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**AN OVERVIEW OF THE CERTIFIED
ORGANIC EXPORT SECTOR IN UGANDA**

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Abstract

This paper reports the results of a survey of almost all certified and in-conversion organic export operations in Uganda in late 2005. It covers products exported, company size and ownership, standards exported to, certification costs, total export values, value-added in Uganda, marketing channels, crop procurement systems, management of organic operations and the main challenges experienced by exporters. Findings include that numbers of certified exporters are growing rapidly. Export values are also growing, but more slowly: They reached USD 6.2 million in 2005. A handful of firms exporting coffee and cotton dominate the sector and this situation is likely to remain. Though the sector is maturing, most recent entrants are small, relatively weak and currently depend on donor support.

Introduction

The certified organic sector in Uganda is frequently referred to as the largest and most advanced in Africa, and to this extent a model that the organic movement and organic operators in the rest of the continent should aim at. In fact, although Uganda has more certified organic smallholders than any other African country it is far from clear whether it has more export enterprises or whether its exports indeed exceed those of South Africa or Egypt. Lack of clarity on these points derives in part from the fact that no satisfactory overview of the Ugandan sector is available.

To provide such an overview, as accurate and comprehensive as possible as of December 2005, is one of the aims of this Working Paper. Its other main aim is to sum up what appear to be the main trends in the sector, what underlies them, and what can be learnt from them – particularly by the stakeholders themselves.

The overview is based on a survey of almost all operators, conducted between late October and early December 2005. The report starts by exploring the identity of operators in the sector, trends in product focus, standards to which products are certified, operators' choice of certification body and their costs of certification. It then goes on to estimate the current value and composition of certified organic exports before examining operators' market channels, marketing strategies, crop procurement systems, field operations and buying systems. It continues by looking at the management of organic export operations and at levels and types of donor support, before concluding with a discussion of exporters' perceptions of the main challenges and benefits of certified organic exporting, and the main lessons that they draw from their experience of working in this sector.

A short history of certified organic export production in Uganda

Certified organic export production in Uganda dates from 1994 when, with support from Swedecorp, the Swedish certification body Krav approved the Lango cotton project (since 1998 managed by Shares!/Bo Weevil), and when the fruit and vegetable exporter Suntrade (now known as Amfri) gained certification. These two operations remained the only certified organic exporters until 1997 when the Sudanese-owned coffee company Kofti gained approval for a

cocoa project in Bundibugyo, which because of security reasons only came into production in 2002-03 under the ownership of Esco (U) Ltd.

Most of the other projects certified during the late 1990s were also wholly or partly for traditional cash crops. They included a second project focusing on sesame and cotton (in Ochero), which since 1999 has been under the ownership of Outspan Enterprises Ltd, and coffee projects for arabica in Nebbi and robusta in Bushenyi, both of which have been under the ownership of Kawacom (U) Ltd since 1999.

A number of the early projects for cotton and coffee saw changes in project ownership before they emerged on a stable basis. For these products the financial requirements for crop purchase were substantial while, until around 1998 for cotton and 2001 for coffee, demand in international markets remained rather intermittent and limited. Other difficulties arose from the fact that large scale, inefficient but politically well-connected cooperative unions often had to be taken on board as partners. The stability of some projects improved when the participation of these partners ceased.

While traditional cash crops remain the backbone of certified organic exports from Uganda, the years since 2000 have seen a majority of new operations being established in higher-value sub-sectors where cooperatives have never played a significant role. As will be shown below, two sectors of particular focus in recent years have been fresh and dried fruits and vegetables, and – most recently - vanilla.

A constant feature of the background to these developments has been continuous and generous Swedish support through its Export Promotion of Organic Production in Africa (EPOPA) programme. The EPOPA programme has concentrated on subsidising certification and providing technical assistance for setting up internal control systems (ICSs), training of project personnel and marketing. Of the 16 export operations with certification at some point during 2005, 12 had received support from EPOPA.¹

Besides lending assistance to export operations, EPOPA has also been active in supporting the development of Uganda's wider institutional environment for organic agriculture. The nature of this environment has also been a positive factor in the sector's development.

¹ Since 1998 there has been no involvement by Swedish agencies in the largest single organic project in Uganda, the Lango cotton project, however. This has been supported instead by Dutch agencies.

The two key organisations making up this environment are the National Organic Agricultural Movement of Uganda (NOGAMU) and the national certification and inspection body, Ugocert. NOGAMU was set up in 2001. It has played an effective advocacy role, particularly in resisting suggestions that Uganda needed its own government-owned organic regulation, as opposed to a national standard. In contrast for example to Kenya, this has meant that exporters could concentrate their resources on achieving conformity to regulations in the most important export markets, notably the EU. NOGAMU is also the owner of Ugocert, whose formation has mitigated the impact of the worldwide rise in organic certification costs. Ugocert provides local inspectors for some international certification bodies and has facilitated the entry to Uganda of Ceres, thereby introducing greater competition into the market for international certification services.

Two political challenges currently confront NOGAMU – and the organic sector in Uganda more generally. The first is to devise an effective response to the Ministry of Health’s National Malaria Strategic Plan, under which it is intended to carry out ‘indoor residual spraying’ with DDT of ‘80% of targeted structures’ by 2009/10. The second is to win wider recognition in government for the achievements of the certified organic sector in Uganda. A foundation has been laid for this via the creation in 2004 of an Organic Agriculture Policy Committee, embracing government ministries and agencies, local representatives of some international agricultural development agencies, consumers’ and farmers’ organisations and sections of the organic movement. The hope is that, if it can clearly demonstrate the net benefits for Ugandan farmers from certified organic production, the Committee can influence government to include organic agriculture within its broader agricultural sector support activities. This in turn poses the challenge to the movement of so documenting organic agriculture’s net benefits.

Export companies and exported products as of December 2005

During 2005 there were 16 certified organic exporters in Uganda, operating a total of 17 organic export projects. Certification lapsed for two of the exporters by December 2005, however, leaving 14 certified operations by the end of the year.

In addition to this, there were 11 export operations that were technically under ‘in-conversion’ status. That is, they had registered and surveyed outgrowers or suppliers and/or home farms and in most cases also established relations with certification bodies. At least seven of these opera-

tions should be fully certified by mid-2006, bringing the total number of certified organic exporters in the country to 21-22. This compares with 11 in 2003.

A third category existed also, of operations close to entering the conversion process. The author was apprised of five of these, although their details in most cases were sketchy.

Finally, one operator (who had been certified since 2002 but who had never exported) deliberately decided not to renew certification at the end of 2004.

The author interviewed all but one enterprise in the first category described above, all but three with 'in-conversion' status, one of those in the third category as well as the operator mentioned who deliberately failed to renew his certification in early 2005. Some information was obtained from other sources for all of the operators not interviewed. Table 1 below presents basic information on all exporters in the first two categories (respectively, those certified at some point during 2005, and those in conversion during 2005).

A glance at Table 1 indicates a bunching around a relatively narrow range of products, albeit ones in which Uganda arguably has a comparative advantage. There are currently three exporters certified for fresh and dried so-called 'Asian vegetables'; three currently certified for fresh fruit and two in conversion; four certified for dried fruit and one in conversion; three certified for coffee and two in conversion; and five certified for vanilla and a further four in conversion. Besides this there are two certified for both cotton and sesame and one each certified or in conversion for cotton products, cocoa, freshwater fish, bark cloth, honey, bees wax, shea butter, essential oils and hibiscus tea. It should be noted that certification to export a given crop does not necessarily mean that this crop is exported by the company concerned. In a majority of cases it does so, though.

The current popularity of vanilla is of interest. Not only will there be nine certified organic vanilla operations by the end of 2006, but at least one of the companies close to entering the conversion process also aims to become certified for this crop. Total Ugandan output by this stage seems likely to be at least 30 tons of cured vanilla. According to a report on the organic vanilla market prepared for EPOPA (Koekoek 2005) global annual demand for organic vanilla is in a range between 12.5-25.0 tons. However, Ugandan exporters report levels of demand from customers that seem to indicate that Koekoek's figures seriously underestimate global annual demand.

Having said this, the strong focus upon vanilla does introduce a wider uncertainty about the future shape and size of the sector. The vanilla market is characterised by great price instability

and correspondingly high risk. These characteristics are shared with the coffee, cocoa and cotton sectors. However, for the latter three crops there are futures markets that allow operators to hedge their risk, albeit in some cases imperfectly. No such risk management instruments are available for vanilla.

**Table 1: List of Certified Organic and In-Conversion Export Operators in Uganda
(I) Certified at some point during 2005**

Name of Operator	Crop(S)/Products	Location(S)	Date of First Cert.	Cert. Body	Contact Person and e-mail details
AMFRI (African Organic)	Fresh fruit and vegetables, dried fruit, vanilla	Luwero, Kampala	1994	IMO	Brian Sebuya amfri@infocom.co.ug
Bark Cloth	Bark cloth	Masaka	2005	IMO	Joseph Matovu barkcloth@ugandamail.com
Bio Fresh (U)	Fresh pineapple, apple banana, passion fruit, ginger	8 districts in central Uganda	2004	IMO	Sonia Mwadime biofresh@utlonline.co.ug
BioUganda	Fresh pineapple, apple banana, passion fruit	Mubende, Entebbe	2004	IMO	Edward Mulondo mulondoe@hotmail.com
Coetzee Natural Products (U)	Vanilla	Mukono	2005	BCS	Gordon Jones sentratek@africacentral.net
Esco (U)	Vanilla, cocoa	Bundibugyo, Mukono	2001	IMO	Eva Mbanona eva@esco.co.ug
Gumutindo Coffee Cooperative	Fair trade Arabica coffee	Mbale	2001	Ecocert	Willington Wamayeye mutindo@infocom.co.ug
IBERO (Uganda)	Robusta coffee, vanilla	Kikyusa	2002	IMO	Stefan Cogningi, projects@ibero.co.ug
Kawacom (U)	Arabica and robusta coffee	Nebbi, Bushenyi, Okoro	1998-99	IMO, but transferring to Ceres	Roy Lugone rlugone@ecomtrading.com Lydia Namutebi, lnamutebi@ecomtrading.com
Masaka Organic Producers/St Jude Family Projects	Dried pineapple, apple banana, mango, jackfruit, papaya	Masaka	1999	was cert. by Krav. plans (re)certification by IMO	Josephine Kizza stjude@utlonline.co.ug
Outspan Enterprises	Sesame, cotton, red eye chillies	Lira	1998	IMO	Kenneth Kayondo kayondo@infocom.co.ug
Phenix Logistics (U)	Unblended cotton yarn, grey knit fabric, grey washed knit garments, comber noil	Kampala	2005	Ecocert	Yuichi Kashiwala ops.phenix@bushnet.net
RECO Industries	Dried pineapple	Kasese	2005	IMO	Brian Rwabwogo reco@africaonline.co.ug or info@reco-industries.com
Shares!/Bo Weevil	Cotton, sesame and red-eyed chillies	Lira, Mukono	1994	Ecocert	Marck van Esch m.v.esch@boweevil.nl
Tropical Ecological Fruits Uganda4 (TEFU)	Dried pineapple and apple banana	Mityana	2001	was Krav, no current plans for re-certification	Manager 0752-973298
Uganda Marketing Services	Vanilla	Four districts in central Uganda	2002	IMO	Dumas Mulagwe ums-impex@utonline.co.ug

(II) In conversion during 2005

Name of Operator	Crop(s)	Locations	Cert. Body	Contact person and e-mail details
Be Organic	Pineapple and other fresh fruit	Jali Island, Wakiso District	Soil Association	Moses Muwanga ²
Bee Natural Products	Honey and bees wax	Arua	IMO	Maria Odido Di Fonzo, maria@beenaturalproducts.com
Buiga Farm Industries	Vanilla	Mukono	Ecocert	Jacqueline Nassali nassali@buiga.com
Greenfields Uganda	'Wild and sustainable' Nile Perch and Tilapia	Lake Kyoga, Entebbe	Not yet identified	Philip Borel de Biche pborel@greenfields.co.ug
KM International Trade	Shea butter	Lira	IMO	Klaus Fehling kfp@utlonline.co.ug
Mukono Vanilla & Spices	Vanilla and spices	Mukono	Not known	John Nviiri 077-661929
Uganda Aromatics	Essential oils, vanilla	Hoima	IMO	Nicolai Rodeyns rodeynsnicolai@yahoo.com
Nile Teas Uganda	Dried hibiscus	Pallisa	Not yet identified	Charles Irving candpirving@hotmail.com
Sulma Foods	Fresh and dried pineapple	Luwero	Ceres	Abdul Karim Farid Karama abdulkarimfd@yahoo.com
Tree Shed Organic Farm	Robusta coffee, vanilla	Nakifuma	IMO	Fritz Plattner fripla@yahoo.com
Urth Caff�	Arabica coffee	Kisoro	Not known	sberkman@urthcaff�.com

Company ownership and focus

Just under half of the companies that were certified organic at some stage in 2005 were Ugandan private companies³, while the remainder were with one exception branches of international companies or joint ventures. The exception was a Ugandan producer organisation. Just over half of all certified companies were also involved in conventional production or processing.⁴ Conventional production or processing made up the biggest part of the business for six of the 16 compa-

² NB not the NOGAMU chair. Contact details not available.

³ 'Ugandan private company' means a company registered in Uganda without an international parent or joint venture partner. It does not refer to the citizenship of the shareholders or the directors, although normally at least one director would be a Ugandan citizen.

⁴ Uganda's largest certified organic exporter in 2005, Shares!/Bo Weevil, had no involvement with conventional production or export.

nies. The international companies were all traders in traditional cash crops, as was one Ugandan private company and the Ugandan producer organisation. Except for the cotton yarn spinner, the remaining companies were all involved with higher value crops (but not necessarily value added ones, see below).

Table 2: Certified organic and in conversion companies in Uganda, 2005

	Ownership type	Frequency	Also doing conventional
Certified	Ugandan private	7	3
	Ugandan cooperative	1	1
	Foreign	4	3
	Joint venture	4	2
In conversion	Ugandan private	8	4
	Joint venture	2	0
	Foreign	1	1

Of the 11 in-conversion companies, all but three were Ugandan private companies. The exceptions were two joint ventures, in one case between a Ugandan producer group and a UK community organisation, and a small US organic coffee retailer that also sells conventional fine teas. Six of the eleven in all were involved in conventional production. There was insufficient information to say for how many of these companies conventional production or processing would remain the largest part of their business after certification.

Origins of companies' interest in organic production

As elsewhere, the owners of the companies involved with organic production in Uganda tend to fall into two groups, those whose interest originates in convictions about the advantages of organic production on environmental, health or related grounds and those whose main interest originates in the market opportunities presented. Of course, these groups are not mutually exclusive. Some of those interested in organic production out of conviction may also have a strong business orientation and vice-versa.

The first group can be divided into two sorts of 'pioneer': those involved in organic production in Uganda from the outset, and those involved with organic, 'sustainable' or alternative markets in other regions, who wanted to create vehicles allowing them to link to Ugandan producers. Some from the first sub-category were involved in different ways with the Suntrade company, and have since founded other enterprises.

The second group can also be divided into two sub-categories. The first sub-category is operators that had been trading products whose conventional variants experienced serious downturns in international markets (coffee, vanilla), and who saw the premiums for organic variants of these product as mitigating a part of the consequences of this downturn. Most of these companies have remained focused primarily on their conventional businesses. The second sub-category is companies or individuals interested in exporting specific products, but recognising that it would not be economically viable for them to do so conventionally. For these companies, organic markets present an export opportunity due to their lower volume demands and their relative lack of emphasis on more demanding forms of value addition. At the same time, the 'organic by default' nature of most agricultural production in Uganda means that organic certification is unlikely to present such ventures with certification problems. A number of these businesses have either never undertaken or have gradually withdrawn from conventional export production, a factor that also means that they do not need to make investments in segregating organic from conventional product. For both sub-categories of companies driven primarily by market opportunities, the availability of assistance for the certification process has generally been another important factor in their decisions to undertake conversion.

Observers of the sector note that, partly for the historical reasons alluded to above, but mainly for reasons common to business life in Africa generally⁵, overall levels of trust and cooperation between enterprises in the sector are low. This was seen as having negative implications for alleviation of problems concerning diseconomies of scale, which will be returned to in the discussion which follows.

⁵ These include the short-term and highly risk adverse orientation of many African businesses, as well as the lack of enforceability of contracts.

Standards to which products are exported

Certified organic exporters fall into three categories in respect of the standards to which their products are exported. A large majority of those certified for all products except coffee, cotton, bark cloth and fish are certified or plan certification to public organic standards alone. An exception is an exporter of 'Asian' vegetables, fresh and dried fruit, who is 'working towards' EurepGAP certification for conventional exports. Of the eight in-conversion companies interviewed, six planned certification to organic standards only.

The second group comprises all exporters certified to export coffee (or in-conversion to do so), and one of the two exporters certified to export cotton. Two of the certified organic coffee exporters were also certified by Utz Kapeh (one of whom was also certified to the '4 Cs' standard) while the third was certified Fair Trade. One of the in-conversion coffee exporters was also planning certification to the Demeter (Biodynamic) standard and the other operated its own corporate private standard.⁶ The cotton exporter Shares!/Bo Weevil was also certified to two Fair Trade standards, one French and one Dutch. This reflects the greater supply of and demand for different kinds of sustainability and fair trade labelling in the coffee and cotton-to-textiles trades than in other branches. At least in the case of coffee, it also reflects the availability of donor funding to support such additional certifications. Amongst the non-coffee in-conversion companies interviewed, one producer is also planning certification to Fair Trade standards.

A final, very small, group of operators can be described as still in search of the 'right' certification. They have entered or in one case completed the process of organic certification in the absence of a clear labelling requirement or market for organic versions of their product. One, exporting bark cloth, is contemplating Forestry Stewardship Council certification while the other, a freshwater fish exporter has not yet determined which type of certification he will seek. The fish exporter is also already certified for HACCP, a basic requirement for processed food exporters to the EU (and US). This appears to be the only instance of HACCP certification amongst all operators interviewed.

Organic certification in most cases is to the EU regulation 2092/91 alone. One or two operators are also certified to the US regulation, NOP. Three (including one of those certified to NOP) have further private label organic certifications, for BioSuisse (Switzerland), Naturland (Germany)

⁶ This makes reference, inter alia, to shade-grown and Fair Trade principles.

and Ocia (US) respectively. Two others were in the process of obtaining Naturland certification. Another two operators, one already certified organic and one in-conversion, were at different stages in obtaining certification to the Demeter (Bio-dynamic) private label organic standard.

Certification bodies

For the first decade of certified organic export production in Uganda, Krav had a virtual monopoly over certification – a fact not unrelated to EPOPA’s status as a Swedish development assistance programme. The main exception to this pattern was the introduction of the Dutch semi-governmental certifier Skal to the Lango cotton project in the late 1990s.⁷

For the first years, Krav undertook inspection as well as certification in Uganda, but from around 2001 it seems mainly to have used local inspectors. In 2003-04 it took a decision to withdraw from international certification too.⁸ IMO, which already had one or two licensees in Uganda, inherited Krav’s also. By late 2005 it was the certification body for 10 of the 14 currently certified exporters.⁹ One operator currently certified by IMO was in the process of shifting to Ceres while one out-of-certification operator expressed an intention to become re-certified by IMO. Ceres is a new German-based certification body run by staff that earlier made up the international department of another German-based certifier, BCS. Three of the certified operators not covered by IMO were certified with Ecocert and one with BCS. Most operators who are in-conversion also plan to be certified by IMO, although for those that information was available one each planned to be certified by Ecocert, Ceres and the Soil Association instead.

While IMO certified a large majority of current export operations at the end of 2005, it is clear that by the end of 2006 it will no longer account for either a majority of Ugandan certified out-growers, or for a majority of certified organic exports from Uganda by value.

IMO and Ecocert are the two most prominent international certification agencies based in Europe. Ecocert currently operates in 55 non-EU countries and IMO in 47. Between them they accounted for between 34% and 38% of all confirmed EU import authorisations for each year

⁷ Since this time, Skal has been replaced by Ecocert on this project (see Table 1).

⁸ This was in order to concentrate its resources on establishing equivalency agreements with other private labels within Europe, in order to better facilitate trade in organic products between Sweden and other European countries.

⁹ The operator who voluntarily de-certified in early 2005 had also been certified by IMO.

between 1997 and 2004 (Gibbon 2005). All the other bodies referred to above also appear on the EU's list of certification bodies recognised for purposes of granting import authorisations.

Certification costs

15 of the 16 operators exporting on a certified organic basis sometime during in 2005 provided data on certification costs. For this group, total certification charges (not counting the cost of transaction certificates) amounted to USD 132,105. This corresponded to 2.3% of the fifteen operators' total sales during 2004-05. This share of certification costs in turnover is considerably below an estimate of the corresponding figure for the European Union (around 3%) provided by *The Organic Standard* (2001).

Certification costs are notionally tied to numbers of outgrowers inspected, which is in turn notionally tied to numbers of outgrowers. Table 3 classifies certification costs in Uganda into bands and reports how many operators fall into each band, as well as how many outgrowers are contracted on average by the operators within each band.

Table 3: Classification of certification costs, 2005

Cost in USD	<5,000	5,000-9,999	10,000-14,999	15,000-19,999	20,000-24,999	>25,000
N operators	5	5	3	0	1	1
Av. N outgrowers	130	782	2180	-	12,000	15,000
Square Root of average	11.4	28.0	46.7	-	109.5	122.6

N respondents = 15

The table shows that a majority of operators pay less than USD 10,000 for certification. It also appears to show a positive relation between numbers of outgrowers and costs of certification, although it is not clear that a regression analysis would confirm that this relation was significant (the level of variance in outgrower numbers between the operators falling into each of the first three bands is extremely high). The relation between the magnitude of certification cost and the square root of average numbers of outgrowers in each cost band (the variable which should generate the number of individual farmer inspections required) is also unclear.

It appears that there are economies in certification costs both in respect of scale of turnover and in regard to the length of time that has elapsed since certification first took place. Smaller opera-

tors with low sales are paying very considerably more than the equivalent of 2.3% of turnover in certification costs. One operator, with sales of only USD 12,000, was paying USD 4,000 in certification costs. At the same time, some well-established operators reported certification costs accounting for a declining share of turnover, as sales volumes increased and as lower numbers of inspection days were required. It seems that large operators are also better able to negotiate costs of certification with certification bodies.

Overall, complaints about the scale of certification costs were widespread though by no means universal. The service which operators felt that they were getting from their certification agencies was also the subject of criticism, particularly in relation to one agency. These complaints centred upon apparently arbitrary differences in emphasis between inspections, delays in the timing of inspections, duplication of paperwork requirements and – most critically – delays in the issuing of transaction certificates.

Value added in Uganda

There is a limited but growing trend toward value-added certified organic production for export in Uganda. Although for all coffee, cocoa and vanilla and most cotton the only processes carried out in Uganda are those necessary to render the products concerned into the forms in which they are internationally traded, part of the cotton crop, all of the sesame crop and a significant share of the fruit and vegetable crops is subject to processing above and beyond this level.

The highest level of value-added in unit terms occurs for part of the cotton crop, which is spun into certified organic yarn by Phenix Logistics (U) in Kampala. The value-added in this case is about USD 3,200 per ton. In the case of sesame, both exporters undertake cleaning, treatment and packing of the crop over and above that which is necessary to attain basic export grade¹⁰. The value addition in this case is USD 50-100 per ton, depending on the process used. It simultaneously allows the product to be sold to the bakery market rather than the oil extraction one. Drying of fruit and vegetables is a third value-adding process currently being performed by currently certified operators. The technical literature states that for pineapple (the most common dried organic fruit in Uganda) 5 tons of fresh fruit is required to generate 1 ton of dried fruit. Since the export value of organic fresh pineapple is USD 800-1000 per ton (f.o.b.) and that of

¹⁰ The basic export grade for sesame is 'low purity' sesame (98% purity).

organic dried pineapple is USD 6,000 per ton (f.o.b.), about USD 300 per ton is being added to the value of the fresh fruit product.¹¹

The technical literature for dried chillies (the most common dried organic vegetable in Uganda) states that about 3.5 tons of fresh vegetable is required to generate 1 ton of dried vegetable. It is not possible to provide an estimate of the value added for dried organic chilli over fresh organic chilli since there are no fresh organic chilli exports. The export value of conventional fresh chilli however is USD 560 per ton (f.o.b.) while that for organic dried chilli is USD 2,240 per ton (f.o.b.), meaning that the organic premium and value added together correspond to USD 280 per ton.

One of the currently certified fruit and vegetable exporters has plans to start production of diced fruit and fruit pulps. In addition, three of the in-conversion operators have plans for (respectively) solar drying for fruit, distillation for essential oils and solar extraction for bees wax.

The value of certified organic exports from Uganda

Certified organic operators were asked to provide information on the value of their exports for the two years 2003-04 and 2004-05, and all those interviewed did so. They were also asked to provide information on export volumes, and most did this too. In one case, where the exporter was not interviewed, information on this exporter's sales was provided by his sole organic supplier.

In all, certified organic exports totalled around USD 6.2 million in 2004-05, having risen from USD 3.7 million in 2003-04. These figures are all for f.o.b. sales. There may be a limited element of double counting in these figures, as it is known that some smaller exporters sell on to larger ones rather than exporting directly themselves. In any event, the figure of USD 6.2 million corresponds to just below 1% of all Ugandan exports during 2004-05.

¹¹ This may underestimate the value added since firstly it is possible to prepare dried fruit from pineapples too small to qualify for fresh pineapple export grade, and secondly because there will be less risk of perishing for dried fruit.

The leading export products by value in 2004-05, ranked in order of importance, were coffee, cotton, fresh and dried fruit and vegetables and sesame (each contributing at least USD 1 million). In 2003-04 the leading products, again ranked in order of importance, had been cotton, fresh and dried fruit and vegetables, vanilla and coffee. There were very large increases in 2004-05 in the contributions from coffee and sesame and a large increase in the contribution from cotton. In the case of coffee this was due to a combination of increased volumes and rising prices. In the cases of cotton and sesame it was due to large increases in volume. The declining contribution of vanilla occurred despite an almost eight-fold increase in export volumes.

Exports were dominated by a handful of companies. In 2004-05 the two largest exporters together accounted for over half of the total by value. At the other extreme, two operators did not export any certified organic product. In one case product was exported but sold entirely as conventional (though it received a small premium over the normal price because of superior quality); in the other case no production took place.

Although this was not the case for every crop¹², the overall volume of production by certified organic outgrowers in both years was considerably higher than the volume of certified organic exports. This difference arises from a number of sources. Firstly, some certified organic outgrowers side-sell product to conventional buyers, almost invariably because of pressing needs for cash. In some traditional cash crop projects only around half of the output from certified organic outgrowers is being sold to project owners. Conversely, project owners sometimes decline to purchase output from certified outgrowers, either because it does not match their private additional quality requirements over and above those for certified organic production¹³, or because they experience temporary lack of demand in export markets, or because they simply lack the crop finance necessary to make the purchase. The last of these reasons mainly applies to smaller-scale exporters, and where it applies it may feed into a new cycle of side-selling by outgrowers.¹⁴

Also as a result of lack of demand in export markets, project owners who purchase output from certified outgrowers are often obliged to sell it as conventional (or under a type of certification other than organic), or store it until the following season. In addition, there are certain quality

¹² One important exception was cotton.

¹³ Examples include requirements that cocoa beans be properly fermented and that pineapple should be not more than 1.6 kg. in weight, free of bruising and cut from the plant with a knife.

¹⁴ This seems to be a particular problem in the case of vanilla, where contact between small exporters and outgrowers may be for only 2 weeks a year, and where it seems particularly easy for outgrowers to lose interest.

demands specific to organic markets in respect of some products, which mean that even when demand is strong, some product purchased as organic cannot command an organic premium in these export markets.¹⁵ The gap between certified organic production and exported production is almost impossible to estimate, however. It is also worth adding that this type of gap is by no means specific to organic production. Rather, it is a general feature of export-related contract farming.

If predicted levels of exports by in-conversion operators materialise, then total certified organic exports may rise as a result by an additional USD 1.5-2.0 million by 2007-08. From this source an increase at half this level is perhaps more realistic. Short term changes in export levels are more likely to come about as a result of increased output from existing projects or changes in the international prices of the products concerned. A number of larger existing exporters are bullish about their likely level of export growth in the short-to-medium term.

Market channels

Exporting may occur via a variety of market channels: on an intra-firm basis, via intermediaries such as importers, distributors and re-packers, via processors or direct to retailers. A general rule is that margins in trade with processors and retailers are higher than those in trade with intermediaries. Furthermore, informed technical feedback is likely to be better from an end-user than it is from an intermediary. A further distinction is between specialised organic and mixed conventional and organic variants of each of these categories. Generally the former are thought to pay better, and have more useful specialised knowledge to impart, than the latter.

At the same time, a general rule governing trade can be noted, whereby large operators of all descriptions in import markets prefer to deal with large operators in exporting countries. Likewise, medium- and small-sized operators in import markets have preferences for respectively medium- and small-scale operators in exporting countries. Operators in exporting countries also usually benefit from relationships with operators of corresponding scales in import markets, since they will find it easier to place a large proportion of their volume with a single client in each case, thereby reducing their marketing costs. This in turn makes them more important for (and thereby less likely to be badly treated by) their clients.

¹⁵ For example, one respondent mentioned that there was no organic market for smaller size coffee beans (screen 1200/1500), regardless of their provenance.

Table 4: Export market channels

Market channel	Frequency for certified operators	Frequency for in conversion operators
Sales within same group only	1	2
Specialist organic processors	3	1
General processors	2	0
Specialist organic importer/trading house/distributors	8	1
General importer/trading house/distributors	6	3
Specialised organic re-packers	2	1
General re-packers	0	1
Retailer	0	0

N respondents = 15 + 8, N mentions = 22 + 8.

Existing exporters and those currently in-conversion were asked through which market channels they exported (Table 4). Respondents could name more than one type of channel, but most in practice mentioned only one. The answers show very high levels of dependence on intermediaries, both specialist organic and primarily conventional. This is by no means an unusual situation for African agro-food exporters - including conventional ones - and relates to exporters' distance from market and lack of resources to undertake marketing on a more professional basis. A number of smaller-scale exporters had medium-to-large-scale intermediaries as their main end-customers, making unlikely useful face-to-face interactions and increasing small-scale exporters' vulnerability should their customers decide to rationalise their supply bases.

Marketing strategies and relations with customers

Virtually all exporters are conscious that they could earn a higher margin if they by-passed importers, trading houses and distributors and sold direct to processors (or retailers). In addition, they are aware that they are more likely to receive useful technical assistance from, or at least participate in a useful exchange of technical knowledge with, processors rather than traders. But direct relations with processors have been achieved in only a handful of cases outside of coffee. Furthermore, it is mainly in the organic coffee sub-sector that exporters possess something resembling a direct marketing strategy.

This marketing strategy was similar across coffee operators, although with different emphases. Its first element was to acquire one or more additional forms of certification, other than organic, to

act as a 'stop loss' if no organic market could be found for the product. The currently favoured stop loss certification is the sustainability label Utz Kapeh. At the time of the survey Douwe Egberts, one of Europe's leading roasters, had just announced a tripling of its Utz Kapeh intake for 2006 to 150,000 tons, virtually guaranteeing a market for all certified Utz Kapeh coffee in this period. Similarly, Gutumindo Coffee Association was certified not only for organic but also for Fair Trade purposes.

The second element of these operators' strategies is to develop a marketing 'story' about their product, which can facilitate a direct link to end buyers. These stories concern 'where the coffee comes from' in the broadest sense. Kawacom had developed elaborate and sophisticated marketing materials for each of its three organic coffees, designating them each with a distinct romantic name (Savannah, While Nile, Sipi Falls), discussing coffee's traditional ritual significance in African society, describing in detail these coffees' local ecosystems, profiling individual farmers who had produced them, and so on.

An even more inventive story has been generated in relation to Gutumindo's 'Peace Coffee', produced by some in-conversion Abayudaya smallholders in Mbale. The Abayudaya adopted their own version of the Jewish faith in 1920 and are said to be 'renowned for living in harmony with their neighbours'. This coffee 'origin' is being developed jointly by Gutumindo and a liberal Jewish organisation in the US. The name 'Gutumindo' also itself embodies a story, for it is the word used for 'quality' in the local language of the people of Bugisu. On this basis, the coffee exporters concerned have been able to sell direct to processors and establish more remunerative relations with them (see below).

One non-coffee exporter with in-conversion status in December 2005, Bee Natural Products, had also integrated a storyline into its marketing efforts. The story concerns the history and anthropology of the Lugbara people of West Nile district, from where the company's honey was sourced. Adoption of this storyline was associated with a push toward direct marketing of Bee Natural's honey products, although most of the company's honey production at this time was destined for packers.

One other large exporter, in this case specialising in cotton and sesame (Shares!/Bo Weevil) also possessed a recognisable marketing strategy, although not with the same direct marketing emphasis as Kawacom, Gutumindo and Bee Natural Products. This strategy was to focus intensively on a small but expanding group of customers of similar scale and background as their own, with whom reliable and relatively 'deep' relationships could be established. Efforts to expand the client base were focused upon adding clients certified to additional standards and coupled with the

company's parallel certification to these standards, in order to spread risk. The relationships established with clients entailed the latter making firm advance commitments in terms of overall levels of business, which would be respected regardless of fluctuations in global supply, demand and prices. For many other operators, relations with customers are characterised more by irregular contact and low degrees of commitment on both sides. This is particularly the case in the vanilla sub-sector, where crop finance had been common during the boom of 2003, but where most exporters now describe joint forward planning as 'impossible', in one case adding 'we have no specific customers...nobody is tied'.

Certified organic exporters of fresh and dried fruit and vegetable tend to have fewer customers than those for traditional cash crops, sesame and vanilla. Often there is a strong focus on a single customer, at least for each particular product category. For exporters of fresh produce this customer is usually an importer, while for dried produce it may be a processor or re-packer. In most cases these relations are less the result of marketing initiatives by the exporter, and more those of initiatives by importers or re-packers to secure dedicated sources of supply.

In a number of cases in the fresh produce sub-sector, these arrangements are underpinned by a shareholding, a crop finance arrangement or a donor-supported partnership programme through which different forms of assistance may be provided. Such assistance normally passes through the importer himself in a rather non-transparent way. Corresponding to this will be a greater exchange of information and more joint forward planning than is typically the case in respect of relations with importers or re-packers. In two cases however, the Ugandan exporters involved in such relations had not been able to hold up their part of the relationship by delivering the volumes agreed.

Where in-conversion operators have established market linkages, these are broadly distributed between channels in the same way as for certified exporters. In one case a guaranteed market exists as the result of a joint venture agreement and in two cases sales will be intra-firm. What is perhaps of concern is that definite expressions of buyer interest have been obtained in only three other cases. At least two in-conversion operators have not yet got to the stage of offering samples, even on a conventional basis.

Crop / produce procurement systems

Of the 15 certified agro-exporters, three (who were all fresh produce exporters) had home or nucleus farms plus outgrowers, while the other 12 had outgrowers alone. Of the 8 in-conversion

operators interviewed, one will have a home farm plus outgrowers, one will have a home farm plus a commercial contract farm plus outgrowers, and the remaining six will have outgrowers (or in one case contracted artisanal fishermen) alone.

In all, these 15 certified agro-exporters have a total of around 38,000 contracted outgrowers. About 72% of these outgrowers were contracted by two export operations alone. The eight in-conversion operations interviewed are planning to contract a total of around 3,400 further outgrowers. Table 5 describes how outgrowers are distributed between operators.

Table 5. Distribution of outgrower operations by numbers of outgrowers

N outgrowers in operation	<100	100-499	500-999	1,000-2,499	2,500-4,999	5,000-9,999	>10,000
N Certified operators	3	4	3	1	2	-	2
N in conversion operators	2	4	-	2	-	-	-

N respondents = 15.¹⁶

All of the certified operators with more than 1,000 outgrowers are exporters of traditional cash crops. The main motive behind contracting very large numbers of farmers, namely to provide upward flexibility of supply, has been described already.¹⁷ Three of these operators, together with another certified coffee exporter with currently just below 1,000 outgrowers, are in the process of registering additional farmers. As noted above, this does not entail that there will be stable increases in exports from the operations concerned.

There are only two in-conversion operator who plans to export traditional cash crops. In one case this will be predominantly from his home farm, in the other from 15 outgrowers. The two in-conversion projects planning to use large numbers of outgrowers will involve gatherers rather than cultivators. By the end of 2006 around two thirds of all projects will involve less than 500 outgrowers.

¹⁶ The sixteenth certified operator was an industrial company supplied by a single firm that was also exporting in its own right.

¹⁷ Such strategies can have costs as well as benefits, however. In the case of at least one project, it is recognised that an earlier trend toward expanding numbers of outgrowers, without guaranteeing that there was demand for their produce, was de-motivating for its outgrowers generally. The company concerned has now capped its number of outgrowers, at least for the time being.

Table 6. Sources of organisation of outgrowers¹⁸

Organiser of outgrower arrangement	Inherited from earlier operator	Inherited from earlier project, added to by new operator	Operator alone	Local private joint venture partner	Partly by operator, partly by secondary cooperative	Secondary cooperative	Other grouping of primary societies	Partly by operator, partly by farmers' associations	Farmers' associations
N certified operators	1	1	5	1	1	1	1	2	2
N in conversion operators	-	-	5	-	-	-	-	1	2

N respondents = 15 certified + 8 in-conversion.¹⁹

Outgrower groups have been (and are still being) organised by under a bewildering array of conditions (Table 6). Amongst certified exporters, the commonest circumstance is organisation by the exporter themselves. This trend is present more clearly in respect of in-conversion operations. There is seemingly a wide consensus that this type of arrangement is the most efficient, since it allows direct contact and exchange of information between growers and exporters. Furthermore, it reflects the fact that cooperatives, whether primary or secondary, are no longer being sought as partners – which is probably related to the falling number of new projects dealing with traditional cash crops. However, it also remains the case that a number of smaller exporters do not have the resources to organise outgrowers effectively on their own. Such exporters favour organisation through local organic farmer associations.

Contractual relations with outgrowers

Outgrower participation in certified organic farming operations is permitted only if outgrowers are subject to an Internal Control System (ICS). An ICS comprises, amongst other things, a contract between the operator and his or her outgrowers and an internal inspection system. It is on the basis of the existence of ICS that certification bodies can base their own inspections upon a square root of the number of registered outgrowers.²⁰ Invariably, contracts between operators

¹⁸ In a few cases exporters organised outgrowers through more than one type of channel. These operators have been classified according to the form of organisation accounting for the largest number of their outgrowers.

¹⁹ See footnote 16.

²⁰ Subject to upward variation if the project is thought to embody a high level of risk.

and outgrowers embody commitments from the side of outgrowers to follow the principles of organic farming, and from the side of operators to provide outgrowers with training inorganic farming. Monitoring whether outgrowers are following organic farming principles on the basis of internal inspections, and training of outgrowers, are the two main components of the job description of project field staff.

Certified and in-conversion operators were asked what the contracts between themselves and outgrowers contained, besides the points already referred to. Most operators did not have copies of these contracts to hand when interviews took place, and generally recalled only some of their content. The commonest undertakings on the operator's own side that were recalled were to buy all produce subject to quality (9 mentions) and to supply different kinds of input (7 mentions). The third most common undertaking mentioned was to pay a premium for produce over the conventional price (4 mentions).²¹ However, not all contracts had provisions of this kind. Some operators said that they had undertaken to buy produce subject to market conditions rather than quality, and a large number explicitly denied that they had agreed to supply inputs of any kind – although a number said that they do so, on a selective basis outside of the terms of the contracts. The commonest input currently supplied, either contractually or on the basis of discretion, was planting materials (7 instances).

On the side of the outgrower, the commonest undertaking mentioned was exclusive supply to the operator (4 mentions). However, as with operators' own undertakings, a large(r) number of operators explicitly denied that any clause of this kind could be found in their own contracts. The second commonest undertaking mentioned was that outgrowers should supply produce to a given quality specification, over and above that of organic production as such (3 mentions). Many operators felt that most undertakings applying to outgrowers were hardly worth the paper they were written on in any event, since their enforcement was difficult or even impossible. Mentions of enforcement mechanisms in respect of commitments made by exporters were also notable for their absence.

Internal inspection and extension

As noted above, outgrower-based exporting requires field staff to carry out the ICS's internal inspection requirements and provide extension services to smallholders. Certified operators were

²¹ In some cases, contracts listed detailed menus of premiums, depending on different circumstances.

asked how many field staff they employ, and in-conversion operators were asked how many field staff they plan to employ when fully certified. In all, 14 certified operators are employing 103 field staff.²²

The 8 in-conversion operations interviewed intended to employ a further 42. Table 7 describes the distribution of projects by number of field staff employed. When companies had certifications other than organic, the field staff concerned usually (but not always) also act in a similar capacity in relation to the ICSs for these other certifications. In addition, some or all field staff are employed only seasonally in certain projects. Table 7 therefore overstates the number of dedicated full-time organic field staff.

Table 7 Distribution of projects by numbers of field staff (23 respondents)

N field staff employed	1	2	3	5	6	8.5	9	10	16	19	34
Frequency	7	1	2	4	2	1	1	2	1	1	1
Average N outgrowers	112	100	500	287	2,261	1,600	230	2,321	12,000	1,600	15,000

N respondents = 15 certified + 8 in-conversion operations.²³

There appears to be no relation between numbers of field staff employed and the size of projects. It would appear that some smaller and medium-sized projects are relatively over-staffed. In these cases one source of relative over-staffing seems to be the tendency for some smaller projects to be geographically dispersed, meaning that relatively small groups of outgrowers are provided with their own field officers.²⁴ On the other hand, larger and more established projects often appear to be reducing their field staff numbers. According to the operators concerned, this reflects higher degrees of efficiency in field operations, and improved availability of better-trained contact farmers, over time

The background of field staff was highly variable. Some had degrees in agriculture, others had only 'O' level qualifications. Field supervisors usually had a formal qualification in agriculture, but

²² The remaining operator's ICS was run by a joint venture partner company, and the operator himself could not recall the information.

²³ See footnote 16.

²⁴ One result of this was that small operators have higher proportions of part-time field staff. Some observers felt strongly that part-time staff are likely to be less motivated, and that therefore it may be better for these projects to have a smaller number of centrally located but peripatetic full-time field-staff.

a few were promoted from field officer rank without such qualifications. One field supervisor was a highly-qualified expatriate.

Buying operations

In projects dealing with traditional cash crops, operators favour buying post systems. Under this, farmers deliver crop to a store run by a commission agent or officers of a primary cooperative society. The commission agent or equivalent pays the farmer and stores the produce at the post until it is picked up by the operator. For virtually all other crops, the operator is involved in a more active collection role. This is particularly the case for fresh produce, where there are several cases of the operator collecting by pick-up from individual outgrowers, or collecting directly from some larger outgrowers and indirectly from others, by picking up at local assembly points.

There is a tendency detectable in the coffee sub-sector, but not in respect of other cash crops, for operators to cut back on their numbers of buying posts and instead encourage farmers to take responsibility for intermediate bulking of the crop and delivery to a single central point in volumes of one or two tons or more. The number of outgrowers per buying post in the coffee sub-sector is 2078, whereas for the remainder of traditional cash crops it is 289.

There were surprisingly few cases of farmer associations acting as buying operations, despite the obvious efficiencies that this could provide (particularly for smaller operators). On the other hand, field staff are involved in a number of operators' buying arrangements, and in at least one case their remuneration is based in large part on their buying performance.

Management of organic operations

Both Ugandan and foreign companies based in Uganda tend to be very lean in terms of managerial personnel. This is no less the case for companies engaged in organic export. Leaving aside field staff, only one certified exporter has more than four professional staff (including executive directors) with formerly designated responsibilities for organic operations. A majority have only one or two. Very often, these staff also have formal responsibilities for conventional operations or for the management of other special projects. For the in-conversion operations a very similar pattern applies, with a majority of the 8 operations interviewed having only two or less professional staff with designated responsibility for organic operations, other than field staff.

In five cases (four involving existing certified operations) none of the professional staff concerned could be said to have a professional background directly concerned with agricultural production or processing.

For the nine certified operators interviewed that are also engaged in conventional production (see Table 2 above), day to day management of the organic operation is in the hands of staff of director level or equivalent in half the cases. For the other companies, designated project managers (in one case covering other projects too), general or production managers or in one case the PA to the Managing Director are in day-to-day charge. In most of these cases, company Operations Managers will also become involved on a more or less frequent basis, for example when an inspection takes place.

For the remaining seven certified operations interviewed, day to day management of the organic operation is in the hands of Director-level personnel in five cases and in those of general managers in two. An almost identical pattern applies to the in-conversion operations.

Overall it appears that organic operations are usually (but not always) under the control of high-level personnel. But the layer between these and field staff is wafer thin. In other words, notwithstanding a couple of notable exceptions, there seems to have been relatively little investment in specialised organic project management. The reasons for this are unclear, although the general investment adverseness of Ugandan enterprises as well as the readiness with which donors such as EPOPA have been willing to fill in for enterprises' own management may repay further attention.

Use of external consultants

Given the leanness of the management of the organic operations described, it might be expected that there would be significant buying in of services from specialised consultants. In fact this was rather limited. For a large majority of operators, both certified and in conversion, the only consultants used have been those provided by donor projects (particularly EPOPA) free of charge.

Only five of all operators interviewed had paid for consultancy services partly or mainly aimed at their organic operations over the previous two years. The total services paid for were equivalent to 158 person days, of which 120 days were accounted for by a single company. The topics of the consultancies were advice on project planning, project management and staff training; design of

processing plant; quality management; and general trouble shooting duties during inspections. Even in some of these cases it is not clear whether operators paid the full cost of the service.

This low uptake may have several different causes. Certainly the volume of free consultancy services that companies can access through EPOPA programmes is high. Secondly, the absorptive capacity of most operators for consultancy services is probably low. Many appear to be unfamiliar with how to go about identifying consultancy needs and suitable consultants, and perhaps also lack the know-how to get the most out of consultants. Thirdly, lack of resources to pay for consultancy services on a commercial basis is another important factor.

Donor support

Of the 23 certified and in-conversion operators interviewed, all but two have received donor support wholly or partly used in relation to implementation or upgrading of their organic projects. In addition, one of the two in-conversion operators not interviewed is also known to be receiving support from a donor. While the great majority of operators have received support from only one (10 cases) or two donors (9 cases), two have received support from 3, one from 5 and one from 8.

Donor support has been received for feasibility/baseline studies, certification, design and implementation of ICSs, a few (usually but not always minor) capital investments, technological advice and technology transfer, management and farmer training, setting up demonstration plots and/or nurseries for planting materials, supply of inputs, visits to trade fairs, provision of other market information and finance for crop purchase. Some of this support has been on a cost-sharing basis or in the form of a subsidised rate of borrowing rather than in a grant form, but the bulk seems to have been on the basis of grants.

In one case, there has been (Dutch) donor support for much more substantial capital investment. This has allowed the company concerned to considerably upgrade its processing capacity and to specialise in more value-added products.

The donor programmes most frequently mentioned by operators were EPOPA (17 mentions), CBI of the Netherlands (4 mentions) and APEP of the US, COLEACP of the EU and the Danish Private Sector Programme (3 mentions each).

Respondents were not asked whether they would have undertaken certified organic exporting without donor support (rather, they were asked to rate the effectiveness of the support that they had received). But three operators volunteered without being asked that they would not have done so had EPOPA support not been available.

In answer to a request to rate the nature of the support that they had received, three other operators stated that it had significantly accelerated the development of businesses that they would have started anyway. In two cases this referred to EPOPA support, in the other to support from CBI.

Virtually all support received was rated positively. Danida Private Sector Programme support was the only specific programme subject to serious criticism, in this case by two of its three recipients, who complained of poorly qualified consultants and equipment that failed to function as expected. One operator (a 'pioneer') made a general criticism of virtually all the donor support that has been directed to the sector. This is that it has little or no focus on crop production-related issues, in particular problems with pests and diseases: 'they should be financing crop research, not subsidising companies'. Perhaps this could be qualified to a recommendation that the focus could be more balanced between these two emphases.

Challenges and benefits of organic export production

Both certified and in-conversion operations were asked about the main challenges they faced, specific to certified organic exporting. Where they mentioned challenges that were common also to conventional exporters, such as availability of suitable packaging or storage materials, or unpredictability of supply from outgrowers, these answers were disregarded. A number of operators also mentioned benefits that were specific to organic exporting, without being prompted to do so. These will be discussed in a moment.

The challenges mentioned can be grouped under five headings. In order of importance to operators, these were cost issues (20 mentions), market issues (12 mentions), production issues (4 mentions), human resource issues (2 mentions) and special risk issues (2 mentions). Table 8 describes the frequency with which specific issues were mentioned within these categories.

Table 8. Perceived specific challenges of organic export production

Issue category	Issue	Frequency
Cost issues	Additional staff supervision/monitoring costs	6
	Certification costs	4
	Costs of segregation	4
	Additional record-keeping costs	3
	Costs of additional follow-up on sales	2
	General requirement for more employees	1
Market issues	Thinness of market	6
	Falling premiums	2
	Need for 'a special type of marketing'	1
	Lack of international harmonisation of requirements for ICSs	1
Production issues	Pest and disease control issues	3
	Lack of availability of approved processing aids	1
Human Resource issues	Requirement for additional literate workers	1
	Lack of availability of technically qualified staff	1
Risk issues	Higher risk of supplier fraud	2

Perhaps because certification costs are frequently subject to subsidisation, Ugandan operators' cost concerns touched substantially on other cost issues such as additional staff supervision costs (following on from the detailed nature of production and processing rules) and costs of segregating organic from conventional produce.

Perhaps more interestingly, while general commentators widely recognise falling premiums as a problem, thinness of the market (i.e., the limited and intermittent nature of demand, together with the restricted number of potential customers) was seen as a more serious market-related constraint by a number of Ugandan operators²⁵. Similarly, while general commentators typically see low yields as a result of lack of soil fertilisation options as the most serious production problem facing organic operators, Ugandan operators saw crop losses as result of pest and disease problems as a more serious challenge. While interesting, this response begs the question of the source of the prevalence of these problems, i.e., whether it reflects adverse agro-ecological con-

²⁵ One large exporter of cotton stated that thinness of the market was definitely not a problem in the case of this crop.

ditions and lack of good research and extension, or whether it reflects poor farm management techniques, or both.

The challenges highlighted here reflect the specificity of undertaking organic agriculture in the tropics, and more specifically in Africa: the underdeveloped rather than saturated nature of markets for tropical organic products, poor levels of general education and low capacity for autonomous decision-making on the part of farmers, and rampant pest problems.

Each of the four operators who spontaneously introduced the subject of operational benefits from organic exporting have conventional exporting as their main business. Three of them used exactly the same expression, 'it's given us a discipline we lacked' to introduce their discussion. The disciplines that they went on to refer to were improved product quality on the basis of closer attention to production techniques (2 mentions), better understanding of how to provide internal traceability of supply (1 mention), learning how to do proper crop estimates (1 mention) and 'simply learning more about how farmers behave' (1 mention). The remaining respondent referred to a different set of benefits, related to marketing. Being able to offer a certified organic variety alongside conventional varieties increased his product range and made his company more attractive for buyers to deal with, on grounds of improved economies of scope in sourcing. This in turn allowed him to obtain orders for higher volumes of conventional product with these clients, and thereby better margins on this business. Interestingly, this operator added 'on the organic side of the business, after we've paid all the extra costs and given producers their premium, we probably break even. The increased profits are on the conventional side'. Secondly, being involved in organic production improved his company's public reputation, nationally and internationally, in terms of innovation and value-addition. It is pertinent that only one (large) operator mentioned the intrinsic profitability of organic exporting as a benefit.

Optimising organic exporting

Certified operators were asked how they might best optimise their companies' business performance. This question was framed in terms of 'what would you do differently if you could start over, knowing what you know now?'

Two operators said that they would have done everything the same, while one said that they would not have started in the organic sector at all. Many of the remaining 12 interviewed mentioned more than one action that they would have undertaken. Certain actions were mentioned repeatedly.

Firstly, four operators said that they would certify and establish buying operations for second and sometimes third crops, either under their own control or in collaboration with other exporters. This would create improved economies of scope and reduce risk both to themselves and to their outgrowers, should demand/price problems arise with their main crop. In the cases both of outgrowers and exporters it should also ease problems connected with irregularity of cash flow, reducing incentives for opportunism in outgrowers' cases.

Secondly, three operators who were currently or had been recently working with either joint venture partners subsuming their 'own' farmers' associations or cooperatives of different types, said that they would establish field and buying organisations that would allow them direct contact with outgrowers. The benefit of direct contact is both greater control and reduced costs.

Thirdly, two operators who now have one or more certifications in addition to an organic one, stated that they would have adopted this policy from the outset if they had had the opportunity.

Fourthly, two other operators said that they would undertake better initial market surveys, to establish the precise nature of demand, prices, quality and packaging requirements for the products they intended to export.

While it is hard to disagree with the four prescriptions above, not all are necessarily realistic options in all circumstances, particularly outside the coffee (and perhaps the cotton-to-textiles) sub-sector. The resources required to certify and market second or third crops are substantial. Similarly, secondary certifications are not easily accessible, they may be expensive and their rewards are not always transparent. For many smaller companies two other options may be more appropriate. One would be to trade additional products from existing outgrowers through other exporters already exporting these crops. For example, there are four fresh fruit exporters in Luwero district whose certified outgrowers also produce coffee. It would be easier for these companies to market organic coffee through Ibero (who operate already in the area) than it would be to set up operations marketing this product themselves. Secondly, it would be useful for such companies to also explore using regional conventional markets as a stop loss when a shortfall in demand is experienced in international markets for certified organic products. Regional markets have very low entry barriers, while demand in them is often buoyant.

Conclusion

Traditional cash crop projects, established during the 1990s, dominate overwhelmingly the organic export sector in Uganda. Indeed, because some of these projects have only started to function optimally in the last few years, their dominance today probably exceeds that at any time since the 1990s. This domination is in terms of export volumes, outgrower numbers and numbers of field staff. It is mostly also in traditional cash crop sub-sectors that are found the most sophisticated and apparently effective marketing strategies. All of these attributes require resources of course, and it is no coincidence that the companies concerned are often international ones. Having said this, while the resources that these companies have dedicated to their organic operations are greater than Ugandan companies could invest, they are still relatively modest in most cases.

A second trend has been for a steady increase in numbers of operators, which will be sustained into 2006 and 2007. This seems to reflect a combination of factors including growing awareness of opportunities in the sector, the availability of donor support especially for certification, and the very sharp downturn in the conventional vanilla market.

The newer players tend to be smaller and financially and managerially weak, as well as to be facing more substantial challenges than the earlier generation of operators. They are generally obliged to organise outgrowers from scratch, as opposed to establish relations with existing producer organisations, and they generally work in international markets that are more immature. They cannot afford to recruit well-qualified staff and they cannot take advantage of economies of scale in certification and field operations. These challenges seem to be most testing for those operators that also lack experience of conventional exporting. It may be that their casualty rate will be high when they reach the end of their cycle of donor project funding, and that the sector will contract in terms of numbers of operators after the present phase of expansion is concluded in 2007.

No doubt there will be success stories amongst the new generation of operators. But it seems unrealistic to expect the same results from them as from the original generation of projects. For this reason it may be advisable for the sector's external supporters to think increasingly beyond enterprise support for export operations, towards encouraging greater inter-enterprise cooperation along the lines discussed in the previous section, upgrading training in organic agriculture and supporting more organically-oriented crop research. The last two of these options may be done through the public sector, or even better via a combination of public and private sector initiatives. At the same time, a precondition of public sector involvement would seem to be that

the sector improves its ability to demonstrate the net benefits for Uganda and its farmers of certified organic production.

Meanwhile, another set of challenges exists in the nexus of certification costs and field operation costs. While the overall level of certification costs is not high in international terms, the absence of consistent relations between project size and either certification costs or what are considered necessary levels of field staff raises important issues. These are mostly to do with Ugandan enterprises reaching the volumes necessary to bring down these costs in unit terms. But an open dialogue between Ugandan stakeholders and the certification community on what type of ICS model works best would be another important starting point for establishing a consistent and predictable basis for operators to be able to plan these important aspects of their operations in more cost-effective ways.

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