

Benefits of Globalisation for Poor Farmers

A Story of Organic Produce Exports from Uganda¹

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Over 2,000 farmers in and around Adigo parish in Apac District, Uganda, have been benefiting from the increasing demand for organic produce in richer countries of the North. The area under organic farming is now around 8,000 hectares, with about 20 percent of this being under sesame and some 12 percent cotton in the last growing season. The farmers have benefited from around 20 percent increase in the price of their sesame and cotton compared to the farm gate price for conventional produce. The organic premium alone is worth about 20-50 US\$ per farmer, no small amount considering that the per capita GDP of Uganda is only around US\$ 330. This has helped them to get more money, for example, to pay school fees (or paying the costs associated with free primary education!) and investing in better housing. What have they had to do in order to obtain the higher price? The answer is: very little.

This article explores briefly the story of the growth of organic produce exports in Uganda, which raises issues related to the pro-poor opportunities that build on the strengths of poor people and allow some beneficial impacts to be derived from globalisation. There are also useful lessons about the way in which governments and donors deal with such issues, and the way in which the international “rules of the game” tend to operate against the interests of poorer countries.

Organic farming in Uganda

Conventional³ agricultural practices have had limited penetration and adoption in Sub-Saharan Africa and Uganda in particular. Limited usage of agrochemicals and the predominance of traditional production practices for the majority of smallholder farmers in Uganda has been used as a basis for defining much agricultural production as being “organic-by-default”, or “passively organic”, though for some this may relate to a lack of choice given poor access to alternatives⁴. From the perspective of commercial organic farming, less effort and lower investments are required for conversion into “organic” production. Organic certification in most circumstances in Uganda is a convenient ploy used by exporters to exploit a niche market and obtain a higher profit. It contrasts greatly with the image of organic farming in countries of the North. There farmers follow a substantially different philosophy and mode of production, whereas in Uganda farmers need to do little more than sign a contract. Nevertheless, certification serves the same purpose and guarantees that the interests of the consumer are served.

Though organic produce has a very limited share of the export market in Uganda (for instance perhaps one percent market share in coffee and cotton, about 6-7 percent of sesame exports), there are indications that some recent initiatives are tapping successfully into the growing demand for organic produce in the EU, the main market, and that exports have the potential to rise significantly. These initiatives have been exclusively

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³ “Conventional” is the term commonly used to describe inorganic input dependent agriculture in countries of the North.

⁴ Most commentators agree that simply defining endogenous farming systems as being “organic” due to their lack of inorganic inputs misunderstands the concept of *organic* farming.

private sector driven and, while following the spirit of agricultural sector policy (“Plan for the Modernisation of Agriculture: Eradicating poverty in Uganda”), deviate from some production-related assumptions therein. Organic farming is largely ignored in public policy, and experience suggests that public agencies have only a very limited role in allowing the niche sub-sector to develop. For the most part they have been a hindrance.

Promoting organic exports: The EPOPA project

The promotion of organic agriculture in Uganda has had two main thrusts. The first has aimed more towards natural resource conservation and improvements in the livelihoods of resource-poor farmers and is driven by NGOs (with some “environmental- and poverty-oriented” donor support). Though many have interesting features, most have had only limited impact as yet. The second is based on objectives for income generation and driven by the commercial private sector (with some “market-oriented” donor support). Of late, the two have converged around a common interest in the promotion of organic agriculture in Uganda and the vacuum of public policy on the issue, forming a network among the various parties involved (NOGAMU). Here we will consider the second thrust through the project named “Export Promotion of Organic Products from Africa” (EPOPA), supported since 1994 by Sida (Swedish International Development Agency)⁵. This was originally a regional programme involving Uganda, Zimbabwe, Tanzania and Mozambique.

The programme was contracted-out to the Dutch consultancy firm Agro-Eco, and implemented in Uganda under its associate Agro-Eco (Uganda) Ltd. The aim of the EPOPA project is to facilitate the sale of smallholder farmers’ produce on the international organic market that would provide a premium farm gate price thereby increasing incomes of rural farmers. The underlying assumption of the programme is that “farming practices in many places were organic and that the agriculture systems are very suitable for conversion to organic farming”. The driving force behind the programme is commercial and the main motivation of exporters and farmers is to participate in the poten-

tial economic benefits which derive from the higher prices obtained on the international market for organic products. The farmers tend to be paid an organic premium of about 20 percent in comparison to that offered by the local conventional buyers (the range is about 15 to 50 percent).

There has been a crucial role for donor support in assisting the sub-sector to gain a foothold in Uganda. Project financing was used mainly for: early and reducing costs of certification and of establishing field organisation; some feasibility studies and marketing costs; some training and advisory costs. The project avoided paying for costs that would normally be covered by an exporter under conventional marketing (crop finance, storage and processing facilities, transportation costs), so as to avoid dependency as much as possible. The intention is to help to the extent that the risk and uncertainty of market entry is overcome to some extent.

In Adigo parish, the main agent has been Outspan Enterprises, an exporter of agricultural produce. Exporters (whether producer organisation or private company) tend to be the actors around which the sub-sector is developing, and who obtain the organic certification from a certifier recognised in the EU. The exporter contracted the consultancy firm Agro-Eco to help set up a “field organization” in a well-defined geographical production area around Adigo. Some of the local government representatives were able to help mobilise farmers and allow the field organization to establish an internal control system for “farmer group certification”. This is the foundation for certification ensuring that organic standard and principles are followed and complied with. Certification is based on validating the credibility of the internal control system, which includes inspection by the certifier of a sample (usually 10-20 percent) of contracted farmers.

For projects with numerous smallholder farmers, such as in Adigo parish, it would be prohibitively expensive to inspect all of them, as tends to be the case in Europe. The general principle is for certification costs to be not more than three percent of the product value. The group certification approach is, therefore, crucial to project viability and greatly relies on the integrity of the internal control system run by the field organization. The whole project, not individual farmers, is certified and the exporter holds the certification. This means that the farmers can not sell their produce as organic to any other buyer who may be interested in buying organic produce for export⁶. Producers can,

⁵ The support began under Swedecorp until it was absorbed into Sida.

⁶ Organic certification is, therefore, an export tool that enables the holder of the certificate to present and sell organic produce on the international market.

however, sell their produce to conventional buyers and are never under an obligation to sell to the exporter they have signed a contract with.

The commercially-oriented approach to the promotion of organic agriculture of the EPOPA programme has enabled farmers, such as those in Adigo parish, to obtain 15-30 (sometimes up to 50) percent higher price for their produce with no significant increase in their production costs. However, these organic exports have not yet involved the introduction of a new "product" on the market, though an initiative on solar dried fruit in Mubende and Masaka will do just that. Produce being marketed as organic was previously being produced and exported as conventional produce. What the programme has done is to increase the farm returns and offered the farmers an alternative market outlet. A recent evaluation estimated that the EPOPA programme has increased the incomes of more than 24,000 farmers by on average about US\$ 50 per year, providing high value on the Sida's investment.

Success factors

There are many factors than contributed to the success of the project, however a few worth of highlighting here. Firstly, the market liberalisation and stable macro-economic environment that has emerged in Uganda for the last 15 years has been important. This values the role of the private sector, and with stability helping to reduce some of the uncertainty and risk of the private sector operating. Secondly, nothing could have been achieved without the existence of an organic premium. This is an additional cost that consumers are willing to pay for the quality they expect. Certification of organic farming helps secure consumer interests and adds cost. The premium pays for some of these costs, while part is transferred to farmers. This provides an incentive for farmers to maintain a balanced farming system. Thirdly, the farming systems in much of Uganda are low risk in terms of organic farming. There is enough land, soils of reasonable fertility and inorganic inputs are not in much use in large parts of the country. Remoteness can have its benefits. Due to infrastructure constraints in remote, often poorer areas such as poor roads and agrochemical input market, most farms tend to be organically compliant and many of these farming systems would be more competitive if access to the international organic market can be organised. What tends to be considered a weakness of these areas is recognised as a strength in the case of organic produce export markets. The export of organic produce from remote areas would probably be most

applicable for dry non-perishable produce like coffee, sesame and cotton. Consumer interests can be relatively easily secured by the existing strengths of the production systems. This allows for a minimum conversion period and the existence of group certification methods, both reducing costs. Fourthly, the project has taken an entrepreneurial approach to a development problem.

The case of Uganda (and Tanzania, being managed by the same local co-ordinator) contrasts with other countries that were included in the EPOPA programme, and demonstrates the importance of the development orientation. A recent evaluation of the EPOPA project highlights that the commercial, private sector orientation of the local co-ordinator, basically following a business approach, was the key difference that seems to have made the Uganda case successful. The project was a failure elsewhere because there they took a more different approach, driven more by notions of participation and process than profit. Thus the idea that farmers may be more interested in getting a good price than in participating, was neglected. Consequently, farmers did not benefit and merely had their time wasted in the process.

Some other organic export initiatives

The organic produce export business is developing in a number of ways in Uganda. One of the first organic produce projects was with a producer organization, the Lango Co-operative Union, that was emerging out of the government-controlled co-operative movement. Subsequently, private export companies have been the basis around which most of the organic produce export initiatives have been organised. Currently over 25,000 farmers in more than ten districts have been involved in the production of organic produce for export, many of these being in the poorer districts of the north⁷. The Lango organic cotton project has now been weaned of this assistance and the field organization has become an autonomous NGO handling the farmer mobilization, documentation, extension and internal control system with costs covered from the premium organic price. The exporter, Lango Co-operative Union is now only responsible for purchase, processing and international marketing of organic cotton, under an association with a Dutch company.

⁷ Including, Nebbi (some 4,500 arabica coffee farmers), Apac, Lira and Kaberamaido (some 20,000 cotton and sesame farmers with two enterprises – one producer organisation and one export company).

There are also a limited number of low volume, high value operations involving organic fruits (sweet bananas, pineapples, avocados) and ginger. Exports are in the range of two to three tonnes per week. In one of the arrangements, purely private with no donor support, the exporters (Bio Tropical Garden Ltd. and AMFRI Farm Ltd.) have organised 10 to 20 farmers to produce organically in a form of outgrower scheme around a pivotal entrepreneur. The farmers do not receive much technical input from the exporter beyond information of what is prohibited in organic farming, though advice on quality and the control of quality at time of purchase is important. Again, farmers did not have to change their farming practices much, if at all. The exporters cover the costs of certification (which is in the range of 1,000 – 1,500 US\$ per year) and they own the certification (not the farmers). In such cases, it has not been necessary to establish a field organization. Simple farm management records are adequate for the internal control system. The certification of such farmers is still based on farmer group certification and is the responsibility of the exporter. For such projects, 100 percent inspection is possible and cost-effective given that the farmers involved are few.

Surplus production, which the exporters do not buy, is sold on the open conventional market and to conventional exporters. In this arrangement the farmers do not receive a premium price for their organic produce⁸. What motivates the farmers is the fact that they are able to supply a known, secure market outlet and are therefore assured of selling most, if not all, of their produce. Unlike many of the field crops, there are a limited number of buyers and few middlemen dealing with low volume, high value fruit and vegetables. The arrangement works in such cases as market security provides strong motivation not to default on supply contracts. In these cases, the exporter had already been dealing with the same farmers in conventional produce and had an established relationship.

⁸ The premium price received on the international market helps the exporter cover the costs of certification with some increased profit margin.

⁹ See also paragraph four of section "extension and organic exports".

¹⁰ Some natural sources of phosphate are acceptable for use as external inputs in organic farming. Certainly, use of inorganic fertilizer would be much more convenient and cost-effective in many cases of phosphate deficiency.

Other arrangements have led to the establishment of farmer-owned companies. One NGO, the Sustainable Agriculture Training Centre in Mubende, motivated farmers to form a publicly limited company (at least those who could afford to do so in this case) and operate a factory for solar dried organic tropical fruit under contract with the Danish supermarket Urtekam⁹, who pay for and, therefore, own the certification. Urtekam also figures in a different institutional arrangement with a wife and husband owned processing factory, St. Jude's in Masaka. They operate a pivotal enterprise mobilising farmers in the neighbouring area to produce organic crops which they then process for export.

Extension and organic exports

Many production systems in Uganda are based on a rich natural resource base with relatively good soils. A key opportunity for poorer farmers to benefit lies in the fact that many traditional production systems at present comply with the basic IFOAM organic agriculture principles. Here being traditional has comparative advantage in the face of globalisation. However, there are indications that many smallholder farming systems are under strain and some of the traditional management practices such as fallow are no longer adequate to replenish soil fertility given shorter fallow cycles. In addition, some soils in Uganda have limited supplies of phosphate and would require some external inputs for higher productivity¹⁰. Certainly, sustaining organic certification would inevitably require improvements in the farming systems as degrading farms cannot be certified. Improvements in the farming systems will require substantial extension input which could be provided through the field organization and through other agents.

Yet the role of extension to producers in the development of organic produce exports has been limited to date, given that the way farmers farm at present can often satisfy the requirements for certification. The need for training and advice is expected to increase as the sub-sector expands into areas where land is more limited or farming systems are in danger of becoming degraded.

Nevertheless, there are inherent incentives for a field organization (exporter) to offer extension on organic production systems and local processing, which may be contracted to private agents. Firstly, a buyer can only buy from a predetermined number of producers with high initial start-up costs per farmer in establishing the internal control system. Where productivity

increases are possible from organic technical change, which seems often to be the case, this provides an incentive to help increase the productivity of each registered farmer rather than moving to new groups of farmers. Secondly, there remains the normal incentive related to higher quality when there are quality price differentials in the international organic market (which is usually the case). For example, improving the quality of coffee beans is one area where extension through the field organisation paid high dividends to both farmers and exporter, perhaps even producing higher overall returns than that from the organic premium. Thirdly, organic produce certification requires a high level of commitment of exporters to producers but not vice versa. This is in contrast to itinerant, seasonal buyers. The exporter has an incentive to invest in trust-building, which is favoured by the certification requirement for a year-round field presence. Hence, there is a high incentive to offer good advice that clearly and demonstrably adds value for producers.

One private initiative, with some limited donor support, has seen substantial advisory input designed to improve the organic production systems. This is a joint venture arrangement between local farmers in Mubende and Masaka districts and a European based supermarket chain, Urtekam of Denmark. In this arrangement, the production and processing of dry organic sweet bananas, mangoes and pineapples is to be conducted by two recently established farmers' companies. The European partner provides technical expertise in organic farming and processing through two experts stationed in the area (with some funding from the Danish Private Sector Support Fund), covers certification costs (with the Swedish-based KRAV, who involve a Ugandan inspector), and provides the export market outlet for the organic produce. This is probably the best arrangement for organic small farmers as it involves a secure income stream together with intensive extension input leading to improvements in the production systems, the costs of which are factored into the product price. The arrangement addresses many of the risks faced by farmers, exporters and importers in the commodity chain given the close partnerships involved. The farmers not only sell their produce but also own the processing factory that enables them to capture a higher value link in the commodity chain. This arrangement was worked out by local NGOs, which have contacts with the Danish organizations in the organic movement.

Exporters also need advice when newly dealing with organic produce. This may come from a number of

sources: from certifiers on regulations and procedures; from consultants on smooth and cost-effective implementation of an internal control system that fits with regulations and procedures; and, from intermediary organisations (which may or may not also offer the consultancy above) for advice on marketing and market linkages. One of the consultants, Agro-Eco (Uganda) Ltd, is now in the position to carry out feasibility studies into new organic projects that can then be used to encourage an exporter (with or without some donor assistance) to begin a new project, with some of their investment factored into the cost of any advisory work arising.

Challenges and opportunities

Ownership of organic certificate

In most cases, the exporter is the owner of the organic certification. This allows them to trade organic produce on the international market. In order to obtain an organic premium, farmers must sell to the exporter with whom they have been contracted, though they remain free to sell their produce to any other buyer as conventional. The chance to obtain an organic premium for one of their crops requires that the whole production system is organic. Yet they will be unable to secure an organic premium for their other produce. When a producer organisation is the owner of the organic certificate, they have the freedom to sell on as organic any farm produce from their members. This presents a producer organisation with a comparative advantage in terms of their relationship with producers and the organic market. The history of producer organisations in Uganda is not a shining one as yet, and much will need to be done in the way of business planning and development if such arrangements are to overcome the many deficiencies they have shown in the past.

Certification costs

Certification costs are high due to the European location of certification organizations, the large number of smallholder farmers involved, and the often remote location of the farmers. These costs can be lowered with the use of local inspectors (contracted by the European certification organisation). They would be further reduced if the European certifiers set up an in-country or regional office or there was a national framework for certification. The organic movement in the country (including NGOs, organic exporters in a network NOGAMU) is exploring the possibility for establishment of a national organic certification

framework, but at present poor organization, lack of funding and the need for developing organic standards by a “competent authority” (as yet unassigned in Uganda) present serious constraints.

National neglect of the organic opportunity

The attitude of policy makers ranges from hostility, indifference, and scepticism to mild support¹¹. Agricultural policy makes no mention of organic farming or the potential gains from the organic export trade. Organic exports have not as yet been much of a concern for donors engaged with the agricultural sector in Uganda. Interestingly, Sida (supporter of the EPOPA project) is not considered a player in the agricultural sector.

Traditional agriculture is seen merely as a constraint in the fight to modernise agriculture, with imports and use of agricultural inputs (particularly inorganic fertilizers, pesticides) often being used to indicate progress in “modernisation”. What constitutes “modern agriculture” is contested, with many of those trained by the NGO sector in organic farming claiming that they do “modern” farming as opposed to “conventional” or “traditional” farming. To date there has been no platform for exploring the organic debate in Uganda, with a consequent policy vacuum. Those supporting the development of the organic farming sub-sector claim that economic productivity can be greatly enhanced by organic agriculture technologies and practices whether or not they are linked to international organic markets. This, of course, is not the view of many other agencies aiming to increase input use among smallholders.

¹¹ Organic agriculture has not yet attracted much interest from the national policy makers and the understanding of those who know something about it seems to be limited to the non-use of synthetic agrochemicals. One exception is the Ugandan Coffee Development Authority (UCDA) that has recognised organic agriculture as a valid, productive system that can add value to coffee and offers its support.

¹² Interests such as environmental protection, enhanced commercialisation and trade, poverty reduction. There are clearly public good considerations that would justify some public investment.

¹³ There has been some flexibility in the interpretation of conversion period regulations by certifiers, with minimum conversion periods acceptable if there is low risk given the history of the production system. Most of the production systems in Uganda currently involved in the organic trade are low risk with a limited history of inorganic inputs. A sound risk assessment that reduces “conversion” periods even further in situations where no conversion is necessary would seem sensible, while still upholding the prime interests of consumers.

Expertise in organic agriculture is also extremely limited in Uganda with no training available at colleges and little research explicitly into organic farming, though various specific technologies are compliant. There is great scope for further research into improved organic technologies, including improved agroforestry fallow technologies, rock phosphate, rhizobium inoculum, resistant crop varieties, biological pest management, etc. Clearly, technologies exist that can be adapted by local farmers to organically improve on the productivity of their farming systems. The organic premium would also provide an incentive to adopt technologies that may have otherwise been characterised as only enhancing drudgery in farming.

The type of training provided to public agents has not equipped them to properly address the demands of the sector. Much of the technical expertise lies with the various agencies in the NGO sector who tend to draw on technologies developed outside Uganda and who have shied away from developing relationships with the input-oriented public sector or the profit-oriented organic export entrepreneurs. This may change given some potential convergence of interests among the three groups¹² and the decentralised, stakeholder-inclusive planning that will be strengthened through a new national programme to support demand-driven extension. Competent NGOs, such as the Kulika Charitable Trust, have local, intensive training input into the development of organic farming that could be tapped (and further supported) by farmer organisations and linked with organic exporters.

The international challenge

The international market for organic produce and products is growing at present in the major markets by some 25 percent a year (European, North America and Japan). The European Union is the biggest market for Uganda’s agricultural produce and is one of the world’s biggest markets for organic produce. There are, however, some barriers to accessing this market and a high risk that these may increase to the extent poorer farmers in Uganda will be excluded from the benefits this opportunity presents. The present lack of transparency in European regulations (different countries accepting different things) increases the risk and, thereby, reduces the incentives for entrepreneurs to enter the market.

The EU organic regulations require that farms go through at least a one-year conversion period during which produce can not be labelled and sold as organic on the European market¹³. In 1995 this was not a

requirement and as such early projects were able to get certification within six months of establishment. The one-year conversion period requirement imposes additional costs on a new project, as the certification organization has to be engaged during this period. Crop purchases from the first year are sold on as conventional. This would be a disincentive for market entry, particularly among exporters with limited experience with organic produce marketing. In Europe there are subsidies available to cover costs of farm conversion, while in Uganda some exporters have been able to access donor funds to cover some of the early certification costs. Yet this assistance was not planned as a long-term subsidy package, but rather one aimed at developing an emerging sector and demonstrating its profitability to exporters¹⁴.

A second key barrier concerns the unclear status of group certification with regard to EU regulation. Some member states in the EU at present tend not to accept imports whose certification is based on group certification, though they may gain entry to these countries by being re-exported within the EU. Practices vary among member states. The regulation itself does not give clear direction for accepting group certification, and there is a danger that without amendment this approach to certification will become unacceptable throughout the EU. The uncertainty is potentially a very serious constraint for exports from Uganda, as the cost of certification would then become prohibitive for all smallholder farmers. The poverty reducing prospects for the organic export trade would then be lost.

There is a need for some flexibility in the interpretation of certification regulations (though flexibility is being incrementally eroded in order to establish uniformity and standardisation throughout the EU). For example, with sound risk assessment there is the possibility to minimise the time for “conversion” or from registration to purchase depending on the history of the farming system (particular in terms of use of inorganic inputs and antibiotics). There is, however, a growing trend towards applying the same standardisation of conversion to producers in the South (requirement for individual certification, standard conversion periods). These would increase the transaction costs enormously and make the cost of market entry too high for the sub-sector to develop (or costs of organic tropical produce would remain very high in comparison with conventional and kill demand). Only larger-scale farmers and those exporting high-value crops would survive

such a change, i.e. perhaps less than five percent of those benefiting at present¹⁵.

Furthermore, EU regulations specify a requirement for a national “competent authority” in those countries from which organic products are imported. At present there is a regulation specifying that those countries not listed as having a competent authority and national organic accreditation procedures by 2005, will be excluded from imports into the EU. It is likely, however, that this deadline may not hold given the interest in maintaining organic imports and the slow rate of progress in the regulation of organic farming in countries of the South.

The way forward is for government and donors to engage with this issue, recognising that, while being no panacea, development of this sub-sector does provide an opportunity for some farmers in poorer areas and is compliant with the prime objectives of the PEAP (Poverty Eradication Action Plan) and the PMA (Plan for the Modernisation of Agriculture). For many farmers it may provide a less risky (certainly less capital intensive) entry into more commercialised farming. Therefore, starting with traditional farming systems (“organic by neglect”), organic certification can be achieved while the farms are built up to highly advanced integrated organic farming systems as farmer incomes improve.

¹⁴ Another difference is that in Europe subsidies are targeted at *producers*, whereas the time-bound donor support in Uganda has subsidised market entry of *exporters*.

¹⁵ In developing rules for group certification, EU could make use of the criteria for grower group certification developed by IFOAM, which would not act unfavourably on smallholders.