

## **BRIDGING THE GAP: PHYTOTRADE AFRICA'S EXPERIENCE OF THE CERTIFICATION OF NATURAL PRODUCTS**

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### **ABSTRACT**

In the competitive natural products market, product certification is an important mechanism for retailers to differentiate their products. Consumers in this market now seek independent assurances relating to the quality, environmental sustainability and Fair Trade standards of the products they buy. Small-scale producers of non-timber forest products (NTFPs) that feed into this market have found themselves drawn centre stage into often complex, shifting and expensive certification scenarios that, also, may be serving as a barrier to trade.

However, certification can increase benefit-flows to small-scale producers and incentives for producers to invest in more sustainable harvesting practices. If the gap between the industry's certification expectations and the small-scale producers' certification capacity is wide, there is a likelihood that small-scale producers will be excluded. This paper presents a case study of the experiences of PhytoTrade Africa, a southern Africa-based natural product Trade Association that has attempted to bridge this gap, overcoming barriers to trade in practical ways to allow entry for small-scale NTFP producers into the global natural products market.

*Key words:* non-timber forest products (NTFPs), fair trade, organic, southern Africa.

### **INTRODUCTION**

Southern Africa is predominantly dry and poor, with 30 per cent of its population earning less US\$100 in cash income per year, and the majority of these very poor people living in marginalised dryland areas. At the same time the region is facing significant rates of biodiversity loss, predominantly as a result of land conversion to arable production that is feeding into a cycle of poverty and degradation.

However, the region has a very substantial endowment of floristic biodiversity, with over 50 per cent of its landmass still forested (SADC, IUCN and SARDC, 2000). This plant diversity creates opportunities that have largely remained untapped. There are over 30,000 plant species in the region, not more than 50 of which are currently traded on formal markets to any significant degree (Mander and Le Breton, 2006). With at least one thousand of these species already known to have medicinal value, the scale of the marketing opportunity is sizeable.

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Efforts to address the twin goals of environmental sustainability and economic development in southern Africa through sustainable commercialisation of NTFPs have begun (Sunderland *et al.* 2004). Policy makers and practitioners have looked to the opportunities offered by the sustainable commercialisation of NTFPs and the development of a regional natural products sector.

The global, natural products industry, including the key sub-sectors of food and beverages, cosmetics, herbal medicines and pharmaceuticals, is currently valued at US\$65 billion per annum and is booming with a 15–20 percent annual growth rate in the last few years (Keynote, 2005). Current formal natural products trade in the southern African region is estimated at only US\$12 million per annum, although it may have the potential to grow to US\$3.5 billion per annum (Bennett, 2006).<sup>3</sup> It is, moreover, a market that appears set for steady long-term growth. Tapping into this market has many attractions, particularly in terms of the numbers of potential beneficiaries and their location in areas of low agricultural productivity.

There are two obvious risks in commercialising natural products in southern Africa. The first is that the growth in the scale of the opportunity will attract powerful elites who will eventually sideline primary producers from the trade. The second is that growing demand will promote unsustainable harvesting practices that, eventually, will threaten the resources from which the trade is derived.

Equally, however, there are opportunities. If the market could be developed in such a way that it demanded clear and transparent evidence:

- that primary producers were involved and benefiting, it may be possible to ensure that they are not sidelined;
- of sustainable harvesting practices as a prerequisite for market entry, the threat of harvesting could be averted.

### **Natural Products Certification: a barrier to trade?**

Given the premise that NTFPs appear to offer a contribution to promoting environmental sustainability and poverty reduction, it is perhaps unsurprising that they have begun to receive increasing attention from market standard setting agencies (Pierce and Laird, 2003). These agencies include governments, trade associations and private sector certification organisations. Certification standards that may be relevant to NTFPs include organic, wild harvesting, ecological sustainability, Fair Trade, corporate social responsibility, good agricultural or manufacturing practices, and product safety and efficacy standards (Shanley *et al.* 2005).

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<sup>3</sup>It is already much higher in the informal sector. Mander (1998) estimates that the value of trade in medicinal plants in South Africa alone may exceed US\$150 million a year.

In theory, standards relating to ethical and environmental considerations should create direct monetary incentives, and ensure that primary producers are not sidelined from the trade, have an equitable share of the profits and are engaged in sustainable harvesting. Therefore, the introduction of ethical or environmental standards is seen as a good thing, one that indirectly promotes poverty reduction and better environmental management and as being infinitely preferable to, for example, a government-led regulatory approach towards poverty reduction and better environmental management.

However, authors have argued that the increasing demand for certified NTFPs in global markets fails to acknowledge the inherent difficulties faced by rural African producers in attaining the standards required for certification, and that this, in fact, acts as a barrier to trade for African producers (Faccor and Stephens, 2006). One study that focused on NTFP certification schemes available to southern African producers highlighted the rigorous requirements for complex internal control systems that may not be appropriate to small-scale producers (Lewis *et al.* 2006). Indeed, the simple costs of inspecting a widely dispersed, geographically remote and comparatively unorganised set of rural producers acts as a disincentive to certification.

On a more fundamental level, it is apparent that the standards themselves on which many existing certification systems are based were developed with neither NTFPs nor small-scale producers in mind. An assessment by UNCTAD of existing certification schemes and their compatibility with “BioTrade” objectives<sup>4</sup> identified five existing certification schemes as being of relevance, only two of which (FSC and Rainforest Alliance) make any mention of NTFPs in their standards (Vallejo and Hauselmann 2006). None of them were found to fully reflect the combination of social, environmental and economic objectives embodied in the principles of BioTrade.

The proliferation of certification schemes has caused confusion amongst consumers and created uncertainty in the marketplace (Pierce and Laird, 2003). Fragmented, inconsistent and poorly communicated certification schemes have lessened the credibility of certification initiatives and reduced consumer confidence in the claims made by retailers (Gulbrandsen, 2005; Bruce and Larioya, 2007). The rationale for certification falls away if consumers show no interest in it, and this is clearly problematic in the currently crowded certification arena.

Together, these factors have given rise to the view that current certification schemes may actually be curtailing opportunities for the NTFP sector to act as a vehicle for rural development (Faccor and Stephens, 2006). This is a concern in that most players in the market chain would prefer to use market forces rather than regulatory controls to achieve the aims of certification, and yet there is no obvious market-driven alternative. The system, therefore, requires improvement rather than wholesale rejection.

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<sup>4</sup>Bio Trade principles are developed from the main elements of the Convention on Biological Diversity and are defined as sustainable trade in goods derived from native biodiversity.

## PhytoTrade Africa<sup>5</sup>

PhytoTrade Africa<sup>6</sup> is an association with members drawn from a cross-section of constituents in the region's natural products sector, ranging from primary producers to private sector traders and retailers, and also including some service-providing NGOs and research organisations. Applicants for membership must demonstrate a clear commitment towards the Association's economic empowerment and biodiversity conservation objectives. Upon admittance to the Association, all new members must sign legal charters binding them to the principles of Fair Trade and environmental sustainability.

PhytoTrade Africa is a deliberate attempt to harness the capacity of the private sector to promote a developmental goal. The goal is economic growth in the rural areas of southern Africa based on the sustainable commercialisation of a range of native plant species. Working with over 60 members, who in turn work with tens of thousands of producers in eight countries in the southern African region<sup>7</sup>, PhytoTrade has developed sustainable and ethical supply chains for natural cosmetic and food ingredients from southern Africa that are sustainably harvested in the wild from NTFPs by low-income rural producers. These products currently include lipid oils from species including Baobab (*Adansonia digitata*), Kalahari melon (*Citrullus lanatus*), Mongongo (*Schinziophyton rautanenii*), Marula (*Sclerocarya birrea*), Sour plum (*Ximenia sp*), Mafura (*Trichilia emetica*); and botanical extracts from the African sausage tree (*Kigelia africana*) and Baobab.

PhytoTrade Africa's strategy is based on a simple, three-stage approach:

- to invest in product research and development that is required to transform an NTFP that, whilst it may have been traditionally used and may have obvious market potential, has not previously been marketed on any large, commercial scale. Thus, the powdery fruit pulp of the baobab tree, which is widely consumed as a food in Africa but had never been sold into formal markets, required considerable technical research and formulation trials before it could realistically be marketed as a functional ingredient in the health food sector.
- to invest in developing market awareness of, and markets for, these products. Even if the baobab is one of Africa's best-known trees, few consumers have ever tried its fruit pulp before, and certainly not as an ingredient in, for example, a yoghurt or a fruit smoothie drink. It takes considerable human and financial resources to build market recognition for any new product, but it cannot be sold without such an upfront investment.
- to work with the supply chain to develop the capacity of primary producers to meet the demand for these newly-marketed products and, particularly, to meet the standards required for market access. It is within the context of this stage that PhytoTrade Africa has undertaken its work on certification.

<sup>5</sup>This section is drawn from PhytoTrade Africa (2006).

<sup>6</sup>The Southern African Natural Products Trade Association.

<sup>7</sup>Botswana, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.

## PhytoTrade Africa and Certification

When it first began operations in 2002, PhytoTrade Africa's primary concern was product research and development and all other activities were subsidiary to this. Gradually, however, market-ready products began to emerge from its research pipeline, and the next set of issues had to be addressed. Included in these was the need to meet the standards required for entering the market, at which point the issue of certification became a major concern. In an internal memo, PhytoTrade Africa's Chief Executive wrote the following to members:

*“The natural products market does not behave like a conventional market, and certification is not the “optional extra” in the natural products sector that it is in, say, the food sector. At present there are few (if any) certification standards that can provide a clear and demonstrable assurance to consumers that the products they are buying were genuinely produced in an environmentally sustainable and socially equitable manner. However, if those standards existed it is a safe bet that everyone would want them. Consumers in the natural products sector are, almost by definition, a more ethical and environmentally aware group than consumers of hamburgers and fried chicken. This fact has profound implications for our members. The implication is that, if and when these standards exist, every single product we produce will have to a) meet them and b) have the certificate to prove it. It will be a costly and time-consuming effort, but one we simply cannot avoid. If we recognise this now and prepare ourselves for it, we may just find that we're ahead of the pack when the time comes (PhytoTrade Africa, 2004).*

As a result of this, the Association agreed to make certification a priority issue for the following year (2005). Then a new partnership emerged between PhytoTrade Africa and the World Conservation Union (IUCN), called the Natural Futures programme, with certification one of the focal topics of collaboration.

It was immediately apparent that there was no single certification scheme that met all the criteria for PhytoTrade Africa and its members, including

- a standard that reflected both the social equity and the environmental sustainability of a product's value chain from start to finish;
- a standard relevant to the needs and situation of primary producers in rural Africa, wild-harvesting indigenous plant species from a communally-owned natural resource base; and
- an accompanying label with existing market recognition and credibility that would facilitate market access once the standard had been attained.

Consequently, the partners agreed to work on two parallel approaches.

- The first would act as a temporary measure to build confidence within the membership and the market relating to certification. This would entail **identifying the most relevant and appropriate existing standards and then support a small group of members to attain certification against these standards.**
- The second would be a long-term effort to develop a single, harmonised standard meeting all Phytotrade Africa's criteria. This would commence with **a comprehensive review of all the existing sets of standards followed by efforts to influence one or more of them to move towards meeting these criteria. If none of the existing standards could come close to this, it was agreed that PhytoTrade Africa and IUCN would consider the possibility of establishing an entirely new standard relevant to the needs of small-scale producers in the natural products sector in southern Africa.**

### **Attaining certification against existing standards**

Initially it was planned that the Natural Futures programme would support PhytoTrade Africa members to attain certification against at least one existing environmental standard and one social equity standard. Even this proved impossible. Although an environmental standard (organic standards for wild-harvested products) did at least exist and could, theoretically, be used, there were no suitable social equity standards, as Fairtrade Labelling Organisation (FLO) standards were defined for specific commodities (e.g. cocoa, bananas) rather than broad commodity areas. Attention was therefore turned towards organic certification. Ecocert-Afrisco had recently adopted a set of wild harvesting standards, and was able to provide inspection services should they become necessary.

The Natural Futures programme was able to offer grants of up to US\$20,000 to PhytoTrade Africa members on a competitive basis to assist with preparations for certification. Between the launch of this programme in late 2005 and May 2007, grants were given to three PhytoTrade Africa members,<sup>8</sup> all three of whom were able to attain organic certification through Ecocert (although not necessarily on the first inspection).

In some respects, organic certification has been successful. **Producers have earned up to 50 per cent more per kilogram of material as a result of the premium paid on organically certified product, and several hundred producers have benefited from these improved prices and associated dividends.**<sup>9</sup> However, it is clearly unsatisfactory in terms of reflecting the

<sup>8</sup>Eudafano Women's Cooperative (Namibia), Ecoso Dynamics (Namibia), Swazi Indigenous Products (Swaziland)

<sup>9</sup>The extra organic premium is shared largely equally along the supply chain, except in some systems where the premiums are paid to community organisations rather than to individuals.

environmental sustainability of the value chain from a biodiversity perspective. More fundamentally, the experience has demonstrated how poorly adapted the organic certification standards are to the needs and situation of primary producers in rural Africa. Having recounted the challenges that prevented one PhytoTrade Africa member from attaining organic certification for baobab fruit in an area of northern Mozambique, Arthur Stevens, a technical advisor with PhytoTrade Africa, concluded that:

*“Ironically, despite these obstacles facing the certification of wild-harvested baobab, there is nothing more natural and essentially organic than the harvest of baobab pods in Mozambique. The trees are wild and have been for hundreds of years, the trees are not part of any formalised cultivation system and have no opportunity for any form of contamination through synthetic inputs. A part of the culture of the people in the area, bringing an economic value to the baobab trees’ harvest will help ensure their long-term sustainability.”* (Faccer and Stephens, 2006)

### **Practicability and sustainability of certification<sup>10</sup>**

One PhytoTrade Africa member set up a pilot certification project. They made a calculation based on 350 producers producing 7000 kg of Marula kernels being processed into 1750 kg of oil. Given this scenario, there was enough money to pay for all the costs associated with organic certification, and pay a better price to all involved (the producers, producer group, and the factory). The price to the producer group increased by 50% and the price to producers increased by nearly 35%: an increase that satisfied the producers.

For **marula**, where on average women collect 10–15 kg of kernels annually, the extraction rate of the oil is 25%, and the premium Euro 7.48 (organic price Euro 22.48, conventional price Euro 15.00), 1000 kg of oil makes organic certification financially sustainable, since this premium will cover the certification agency costs, other costs (payment of internal inspectors, admin requirements, training, maintenance of equipment, etc), and extra for the producers and producer groups. However, should the exchange rates deteriorate, the balance would change.

For Kalahari Melon Seed the financially sustainable quantity will be higher, since the premium is lower. However, a relatively small increase in price for the raw material will motivate producers and increase the quantity collected and oil production.

For Ximenia the situation is similar to Marula. Although the premium is slightly lower (Euro 6 per kg of oil), Ximenia is wild harvested, and organic certification of wild harvested products require a simpler system involving less annual recurrent costs.

<sup>10</sup>Personal communication from Ssakia den Adel of CRIAA/Eudafano Women's Cooperative, Namibia

It is impossible to generalize over the range of NTFPs and their individual scenarios. However, as market access has not really been different for organic or conventional products, a major part of any surplus after costs should accrue to producers and producer groups in order to:

- maximise income for rural producers, and
- convince people to put in all the efforts that organic certification requires

### Developing a harmonised standard

Simultaneous with its efforts to assist PhytoTrade Africa members gain organic certification, the Natural Futures programme began exploring options for developing a harmonised standard that would meet all three of the broad criteria identified. A consulting team were recruited<sup>11</sup> and work began on a thorough review of existing standards (Lewis *et al.* 2006).

Twenty two possible schemes were identified as relevant, nine of which were then selected for a detailed comparative analysis. The analysis was conducted based on criteria that included:

- **Process**, examining the process and systemic characteristics of the schemes, including the way in they operate;
- **Environment**, looking at the ways the schemes support environmental and land management and the constraints these might pose;
- **Legal**, exploring the constraints that legal requirements (locally, nationally and internationally) place on the application of the schemes/labels and the comparative legal constraints to their use with small producers;
- **Market**, examining the impact of each scheme on the product in the market, the way it affects the status of the product and the benefits and constraints this may place on producers;
- **Access**, in terms of the accessibility of each scheme to natural product harvesters and/or producers due to cost, complexity, technology and availability; and
- **Adaptability**, looking at the extent to which these schemes are able to be adjusted to accommodate future types of products and producers.

The assessment concluded that none of these schemes met fully the criteria required for immediate adoption. However, it presented alternatives of either trying to work with one of these schemes and adapt it to local conditions and requirements, or of the Natural Futures programme looking at establishing its own certification scheme. Each of these alternatives presented formidable challenges. On the basis that it did not want to create any new schemes, PhytoTrade Africa elected to influence an existing scheme to suit its needs.

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<sup>11</sup>From the Institute of Natural Resources in Pietermaritzburg and LTS International in Edinburgh

The two schemes highlighted in the study as being closest to meeting requirements were the nascent Ethical BioTrade verification framework and the Sustainable Agriculture Network. There were advantages and disadvantages to both, However, the Ethical BioTrade framework was in an earlier stage of development and therefore better positioned to adopt whatever changes would be required to meet the needs of PhytoTrade Africa's members and constituency in southern Africa. On the basis of this assessment, **PhytoTrade Africa decided in late 2006 to support the development of the Ethical BioTrade verification framework** (Union for Ethical BioTrade, 2007).

### Recent progress

At the time of writing,<sup>12</sup> the Ethical BioTrade verification framework has evolved substantially and is beginning to show considerable potential to meet the needs of PhytoTrade Africa's producers in the long term. A Union for Ethical BioTrade has been established, and membership is open to any organisation that espouses its principles. The key innovation is a set of principles derived from the Convention on Biological Diversity as the yardstick against which the Ethical BioTrade standards are assessed. The broad categories include

- conservation of biodiversity;
- sustainable use of biodiversity;
- fair and equitable sharing of benefits derived from the use of biodiversity;
- socio-economic sustainability (productive, financial and market management);
- compliance with national and international legislation;
- respect for the rights of actors involved in BioTrade activities;
- clarity about land tenure, right of use and access to natural resources

There are several major challenges ahead in terms of market recognition and acceptance and accessibility to poor rural producers. However, the unique alliance of private sector companies, NGOs and technical service-providing agencies that make up the Union for Ethical BioTrade should maximise the likelihood that these challenges can be met. It also addresses what had previously been identified as the biggest challenge of all – creating holistic standards to combine industry-backed quality standards with NGO-backed sustainability standards (Pierce and Laird 2003). Whether it will succeed remains to be seen. However, the interest generated by the Union's launch at the Beyond Beauty trade show in Paris in October 2007 was substantial and an indicator that the Union's protagonists may at last be on the path towards resolving some of the long-standing barriers towards NTFP certification.

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<sup>12</sup>November, 2007

## CONCLUSION

The argument that NTFP certification acts as a barrier to small-scale producers is valid. As PhytoTrade Africa has itself found, the only standard of any immediate applicability to its members is organic certification, and this is expensive, logistically challenging and largely irrelevant to the needs of its membership. At the same time, the demand for certified natural products continues to grow rapidly. Consumers are becoming increasingly aware of the social and environmental impacts of their consumption patterns and correspondingly eager to see tangible evidence that these impacts are not negative. This is a trend that is unlikely to diminish, especially in the natural products sector.

Given that there is a need and a demand for evidence of impact in the NTFP market, three long-term scenarios present themselves. The **first** sees market-led certification continuing to be the dominant means of verifying impact, and small-scale producers continuing to be excluded from the supply chain by dint of the barriers inherent in the certification system. The **second** sees market-led certification gradually being replaced by state-led regulation, which may or may not improve the opportunities for small-scale producers. The **third** sees adaptations being made to the existing certification systems to reduce the barriers for small-scale producers.

Although PhytoTrade Africa's experiences to date give no absolute indication as to which of these scenarios is the most likely, it does at least suggest that the third option is not impossible. In particular, the recent launch of the Union for Ethical BioTrade creates an opportunity to harmonise standards for NTFP production in a way that may ultimately support the interests of small-scale producers.

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