMC will contract out the post-harvest, packaging and handling through performance based contracts with groups that have facilities and expertise. This could be done with a variety of groups including producer associations, marketing corporations and private sector. The arrangements would depend on the availability within the country of the infrastructure needed and the requirements for the products. It is assumed that transport will be by sea.

The development costs associated with the producers coming on stream will start in year 2 and may also include some costs for other technical support such as new varieties. It is assumed that the technical support in year 1 will be provided by PROPEL as they work with a broader pool of farmers and assist in identifying those that could support the CPMC. As discussed above, the monitoring and some extension costs during the production period will also be done on a contract basis with existing groups.

Even with low volumes, the CPMC could theoretically breakeven by year 3. However, this needs to be further tested once more is known about the specific buyers, products and producers.

5.0 POSSIBLE NEXT STEPS

The overall conclusion of the feasibility study is that the CPMC could be viable and play a role in the region but this will be dependent on how well it is managed and whether four prerequisites outlined in section 3.0 can be met. These prerequisites are: finding capable and willing small producers; finding space for a new player in the local, intra-regional and extra-regional markets; leveraging existing resources and infrastructure to assist the operation; and the ability of PROPEL to support the start-up and development including areas such as identifying producers and potential partners.

Ironically, the most binding constraint may be the lack of interest by small producers to entering into long term contracts and consistently supplying high quality products to these markets. This willingness is a separate issue from capacity. Technical assistance can be provided to assist producers wanting to access the opportunities to increase their capacity and productivity. Finding a pool of producers interested in taking a more business-like approach appears to be the issue. This report has reviewed the factors that influence this but this issue is one facing both CPMC and PROPEL project overall.

PROPEL is entering its third year of operation and a decision needs to be made on whether the CPMC moves forward or not. The CPMC was originally seen as the innovation on the project—adding an element that would provide sustainability beyond the project and overcoming some of the obstacles that prevent both buyers and producers from establishing and expanding

their relationships. As discussed, the original rationale remains valid. The question now is whether the CPMC can in fact be viable or whether other options for sustainability need to be explored.

Two options are presented here for moving forward.

CPMC Initial Start-up

The first option focuses on more definitively determining whether the CPMC could be viable. If CHF wants to continue to pursue the establishment of the CPMC, then over the next year a number of things should take place.

- **Initial Work** - A CPMC Manager should be hired on a one year contract and be given a mandate to identify strategic market niches for potential initial sales, assess the extent they can be served, possible contractual arrangements and the obstacles that would make the CPMC less viable. This might also involve testing of markets and different approaches to delivery. The work would be done in conjunction with PROPEL and the allocating time of Marketing Manager (50%) and Agronomist (25%) to CPMC work.

- **Business Plan** - If prerequisites cited here can be met and the CPMC could be financially viable and play a role in the region, the Manager should develop a CPMC business plan for moving forward. This would map out the buyers, products, producer base, partners, financial projections and development activities. It should also clearly identify the value added that the CPMC can bring to the region and its operating model and principles.

- **Decision Point** - CHF should set a specific timeline for a full go/no go decision within the next year. If the decision is positive then the position of the Manager can be extended and the plan rolled out. If the prospects are not positive, then other options need to be considered.

Establishing an Information Exchange Market Mechanism

The second option is to review whether there are any other sustainable services that PROPEL could initiate and that could remain beyond the life of the project. In the interviews, a range of people mentioned that the information and support systems within the region are weak and need to improve to build linkages between producers and buyers. An option to explore is whether there is a combination of services that could be provided to buyers and producers that would be sustainable and provide support to enhancing linkages.[34]

Some progress has been made in developing agricultural marketing information systems (AMIS) in the Caribbean, albeit the regional initiative has not moved forward. Trinidad, Jamaica, Barbados and Guyana have made gains in terms collecting and publishing prices and other information. The Agricultural Policy Programme (ACP) funded by the EU and IICA is just starting and has as one component on improvements in domestic and regional information systems.[35] The plan is to support the enhancement and expansion of the systems to include

[34] If the CPMC moves forward, this element could also be a part of the CPMC organization.
[35] It should also be noted that it also has one component aimed at linking producers, processors and buyers similar to PROPEL.

other information. This work will hopefully start to fill in some of the missing information which is needed to better understand markets and pricing.

An opportunity might exist to build off and link to this information and also provide other information services on a fee for service basis. Some of the areas that could be considered follow. Others may also be possible.

- **Linking buyers and sellers** – A number of different models have been developed worldwide that link buyers and potential sellers of products. One of the most successful has been developed by Building Markets (formerly called Peace Dividend Trust). The system they have developed focuses on building a database of potential suppliers who are verified and matching them to the requirements of buyers, both domestically and internationally. The results in a number of countries have been very successful. What is not clear, however, is how their system can be made self-supporting. To date, the funding has come from donors. CHF has had discussions with Building Markets previously and it might be useful to investigate this model further in areas such as the potential for being self-sufficient, the economies of scale required and infrastructure to verify enterprises. Discussions should also take place with CaribFresh (www.caribfresh.com) in Guyana run by Shigam farms (a PROPEL partner). This is a website that is in a beta form that is starting to link buyers and producers and is looking to collaborate.

- **Enhanced information applications** – A wide range of ICT applications have been developed globally to use cell phones to enhance extension services. A range of approaches have been tested along with various funding models.[36] Some of these services are run as private companies including ones such as Reuters Market Light and Google SMS: Farmers' Friend. In addition, there are also apps that assist farmers to better manage their production. This includes software such as farmforce that allows producers to easily provide information on full traceability for export markets. Potential may exist for a regional initiative in the Caribbean that would provide extension and information support to producers for a fee.

This next year will be a critical one for PROPEL in terms of determining how it can have a systematic effect on the produce landscape in the Caribbean. A wide range of projects have tried to links producers and buyers in HVMs, with the results often ending after the project finishes. Finding sustainable mechanisms to continue to support these linkages will be important—whether it is the CPMC or other initiatives—to ensure a lasting effect.

[36] See for example: USAID. 2010. "ICT to Enhance Farm Extension Services in Africa"; and Center for Global Development. 2011. "Dial "A" for Agriculture: A Review of Information and Communication Technologies for Agricultural extension in Developing Countries".

ANNEX A - REFERENCES

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ANNEX B – KEY CONDITIONS FOR SUCCESSFUL CONTRACT FARMING

The following is a summary of experience with contract farming from "Contract Farming Handbook".[37]

Trust and scope of negotiation

Successful contract farming arrangements provide conditions that contribute to:

- Building trust based on a common purpose, mutual benefits ('win-win'), recognition of mutual interdependency, fair contracts and commitment to honour the contract.
- Providing sufficient time to build trust in the course of business dealings based on efficient management, open communication and direct interaction in the field.
- Assuring a fair scope of negotiation for farmers in decision-making (e.g. price-setting) built on unbiased information sharing, transparent communication, participatory negotiations.
- Incorporating chain-wide approaches to self-regulation of CF practices (e.g. sector-wide agreement on seasonal minimum prices; code of practice for contracting).

Economic viability and incentives

Successful CF arrangements provide conditions that contribute to:

- Meeting end-market requirements (volume, quality, price, time of delivery).
- Increasing farm productivity/ reducing unit production costs through capacity building.
- Increasing market shares through improved competitiveness.
- Providing better returns on investments/ stabilising incomes of farmers and buyers.
- Assuring reliable and timely access to markets, credits, inputs, etc. for farmers.
- Assuring reliable supply of required volumes/qualities at agreed dates for buyers.
- Enabling buyers to utilise logistics/ processing facilities more efficiently.
- Reducing VC inefficiencies and hence unit transaction costs (e.g. coordination, logistics).
- Reducing unduly high post-harvest losses thus contributing to reducing unit costs.
- Introducing new remunerative crops through technology transfer and innovation.
- Facilitating fast adaptation to changing consumer preferences/ customer requirements (e.g. food safety/ sustainability standards; shift to supermarkets).

Contract farming arrangements and risks

Successful CF arrangements provide conditions that contribute to:

- Agreeing on clear contract terms and transparent pricing mechanisms.
- Agreeing prices/ payment terms beneficial for both (fair margins, financial liquidity).

[37] GIZ. 2013. *Contract farming handbook: A practical guide for linking small-scale producers and buyers through business model innovation.*

- Reducing production, supply, marketing and credit risks (including case of force majeure).
- Motivating farmers to form farmer groups/ associations/cooperatives to realise scale economies and joint investments (e.g. collection centre) and develop mutual risk sharing.
- Reducing risks of farmer default (e.g. input diversion, poaching and side-selling).
- Reducing risks of buyer default (e.g. late or nonpayment, unduly high rejection).
- Sharing ownership of CF assets according to partner capabilities (e.g. shares for smallholders in the logistics centre or the off-taking company as partial payment for supplies).
- Involve neutral 3rd party individuals/ organisations for brokering linkages (e.g. facilitation of trust-building between co-contractors, control of contract observance of farmers and firms).
- Establishing equally accessible and mutually recognised dispute settlement mechanisms.

Technology transfer and innovation

Successful CF arrangements provide conditions that contribute to:

- Speeding up the adoption of new technologies and innovations through embedded/ external services to stimulate increased farm productivity and VC efficiency.
- Combining financial services with other embedded/external services to facilitate the adoption of innovations and to build capacities for using credits successfully.
- Aligning VC processes to improve quality assurance/introduce standards and certification with a view of accessing more lucrative markets.

Investment climate and 3rd party support

Successful CF arrangements require governments/development partners/ NGOs to:

- Recognising CF as a private sector driven and owned business arrangement that may nevertheless require 3rd party (external) technical assistance, incentives for kick-starting innovative businesses and, if necessary, smart subsidies.
- Addressing sovereign tasks that are at the origin of market failures and constitute risks for the viability and sustainability of CF.
- Avoiding any measures that may create political risks for private sector investments (e.g. undue market interferences).
- Acting as honest brokers/ ethical agents if need arises to assist in reducing risks of exploitative behaviour of buyers or deceptive practices of farmers respectively.

Sound analysis, planning and monitoring

Successful CF arrangements require a solid analysis, planning and monitoring regarding:

- The initial position for starting up a CF scheme (VC analysis; livelihood framework of farm/household systems; cost and benefits/ incentives for farmers/ buyers).
- The existing financial/ non-financial and operational services and overall framework conditions (policies, legislation, public infrastructure).

- The suitability of agro-ecological conditions and farming systems in potential production areas.
- The social capital (e.g. trust) and structures (e.g. existing networks), on which CF arrangements can build or which may have adverse effects on the CF success.
- The possibilities of and the measures to countervail a trade-off between household food security and CF crops (e.g. due to competition for land, labour, capital).
- The establishment of systems for monitoring/feedback for learning lessons (good practices, problems) to modify CF arrangements and operations if necessary.