

Developing markets and capacities for organic products: experience of EPOPA¹ in Uganda & Tanzania

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Introduction

The story starts when Ann-Christin Söderlund, a representative of SwedeCorp, a unit within the Swedish development assistance apparatus, flies over Uganda in 1993, thinking that when there are no chemicals used in that country; the economy, the farmers could possibly benefit from exporting products as certified organic. She focuses on cotton first as that sector has seen a dramatic fall in production since liberalization. A desk study shows that organic cotton is already grown in places like Egypt, Turkey, India and the United States, and that there would be a small but growing market. A field visit is commissioned and when in Lira district the consultant hears from villagers that they use colonies of small black ants to control the insect pests of the cotton, a first project is born. The project is successful and when more products are identified in Uganda and Tanzania with an organic potential, she decides to bring this into a programme, and tender the implementation. Half hearted attempts to try the concept in Mozambique and Zimbabwe are aborted; it is better to concentrate on a few countries. By then, in 1995, Swedecorp has become part of Sida, the Swedish International Development Cooperation Agency. The purpose of the programme is to promote organic exports. Organic certification is seen as a kind of value addition, and certified organic products as non-traditional exports. It is a private sector development programme. That organic farming might be a more sustainable form of farming meets with opposition within Sida and it remains a trade promotion programme. A few years later it is discovered that the organic exports involve fairly large numbers of smallholders who benefit substantially. The programme then changes its focus away from purely export promotion to rural development.

Implementation

EPOPA phase 1 is implemented by Agro Eco from the Netherlands (who were involved from the beginning) and lasts about 4 years. The organic inspection and certification is done by a Swedish certification body, KRAV. During that period the Internal Control System methodology is developed that allows for group certification. This ICS is implemented by exporter-paid extension officers. The subsequent EPOPA phase II is implemented by Agro Eco in a consortium with Grolink from Sweden, whereas certification is contracted to a German/Swiss certification body, IMO. Both Agro Eco and Grolink are pioneers in the organic sector, not development agencies. Nevertheless, during the second phase there is increasing emphasis on cross cutting

¹ Export Promotion of Organic Products from Africa, see www.epopa.info

issues like biodiversity, HIV/Aids and gender, and on national institution and capacity building besides what remains the core of the programme, working with exporters. Developing domestic certification bodies in Uganda and Tanzania is an important strategy though to have better inspectors and reduce costs.

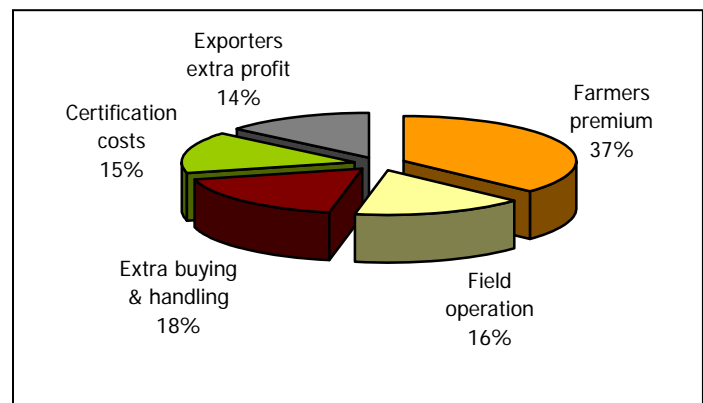
How it works

The programme works with existing exporters, small and big companies that are exporting a commodity already and wish to add an organic variant of the same commodity. This is done to avoid the multitude of problems that arise when there is no experience with exports. The idea is also that when the exporter is already in the export business there will not be problems with trade finance. That has not always come true. And in those cases that organic products were developed that were not yet exported, like canned pineapples, there have indeed been problems to realize first time exports.

The exporter is not only responsible for buying the product, storing, transporting, cleaning, financing and exporting it, the exporter also has to run a field operation to be sure that the farmers are organic. The projects in EPOPA are almost all Exporter-Contract farmer schemes. The exporter has in fact to develop a permanent relationship with the smallholders. To maintain the organic certification, he/she has to buy from the same farmers every year, he/she invests in a support and supervisory structure, he/she needs to pay a premium price in order to capture the product from his/her farmers. In order to keep the organic product separate from conventional, the traditional buying systems need to become much more organized. In almost all cases, new middlemen had to come into place, buyers who were willing and capable to keep a decent administration. The exporter also organizes and pays for the external certification.

All these costs, risks and responsibilities have to be made good by a premium export price. No one is doing this if there is no promise of a reward. Only in two cases, both branches of multinational coffeehouses, the need for higher profits was not of top importance; rather the market positioning. The export premium is used for different purposes, for example as below. Such a graph changes every year as each year is different, due to weather conditions and changing regional/world market prices.

Within EPOPA, business lines are developed that reach a size of at least \$ ¼ Mio in the third year. It is assumed that the conventional export is already profitable on its own. When there is a 10-20% organic export premium, there is enough money to pay for the ‘organic’ extra costs, and make an additional profit. This is determined in a so-called feasibility study. In this study all extra ‘organic’ costs are compared with the extra ‘organic’ income. This study is updated every year and every year this is a struggle as all exporters, have difficulties doing proper bookkeeping, realizing their costs.



EPOPA supports the exporter with a number of services, or ‘whatever it takes to realize the organic exports’. See the box on page 6. Apart from a cost sharing of the external certification costs and some seed money to start with a farmer input scheme, EPOPA does not provide direct financial support to the exporter. The exporter has to employ the field staff, set up the buying stations, organize trade finance, pay for transport.

EPOPA supports exporters in a 3-year project cycle. Some of the early projects have received an extension, mainly to expand the numbers of smallholders or to pay extra attention to sustainability aspects. That has in all cases been good. 3 years is too short to reach some comfort level of sustainability in the new business, or for the farmers to realize the benefits of being involved, achieve improvements.

The first year is spent getting started, selecting the right staff from or for the exporter, train the staff, raise awareness among farmers, register them, set up the ICS, get the group certified, work on quality, pay a better price for quality. In the second year the focus is on expansion to reach economy of scale, on agriculture, on staff changes, the ICS is updated. There is more work on farmer organization and on cross-cutting issues. In the third year this is all rehearsed and the assistance is phased out.

The exporter is interested in being certified, is made interested in quality, is not so interested in promoting organic agriculture. Work on agriculture is not a priority for the field staff. Farmers are trained in it because they have to know what it is, they are confronted with good agricultural practices but there is little active pursuit to increase output. Despite this, significant increases in yields have been recorded in the organic projects over time (eg 5 years). Even without an intensive coaching the farmers become more and more organic over time.

Type of exporter

EPOPA is working with different types of exporters, from old cooperative unions to new farmer owned export companies, branches of international trading houses, expatriate led enterprises and local entrepreneurs. It is difficult for all of them to do their business, more so in Tanzania than in Uganda. Each type of exporter has its own typical set of problems that the advisor has to cope with. The most difficult are the old cooperative unions and the local entrepreneurs.

Grower group certification

All organic regulations dictate that products can be labeled organic only when an external party has certified the farming and processing; the certification body. The control is based on the inspection of each farm at least once annually. The cost of external inspection is prohibitive for individual smallholder farmers. Over time a methodology has been developed that is called the Internal Control System. This is an internal inspection, a control mechanism implemented by the staff of the exporter, to some extent by the farmer groups themselves (joint responsibility). The role of the external certification body is to evaluate the effectiveness of the ICS. The exporter’s field officers double as internal inspectors. There is a Conflict of Interest issue but this can be regulated for example by

rotating staff. The combination of field officer-internal inspector, the ICS documentation system has over the years developed into a smallholder management system. It lends itself to work on different aspects of quality, on on-farm research, on different certifications, on better organization of activities.

The basis for this paper

In 10⁺ years of existence, EPOPA has worked with more than 30 exporters to develop a range of products as indicated in the box. In all cases the exporters rely on sometimes large groups of smallholders (a few thousand) to supply the primary product. Most projects are deemed successful, because they continue on their own, most have expanded and because the investment is earned back in improved farmer incomes. Two exporters have failed during implementation due to internal reasons and 1 due to external reasons. One is still determined to make the product and export it. That success rate is partly due to a fairly long time for project formulation. On average, it takes one year to formulate the project-but also to understand the situation. Situations can change a lot in a year (and thereafter) as there is little stability in doing business in Africa. The most striking experiences from this set of information are summarized below.

Products of EPOPA supported exporters

Arabica and Robusta coffees,
instant coffee, cocoa, vanilla.
Cotton, sesame, chilies, peanuts.
Fresh, canned and dried fruits.
Cashew nuts, shea butter, honey.
Essential oils, dried herbs, spices.
Nile perch, tilapia, tuna.

The opportunity, challenges and constraints

Becoming certified organic is the opportunity. Because of the absence of agrochemicals the conversion period is in most cases short, one year; that is about the time to get the exporter organized, field officers trained, the farmers sensitized and contracted.

Farmers are generally very happy to join an organic project; it suits them. They do not trust any exporter though and initially have a let's see attitude.

The challenge is that one starts with organic by default. For a sustainable farming and business situation the farmers need to be motivated to become active organic farmers. Agricultural production is not the exporters' priority. To become certified, the farmers must know what organic farming is. Apart from what they should not do, they are advised what they can or should do. Despite this 'light' treatment farmers become better, and more organic over time (5 - 8 years after the project has started).

One may see it as a challenge that there are different kinds of organic, like different regulations and private label standards, each with differences in the details. This is not a challenge for the smallholder farmers; it is a challenge for the ICS and the external certification body that the relevant evidence is documented. The big challenge is to have a management and documentation system. This requires human resources that are not always there, or leave after they have been trained up. Once an ICS is in place it is very easy to load other certifications onto the system, like Utz Kapeh.

Generally speaking there are very few problems with the maintenance of the organic standard. Only in a few circumstances farmers deviated, especially when government officers or pesticide salesmen offer farmers chemicals for free, 'to try'. The internal control mechanism, where farmers are jointly responsible for the maintenance of the standard in the group in most cases worked, in some cases the internal inspector detected the deviation and those farmers were excluded from the group.

The constraints are mainly on the exporter's level, where the project is organized, including the field operation. Identifying, training the right people is not easy but can be done. Keeping them happy is more difficult as most exporters like to save on salaries and transport means. In very few of the projects government extension agents are used as field officers. It turned out to be much better to look for young persons who can deal with papers, who are dedicated to do a good job. In about all projects the previously used middlemen had to be weeded out; had to be replaced by a buying agent who was willing to do transparent business and keep proper records.

Back in 1995, exporters were not willing to work with farmer groups. They were particularly afraid that grouping of farmers would act like unionizing them. At that time also farmers did not want to be organized due to the bad experiences with cooperative unions. Working with individual farmers however is quite expensive. Nowadays the advantages of primary organization for input provision, as a venue for extension and for bulking are more evident, and the tide has turned both at the exporter and farmer's level. Whereas a number of farmer organizations are successful, producer organization is an area that needs some external support for some time.

None of the exporters can be considered to be very skilled in doing business, even the big ones. Simple skills like cost pricing are lacking but then most exporters do not have access to transparent bookkeeping systems on which to base decisions. Exporters always complain about the cost of external certification and the salaries of field officers, while they have little idea of the total costs of logistics, or of how to react to changes in the market.

Like the farmers, exporters are focused on the price and nothing else. The volume per deal, the method of payment, the leniency in case of trouble, price risk management and an interest in developing long term trading relations hardly counts. The important thing is to get the best price.

The choice of product-exporter-location-certification

EPOPA planned in its programme what products should be addressed and the best exporter and location/farmer group were identified to achieve that. Starting an organic export business sideline is a very foreign idea for the average Ugandan or Tanzanian exporter. There was and is an increasing market demand but without EPOPA and the start-up support that it provides very few exporters would have gone into it by themselves.

In the type of organic certification and additional certifications the exporter depends on his/her importers. EPOPA assists in realizing other certifications like Utz Kapeh or HACCP. It turned out to be problematic to achieve fair trade certification as there is no standard for the contract farmers situation. Some organic certifiers are now offering a fair trade certification, to the chagrin of the original fair trade movement.

Whereas the farmers comply with the organic standards, it is still quite laborious to receive and maintain organic certification. Quite some work was done with the exporters to fulfill the demands of the local inspectors, the foreign certification body and also the information requirements of the authorities in importing countries. If there is one area where the exporters would need continued support from an external advisor; it would be this one. Organic farming in Uganda and Tanzania is simple; maintaining certification for the international market is not.

EPOPA is a private sector development programme. It concentrates on the primary product chain, i.e. the farmers, the buyer/exporter, the importer. In addition, it developed local inspection and certification capacity and links the exporters with trade finance providers. Local governments are informed when a project is initiated in their district but government involvement was avoided. The private sector is afraid that governments tend to frustrate projects rather than promote them.

The research establishment has not shown any interest in organic farming. They might come and visit a project when transport, food and drinks are paid. They have little interest to engage themselves in problem solving, nor would their way of doing research be of much help. Most projects solve their technical problems with on-farm experimentation.

Interventions, and exit

The box shows the types of support that the programme provides. Many of these interventions happen at the same time, thus requiring good planning and monitoring. All services are provided by the Agro Eco-Grolink consortium, from local offices. The responsibility of implementing a project lies with what is called the Project Leader (PL). One PL would manage for example 2 larger and 2 smaller projects. The PL reports to and is assisted by the Country Manager and his/her team of colleagues. A consultant from the Dutch headquarters provides technical backstopping. Marketing Consultants assist in matchmaking.

<p><i>EPOPA types of support</i></p> <ul style="list-style-type: none"> Management assistance Business development elements <ul style="list-style-type: none"> Staff selection, staff and field officer training Farmer mobilisation techniques, extension techniques Farming input schemes, seed money for farmer's inputs Setting up of tree/crop seedling nurseries Technical consultancy and agricultural improvements <ul style="list-style-type: none"> Development of new/second crops and products Development and revision of Internal Control System <ul style="list-style-type: none"> Organic certification procedures and issues <ul style="list-style-type: none"> Cost share in initial certification costs Preparation of certification to additional standards <ul style="list-style-type: none"> Quality management and quality improvement <ul style="list-style-type: none"> Market surveys and buyer contacts Product development (incl. retail) Participation in organic trade shows <ul style="list-style-type: none"> Product presentations/brochures Mediation in trade finance Risk assessment along the chain

Each project is, of course, owned by the exporter. It is his/her business venture. However, as it often was EPOPA who came with the idea for a project in the first place, some

exporters had the feeling that they were there to assist EPOPA in achieving its goals, rather than the other way around. In that respect the name Project Leader was not the best one either as it tricked many exporters to think that not they, but the PL was responsible for the activities to happen. As a three year project cycle is short, EPOPA pushed the exporters fairly heavily to do things, but when they did not happen, the PL would make sure they happened. That is acceptable in the first year, also exporters first want to see and then believe, and setting up a field organization is not their daily work; but it gave a sometimes awkward transfer of responsibilities later. Such transfer should come after the first sales; when the evidence that an organic export sideline is profitable is there. However, by that time most exporters liked the services provided by the PL and would only reluctantly take over the responsibility. And when the project is expanded, and the ICS needs revision, and more people need to be trained; it was all too easy to try to leave it to the PL. The transfer would then come in the third, the last year. However, as the business is good, the exporter will take over, if only at the last moment. It is important that the Field Supervisor is a qualified and motivated person. Things go wrong when that person leaves. For that kind of situations there is a need for local capacity that stays on after the programme. Agro Eco-Grolink provide a friendly after sales service. While it is only a few phone calls or perhaps hours for a visit, and not paid, it is very important. What is also provided is a refresher training every year for ICS managers. This training could or should be provided by the local certification body in the future. In one case an exporter pays a local expert to support the field staff from his own pocket since the EPOPA support has ended. That is not necessarily a bad thing.

Implementation problems

One of the worst implementation problems is when exporter staff is leaving (none of the EPOPA staff left prematurely). This is usually because of lack of motivation; low salaries or non-payment thereof. One perhaps should be more insisting on the exporter taking on critical staff on a permanent contract basis, and securing that they be properly paid. However, as these are costs that are the remit of the exporter from day one, it is not easy to influence this. However, the exporter does fall back on EPOPA to train new persons. In hindsight the exporter should have been made to pay for this, if it is due to bad pay.

Exports may be hampered by congestion in the ports, but everything to do with imports is a real drama. There have been serious problems with the importation of fairly simple packaging materials like glass jars and –fitting- lids, and also of something complicated like 500 kilos of organic sugar (which resulted in a temporary import license). An entire shipment of food grade cans was discarded as the cans leaked, the processing stopped, the pineapples rotted away, the farmers got angry, the export delayed for one season, etc. Bringing in a fruit drier from Austria turned out to be an exercise too, and saw half a year of delay, despite the decision to airfreight it in. This makes value addition through food processing not so attractive. All food processors struggle anyway with cheap imports of often better quality.

A special problem has been the father and son interdependency. Some of the export businesses are owned by the big daddy who refers something modern like organic exports

to the son. Whereas the son is the project responsible, it remains the father who makes all decisions, or not. In two projects this has led to serious delays, of one to two years.

A number of projects in Tanzania and Uganda had serious setbacks because of droughts, notably coffee, vanilla, ginger production suffered. This is of course a temporary setback but nevertheless a difficulty in a 3-year project cycle. In lake Kyoga, a project is currently on hold because of a collapsing fish stock due to over fishing but also because the Egyptians pulled some plugs at the exit of the lake, lowering the water level.

The organic products are sold into a competitive world market. Prices of for example sesame depend heavily on what happens elsewhere. Where in one year the Chinese offer large volumes of organic sesame for unbelievably low prices, the other year the Sudanese invade Uganda to poach all sesame away for a higher than world market price.

The exporter planning to export canned pineapples was told at one time that the price of the previous year, on which he had made his calculations, had been halved because of cheap imports from Sri Lanka. He almost gave up on the idea until he found out half a year later that the Sri Lankan supply had stopped. However, these price and market movements are hardly specific to the organic market.

The organic buyer/exporter normally bases the buying price on the local price for conventional, plus a premium (like 20%). However, in many crops the conventional market price often follows the organic price. For example, in one season, Robusta was worth 700 shillings farm gate, nationally. The organic exporter offered a 20% higher price for good quality, organic Robusta. The local buyers followed this price in the organic area. The average conventional price became 1000 shillings for conventional and 1050 for the organic. None of the exporters were happy; but the farmers were.

Sustainability

A review of the phased out projects shows that all exporters continue, that most have expanded the organic business, in one case a project (area) has been split up in two. The organic business seems to be attractive enough to continue.

Agricultural sustainability has improved because of better pest and disease management using cheap, locally available organic materials. In terms of soil fertility none of the projects can be called sustainable but they are more sustainable than the baseline; no fertility management at all.

On the economic side, all farmers receive higher incomes, due to better prices (partly for better quality) and increase in production. However, in for example coffee, farmer incomes remain below the Millennium Development Goal of U\$1/day. With for example the organic pineapple farmers, incomes are 2-3x the MDG.

On the social side, farmers have benefited from the attention to HIV/aids and gender, the supplier group formation, the promotion of group responsibility. Public health has slightly improved due to absence of agrochemicals and a slightly better diet due to increased agricultural (=food) diversity. When there is compost made, it is likely used for

the vegetable gardens first. In terms of food security, organic farmers have higher incomes, so they can buy food. In some cases food production is higher because of organic practices.

On the environmental side the communities have benefited from the establishment of firewood lots, shade trees in coffee and cocoa, the maintenance of biodiversity, the non-pollution of water with agrochemicals.

Some more lessons learned

The long project formulation period, sometimes up to a year, allowed various problems to come to light prior to implementation so that the design could be adjusted. An interesting aspect is that during the formulation, projects often started by itself.

Working with existing exporters saved EPOPA a lot of time. However, trade finance continues to be a problem. Not for the big companies, but for the ones that need US\$ 100,000 for a season.

Demonstrating compliance with a standard might be more difficult than being compliant with it.

Doing business in Africa is never very stable. How sustainable can it be in an unstable environment?

Donors should not be afraid of working directly with exporters. Working with individual entrepreneurs has more potential than working through institutions including the government. Successful exporters are copied, sooner or later.

Five years seems to be a minimum period for a project to show some true impacts. In the case of EPOPA, the ten years have been great. Most exporters benefit from some follow-up, after care. You should not sell a new car without a facility to service it. For this, and other reasons, local service providers should be involved in project implementation, as they stay behind after a donor funded project ends.

In EPOPA, the exporters were exposed to a series of buyers-importers. Tying an exporter to one particular buyer from the beginning could have been better; it would certainly have speeded up the first exports.

There are not many good entrepreneurs in East Africa. Most exporters could have benefited from a stronger business development aspect in the EPOPA package, even when they don't like to expose their trade secrets (weaknesses). EPOPA would have benefited from a stricter performance management of the exporters (and of its own PLs).

EPOPA should have started earlier with producer organization. Having a contact person, discussing common issues, organization of inputs, bulking of product, in a relaxed way. The exporter should pay a slightly (e.g. 10%) higher price for the bulked product besides

the organic and quality premium; for the 'overhead' of the association. Both exporter and farmers have to invest in creating better loyalty towards each other.

Exporter managed extension has its limitations. Where available, modern extension methods like Farmer Field Schools whether delivered by government or NGOs, should be involved, to improve production. Extension officers could possibly be made responsible-accountable to the producer organization. Whereas all organic projects showed in increase in production, a further increase is the best way for improving incomes.

Farmers do react to higher prices for better quality. Also other private buyers besides the organic exporter like better quality, and will pay for it. A few quality-focused projects can have a nice spillover effect for larger areas.