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## „The role of development cooperation for upgrading in Uganda's organic fruit value chain"


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## Abstract

Uganda has today a global leading position in organic agriculture, but the way to get there was not easy. From the start of the sector in 1993, donor interventions have actively supported the growth of the organic sector. This thesis analyses the role of development cooperation for upgrading processes in the organic fruit value chain from an exporters' view. For this purpose interviews with export companies and other stakeholders in the sector were conducted during a research stay in Uganda. As a theoretical framework, the global value chain approach and particularly the upgrading concept is used and linked to donors' interventions in private sector development.

The thesis demonstrates that development cooperation has played a crucial role in the process of upgrading in the organic fruit value chain in Uganda, although the extent of support varied for different companies. Exporters have been supported in various ways such as in the recruitment of farmers, training, business linkages and certification. But most significant was support in the area of processing equipment which was crucial for entering the processing segment of the value chain. But not all support has had a positive impact. Some export companies have dropped out of the organic market after the support for certification has ended. In general, interventions of development cooperation in Uganda's organic fruit sector have focused on the firm level, but also the establishment of the umbrella organisation NOGAMU has been supported which has been crucial to ensure a long term impact.

Companies perceived however that the involvement of development cooperation has decreased since 2005. This has to be seen in the context of fundamental changes in the way support for the organic sector has been organised over the last years, as the interaction with export companies has become more indirect with financial support being often channelled through local institutions such as NOGAMU. Further, development cooperation budgets have been cut and the focus of interventions partly shifted to other areas. Despite widespread interventions of development cooperation some challenges remain for Uganda's export companies. One of the biggest problems remains acquiring financial resources for investment which is closely linked to the challenge of expanding processing capacities to remain in a leading position in traditional markets and expand to new end markets.

Keywords: development cooperation, global value chains, organic agriculture, private sector development, upgrading, value chain interventions

## Abstract (Deutsch)

Uganda ist in einer global führenden Position in der biologischen Landwirtschaft, aber der Weg dorthin war nicht leicht. Seit dem Beginn des biologischen Sektors 1993 haben Geberinterventionen das Wachstum des Sektors auf unterschiedliche Weise unterstützt. Diese Masterarbeit analysiert die Rolle der Entwicklungszusammenarbeit für Upgrading in der biologischen Fruchtwertschöpfungskette aus der Sicht der ExporteurInnen. Zu diesem Zweck wurden im Zuge eines Forschungsaufenthalts in Uganda Interviews mit Exportunternehmen und anderen Stakeholdern geführt. Als theoretische Grundlage dient der Ansatz globaler Wertschöpfungsketten und im Speziellen das Konzept von Upgrading, welches mit Geberinterventionen im Bereich Privatsektorentwicklung verknüpft wird.

Diese Arbeit zeigt, dass die Entwicklungszusammenarbeit eine entscheidende Rolle hinsichtlich Upgrading in der biologischen Fruchtwertschöpfungskette gespielt hat, obwohl das Ausmaß der Unterstützung zwischen den Unternehmen variiert hat. Exportfirmen wurden in verschiedener Hinsicht unterstützt, bei der Rekrutierung von Bauern und Bäuerinnen, Fortbildungen, Geschäftsverbindungen oder Zertifizierungen. Am bedeutendsten war jedoch die Unterstützung im Zusammenhang mit Verarbeitungsmaschinen, die für den Einstieg in das Verarbeitungssegment der Wertschöpfungskette entscheidend waren. Aber nicht alle Interventionen hatten positive Auswirkungen. Einige Exportfirmen haben das operative Geschäft einstellen müssen, nachdem die Unterstützung für die Zertifizierung beendet wurde. Generell haben die Interventionen der Entwicklungszusammenarbeit in Ugandas biologischen Fruchtsektor auf die betriebliche Ebene fokussiert, aber auch die Etablierung des Dachverbands NOGAMU wurde unterstützt. Das war entscheidend, um einen langfristigen Effekt zu erreichen. Von den ExporteurInnen wurde das Ausmaß der Entwicklungszusammenarbeit seit 2005 als rückläufig wahrgenommen. Dies ist im Zusammenhang mit grundlegenden Veränderungen in der Art und Weise zu sehen, wie die Unterstützung des biologischen Sektors in den letzten Jahren organisiert wurde. Die Interaktion mit den Exportfirmen ist indirekter geworden und die finanzielle Unterstützung wird häufig durch lokale Institutionen wie NOGAMU gelenkt. Ferner wurden die Budgets der Entwicklungszusammenarbeit reduziert und der Schwerpunkt der Interventionen hat sich teilweise auf andere Bereiche verschoben. Trotz der weit verbreiteten Interventionen der Entwicklungszusammenarbeit bestehen noch einige Herausforderungen für die Exportunternehmen in Uganda. Eines der größten Probleme besteht darin finanzielle Mittel für Investitionen aufzutreiben. Das ist eng mit der Herausforderung verbunden, die Verarbeitungskapazitäten zu erweitern, um auf traditionellen Märkten zu bestehen und neue Märkte zu erschließen.

Schlagwörter: Entwicklungszusammenarbeit, globale Wertschöpfungsketten, biologische Landwirtschaft, Privatsektorentwicklung, Upgrading, Wertschöpfungsketteninterventionen

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## List of Abbreviations

| | |
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| A2N | Africa 2000 Network |
| aBi Trust | AgriBusiness Initiative Trust |
| CERES | Certification of Environmental Standards |
| CI | Conservation International |
| COMESA | Common Market for Eastern and Southern Africa |
| DANIDA | Danish International Development Agency |
| DFID | Department for International Development |
| EAC | East African Community |
| EPOPA | Export Promotion of Organic Products from Africa |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GIZ | Deutsche Gesellschaft für Internationale Zusammenarbeit |
| GVC | Global Value Chain |
| IMO | Institute for Marketecology |
| IGAD | Intergovernmental Authority on Development |
| ICGLR | International Conference on the Great Lakes Region |
| KfW | Kreditanstalt für Wiederaufbau |
| NOGAMU | National Organic Agriculture Movement of Uganda |
| ORGUT | Organic Uganda Trading |
| PSD | Private Sector Development |
| PSFU | Private Sector Foundation Uganda |
| SDC | Swiss Agency for Development and Cooperation |
| SDGs | Sustainable Development Goals |
| SIDA | Swedish International Development Agency |
| SME | Small and Medium-sized Enterprise |
| TRAC | Trademark East Africa Challenge Fund |
| TNC | Transnational Corporations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNIDO | United Nations Industrial Development Organisation |

# 1 Introduction

The story of Uganda and organic agriculture is a success story. Although positive reporting about Sub-Saharan African countries' economic performance remains limited, in this sector Uganda has achieved a global leading position. Organic agriculture is defined as "a production system that sustains the health of soils, ecosystems and people. It relies on ecological processes, biodiversity and cycles adapted to local conditions." (IFOAM 2016) Hence, organic agriculture is based on four key principles: health, ecology, fairness and care for future generations (ibid). The conditions for organic agriculture in Uganda are very favourable in terms of fertile soils and appropriate climate conditions. With 190.552 small-scale farmers engaged in organic farming Uganda ranks second place in the world after India; in Africa it is on top in organic agriculture in terms of number of farmers as well as size (240.197 hectares) under organic production (Lernoud/Willer 2016: 59; Lernoud/Willer/Schlatter 2016: 164).

Although sustainable farming systems have been promoted in Uganda since the end of the 1980s, certified organic agriculture which is considered in this thesis only started in 1993 (Hauser/Lindtner 2016: 8). The traditional farming methods in Uganda are similar to organic principles which has made it easier for farmers to convert. The range of organic products coming from Uganda was limited in early phases of the organic sector. In line with the development of the sector the number of organic products increased. Especially drying fruits has become a common way of processing among export companies. But as processing requires substantial investment and know-how about processing machines, it has been very difficult for exporters to make the transition into processing on their own. At this point development cooperation came in and supported export companies in different ways. In the early phase, "[o]f the 23 certified and in-conversion operators […], all but two have received donor support wholly or partly used in relation to implementation or upgrading of their organic projects" (Gibbon 2006: 26). Hence, from the beginning, interventions of donor agencies have been important and actively supported the growth of the organic sector (Adebiyi 2014: 48). In 2016 there were still many programs such as the Trademark East Africa Challenge Fund (TRAC) or the AgriBusiness Initiative Trust (aBi Trust) promoting the organic sector, but other influential programs like Export Promotion of Organic Products from Africa (EPOPA) have ended (AgroEco/Grolink 2008: 4). In this context, it is obvious that development cooperation has played a crucial role for export companies operating in organic agriculture. But the role and the types of interventions have changed over time and the impact of these different interventions need to be assessed which is the focus of this thesis.

## 1.1 Research objective

The objective of this thesis is to understand the role of development cooperation in upgrading processes of export companies in the organic fruit value chain in Uganda. A few clarifications are required to fully understand what is meant. The term development cooperation in this thesis is conceived widely because a broad set of stakeholders that can be counted as actors of development cooperation are taken into account, including donor agencies, international institutions, NGOs and funds. Often different stakeholders have worked together in joint ventures, including also private companies.

The different types and ways of upgrading are explained in more detailed in the theoretical part (chapter 2). What should be mentioned at this point is that the process of upgrading is crucial because it helps to "capture the gains" of exporting and value chain integration. Without economic upgrading as well as social upgrading, the involved actors particularly in developing countries often remain in a very insecure position without any benefits or at least very little ones and little potential impacts for broader development. The focus of research is on export companies for two reasons. On the one hand they are the major players in the organic fruit sector in Uganda and on the other hand they are the ones integrated into value chains and subject to upgrading activities and support by development cooperation.

The object of research is the organic fruit value chain which includes in the case of Uganda apple bananas, gooseberries, jackfruits, mangos, papayas, passion fruits and pineapples. Of these products, only two fruits are examined, namely mangos and pineapples. The main reason is that these two fruits are the most important ones in terms of quantities in Uganda's organic fruit sector. Another reason is that the global value chain (GVC) of these two fruits is similar, including the ways they can be processed and exported.

The past years have witnessed an increase in private sector development (PSD) approaches in development cooperation. The thesis provides information about specific interventions of development cooperation in the context of organic fruit value chains which might be relevant for different sectors and countries. Particularly as Uganda is a leading country in organic agriculture, insights from this thesis can be a starting point for further research on different aspects of organic agriculture in Uganda and other countries.

In general research is limited by resources. In the context of this thesis, a main limitation is the focus on the exporters' view and solely on successful export companies. All of the companies interviewed have managed to enter the processing segment and stay in the market for more than 10 years. It would be interesting for further investigations to take a closer look at export

companies in the organic sector that failed and dropped out of the market. Important questions would include: Why did they fail? Why were they not able to overcome certain challenges while others did?

## 1.2 Research questions

Given the special role of development cooperation in the organic sector in Uganda, the research questions analyse the types of interventions and their impacts. The overall research question is the following:

*Which role has development cooperation played in the process of upgrading in Uganda's organic fruit sector from an exporters' perspective?*

As the research question is very broad, several sub-questions are developed to better guide the research. In order to answer the research questions, it is necessary to take a closer look at the relationship between export companies and actors of development cooperation. Additionally, the involvement of other actors should be analysed to understand the overall dynamics behind the process of upgrading. From this perspective the following sub-questions arise:

- What is the role of export companies in the organic fruit sector and what is their relationship to other actors in the sector?
- In which ways have export companies been supported by different development cooperation actors in upgrading processes?
- How do exporters perceive the impact of this involvement on their upgrading processes?
- How do export companies see the involvement of development cooperation and changes in this relationship?
- Which remaining challenges are faced by export companies and how do they affect the long term success of the achieved upgrading processes?

In order to be able to answer the research question and the sub-questions, the empirical research has to be embedded into the general context of organic agriculture in Uganda and global value chain dynamics in the organic sector. Especially questions regarding the structure of the organic fruit value chain in Uganda and questions concerning the reasons behind value chain interventions of development cooperation actors have to be discussed.

### 1.3 Thesis structure

Following this introductory part, chapter 2 presents the theoretical framework of the thesis. First, the development of the global value chain approach is reviewed. Then, the different dimensions of value chains are presented with a focus on upgrading including dynamics which influence upgrading opportunities and challenges. As upgrading is a key concept in this study, also limitations and critical aspects of this approach are discussed. Chapter 3 embeds global value chains in a broader developmental context. Different approaches of development cooperation in that area are presented. In particular, the concept of private sector development and value chain interventions as part of PSD strategies are discussed. Chapter 4 examines the methods of data collection and data analysis. Additionally, the main stakeholders in Uganda's organic fruit sector are highlighted and the organic fruit value chain is illustrated. In chapter 6 the results of the empirical research are presented and linked to the theoretical framework which is crucial for answering the research question and its sub-questions. Insights on different types of upgrading in Uganda's organic fruit sector and the role of development cooperation in this process are the focus. Furthermore, recommendations are provided. This analysis is followed by a conclusion in chapter 7 where the insights of this thesis are summarized.

## 2 Theoretical Framework

The theoretical framework helps to guide the empirical research and provides a context for interpreting the findings. For this thesis the global value chain framework was chosen, because it focuses on dynamics and power relations in global production processes, connecting different levels (local, national, regional, global) and private sector as well as institutional actors (e.g. farmers/producers, workers, intermediaries, buyers, public institutions, civil society actors, donor agencies). Most simply, "[the] value chain describes the full range of activities that firms and workers perform to bring a product from its conception to end use and beyond." (Gereffi/Fernandez-Stark 2016: 7) In reality value chains can be very complex involving

multiple types of stakeholders and value adding activities which can be accomplished within one single firm or divided among many different actors in various locations. The global economy is increasingly structured around GVCs which means that the production process is fragmented across multiple countries and firms (Gereffi/Fernandez-Stark 2011: 2).

The insertion of countries in the "Global South" in GVCs is often viewed as an opportunity for these countries to integrate into the global economy, to increase income, create employment and other positive impacts on development. However, gains from GVC participation do not automatically occur. Strong local or national institutions and policies are needed to "capture the gains" from this integration (ibid., 2). The following citation from Gereffi and Fernandez-Stark (2016) helps to understand why the GVC framework is relevant in the context of development.

> *The GVC framework allows one to understand how global industries are organized by examining the structure and dynamics of different actors involved in a given industry. […] GVC methodology is a useful tool to trace the shifting patterns of global production, link geographically dispersed activities and actors of a single industry, and determine the roles they play in developed and developing countries alike. (Gereffi/Fernandez-Stark 2016: 6)*

It is a suitable framework for analysing different actors and stakeholders of a value chain and their relations to each other. Additionally, it enables to analyse interventions of development cooperation at different stages of the value chain. Therefore, the GVC framework is appropriate for answering the research question of this thesis.

The remaining part of this chapter is structured as follows: First, the history of the GVC approach is elaborated which is useful to better understand the framework. After this, the main dimensions of the GVC approach with a particular focus on upgrading processes are explained. The last part deals with critical aspects.

## 2.1 History of the GVC approach

The history of the global value chain approach goes back to the end of the 1970s. In 1977 Hopkins and Wallerstein were the first ones who used the term Commodity Chain in an article which outlined their research agenda in the context of world-systems. Later on they developed a more succinct definition of commodity chains and described it as "a network of labour and production processes whose end result is a finished commodity" (Hopkins/Wallerstein 1986: 159). Their concept had a historical perspective focusing on the macro level and inequalities within and among commodity chains and furthermore on the effects of their reproduction on

the hierarchical world system consisting of centre, semi-periphery and periphery. However, the world economy has become more complex and this commodity chain framework could not capture all these new dynamics (Bair 2005: 154f; Fischer/Reiner/Staritz 2010: 12).

Therefore, in the 1990s, Gary Gereffi and his team developed the concept further. New aspects were included and a global commodity chain was described as "sets of interorganizational networks clustered around one commodity or product, linking households, enterprises and states to one another within the world economy" (Gereffi/Korzeniewicz/Korzeniewicz 1994: 2). This approach focused more on the sector level and the dynamics of different value chains and diverse implications on actors integrated into them.

In the early 2000s, the GVC approach emerged, integrating a more elaborate set of governance patterns into the analysis. An even stronger focus was put on lead firms and how they govern chains and what are the implications of different chain governance types on possibilities of different actors to improve their positions in chains - an important concept that was called "upgrading". The GVC approach has been constantly developed further and additional dimensions have been integrated. "Early use of GVC methodology focused principally on economic and competitiveness issues, while recently social and environmental dimensions have been incorporated." (Gereffi/Fernandez-Stark 2011: 4) The GVC framework is a useful tool to understand the complex structure and shifting patterns of global production and how integration in GVCs affects different actors in different locations. The basics of the GVC concept are explained in the sub sections.

## 2.2 Dimensions of GVCs

The different configurations of those dimensions influence how production processes are structured in GVCs. In this part those dimensions are discussed. As the concept of upgrading is key for this thesis it is explained separately in a sub-chapter at the end of this section.

### 2.2.1 Input-Output structure

The first dimension within the GVC approach is the input-output structure. In order to identify the main activities and segments of a value chain it is necessary to analyse the input-output structure of specific products. This shows how value adding processes contribute to the product and which actors are behind these processes.

After identifying the input-output structure, in a second step the roles and dynamics of companies at each of the segments of the value chain should be analysed. The characteristics of companies (e.g. ownership structure, size, etc.) can be very diverse and can have a significant impact on their role in the value chain (Gereffi/Fernandez-Stark 2011: 6).

### 2.2.2 Geographical scope

The second dimension is the geographic scope of GVCs. The globalization of production has led to competition taking often place at a global scale where the most competitive inputs at each stage of the value chain are sourced globally. As a result, firms and workers around the world affect each other in many ways and much more than in earlier phases of globalization. The identification of lead firms in each segment helps to get an overview of the geographic scope of GVCs. Through this also the shift of industries or sectors can be made visible. This is insofar relevant as there have been shifts in value chains towards new economies and emerging markets, not only in lower value adding positions but also in lead firm positions. The geographical scope is closely linked to the dimension of the institutional context (ibid., 7f).

### 2.2.3 Governance structure

The third dimension is governance. "Governance analysis allows one to understand how a chain is controlled and coordinated when certain actors in the chain have more power than others." (Gereffi/Fernandez-Stark 2011: 8) This has become the most important concept in GVCs research with its focus on the organisation of international industries and particularly the role of lead firms and their relationships to other actors and related power structures (ibid., 12).

Early on (already in the GCC framework), a distinction between producer driven and consumer driven value chains was made. Typical examples for producer driven value chains were the automobile industry or the aviation industry. Characteristic for these industries is that they control and often own central production sites. Contrary to this, in buyer driven value chains global lead firms control but generally do not own networks of suppliers. They do not own production sites but give detailed production specification to their suppliers and sell the products under their brand. The textile and clothing industry or big sellers like Wal-Mart are characteristic for this type of value chains (Fischer/Reiner/Staritz 2010: 13).

Later governance typologies went beyond this dichotomy and introduced five types of governance patterns. The first form is the market based value chain. Characteristic for this type

is that the involved actors can switch easily at a low cost to other buyers or suppliers. The second type is the modular value chain. In modular governance structures suppliers make products according to their buyers' specifications that can be codified. The dependencies in modular governance structures are generally minimal because suppliers typically serve many different buyers. Thirdly there are relational value chains. This type of governance structure is characterized by complex relationships between suppliers and buyers and high asset specificity. All actors have high competencies complementary to each other. This constellation generally creates mutual dependence and quite symmetric power relations. The fourth category is the captive value chain. Suppliers are highly dependent on buyers as the costs of switching to other buyers is high. A high degree of monitoring and control of lead firms is typical in these networks. The last type is hierarchy, which is characterized mainly by vertical integration. Managerial control within big lead firms is typical (Gereffi/Humphrey/Sturgeon 2005: 83-87; Fischer/Reiner/Staritz 2010: 13f).

### 2.2.4 Institutional context

Value chains are embedded in institutional and policy contexts at different levels. These institutional contexts have an important impact on country's participation in each segment of the GVCs in addition to inter-firm relationships and governance structures. At the local level, important factors that have effects on value chains are infrastructure, innovation policy, the availability of labour force, taxes, education or subsidies. At the global level, for example trade and investment policies impact on how GVCs are structured. In order to understand the dynamics in which value chains are embedded it is also crucial to examine the institutional stakeholders involved. In general actors such as industry associations, workers' associations, government agencies and ministries as well as NGOs or donor agencies are the most common ones (Gereffi/Fernandez-Stark 2016: 14). These actors are not directly part of the value chain but influence the dynamics of the institutional context in a significant way. Hence, examining the institutional context and the role of institutional actors at the different stages of the value chain is crucial for a systematic analysis (Gereffi/Fernandez-Stark 2011: 11f; Gereffi/Fernandez-Stark 2016: 14).

## 2.3 Economic upgrading

Another key concept within the GVC approach is upgrading. "[It] focuses on the strategies used by countries, regions, and other economic stakeholders to maintain or improve their positions in the global economy." (Gereffi/Fernandez-Stark 2011: 12) In recent GVC research the upgrading concept has largely been used for the company level. Upgrading is a very complex process and many different factors matter for successful upgrading activities. Consequently "[t]here is no ideal path of upgrading" (Ponte 2011: 89).

Humphrey and Schmitz (2002) identified four types of economic upgrading: process upgrading, product upgrading, functional upgrading and inter-sectoral upgrading. This part explains this classification in more detail. Furthermore, Fernandez-Stark, Bamber and Gereffi (2014) identified additional types of upgrading of which channel or end-market upgrading is also of relevance for this thesis. However, it should be mentioned that a strict distinction between the proposed types of upgrading can be difficult. The different characteristics of value chains make it challenging to find an overall classification. Hence, this usefulness of this classification has to be assessed through empirical analyses on a chain by chain basis (Gibbon 2003: 18).

### 2.3.1 Process upgrading

The first type of upgrading is about the production process itself, more specifically about making the production process more efficient. There are several ways to increase efficiency. The most common ones are the use of improved technology or simply a better organisation of the whole process. A simple definition of process upgrading is "transforming inputs into outputs more efficiently by reorganising the production system or introducing superior technology" (Humphrey/Schmitz 2002: 1020).

Often competition on an intra- and inter-chain level leads to process upgrading. If producers want to stay in the market they have to deal with the pressure to reduce the per-unit costs of production (Microlinks 2016). In the context of agriculture, the enhancement of yields can be seen as an example for process upgrading. "This may be the result of improved planting techniques, planting materials or investments, such as irrigation infrastructure" (Mitchell/Coles/Keane 2009: 3).

### 2.3.2 Product upgrading

Another type of upgrading is product upgrading. As the name states, in an analogue manner to process upgrading, product upgrading is about the product itself. It can be defined as moving into more sophisticated product lines by improving product quality and increasing the value for consumers (Humphrey/Schmitz 2002: 1020). Improving the quality of products is often linked to improvements in the production process, therefore product and process upgrading are closely related.

Processes of product upgrading are mainly stimulated by changes of consumer preferences which lead to different requirements for producers. The changes can be driven by lead buyers such as big supermarkets, by countries or other institutions that increase standards or even by the demand of end consumers (Mitchell/Coles/Keane 2009: 3). For the producers it is again about being competitive and staying in the market. If firms want to be successful they need to be able to adapt their products to the demand of customers (Microlinks 2016). The importance of product upgrading has increased as economically powerful consumers have become more aware about quality and consequently the demanded standards for certain products have risen.

In this regard, some sustainability aspects have developed from small niche markets to the mainstream; although such products still remain in small quantities compared to conventional products. Especially in the coffee value chain a demand driven product upgrading has been observed. The increased awareness of customers has led to higher demand for coffee which meets specific standards. Coffee growers have recognized new opportunities and upgraded their products (Ponte 2008: 20). The insights from the coffee sector can also be transferred to other commodities such as cocoa or fruits. Also for these commodities demand has increased for sustainable products such as organic products.

### 2.3.3 Functional upgrading

The third type is referred to as functional upgrading which is defined as “acquiring new functions (or abandoning existing functions) to increase the overall skill content of activities” (Humphrey/Schmitz 2002: 1020). This change in the mix of functions enables actors in the value chain to enter higher value-added functions or different levels within the value chain (Microlinks 2016). Especially in the context of developing countries and development cooperation this form of upgrading plays a crucial role because it changes what suppliers actually do to becoming more than a supplier of basic commodities.

Basically there are two ways functional upgrading can happen. Either by eliminating intermediaries - thus changing the structure of the value chain - or by acquiring new productive capacities which enable firms to enter higher value added positions in the value chain (ibid.). A good example for successful functional upgrading is the apparel sector in several Asian countries where changes in the activities in developing countries have led to worldwide changes in the whole value chain (Gereffi 1999; Microlinks 2016). Also in the agricultural sector there are possibilities for functional upgrading. For instance, producers can try to absorb additional functions such as processing, packaging or marketing. Generally, it is much more difficult to acquire these higher value added positions in the value chain when these functions are part of the buyer's core business as it is for example often the case for marketing (Trienekens 2011: 70).

### 2.3.4 Inter-sectoral upgrading

Inter-sectoral upgrading can be described as the move into new productive activities (often related industries) using knowledge acquired through production of another product or a specialized service (Ponte 2008: 88). Firms tend to move to more profitable value chains, otherwise there would be no incentive for inter-sectoral upgrading. But the barriers to enter these other value chains are often very high and very challenging to overcome, in particular for small and vulnerable actors (Mitchell/Coles/Keane 2009: 3).

In the electronic industry inter-sectoral upgrading is for example common. For instance, in Taiwan firms that produced television sets used their knowledge to produce monitors for computers and shifted to the computer sector (Guerrieri/Pietrobelli 2004).

### 2.3.5 Channel upgrading

As the global economy is very dynamic and market conditions can change very fast, it is crucial for firms to enter new markets and sometimes leave old ones behind. Linked to this is another type of upgrading: channel upgrading. "Channel upgrading is when firms enter one or more new end markets in the same basic product—domestic, regional or global" (Microlinks 2016). For instance, if someone plans to export to the European Union (EU) with its high standards, it might be appropriate to start in one country and then expand step by step. Selling only to one or a few markets involves high risks especially price risks and makes companies very dependent on the developments in specific markets. The diversification that comes along with channel

upgrading enables firms to conduct better risk management. Another variety of channel upgrading is to sell low quality products to other segments of the market. This does not earn them higher prices, but they benefit from minimizing wastage and can earn some additional income. In the context of agriculture this type of channel upgrading occurs pretty often. For instance, if some fruits of farmers do not fit the requirements for export, they can sell it to another local firm which processes fruits into juices (Dunn et al. 2006: 22).

### 2.3.6 Factors influencing upgrading

In this section, the most important local factors that influence these different types of upgrading possibilities in the agricultural sector are described.

- *Access to finance*

Access to financial services is crucial in the context of upgrading as financial resources are necessary for investment. Actually this is a large problem which is faced by a wide range of different actors particularly in developing countries. Small-scale farmers as well as big companies have to deal with this challenge. Furthermore, small-scale farmers often have problems in manging loans as they lack education (Bamber/Fernandez-Stark 2012: 5). Restrictions in the access to finance have a negative impact on all types of upgrading opportunities. In many developing countries it is very difficult to get a credit and even if someone manages to do so, interest rates are very high (Microlinks 2016).

- *Access to training*

In many cases upgrading requires improved skills, consequently access to training is crucial. Smallholder farmers have used to work in the same way for a long period of time; hence, in order to reach a higher productivity or product quality specific training is required. They have to learn how to deal with new technologies and different work processes (Bamber/Fernandez-Stark 2012: 4f). Skills transfer along value chains can play a crucial role in this context. But also companies, especially SMEs have a need for training in order to successfully manage new production processes and deal with challenges that occur in line with upgrading (Dunn et al. 2006: 23).

- *Physical distance*

Nowadays long distances are not a problem for business operations, but they have a significant influence on decision making processes as prices for inputs and transport tend to be higher with increased physical distance as well as lead times longer and flexibility lower. There is a point where a company needs to decide if it is worth the additional cost for upgrading to overcome the challenge of physical distance. In the context of agricultural products it is for example often important that traders offer to pick up the products of small-scale farmers at the farm gate level (Locke/Goeldner Byrne 2008: 1).

- *Social and cultural issues*

Social and cultural issues are another crucial factor in the context of upgrading. One of the most important aspect in this context are gender related issues. Socio-cultural rules based on religion, ethnicity or gender roles may constrain upgrading opportunities in many ways. These social barriers can limit the mobility of vulnerable actors and consequently their market opportunities as it is the case for home-based women embroiderers in Pakistan (Dunn et al. 2006: 24). Other examples of limitations in a socio-cultural context relate to skills transfer or money management **(**Sebstad/Manfre 2011).

## 2.4 Social upgrading

Apart from economic upgrading the concept of social upgrading has become crucial for GVC analysis particularly if upgrading is perceived as "capturing the gains" in developing countries. Benefits of economic upgrading do not necessarily come along with improvements in employment, wages or working conditions. To better understanding these social aspects in the context of economic upgrading the concept of social upgrading was introduced to GVC analysis. Social upgrading is defined as "the process of improvements in the rights and entitlements of workers as social actors by enhancing the quality of their employment" (Rossi 2011: 61). Basically it is about improved living standards and conditions of employment.

The concept of social upgrading generally consists of two elements: measurable standards and enabling rights. These two dimensions are closely related as measurable standards are often the outcome of bargaining process which are framed by enabling rights. Measurable standards include such things as type of employment, wage level, social protection or working hours. Those aspects are more easily observable and quantifiable (Barrientos/Smith 2007). Contrary

to that enabling rights are very difficult to measure and quantify. It includes aspects such as freedom of association, right to collective bargaining or non-discrimination. A lack of enabling right hinders workers to actively negotiate improvements in their working conditions (Barrientos/Gereffi/Rossi 2011: 325). The opportunities for social upgrading are not equally distributed among workers or producers and depend to a large extent on the type of worker or producer under consideration. Regular workers who have contracts with their employer can obtain improvements in measurable standards more easily than irregular workers. The situation for irregular workers is even worse regarding enabling rights (Rossi 2011: 63f).

The links between economic and social upgrading and downgrading can be very complex. A study of the Moroccan clothing industry revealed that economic upgrading can have adverse effects in terms of social upgrading on workers at the same side of production. While skilled workers benefited, unskilled workers faced social downgrading (Barrientos/Gereffi/Rossi 2011: 332). "For economic and social upgrading to go in tandem, identifying commercial leverage points and forming alliances between commercial, civil society and government actors appear critical." (Barrientos/Gereffi/Nathan 2012: 5)

## 2.5 Critical aspects

The critical aspects presented in this section deal on the one hand with issues that are often left out in GVC analysis and on the other hand with the concept of upgrading itself.

Even though the GVC framework has its roots in the world system approach, the holistic perspective and critique of the global system in general has gradually been lost in more recent approaches. The focus shifted from the macro level towards the meso level of sectoral dynamics and the micro level of firm actions with a special focus on upgrading (Bair 2005: 154f). More recent approaches of global production networks (GPNs) try to overcome the firm-centrism by focusing more on institutional contexts and actors and the embeddedness of firm actors (Kaplinsky 2013: 7). It is important to consider dynamics on a broader level as those factors are crucial for understanding social and developmental processes. In the context of poverty GVC approaches are criticized for their problem-solving orientation. How the formation and functioning of GVCs has been predicated and contributed to the production of global poverty is not questioned (Selwyn 2016: 35).

"[GVC analysis] tells us little of the why, the where and the how of GVCs, and nor does it provide substantive insights into policy" (Kaplinsky 2013: 9). But important issues especially

about opportunities to enter value chains are the result of bargaining processes at those levels. An excellent example are standards as they are crucial in almost every value chain. Even though GVC analysis focuses on power relationships within value chains, it does not assess asymmetric power relations which led to the establishment of standards or other policies (ibid.,13).

Within the GVC framework the concept of upgrading has often been criticized. Particularly more recent approaches are criticized for their restricted understanding of upgrading processes as processes where actors at the bottom of the chain learn from actors at the top of the chain. This way of viewing these processes implies that upgrading is a universally applicable pattern in the view of modernisation theory. But as it has been shown in many studies upgrading has been just one and a very contested outcome in GVCs (Fischer/Reiner/Staritz 2010: 17). Furthermore, upgrading may only benefit a small part of involved actors, in particular workers find themselves often not being reached by the perceived benefits of upgrading processes. To better understand these dynamics the concept of social upgrading has been introduced. A part of recent research includes this in their analysis, but the focus of GVC analysis is still on economic upgrading and its benefits.

# 3 Value chains and development

This chapter embeds value chain interventions in a broader context of development policy by examining the relevant policy framework and types of intervention. First, the concept of private sector development and its different intervention levels are presented. Afterwards value chain interventions are analysed including the core idea, characteristics of these interventions and different types of interventions. Finally, critical aspects of these interventions are discussed.

## 3.1 Private sector development

The major role of the private sector in development thinking and policy goes back to the 1980s. At that time the predominant development thinking of the state as the central actor moved towards the private sector which was seen as more efficient and more productive for economic development. This shift in development thinking was supported by economic policies such as privatization of state-owned enterprises, liberalization or increased competition (Schulpen/Gibbon 2002: 1). These policy changes were supported or enforced by big institutions such as the World Bank and the International Monetary Fund with their Structural Adjustment Programs (Staritz 2012: 5).

In the last years the prominence of PSD in development policy further increased. "This trend is also reflected in the Post-2015/Sustainable Development Goals (SDG) process, which attributes an important role to the private sector." (Küblböck/Staritz 2015a: 6) There are several reasons for the increased importance, but one of the most essential ones are declining public budgets for development cooperation. In order to overcome this challenge new ways of funding are needed and the involvement of private sector actors is encouraged.

Apart from multinational donors also bilateral donors developed their own PSD strategies. The Department for International Development (DFID) from the United Kingdom was one of the first that launched a particular private sector strategy at the end of the 1990s (Küblböck/Staritz 2015a: 7). DFID's private sector development work encompasses a wide range of different programmes at the macro, meso and micro level (ICAI 2014). Doubtless the United Kingdom was one of the pioneers in this area but also other countries developed their own, different strategies. For instance, the Danish International Development Agency (DANIDA) and the Swedish International Development Agency (SIDA), which are also crucial actors in East Africa, emphasize the role of their national companies and encourage them to take action in developing countries with the help of development cooperation (Byiers/Rosengren 2012: 14).

### 3.1.1 Types and intervention levels

PSD is a very broad concept and types and levels of intervention vary widely across different actors. Generally, interventions in the context of PSD can be distinguished on an abstract level. On the one hand, there is the support for the private sector. This more traditional approach is about "target[ing] the establishment of, and support for, the private sector in developing countries" (Kindornay/Reilly-King 2013: 33). On the other hand, there is the newer approach of working together with the private sector as a partner. That is mainly about the engagement of the international private sector for development. The following classification is based on Küblböck and Staritz (2015a: 13f):

- Improvement of frameworks conditions
- Support of firms and sectors in partner countries
- Support of businesses based in donor countries
- Private sector engagement for development

A starting point for PSD strategies is the improvement of the business enabling environment either on a local or international level. These interventions tend to be at the macro level. The

framework conditions for businesses on an economic as well as on a political level are crucial for private sector success. On the economic side issues such as property rights, competition, taxes, deregulation of labour markets are important in this context, while on the political side aspects such as political stability and good governance are important (ibid., 12). Policy interventions in this area aim at making the business environment more reliable, more transparent and less bureaucratic (Altenburg 2006: 40).

Furthermore, direct interventions in partner countries play a major role. This can be done on a meso level by supporting certain sectors in partner countries or on a micro level by supporting specific firms. Activities in developing countries often focus on providing financial resources and capacity development. One of the most popular approaches which can be subsumed under this category is making markets work for the poor or value chain interventions (Küblböck/Staritz 2015a: 12). The next sub-chapter deals more explicitly with value chain interventions in the context of development cooperation.

Contrary to classical development aid, development cooperation in the context of PSD also supports businesses of developed countries in their engagement in developing countries. This newer form of support happens mainly on two different levels. The first one comprises activities that target firms who are doing business in partner countries, which includes ensuring long term commitment, knowledge transfer, supplier development and compliance with higher standards. "The potential role of the private sector in achieving development goals through businesses following their core business is a key aspect of […] engaging the private sector for development" (Byiers/Rosengren 2012: 6). Also corporate social responsibility projects which are outside a firm's core business can be supported.

Closely linked to these kind of intervention is the new role, which is given to private companies and sees them as actors for development. In this context, companies are targeted to help solving development issues with their business expertise. Especially the UN Global Compact and the SDGs go in this direction (Küblböck/Staritz 2015a: 13).

## 3.2 Value chain interventions

The increased importance of value chain interventions in the context of development is closely linked to the new role that was given to the private sector, which has been seen as the crucial factor for economic development and poverty reduction. Many national and international

donors have developed their own strategies regarding value chain interventions (Humphrey/Navas-Alemán 2010: 15; Pietrobelli/Staritz 2013: 18).

Value chain interventions can be found in many sectors, but the most important sector in terms of number of interventions is still the agricultural sector. „Agricultural chain linkage programmes were the most commonly-found type of VC intervention by donors." (Humphrey/Navas-Alemán 2010: 42) One reason for that is the high number of poor people engaged in agricultural activities. The focus of development projects within the agricultural sector lies on cash crop value chains such as coffee or cotton. Furthermore, livestock farming or fish farms are often targeted areas of interventions.

Apart from agro-food value chains more industrialized value chains such as apparel or automotive supplies have played a crucial role in the context of value chain interventions. In these labour intensive branches, also the improvement of labour rights is often targeted by different projects. But also more specialised industries such as electronics or services are subject to interventions. Another upcoming area of intervention is tourism (ibid., 64-95). Value chain interventions seem to have no limitations in terms of targeted sectors; the selection of a specific sector is dependent on the goals of the intervention.

### 3.2.1 The core idea

As already explained in chapter 3 the global economy is increasingly characterized by a production system where many actors are interconnected in value chains with each other. This has consequences for development and in particular for development policy. Therefore, the core idea of value chain interventions is:

> *to look beyond the individual enterprise, the individual farmer and the independent small producer when considering how to increase the incomes of the poor through promoting their involvement in market-oriented production. (Humphrey/Navas-Alemán 2010: 18)*

The emphasis on links between different actors allows policy makers to better understand the effects of their interventions.

Although there are many different approaches, the overall goal of the majority of value chain interventions is poverty reduction (Humphrey/Navas-Alemán 2010: 3). In this context it is important to notice that the general assumption that integration into GVCs and benefits from improvements in the value chain such as upgrading will automatically reach the poor should be

questioned. An approach that takes this into account is to choose the type of intervention according to a specific sector, social group or geographical area, where many poor people are engaged. Some approaches also focus on women as producers to minimize gender-related inequalities and constraints in value chains (Staritz 2012: 12). Regarding geographical targeting it should be mentioned that projects in areas where poor people live, do not necessary target these poor people particularly in agriculture. The entry barriers for new actors, especially required standards, can be high and the people who are capable of doing so are mostly not the poorest ones (Humphrey/Navas-Alemán 2010: 39).

For value chain interventions to be successful it is important that planning and implementation are based on scientific research. Appropriate for this is the GVC framework which "has the potential to make PSD interventions more effective in terms of improving economic and social outcomes of participating in international trade and global production" (Staritz 2012: 3). It is crucial to understand structural and asymmetric power relationships in the context of value chains. Therefore, the historic tradition of GVC framework is very important and should be considered to a greater extent by donor agencies. Moreover for donor intervention to be successful it is crucial that „value chain interventions [are] more consistently and systematically aligned with the core aims of development cooperation, in particular poverty reduction." (ibid., 18)

### 3.2.2 Common characteristics and differences

The fact that many donor agencies have developed their own approaches for value chain intervention led to several differences among these, but they also have some common characteristics. Common goals of value chain interventions are the improvement of market access conditions and upgrade opportunities of firms in developing countries in the broader context of promoting market based development (Staritz 2012: 3). The main differences in the approaches can be analysed based on three dimensions (ibid., 11):

- Focus on broader development objectives: e.g. poverty reduction, decent work, gender issues, environmental sustainability
- Scope and supported activities: e.g. firm-level or meso and macro support
- Targeted actors of the interventions: e.g. international lead firms, local companies/ institutions

Many value chain interventions have the common goal of improving the market access and upgrading opportunities which should in further consequence create benefits for local firms and producers. Activities in this area include providing information and resources for supplier firms and producers, developing and strengthening linkages with other companies, support to comply with standards and acquire new skills and competencies (ibid., 11). Usually value chain interventions focus on a specific development goal, but the from and consequently the outcome of interventions varies widely. For instance, if poverty reduction is considered: projects with a very weak strategy as well as those with a very detailed one are subsumed under poverty reduction projects. Sometimes simply mentioning that a project targets a specific group of farmers was enough to quality it pro-poor in donors' project portfolios (Henriksen/Riisgaard/Ponte 2010: 19f).

A further point where value chain interventions differ is the scope of interventions. Activities can be targeted at the macro, meso or micro level. The macro level covers economic policy, infrastructure, governance or education on a national level and in a broader sense also developments on the international level like trade regimes or foreign investment policies (Staritz 2012: 12). At the meso level activities are aimed at services that are in turn directed at businesses or building market institutions such as standardization, certification or market research. Interventions at the micro level interact directly with targeted actors in the private sector often through business-to-business programmes or trade promotion (Forss/Schaumburg-Müller 2009: 11). Decision makers have to choose in advance at which level they want to intervene.

The third dimension is the targeted actors of value chain interventions. Basically, a distinction between lead firm projects and projects that work with more local and smaller actors can be made. Lead firms play a crucial role in value chains as they decide what is produced and how it is produced. Requirements and standards for suppliers are determined by them and in further consequence these decisions have a big influence on value chain entry and upgrading possibilities (Staritz 2012: 12f). "Donors see powerful lead firms in the developed world as points of leverage where intervention may have a greater impact on the development prospects of producers" (Humphrey/Navas-Alemán 2010: 32). But on the other side lead firms clearly have their own interests and already have large power; so support for such actors through development cooperation is also broadly criticized.

### 3.2.3 Types of interventions

In order to reach the goal of poverty reduction, several approaches have been developed by different actors. Humphrey and Alemán (2010: 20ff) propose a classification of interventions in four categories:

1. *Working on the weakest link*

The successful performance of a value chains depends on the functioning of every linkage. So the rationale for this kind of intervention is obvious. Actors in developing countries tend to be integrated into value chains at the bottom of the chain where linkages are fragile. Consequently, it is an area where development cooperation launches projects (Humphrey/Navas-Alemán 2010: 20). An illustration of that kind of intervention is provided in figure 1.

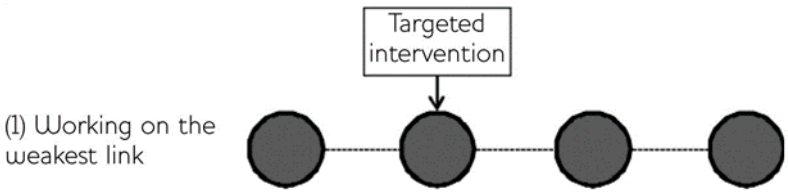


**Figure 1: Working on the weakest link**

*Source: Adapted from Humphrey/Navas-Alemán 2010: 21*

A good example for that kind of intervention can be found in Ghana where the craft export companies had big problems with the quality of the output of their many small suppliers. This situation threatened their position in the international value chain as they faced competition from Vietnam. So Action for Enterprises[1] stepped in with a project and supported them to work with the small suppliers. Among many other activities Action for Enterprises designed quality management manuals, quality checklists or organised quality management workshops. Buyers often lack the ability to tackle these problems on their own and need support in doing so (Schmitz 2005: 34). Working on the weakest link is also common in the context of agricultural value chains as export companies often face quality challenges with products coming from small-scale farmers.

[1] Action for Enterprises is a non-profit organisation with focus on private sector development to fight poverty. For further information see www.actionforenterprise.org

*2. Improving knowledge and resource flows*

Communication and in particular transfer of knowledge play a major role in value chains. For suppliers it is important to know exactly what the buyer wants from them. This is often difficult especially when they export to overseas markets. In further consequence this situation can cause missed opportunities, because buyer may not know what their supplier are capable of producing. But not only the flow of knowledge is crucial, also resource flows are important. Providing inputs, technical support, etc. to suppliers can influence the value chain in a positive way and also create opportunities for entrants (Humphrey/Navas-Alemán 2010: 20f). Figure 2 depicts this intervention.

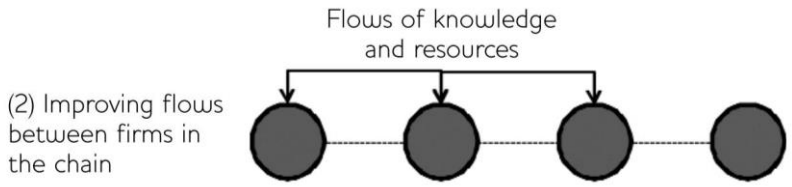


**Figure 2: Improving flows between firms in the chain**

*Source: Adapted from Humphrey/Navas-Alemán 2010: 21*

DFID, SIDA and the Swiss Agency for Development Cooperation (SDC) funded a big project in Bangladesh which aimed at increasing the very low productivity of the vegetable sector. The low levels of knowledge and information among farmers about good vegetable farming practices have been identified as the major problem. So the idea was to tackle this problem by improving knowledge and resource flows within value chains. Retailers who sell inputs to farmers were chosen as the entry point of the intervention as with this group of actors the biggest leverage effect could be reached. Resource flows should help farmers to adopt to new practices and increase productivity (Gibson 2005).

*3. Improving linkages*

Improving linkages is closely linked to the improvement of knowledge and resource flows. Increasing complexity in market relationships and the informal character of economies may cause high transactions costs, which have a negative influence on value chains. Additionally, trust plays a major role. Setting up institutions to manage risks and building trustful relationships can help to promote successful business operations (Humphrey/Navas-Alemán 2010: 22). Figure 3 is giving an illustration of this intervention type.

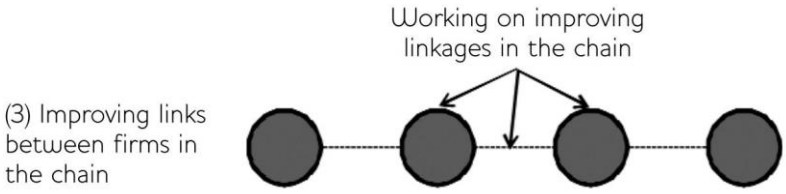


**Figure 3: Improving links between firms in the chain**

*Source: Adapted from Humphrey/Navas-Alemán 2010: 21*

Conservation International (CI)[2] together with the Ministry of Amerindian Affairs conducted a project to help the WaiWai communities in Guyana. One of the main problems was that the WaiWai live in very remote areas. Consequently, they have a limited presence on the handcraft market and depend heavily on retailers who make high profits with their products. CI promoted additional business partnerships which increased the bargaining power over existing retailers and led to better prices for the WaiWai. Additionally, buyers and seller were brought together to formalise their linkages (The Value Chain and the Poor Working Group 2006: 13).

*4. Developing new or alternative links in the chain*

Contrary to targeting existing linkages of value chains, interventions also try to develop new or respectively alternative linkages, as depicted in figure 4. New linkages can help to overcome problems like the shortage of raw materials, while alternative linkages have the potential to make processes more efficient (Humphrey/Navas-Alemán 2010: 22).

[2] Conservation International is a non-profit organisation with the goal to protect nature as a source of food, fresh water, livelihoods and a stable climate. For further information see www.conservation.org

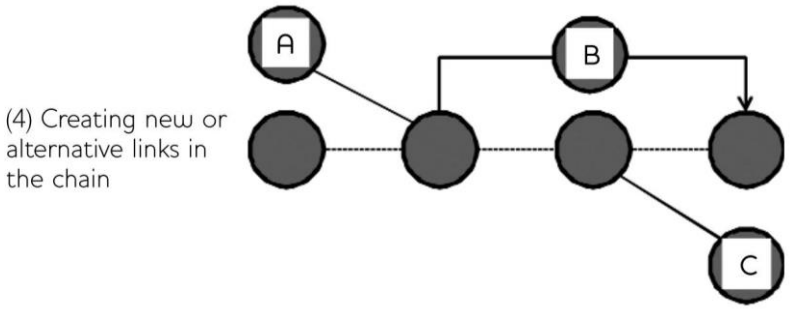


**Figure 4: Creating new or alternative links in the chain**

*Source: Adapted from Humphrey/Navas-Alemán 2010: 21*

In Uganda there was a big program initiated by the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP) and the government of Uganda to develop new business linkages. As small and medium-sized enterprises (SMEs) are the main driver in Uganda's economy they are critical for accelerating economic growth and for creating new jobs. But they often fail to meet the requirements of Transnational Corporations (TNCs). Therefore, UNCTAD together with its implementing partners stepped in and helped to establish sustainable linkages between TNCs and SMEs (UNCTAD 2006: 8f).

## 3.3 Critical aspects

On a very general level, it can be criticised that the private sector is often perceived in PSD interventions as a homogenous group. "Debates about the private sector as the engine of development often portray the private sector as a homogenous field with similar interests." (Küblböck/Staritz 2015b: 2) The assumption that all actors in the private sector have the same or at least similar interests is questionable especially in the context of GVCs and development objectives.

Many critical aspects in the context of PSD and value chain interventions are linked to interest conflicts among different stakeholders. Of course in some area they have the same interests, but there are also points where their standpoints and goals differ widely. "[T]he interest of foreign firms should not be equated with the interest of the local private sector and even less with national development concerns" (Küblböck/Staritz 2015a: 18). Particularly critical in this context are the deregulation of labour markets and corporate taxation. It is obvious that interests concerning the labour market differ. Business enterprises favour relatively low regulation, because it gives them more flexibility, but these regulations are crucial for workers. The topic

of corporate taxation is even more challenging. Low corporate taxes are favourable for companies, but tax revenues are very important for economic and social development (ibid., 14).

Another issue in the context of interest conflicts is the involvement of lead firms in value chain projects. Lead firms are often accused of trying to diversify their supply chain in order to keep the suppliers at low value positions within the chain and weaken their bargaining power in that way. It should be questioned if the involvement of these firms creates enough benefits for the public. Critics often argue that public money is used to improve the business of lead companies. „The intervention may still be justified on the grounds of employment creation and poverty reduction." (Humphrey/Navas-Alemán 2010: 28) Moreover, the benefits of supply firms in developing countries may also spread to other firms, customers and markets. Donors face the challenge to find the right balance between the interests of the lead firm and public interests (Staritz 2012: 15). In general, "[d]evelopment agencies should only intervene in VCs when [...] the outcome of the intervention is in the public interest" (Roduner 2007: 6).

Additionally, scaling up is an issue in the context of value chain interventions. Value chain projects are often very specific and try to push forward improvements in a specific sector or for a specific group (Humphrey/Navas-Alemán 2010: 27). But how many people really benefit from these interventions and are there alternatives which might have a larger impact? Another point is the focus of value chain interventions on pre-existing activities. This can hinder the potential of poor people by trying to integrate them into existing opportunities and not focusing on creating new activities and market opportunities.

# 4 Methods of data collection and analysis

This part outlines the rationale for applying specific procedures and techniques to identify, select and analyse information regarding the research question. Broadly speaking it is about the principles that guide the empirical research process. As it is assumed that readers of this thesis are familiar with the major concepts of qualitative research, theoretical aspects of the particular methods and techniques are not discussed. It is only explained how the different methods and techniques were applied in the context of this thesis. After some words on reflection and ethical aspects, the chapter is divided into three parts: data generation, data analysis and challenges that occurred during the process of empirical research.

*Reflection*

A crucial aspect when conducting empirical research is reflection which concerns every aspect of the research process including the content of research as well as the role of the researcher within a certain field. Particularly the second aspect is relevant when research is conducted in a different cultural context. The researcher should be clear about his role in the specific field and the perception people in this field have of the researcher. Self-reflection is crucial in this context: How do people in the field see and perceive me?

In order to better deal with these question a research diary can be a valuable tool for empirical research. It can play a crucial role for the reflection of the researcher's own position within a field during the process of empirical research. It serves several useful tasks. By documenting the whole research process, it helps to better understand the context and feelings during the process of data generation and therefore allows a more objective analysis. Furthermore, it enables to better deal with methodological issues that occur during the research process and is some kind of written thinking about the research objective which can be useful during different stages of research and analysis. Additionally, this makes the whole research process traceable and ensures that thoughts during the process do not sink into oblivion (Anastasidis/Bachmann 2005: 161f; Flick 2011: 377). In the context of this thesis a research diary was written during the whole research process, most intensively during the phase of empirical research in Uganda, and used for data analysis and writing the thesis.

*Ethical aspects*

Before the interviews, each of the interviewees was informed about the whole research process of this thesis and for what the results will be used for. So the research process was made as transparent as possible. For data analysis it is crucial to record the interviews for later transcription. Before every interview the interviewees were asked for their approval to record the interview and if they want to be anonymized. All interview partners agreed on recording and mentioning their names.

## 4.1 Data generation

For the purpose of getting information about the organic fruit sector, the value chain and the involvement of development cooperation a qualitative research approach was chosen. Quantitative data about the size of the organic sector in Uganda, end markets, products, number

and types of firms was analysed to get an overview of the sector and served as a basis for qualitative research.

The most important research phase of data generation was a four-week field visit in Kampala, Uganda. The basis for the selection of interview partners was a list of export companies provided by the National Organic Agriculture Movement of Uganda (NOGAMU). As all eleven export companies in the organic fruit sector are dealing with mangos and pineapples or at least one of them, all of them have been approached and asked for an interview per e-mail. Additionally, requests were sent to some NGOs operating in the organic sector and the local certification body. Furthermore, I contacted different institutional stakeholders but none of them replied and hence it was not possible to arrange interviews. Of the other actors just a few replied that they are willing to conduct an interview but it was not possible to arrange a date beforehand. I expected that, so my plan was to also call all of them when I arrived in Uganda. When calling the companies and stakeholders, it was helpful that I had already contacted them by e-mail because they knew about my research and the interview request.

As the objective of this thesis is to understand the perspective of export companies, people in leading positions at these companies were the primary interview partners. At the end I conducted 7 interviews with people working in management jobs at 6 different export companies (out of a total number of 11 export companies). It was not possible to arrange interviews with the other five exporters for several reasons. Some of them were too busy while others just did not reply to my e-mails and calls. Furthermore, a future exporter, a representative of a NGO and the CEO of the local certification body were interviewed to get a different perspective. In addition to that four participatory observations at two production sites and two farms were conducted. Hence, in total ten interviews and four participatory observations were conducted, so in total 14 data sets were collected for analysis. The interview schedule in the Appendix provides a more detailed overview on the interviews.

### 4.1.1 Interviews

When it comes to data generation in the context of empirical research, one of the most important methods is the interview. Interviews are applied in quantitative as well as in qualitative research settings. Therefore, a wide range of different forms depending on the particular research context exists. Qualitative methods emphasize understanding and interpretation as well as observations in natural settings (Dannecker/Vossemer 2014: 153). How this method was applied for this thesis is explained in the following.

*Semi-structured interviews*

In order to get a deeper understanding of the research question the method of semi-structured interviews was chosen. The interview guideline was equal for all export companies; for the other stakeholders it was slightly adapted in order to pay attention to their different roles. Interview guidelines play a crucial role because they enable to conduct interviews which can be compared (ibid., 158).

One of the biggest advantages of semi-structured interviews is flexibility. This type of interview technique should encourage interviewees to talk about their experiences and opinions regarding their upgrading processes and the involvement of development cooperation. Although there was an order of questions, the setting was held flexible to make it possible to change the order of questions depending on the course of conversation. Semi-structured interviews also provide the opportunity to interviewees to express their ideas and give deep insights on certain aspects rather than relying on concepts defined in advance by the researcher (ibid., 159). At the end of each interview, interviewees were asked if there is anything that they want to add. This is crucial in the context of semi-structured interviews to avoid that some information which is relevant for the interviewed person does not get lost.

All interviews which lasted between 30 and 60 minutes were conducted in the natural environment of the interviewees, mostly it was at the company's head quarter. The natural environment helps the interviewees to feel comfortable which is necessary to get relevant information from them. Generally speaking, the interview atmosphere was very pleasant at all interviews.

*Informal Interviews*

Another kind of interviews which was conducted in the course of this research were interviews with an informal character. Especially when I was at production sites I had time to talk to some farmers or employees for a short period of time. The interviews with these people were not recorded but notes were made by hand in order not to lose the information. Right after these informal talks ender, these notes were brought together with other impressions of the day. They were written down in a way to be also included into the computer assisted data analysis.

### 4.1.2 Participatory observations

Complementary to the interviews participatory observations were carried out. They assist to catch phenomena and dynamics which are not part of verbal conversations. Usually participatory observations are carried out during a longer period of time, but in this research context this was not possible. In total four participatory observations were conducted during the research stay in Uganda. At the Amfri Farms Ltd production site in Kampala and at Biofresh Ltd it was possible to observe how the fruits are packed and organised for export. Further, I had the chance to see their machines, especially their dryers, and I could ask them related questions. This gave me lots of relevant information especially about the financing of the machines and the involvement of development cooperation in this context. Apart from the production sites which are at the same time headquarters of Amfri Farms Ltd and Biofresh Ltd I visited the Amfri-Farm which is located in Luweero and a small organic pineapple farm which was located close to Mityana. I stayed a whole day at each farm. To see farmers actually working at farms was useful to better understand the circumstances and dynamics of organic farming. After every visit the impressions of the day were written down in order not to lose any information and context.

## 4.2 Data analysis

Data analysis is a crucial part of every scientific work. Hence it is necessary to illustrate the process of data analysis in a detailed way, particularly focusing on questions of which approach was chosen for analysis and why is this approach appropriate. These questions are answered in this part.

There are many different ways to analyse data from empirical research and sometimes it is not so easy to distinguish them. One of the most widespread in the context of qualitative social research and selected for this thesis, is qualitative content analysis. Mayring describes qualitative content analysis as:

> *[A]n approach of empirical, methodological controlled analysis of texts within their context of communication, following content analytical rules and step by step models, without rash quantification. (Mayring 2000)*

The interactions between different actors in value chains and in this specific context between export companies and actors of development cooperation can be very complex. Qualitative content analysis is appropriate for getting insights into this social reality as it aims to reach the

"understanding of social reality or phenomena through interpretation of a variety of verbal or written recorded communication materials" (Cho/Lee 2014: 17). It is a suitable approach for answering the research question of this thesis.

Within qualitative content analysis there are different forms of analysis[3]. The most commonly known is summarizing qualitative content analysis where the time intensive process of paraphrasing plays a crucial role. In order to overcome challenges related to this approach, a faster and more specific way of analysis was developed: inductive category formation. Its major difference compared to a summarising qualitative content analysis is that the process of paraphrasing is not necessary. This way of analysis is very common among studies based on Grounded Theory (Mayring 2014: 79) and is chosen for this thesis.

The process of data analysis was aided by a computer program. Like in many other areas, technological progress also led to major changes in the field of qualitative research. In addition to new recording technologies, the use of computers in the field of data analysis opens new possibilities. Nowadays a large range of software programs is available for qualitative data analysis. For this thesis the well-established program Atlas.ti was used. Computer aided qualitative data analysis has many advantages towards traditional methods of data analysis, among the most obvious are saving of time, data management and traceability.

Making the research process as transparent as possible supports the traceability of results. It should be made clear how the researcher got from the empirical material to the final results. In the context of qualitative content analysis, the traceability of the results should be ensured by a systematic and comprehensible procedure following clear rules of analysis. At the same time, the procedure should also be flexible in order to leave enough space for adjustment (Larcher 2010: 2).

Apart from theoretical aspects of qualitative content analysis, Mayring (2000; 2014: 8) also provides a detailed explanation about how to conduct inductive category development step by step. The decision about a deductive or an inductive approach of qualitative content analysis depends mainly on the research question and objective and the existing material or respectively theories. "An inductive approach is appropriate when prior knowledge regarding the phenomenon under investigation is limited or fragmented" (Elo/Kyngäs 2008: 108). Figure 5 illustrates the steps of inductive category development.

[3] Nine different approaches have been identified by Mayring 2014: 65

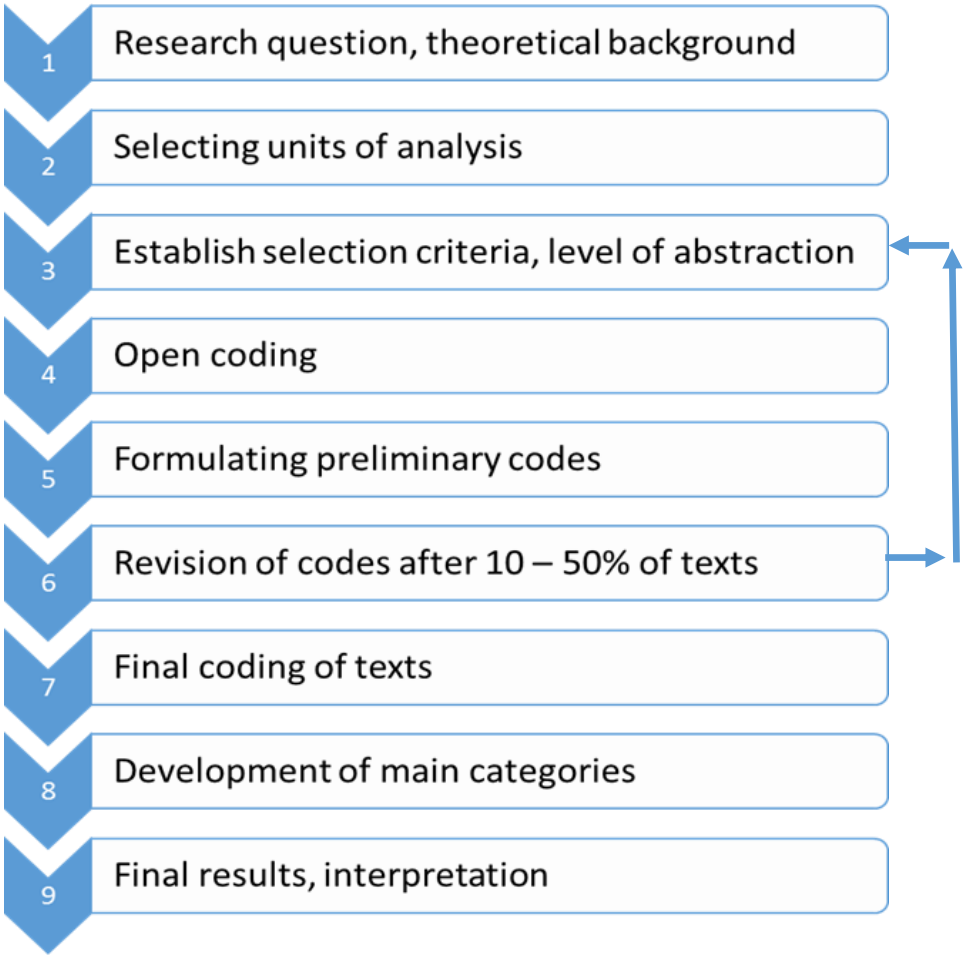


**Figure 5: Steps of inductive category development**

*Source: Adapted from Mayring 2014: 80*

Before the process of data analysis can be started, the data from the empirical research has to be transcribed. This includes the transcription of the conducted interviews as well as notes from participatory observation and other field notes, which could be important for the research. This is a very time-intensive work, which is also helpful because one can get in touch with the data again. The process of transcription should be done by the researcher him- or herself and not by anyone else for the above reasons. That was the case for this thesis.

After this more or less technical process, the "real" analysis starts with the coding of the interviews. First, the units of analysis were defined. In this thesis these were mainly the transcripts of the interviews and field notes from participatory observations. They were completed by other notes which were made during the process of data generation.

The next stage is the process of open coding. The transcripts and notes were read line by line and codes were developed from the empirical material. This was done for the first four

interviews, followed by step number three, formulating preliminary codes based on the data. A list of codes was developed and used for the further coding of the data. If sequences occurred, which were not assignable to a certain code, new codes were created.

In the next step similar codes were grouped into categories, followed by revising and checking the categories with the data. These categories cover the main aspects that occurred during the interviews and are relevant regarding the research question. Finally, the categories were checked if they are mutually exclusive. After that, a final round was made, where the text and categories were examined again.

The final step is the discussion and interpretation of results. As a starting point for the discussion serves the category system which was developed during the process of data analysis. The insights which came up in these categories are interpreted based on a theoretical background in the light of the research question. The link between empirical data and theory provides a solid scientific basis for answering the research question.

## 4.3 Challenges

During the empirical research various challenges occurred, some predictable while others not. It is part of the research process to deal with these challenge and necessary to overcome them for achieving appropriate results. This part briefly discusses the most important challenges during the research process.

Usually one of the biggest challenges in the context of empirical research is access to the field. I was in a special situation because I already did some research in the organic sector in Uganda before. Therefore, I already knew some of the actors I wanted to interview. Once I was in Uganda it was therefore relatively easy to get in touch with relevant people and to arrange interview dates with them. Additionally, an earlier research partner from GoOrganic gave me some useful hints and also recommended me to some people. Even though I had good contacts, a difficulty in getting interviews arranged was related to the profession of the interview partners. It was hard to get interview dates with representatives of export companies because they were very busy. Most of them were CEOs or in other management positions in their companies, therefore their time for an interview with a student was limited and sometimes I had to keep the interview shorter than I wanted. Consequently, it was necessary to focus on the main questions leaving other more contextual questions aside. The search for organic farms that I could visit was further difficult. It is relatively easy to find export companies and NGOs on the internet

and related contact details, but for farmers this is not possible. Consequently, I was dependent on the help of others. Especially NOGAMU and Amfri Farms Ltd helped me to get in touch with farmers. They know their farmers and knew which ones would be suitable for my research and which ones were not. So they organised field visits to farms for me. At this point it should be mentioned that the selection is biased as I could not select farms myself but others selected them for me.

To arrange interviews and field visits is one challenge, the other challenge is to get there. The traffic system in Uganda is very complicated and the public transport system is very weak. It is very difficult to orientate oneself especially in Kampala where most of the interviews were conducted. Sometimes it was hard to find the locations of the companies and to arrive on time for the scheduled interview. For the field trips I had to get to rural areas which was even more challenging.

Language barriers were not an issue during the research. All the interviews were conducted in English. In Uganda English is the official language and the interviewees spoke it very well. In particular, for people working in export companies it is necessary to speak English because they interact with international customers and other actors in English. During the participatory observations this was different. It was not so easy to find farmers who speak English on a level such that they can talk to me without a translator. At the farm sites I had to adapt my language and I tried to use easy language so that they could understand what I was saying. At the production site of Amfri Farms Ltd the farm manager acted as translator when I was talking to some of the farmers. Problematic in this context is that farmers do not open up in such short interviews, but they do even less when the manager translates.

Linked to my role as a researcher from Europe, especially interview partners from small export companies asked me about market opportunities and what I can do for them. I made clear that I cannot help them with access to markets. But this perception of my role should be reflected in analysing and interpreting their replies. It is assumed that they talk more about positive aspects and less about negative ones if they see me as a person who can link them to market opportunities. This has been kept in mind in the data analysis process.

# 5 Overview of case study country and sector

In this part, some basic facts about Uganda, its economy in general and the agricultural and organic sector in particular, are provided. Afterwards, relevant actors in the organic fruit sector are described. Especially the relationship between export companies and other stakeholders in the sector is at the centre. Finally, the organic fruit value chain is analysed in a more detailed way, which gives important insights in the dynamics of the value chain. This chapter is important for embedding the research question in a broader context.

## 5.1 Context information on Uganda

Uganda is located in the East African region. In the North it is bordered by South Sudan, in the West by the Democratic Republic of the Congo, in the South by Rwanda and Tanzania, and the Western part is bordered by Kenya. As landlocked country, especially Kenya's port in Mombasa is crucial for the import and export of goods. Uganda is a member in different regional unions: East African Community (EAC), International Conference on the Great Lakes Region (ICGLR), Intergovernmental Authority on Development (IGAD), Common Market for Eastern and Southern Africa (COMESA) (ADA 2016: 5).


**Figure 6: Map of Uganda**

*Source: CIA (2016)*

The political system in Uganda is a presidential republic where the president is head of state and head of government at the same time. After gaining independence in 1962 Uganda was subject to a dictatorship of Milton Obote and Idi Amin until 1986, when Yoweri Museveni and his National Resistance Army took over. In 1996 Museveni was democratically elected as president for the first time, followed by elections in 2006, 2011 and 2016. Although several parties presented a candidate for the presidential elections, international observers criticise the elections harshly (ibid., 3).

Although Uganda has made some serious progress in the fight against poverty, it is still one of the poorest countries in the world. In 2012 37.8% of the population were living with less than 1.25 US$ a day, while this figure was 56.6% in 2002 (World Bank 2016b). Most affected is the Northern region, where the aftermath of the conflict with the Lord's Resistance Army[4] still causes higher poverty rates than in the rest of the country. Poverty and Uganda's other development problems are indicated in the Human Development Index, where the country is continually at one of the last places, currently 163 (UNDP 2016). The country's population has reached 39 million in 2015 with an increasing trend. It is expected that in 2050 the size of the population will reach about 100 million. The rapid population growth is a big challenge for the fight against poverty (ADA 2016: 6). Unlike in many other countries in Sub-Sahara Africa, only 16% of the population lives in cities, consequently the majority lives in rural areas, which has a significant impact on the structure of the agricultural sector. Another particularity of the Ugandan population is its age structure. The median age is 15 years, which is the lowest in the world (CIA 2016). This young population represents also a huge potential for economic development in the future.

### 5.1.1 Overview of the economy

The main economic driver in the East African region is Kenya, but also Uganda's economy is characterised by stability and economic growth. Since the 1990s the economy has recovered and entered an era of solid economic growth with high fluctuation however.

The global economic downturn in 2008 affected Uganda, but since then the economy has stabilised again and reached a level of about 5% gross domestic product (GDP) growth per year. It is expected that GDP growth will reach 5.1% in 2016 and 5.6% in 2017 (AfDB 2016: 324; CIA 2016). Figure 7 illustrates the developments of GDP growth in Kenya, Tanzania and Uganda since 1990.

[4] The conflict ended in 2008 after more than 20 year of fighting (GIZ 2016).

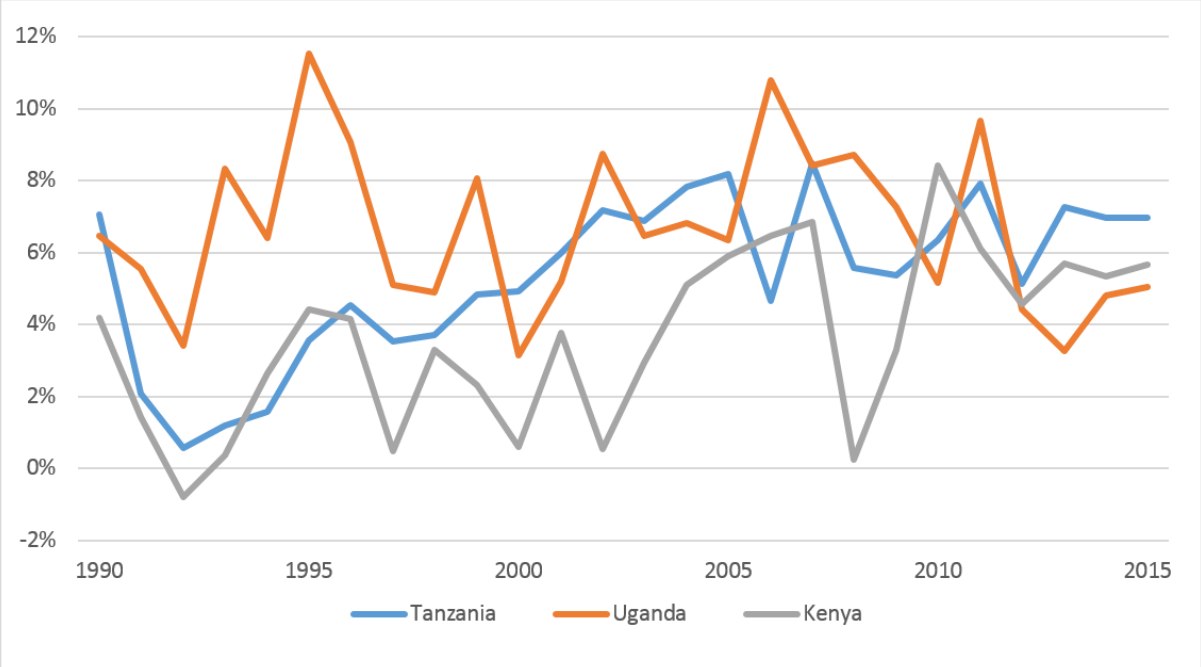


**Figure 7: Annual GDP growth in %**

*Source: Author's elaboration based on Worldbank (2016b)*

The most important sector of the Ugandan economy and biggest foreign exchange bringer is the agricultural sector (see chapter 5.1.2), but its importance has faded as the industry and service sectors have gotten more influential (GIZ 2016). Especially the service sector with a share of 51.3% of GDP has developed dynamically. Telecommunication and financial services have shown to have the biggest potential (ÖFSE 2016). The role of Uganda as a tourist destination has increased mainly due to an improved security situation and a better touristic infrastructure. In the 1990s just a few tourists came to visit Uganda, but nowadays more than a million people a year come to see „The Pearl of Africa" (GIZ 2016).

A few years ago big oil discoveries in the Lake Albert basin were detected. Although oil production has not started yet, the government is optimistic that these oil reserves will give the country a boost. The government plans to invest the revenues in education, infrastructure and services. However, along with the oil reserves also some problems occur. Lake Albert is on the boarder to the Democratic Republic of Congo and this can cause conflicts in this region (ibid.). Additionally, as oil is traded in US$ the export of oil can have a significant impact on the exchange rate in the context of Dutch Disease effects (Bategeka/Matovu 2011).

Although Uganda has made some progress regarding economic development in the last years, the country faces major challenges. Especially the lack of sufficient energy infrastructure as well as road infrastructure causes high costs and hinders economic development (CIA 2016). According to the World Bank's „Doing Business Report" Uganda's position has improved and it now ranks on the 122nd place (World Bank 2016a: 8; for a critique of these indicators see Küblböck/Staritz 2015: 14). Another big issue which affects not only the economy is corruption. In the current Corruption Perceptions Index of Transparency International Uganda is ranked 139th of 168 countries (Transparency International 2016).

### 5.1.2 Overview of the agricultural sector

About 80% of the economically active population is part of the agricultural sector, whereby about two thirds of them are practicing subsistence farming (GIZ 2016; ÖFSE 2016). The significance of the agricultural sector for the economy as a whole has been decreasing, but it is still the most important sector in terms of people employed. Consequently, changes in the agricultural sector have consequences for a huge part of the population especially in the context of poverty.

In Uganda 75% of the total area is suitable for farming, but only a part of it is used (ÖFSE 2016). However, data about the exact fraction is not available. The preconditions for agriculture are very favourable as Uganda is blessed with arable land and an appropriate climate. The good conditions for farming contribute to the fact that Uganda is despite its poverty not subject to big food crises like in Ethiopia and other countries. The agricultural sector is characterised by small-scale farmers who are mainly performing subsistence farming. Some of them also combine subsistence activities with cash crop and livestock farming to create some additional income. Most of the work of these farmers is still done by hand because the use of machines is not affordable. Apart from small-scale farmers, also few large commercial farms, mainly in Central and Southern parts of Uganda exist (Government of Uganda 2016).

Traditional products such as coffee, tea, cotton and tobacco are the major exports, especially coffee is crucial in the export market accounting for about 20–30% of foreign exchange earnings (Jassonge/Läderach/Van Asten 2013: 2). Apart from traditional agricultural products, also flowers, fruits and honey have increased their significance in the export market (GIZ 2016).

A big challenge for the agricultural sector particularly in the future is climate change. Already today „extreme climatic events such as rainstorms, heat waves, droughts and floods are being recorded with increasing frequency“ (FAO 2016). This can have significant implications for the management of water resources, food security and also infrastructure. Climate change itself is a big challenge, but this is even more the case for small-scale farmers. „[A] smallholder farmer is very unlikely to adopt any adaptation strategy or technology unless it has a short-term positive impact on his or her livelihood.” (Jassonge/Läderach/Van Asten 2013: 12) In this context, access to financial services for small-scale farmers would be necessary, for instance to provide insurance against crop failures. Other issues like missing or poor post-harvest facilities and technology, a lack of market information and weak value chain linkages are challenging for farmers and have negative implications on the overall agriculture sector (FAO 2016; New Agriculturist 2012).

### 5.1.3 Overview of the organic sector

In 1993, the first project in certified organic agriculture started in Uganda, but even before that in the post-war period people practised organic agriculture as response to a multiple crisis. In times of crisis people have searched for alternative livelihoods and economic activities which benefited organic agriculture in Uganda (Hauser/Lindtner 2016: 8). Uganda’s traditional agriculture is very close to the principles of organic agriculture, consequently conversion was easy. The launch of EPOPA in 1997 and the foundation of NOGAMU in 2001 can be marked as the beginning of the organic sector in Uganda. Since then a process of growth started which resulted in Uganda’s leading role in organic agriculture. In the early years double digit growth rates were no rarity, but in the meantime growth rates have stabilized at a lower level (Adebiyi 2014: 49f). When organic agriculture in Uganda started, it covered just a few products. But over time the range of products has increased.

Figure 8 illustrates Uganda’s leading role on the African continent in terms of number of organic producers. With 190.552 farmers engaged in organic agriculture, it ranks before Tanzania and Ethiopia. Uganda is not only in a leading position in Africa, but also on an international scale, where it ranks number two after India and even before Mexico (Lernoud/Willer 2016: 59).

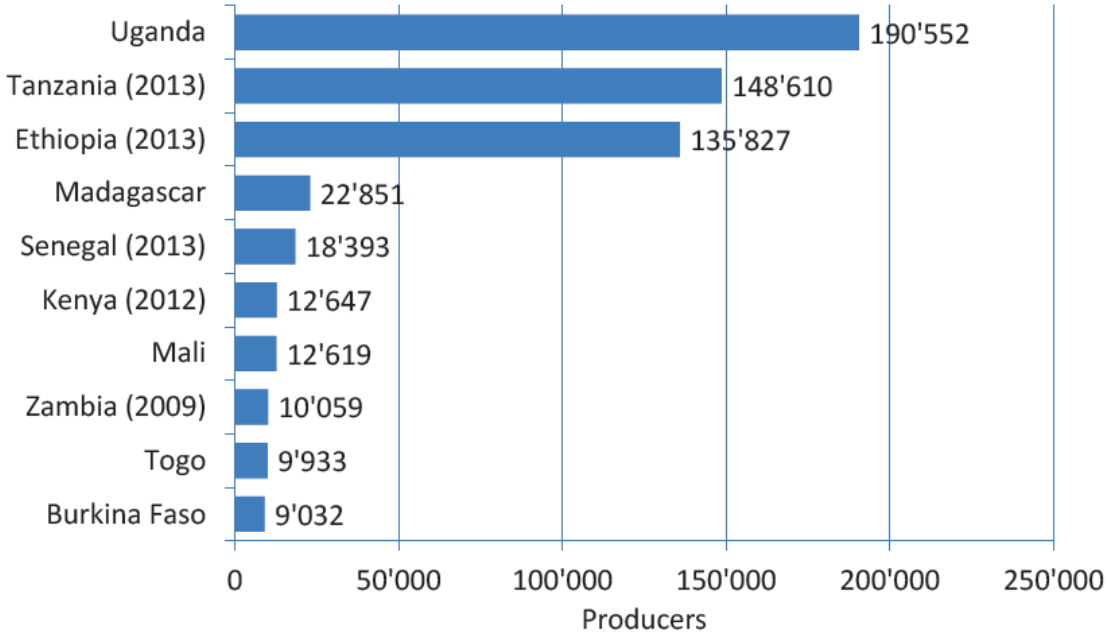


**Figure 8: The ten countries with the largest number of organic producers in Africa**

*Source: Lernoud/Willer/Schlatter (2016)*

The total area under organic production in Uganda is 240.197 hectares, which is the largest in Africa. But the share of organic agricultural land equals only 1.7% of total agricultural land (Lernoud/Willer/Schlatter 2016: 164). Again, Uganda is followed by Tanzania and Ethiopia. Although the land under organic production is large, the cultivated land per farmer is only 1.3 hectares on average. The small-scaled structure is characteristic for Uganda's agriculture in general and for organic agriculture in particular.

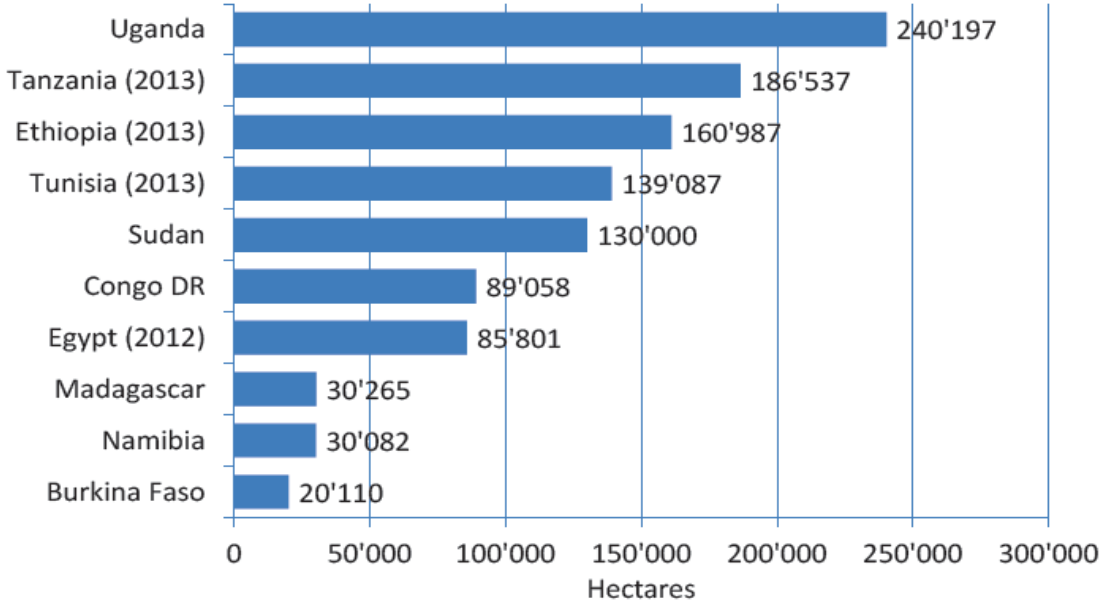


**Figure 9: The ten countries with the largest organic area in Africa**

*Source: Lernoud/Willer/Schlatter (2016)*

*Products*

Statistical data on organic products is very limited. The first organic crops coffee (Arabica and Robusta) and cotton are still the most important ones in terms of foreign earnings. But the range of organic products has steadily increased and nowadays many different types of products are supplied by organic companies. Major organic products include fresh and processed fruits (pineapple, mango, apple, banana, avocado, jackfruit, papaya or passion fruit), vegetables, spices (chili, pepper), oil crops (sesame), vanilla and cocoa (NOGAMU 2010: 2f).

*Markets*

In general awareness about organic food and its benefits is very small in Uganda. Consequently, most people are not willing to pay a premium price for organic products. Hence, the local market is very small and is concentrated on the region around Kampala, where mainly expats and people with a better socio-economic background demand organic products (Interview Namuwoza, 2015, 8/2). Due to the small size of the local and the regional market, the international market is of great importance for the organic sector in Uganda. In 2010, organic exports totalled 36.87 million US$, which is about 2.4% of the overall value of agricultural exports. The value of exports has increased steadily over the years, although there was a decrease in volumes in 2008 along with a decrease in agriculture exports generally (NOGAMU 2010: 1f). The major export destinations for Uganda's organic products include the European Union, which accounts for over 80%, the USA, Japan and the Middle East (ibid., 2f). A crucial issue in the context of organic agriculture export markets is certification. Depending on which market is targeted, different certifications are required as is discussed below for the case study sectors mango and pineapple.

## 5.2 Main actors in Uganda' organic fruit sector

This section provides an overview of the main actors in Uganda's organic fruit sector. As the selection is based on the empirical research, particularly stakeholders which were crucial for exporters in the context of upgrading are described. After a short discussion of the characteristics of organic exporters, the most important stakeholders in Uganda's organic sector and their relationship with export companies are presented. In general, it can be said that due to the relatively small size of the organic sector stakeholders know each other and collaborate formally or informally.

### 5.2.1 Export companies

As export companies are the focus of this thesis, the landscape of export companies in Uganda's organic sector is discussed in this part. The organic fruit sector in Uganda is relatively small as only eleven companies are in operation. See Table 1 for an overview.

**Table 1: Export companies in Uganda's organic fruit sector**

| Company | Fruits | Fresh | Processed | Location | Certification year/ body |
|---|---|---|---|---|---|
| Amfri Farms Ltd | pineapple, mango, banana, avocado, jackfruit, papaya, | X | X | Kampala | 1994, IMO |
| Bio Uganda Ltd | pineapple, banana, passion fruit | X | X | Kampala | 2004, IMO |
| Biofresh Ltd | pineapple, mango, banana, jackfruit, papaya, passion fruit | X | X | Kampala | 2004, IMO |
| Envalert | pineapple, mango, banana, jackfruit, papaya | | X | Kampala | 2005, IMO |
| Flona Commodities Ltd | pineapple, mango, banana, gooseberry, jackfruit, papaya | | X | Kampala | 2005, Ceres |
| Fruits of the Nile | pineapple, mango, banana | | X | Kampala | 2009, IMO |
| Jali Organic Ltd | pineapple | X | X | Kampala | 2005, Soil Association |
| RUCID | pineapple, mango, banana, jackfruit | | X | Mityana | 2001, UgoCert |
| Soleil Enterprises Ltd | pineapple, mango | | X | Kampala | 2008, UgoCert |
| Sulma Foods Ltd | pineapple, mango, banana, papaya, passion fruit | X | X | Kampala | 2005, Ceres |
| Tatgem (U) Ltd | pineapple, papaya, passion fruit | | X | Kampala | 2006, Ceres |

*Source: NOGAMU 2014, Interviews*

Due to the small number of operators the landscape of export companies in the organic fruit sector is not very diverse and can be described as homogenous. All companies have between 5-50 employees and are considered as SMEs (Kwikiriza et al. 2016: 24). A special role in the organic fruits sector is played by Amfri Farms Ltd as they are in a clear market leading position. This is indicated by additional certificates such as Demeter, new products like chia and also new types of processing like freezing (Amfri Farms Ltd. 2016).

*Company formation*

There are different ways how organic export companies have been founded. Most of them were established because of courageous initiatives of individuals. The pioneer Amfri Farms Ltd is a typical example for that. The founder was expelled during the regime of Idi Amin and migrated to Canada. When Amin's regime ended he came back and founded Amfri Farms Ltd with a Swiss partner. Later the founder died and his brother who had been a successful businessman in Canada, came back to Uganda to pursue the organic farm. Armin Shivji expanded the business and today Amfri Farms Ltd is the leading export company in the organic fruit sector. It is bigger than any other company in terms of size, volumes, employees, sales and technology (Amfri Farms Ltd 2016; Interview Anguparu, 2015, 2/2).

Other smaller companies were also founded in a similar way, except for the diaspora link. Many of them started as small business and grew over time (Interview Isiko-Nabongo, 2015, 6/2; Interview Twijukye, 2015, 4/1). But they have still remained small compared to Amfri Farms Ltd. Other firms were founded by people who had worked in agriculture and decided to create their own organic business together with partners. This was the case for Biofresh Ltd. As one of their founders is German they sought support from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to establish the company (Interview Bbosa/Mwadine, 2015, 3/39).

Apart from individual initiatives export companies were founded based on development projects with farmer communities. The involved NGOs founded export companies to ensure the sustainability of activities and to steadily increase the economic welfare and livelihood of small-scale farmers (Interview Tushabe, 2015, 1/13). Soleil Enterprises Ltd and Envalert were founded that way. These companies are also to some extent different in terms of their objectives.

Of course they are private companies and they want to make profits or at least break even to stay in the market, but their profits are used for the purposes of the NGO to which they belong. So the overall aim of their company is not to make profits, but to create social welfare among farmer communities (Interview Tushabe, 2015, 1/16; Interview Kivumbi, 2015, 5/50).

*Certification*

All exporters are certified as organic; otherwise it would not be possible to enter foreign markets with their products. Most of them use the Swiss certification body Institute for Marketecology (IMO), because it is one of the most accepted certificate for EU-standards. Some smaller companies also use other certifiers (see Table 1).

Organic certification is mainly about certifying the farmers and not the companies themselves. As certification is very expensive, export companies pay for the certification of the farmers, because it would be too costly for the farmers. This situation gives export companies a powerful position in the relationship with farmers. Additionally, to organic certification, some companies also hold other certificates such as Fair for Life, Fairtrade or even Demeter (Interview Anguparu, 2015, 2/42; Interview Bbosa, Mwadine, 2015, 3/10). Amfri Farms Ltd is the only Demeter certified company in Sub-Sahara Africa (Amfri Farms Ltd 2016).

### 5.2.2 Farmers

Farmers are a very important part of the value chain in the organic fruit sector. They are the producers who decide if they enter into organic cultivation or not. The terms and conditions of trading between farmers and export companies is crucial for their relationship. How a typical process of recruiting farmer by export companies is described in the following:

> *One of the things we do first, we identify farmers. If they are in this production of fruits, we approach them and request them whether they would like to produce organically certified products and if they say yes, we register them, inspect their farms, then train them in the organic concepts and good agriculture practices and we agree on the terms, on the pricing and also on the management aspects of the farms and we agree on the delivery mechanism that will go and pick, they only harvest when we are there. (Interview Kivumbi, 2015, 5/2)*

Farmers who work as individuals do not have the capacity to meet the demands of the companies; therefore the process of grouping is crucial. It would be way too difficult to deal with single farmers, especially when the number of farmers is high. Another reason for grouping farmers is that it is a prerequisite for farmers to get certification and trainings. To meet standards of certification internal control systems are needed for which grouping is necessary.

The biggest benefit for farmers is that they get integrated into value chains which enables them to generate a sustainable income. By pursuing organic agriculture they can even get higher incomes than conventional farmers. With the improvement of their economic situation, many other advantages come along. The money enables them to send their children to school and care for the whole family.

Apart from that the collaboration with export companies brings additional benefits. The majority of exporters also provides extension services to their farmers. Particularly companies which are part of NGOs provide even more services to their farmers, because these companies were founded to serve the aims of the NGO. Projects in this area often include access to clean water and sanitation, health programmes, education for the farmer's children etc. (Interview Tushabe, 2015, 1/16; Interview Kivumbi, 2015, 5/5). Especially Amfri Farms Ltd in ambitious in this area and additionally provides some social services.

> *Five years ago we helped to establish a health centre in one of the farmer groups, actually a pineapple growing area. Because they used to move almost about 120 km to the nearest health centre to get treatments. So together with some partners in Sweden we helped them to set up a health centre for them. (Interview Anguparu, 2015, 2/15)*

### 5.2.3 NGOs

NGOs are not always involved in projects regarding organic fruit production, but they are often integrated into the organic sector by providing extension community services. Africa2000Network (A2N) is an organisation which is very active in this area. They help to improve the circumstances in which organic agriculture takes place. NGOs generally interact with farmers and less so with export companies; only if they conduct a joint project such as training for farmers.

Different to other NGOs in the organic sector is the umbrella organisation NOGAMU. Its establishment in 2001 resulted from the efforts of different stakeholders including individuals, NGOs, organic export companies and development organisations. Especially EPOPA had an active role in establishing this institution (Adebiyi 2014: 56). It is definitely one of the most

important stakeholders in the organic sector in Uganda. In 2013 the organisation had more than 565 individual members and 325 corporate members representing over 200.000 small scale farmers (NOGAMU 2014). As an umbrella organisation, it serves as a connecting point for different stakeholder groups and sees collaboration as a success factor of the sector. In recent times NOGAMU also developed a trading arm as part of their organisation. With this trading arm they try to get together farmers and also small export companies in order to overcome the challenge of small quantities. They promote and try to sell their products under a common brand called Organic Uganda Trading (ORGUT). This project started in 2015 and is still in its beginning but it has a large potential especially for farmers (Interview Namuwoza, 2015, 8/10, 8/11). The small size of the organic sector in Uganda means that almost all stakeholders interact with NOGAMU in one way or another. They offer a wide range of services for their members including market research, business linkages or trainings. The strength of such an umbrella organisation in organics is crucial for a sustainable sector and other countries in the region, especially Kenya and Tanzania lack this kind of strong organisation. NOGAMU also acts as a lobby organisation and brings important issues in the political discussion.

NOGAMU also offers training for farmers. Also export companies can apply for help if there is a need, but not all companies do that. In general, it can be said that the smaller the company, the more important NOGAMU is for their business. Smaller companies often do not have the capacity (knowledge, money, workers, etc.) to run a business successful. Therefore, they seek support from NOGAMU more often.

The fact that NOGAMU is financed 70% by donors shows the importance of development cooperation for the sector. The rest of the budget is funded by membership fees. Additionally, many development projects of donor agencies are channelled through NOGAMU. It means that NOGAMU gets financial support and then they seek participants for different kinds of projects (Interview Namuwoza, 2015, 8/16). Export companies not always perceive it as development cooperation, because they only interact with NOGAMU for the particular project.

### 5.2.4 Donor agencies

The donor agencies of many countries have financed projects in the organic sector in Uganda but, SIDA and DANIDA have been the most important ones and are still in a leading position. Since the end of EPOPA, SIDA's engagement has declined and DANIDA has overtaken the role as leading donor agency in the organic sector, especially for export companies. A number

of other donor agencies have been active in Uganda's organic sector such as GIZ, NORAD, or USAID, but their importance was much lower; hence they are not in the focus of this thesis.

Apart from national donor agencies, also international donors have played a crucial role. Especially the United Nations Industrial Development Organisation (UNIDO) has pushed industrialisation in the context of organic agriculture and helped some exporters to get equipment for processing (Isiko-Nabongo, 2015, 6/19; Interview Kivumbi, 2015, 5/12).

A special kind of stakeholder are programs that have been initiated by donor agencies. For the organic sector in Uganda as a whole, EPOPA was crucial. The programme was initiated 1997 by SIDA and implemented by two consultancy companies, Agro Eco and Grolink. After a phase of scaling up between 2002 to 2007 it ended in 2008. The main idea behind it was to reach development through trade. EPOPA worked directly with export companies as they were their main partners (Van Elzakker 2008: 2ff). This is validated by the fact that although the programme ended in 2008, it is still known by all stakeholders and almost all of them benefitted from it or at least had some interactions with them in different areas, like certification, training equipment, trade fairs or even extension services. Additionally, EPOPA played a crucial role in establishing NOGAMU.

What can be criticised about EPOPA is that not all of their support was sustainable in an economic sense. Especially the takeover of certification cost was a problem. After EPOPA ended many export companies dropped out of business and the remaining companies had to look for support from other institutions. So for example Amfri Farms Ltd got into a business-to-business partnership with a Danish partner company through DANIDA (Interview Anguparu, 2015, 2/24).

### 5.2.5 Other key players

Since the end of EPOPA other organisations have been established, which are now crucial partners for the organic sector. These new programs are organised in a completely different way and differ to a large extent from previous ones. One of the main differences is the broader focus of these institutions. They are not solely focussed on the organic sector, but more on business in general and agro-business in particular.

*AgriBusiness Initiative Trust (aBi Trust)*

One of these organisations is aBi Trust. The major differences to other programs like EPOPA is that aBi Trust is not just a project, but a corporate body and does not have a limited lifetime which enables to provide support with a long-term view. aBi Trust was jointly founded as a multi-stakeholder entity by the governments of Uganda and Denmark in 2010. Major development partners include UKAid, SIDA, DANIDA, USAID, Kreditanstalt für Wiederaufbau (KfW), Dutch Development Cooperation and Crossroads (aBi Trust 2016a). aBi Trust provides financing and technical support for selected agricultural value chain with the aim of being a catalyst to private sector agribusiness development (aBi Trust 2011: 5ff). As SMEs are one of the targeted groups, organic export companies are predestined for support. Exporters are aware of the services and support of aBi Trust and they apply for help. It is important to show that your business has potential if you want to get some support.

*Private Sector Foundation Uganda (PSFU)*

Another important organisation which is not only focused on the organic sector is the apex body Private Sector Foundation Uganda. Apart from conducting a policy dialogue on behalf of the private sector, it is also an important partner of the government in implementing programs and projects, which includes trade development and capacity building in the private sector (PSFU 2016). Many exporters applied at least to one of their projects, especially for support in certification.

*Trademark East Africa Challenge Fund (TRAC)*

TRAC is funded by Trademark East Africa which is a multi-donor initiative of many development agencies to promote regional trade and the EAC's trade with the rest of the world. It works closely with national governments, and business and civil society organisations. It is based in Nairobi and has representatives in Tanzania, Uganda, Rwanda and Burundi. The most important partners of development cooperation are DANIDA, SIDA, UKAid and the Ministry of Foreign Affairs Netherlands (TRAC 2016a).

TRAC also funded - through NOGAMU - one of the most innovative projects in organic agriculture, called ORGUT. The project's main objective is to provide a common bulking

arrangement for dried fruits of 7 SMEs[5] in the organic sector (TRAC 2016b). In this context the use of the same technology for processing is crucial in order to reach the same quality. The price exporters get is fixed but they do not receive any money until the products are sold. That is why some companies do not participate in this program, because if they sell directly they often get money beforehand. The export companies only interact with NOGAMU which created a trading arm within their organisation to sell products under ORGUT on the international market.

Along with ORGUT many benefits come, including economies of scale, maximized competitiveness, establishing a strong common brand and increased overall capacity of participating companies (TRAC 2016b). Probably the biggest advantage of this bulking arrangement is that the products can be exported by sea which is cheaper and makes the products more competitive on the international market.

*Certification bodies*

As already mentioned certification is obligatory in organic agriculture, therefore certification bodies have an important role in the organic sector. There are local as well as international certification bodies. In the local and regional context UgoCert, which was founded by NOGAMU is a key player. They are qualified to certify farmers with different kinds of standards, but mostly they certify under the regional standard Kilimohai. They also work closely together with the Uganda National Bureau of Standards which is responsible for standards in general and in particular for organic standards. Among the international certification bodies, IMO and the Certification of Environmental Standards (CERES) are the most important ones. They are qualified and established in certifying under the EU standard.

[5] Biofresh Ltd, BioUganda Ltd, Sulma Foods Ltd, RUCID Ltd, Flona Commodities Ltd, Jali Organic Association and Soleil Enterprises Ltd (A2N) (TRAC 2016b)

## 5.3 The organic fruit value chain

This section first illustrates and discusses the conventional fruit value chain and the organic fruit value chain to make differences clear. The second part of this sub-chapter is more specifically about the organic fruit value chain in Uganda. A detailed overview of the different segments and actors is provided. Additionally, the relationship between actors in the organic fruit value chain is analysed.

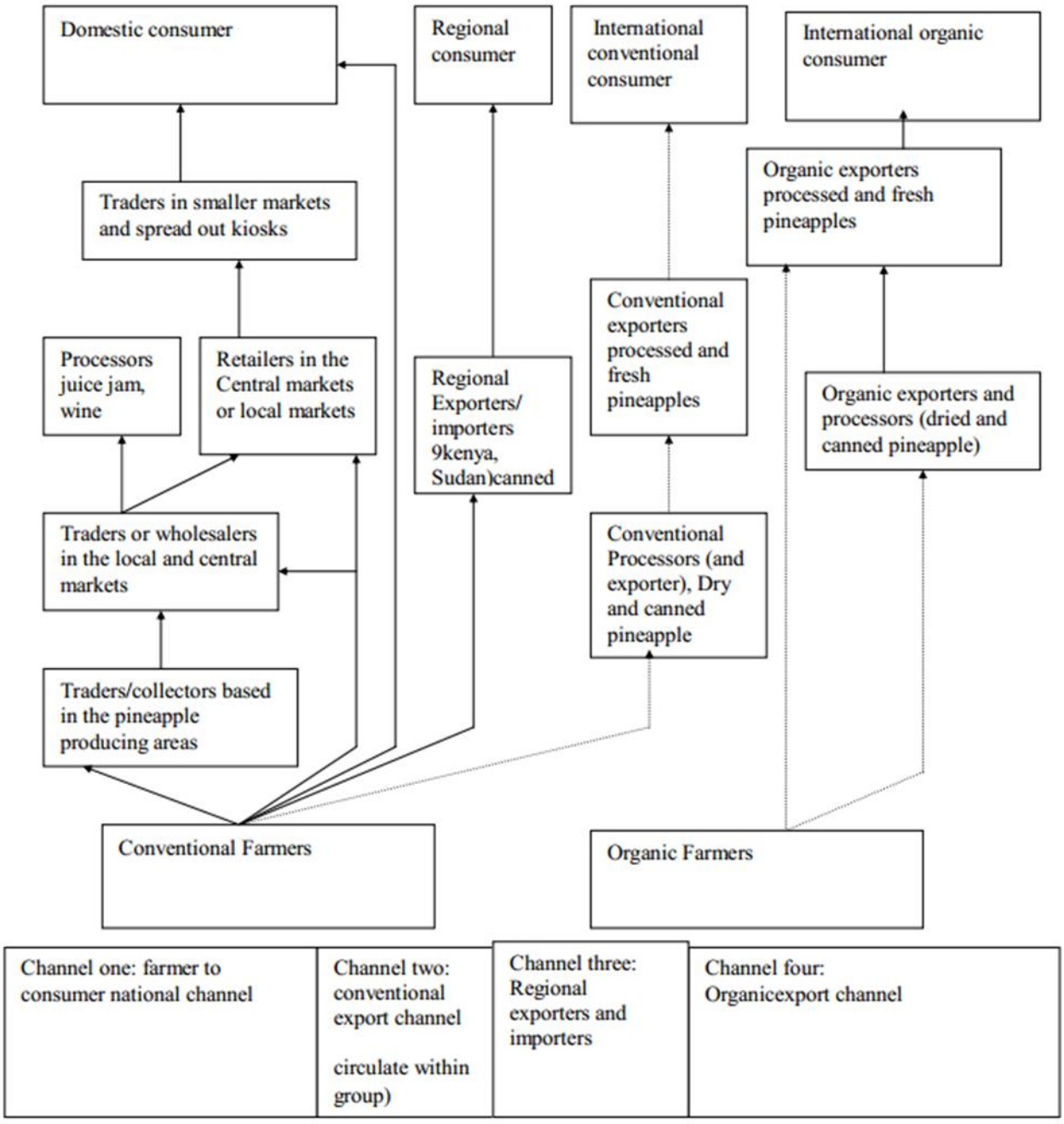


**Figure 10: Structure of pineapple value chain and its participants in Uganda**

*Source: FIT Uganda/Ssemwanga Consulting 2007*

Figure 10 illustrates the structure of pineapple value chains, conventional as well as organic, in Uganda. As it can be seen the structure of the conventional (left side) and the organic value chain (right side) are completely different. A crucial difference between the two is the number of actors involved. In conventional trading many intermediaries are involved at different stages of the value chain, while in the organic value chain all segments are operated by one group of actors namely export companies. They are the only actors between the producers (small-scale farmers) and the consumers (international market). The organic mango value chain is similar.

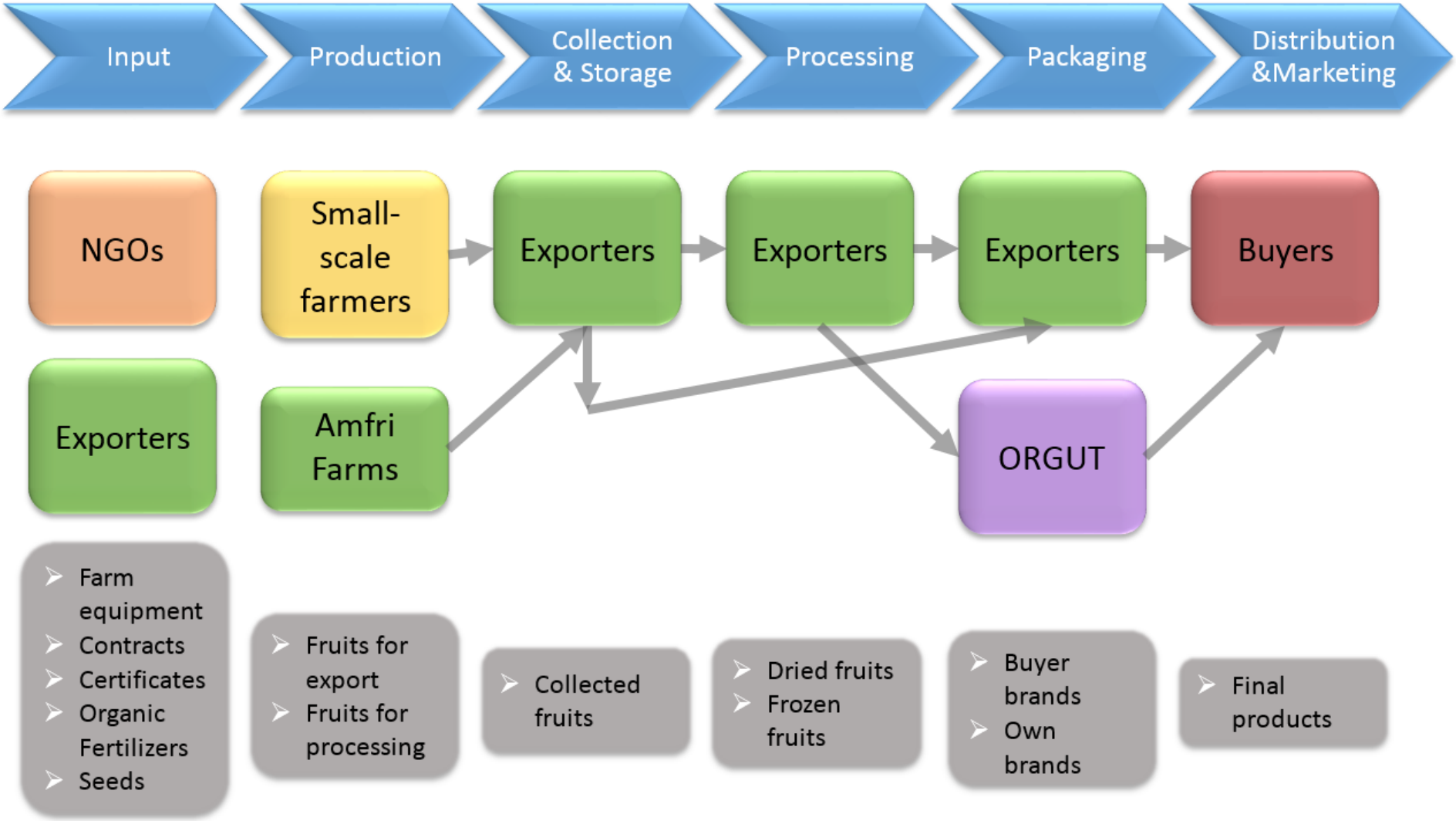


**Figure 11: Organic fruit value chain in Uganda. Segments, actors, input/output structure**

*Source: Author's elaboration based on Interviews, Bamber/Fernandez-Stark 2012*

Figure 10 provided an overview of organic value chains, figure 11 is a more detailed illustration of the organic fruit value chain in Uganda. On top the main segments of the value chain are presented. Right under the segments actors are mentioned. The special role of export companies is noticeable. They are active in almost all segments of the value chain. In the input segment NGOs, in particular the ones which provide extension services to farmers, are crucial. But also exporters, which have a strong interest in reliable production, support farmers at this stage. Additionally, certification and contracts are important at the input level. Export companies pay for the certification of the farmers and if they want to remain in the organic business they have to stick to the rules of organic farming.

The production segment is dominated by small-scale farmers. The only other actor in this segment is Amfri Farms Ltd which is operating a farm on their own land. The farmers who work there are employees of the company, but as Amfri Farms Ltd also provides accommodation many of them live on the farm (Interview Kakooza, 2015, 9/2).

Farmers and exporters agree about the collection of fruits in contracts. It is regulated if the farmers have to bring their products to the factory where fruits are processed or if the exporter has to pick them up from the farms. Usually the export company picks the products up at the farm gate. This makes it a lot easier because in particular if quantities are high transport for small farmer groups can become a big challenge (Interview Kivumbi, 2015, 5/9). Fruits are stored at exporters' plants where usually also the processing facilities are located.

After the collection and storage segment, the fruits are divided into two groups: fresh fruits for export and fruits for processing. The fresh fruits are going directly to the packaging segment and from there to the buyers. The other part of the fruits is either dried or frozen and afterwards packaged ready for export.

In most cases the organic fruits value chain looks exactly like this. Everything beginning from production or at least collection and storage is in the hand of export companies. Slightly different from this traditional approach is the new program ORGUT. After processing the fruits, exporters sell them to ORGUT where the products of seven companies are bulked and sold together under a common brand at the international market.

The relationship with buyers is similar among export companies. In general, they only sell to very few or just one buyer. For instance, Biofresh Ltd has a long and stable relationship with a buyer from Germany to whom they sell almost exclusively. Even Amfri Farms Ltd which has due to its size and number of products many different buyers, conducts its major business with their Danish partner company Solhjulet.

*Contracts and prices*

All exporters have contracts with farmers. In these contracts quantities and prices for organic products are fixed. The price setting mechanism of Envalert and its farmers is a bit different. At the beginning of the season they agree together with their farmers on an average price which is slightly higher than the market price for conventional products. At the end of the season generally lees products are available and prices go up. So at that time Envalert pays them a bit less than the market price, but still a very reasonable price (Interview Kivumbi, 2015, 5/3). The advantage of this mechanism is its price stability.

Contracts are very important for the export companies as well as for the farmers because it gives them security in their business operations. In addition to that also trust plays a crucial role in the relationship between small-scale farmers and export companies. Most of the contracts are not binding for the farmers which means that they are not obliged to sell to certain companies but they give them the first priority if they want to buy at a premium price (Interview Muwanga, 2015, 7/35). If companies are certified under Fair for Life the conditions are even less strict.

> *Because we are Fair for Life […] we are not supposed to enter into a binding contract with any party, any of our suppliers even with our workers when we are contracting them to work. It's supposed to be an open contract that either party can terminate the contract whenever they feel they don't want to keep up the partnership. (Interview Anguparu, 2015, 2/11)*

Usually the farmers sell as much as possible to the company with which they have their contracts. But exporters cannot consume everything farmers are producing. Therefore, they have to sell the rest through another channel, often on the local market. But it is almost impossible to get a premium price for organic products at the local market. Consequently, they have to sell it for the same price like conventional products.

# 6 Findings of empirical research and discussion

In this part the main findings of the empirical research are presented and discussed in the context of the theoretical framework introduced in chapters 2 and 3. The chapter is divided into five sub-sections. The first section analyses upgrading activities of export companies against the background of the different dimensions of upgrading. Afterwards the involvement of development cooperation in these upgrading processes is discussed. Further, the impact of development cooperation and development cooperation's involvement on a more general level and how this has changed over time from an exporters' view is analysed. The next sub-section is about remaining challenges faced by export companies. Understanding these challenges is crucial for interpreting development cooperation's role in upgrading, because it reveals areas where support of development cooperation was lacking or did not ensure success or sustainability. The chapter is concluded by some recommendations.

## 6.1 Upgrading

Upgrading is one of the key concepts of this thesis. This part links the results of the empirical research to the upgrading dimensions defined in the GVC approach. Hence, the activities of export companies in the context of different types of upgrading are examined. A special focus is on processing and packaging as these two segments of the value chain turned out to be the most important upgrading paths. Important aspects such as the beginning of the upgrading activities, technology and equipment are discussed. Apart from economic upgrading developments regarding social upgrading are presented. Additionally, the main reasons for upgrading identified by exporters are described. The role of development cooperation for these upgrading processes is discussed in the next part.

### 6.1.1 Functional upgrading

Within the GVC framework entering new segments of a value chain is referred to as functional upgrading. Functional upgrading can be done in two ways: either by changing the structure of the value chain or by acquiring new productive capacities (Microlinks 2016). In the context of Uganda's organic fruit sector, the second way was chosen. Entering the processing segment was identified as the most common type of upgrading among export companies.

- *Processing*

All export companies operating in the organic fruit sector entered the stage of processing and are now dealing with some kind of processed products (see table 1). In general export companies dry the fruits; only Amfri Farms Ltd also provides frozen fruits for their customers. Entering the process of freezing is so far not an option for the other companies, because it requires more know-how than drying and they have many other problems to focus on (Interview Anguparu, 2015, 2/17). If they plan to do so in the future, it is important to identify a buyer for their new products beforehand. If there is no demand it makes no sense to invest in this type of technology.

*Beginning*

Although all exporters are in the processing business now, the way to get there was diverse. The first option was to start with dealing in fresh fruits and then after some years in business try to enter the processing segment of the value chain. Biofresh Ltd was doing it like that. They first established their companies in the export of fresh fruits and then later on started to sell dried fruits as well (Interview Bbosa/Mwadine, 2015, 3/6). Other companies like Envalert, Flona Commodities Ltd or Jali Organic Ltd started right away with the export of dried fruits after the foundation of their business (Interview Kivumbi, 2015, 5/6; Interview Isiko-Nabongo, 2015, 6/7; Interview Muwanga, 2015, 7/28). Again, different to the other exporters is Amfri Farms Ltd which started with exporting fresh and dried fruits at the same time. In 2005 they entered another processing segment and started to export frozen fruits (Interview Anguparu, 2015, 2/19).

*Equipment*

Nowadays all export companies have their own equipment in the processing segment. But it was not always like this. For instance, Jali Organic Ltd outsourced the processing in the beginning as they did not have the capacity to process fruits on their own. Also Biofresh Ltd did it in this way, but stopped after a short period of time, because many problems were linked to the outsourcing of processing. For instance, if a dryer with a different technology was used, the products were getting a different taste. Therefore, it is important to have your own dryer to be able to control the whole production process (Interview Bbosa/Mwadine, 2015, 3/28).

*Technology*

Technology is a crucial issue in the context of processing, because it has a significant impact on the final product. A very basic way of drying fruits is to use sunlight. But as the processing segment is in control of exporters who process bigger quantities and additionally need to harmonize the quality of their products, sun drying is not an option for them. The most widely spread technology for processing fruits is therefore dryers which are run by solar panels. Their main advantage is that the costs for running the machine are very low, but obviously its disadvantage is that it only runs when the sun is shining. In order to guarantee a continuous production process, a back-up for that kind of technology is necessary. There are two options for that: biomass or electricity (Interview Tushabe, 2015, 1/36). Most of the export companies use a combination of solar and another source of energy for running their dryers. Jali Organic Ltd is the only company which abandoned solar energy and just uses biomass for running their dryer. This is because on the island where their plant is located, plenty of firewood is available. So there is no need to use any other technology (Interview Muwanga, 2015, 7/28).

- *Packaging*

Upgrading to the packaging segments has been identified as another type of functional upgrading in Uganda's organic fruit sector. But it is less relevant than upgrading to the processing segment. Biofresh Ltd is the only export company which managed to upgrade entirely to this segment of the value chain. It is not only involved in packaging activities but also in sourcing its own packaging material from Kenya. But the costs of importing are high and due to the difficulty of sourcing the right packaging material it is difficult to acquire profits in this segment of the value chain (Interview Bbosa/Mwadine, 2015, 3/29). Most of the other export companies also do packaging at the exporters' plants, but they are not engaged in souring. They get the ready-made packaging material from their customers and just package the goods according to their orders (Interview Isiko-Nabongo, 2015, 6/17; Interview Tushabe, 2015, 1/37). The lack of affordable packaging material in Uganda is one reason why many of the export companies have not upgraded to this segment yet. Another reason is that packaging material is often linked to buyers' brands and marketing, which are part of their core business. It is much more difficult to enter business segments that are part of buyers' core business. The missing support of development cooperation in this area might be a further reason why almost all export companies failed to upgrade to sourcing packaging inputs.

### 6.1.2 Process upgrading

Statements about the production process and its efficiency within export companies are difficult to make as the information from empirical research is very limited in this regard. But what can be said is that within the organic fruit value chain the biggest potential for process upgrading is not at the export companies' level but at the farm level. It is not directly part of the exporters' business but as they maintain close relationships with their farmers and as they are dependent on reliable sources of raw material it is also in their interest. Investments in irrigation infrastructure or the supply of organic fertilizers can be interpreted as process upgrading. Improvements in these areas can help farmers to increase agricultural yields and the quality of the products. Some of the export companies provide organic fertilizers for their farmers, also NOGAMU is doing that for certain farmer groups. So far none of the export companies managed to equip farmers with irrigation equipment.

### 6.1.3 Product upgrading

The change from conventional to organic products can be interpreted as product upgrading. But as export companies have already operated in the organic fruit sector for many years, this type of upgrading is of minor relevance in the context of this thesis. Some export companies extended the range of fruits that they supply over time. For instance, Amfri Farms Ltd recently added avocados to their product segment (Interview Kakooza, 2015, 9/6). Although the potential for product upgrading is limited due to the fact that organic products are already high-value products, a common way for product upgrading among export companies within Uganda's organic sector is getting additional certificates for different aspects of production. Certificates such as FairTrade or Fair for Life further increase the value of the products, but only a few companies went into these areas. Product upgrading activities have been a reaction to consumer demands and customer requirements as customers require certification for issues such as working conditions or traceability (Microlinks 2016).

### 6.1.4 Channel upgrading

Entering new markets with the same product is understood as channel upgrading. But it is not very common among export companies in Uganda's organic sector. All export companies have long and stable relationships with their initial buyers, which are mainly from Europe. Usually they remain with them, although some export companies have received additional inquiries

particularly from the Middle East. Hence, there is potential for channel upgrading because the demand for organic products has increased all over the world (Lernoud/Willer 2016: 26). But today export companies are not able to supply additional quantities for new markets. Before entering new markets, they have to overcome challenges of product quality and quantities. In the future entering new end markets and buyers will be an interesting perspective to expand business and also to reduce dependency on traditional buyers and markets.

### 6.1.5 Inter-sectoral upgrading

The organic sector is very specific and dealing with high-value products, therefore inter-sectoral upgrading was not observed in the course of the empirical research for this thesis.

### 6.1.6 Social upgrading

The key principles of organic agriculture play a crucial role for export companies in the organic sector. Consequently, social dimensions of work conditions are given more attention than in conventional businesses.

Regarding measurable standards workers and farmers in the organic sector have been in a favourable position due to the principles of organic agriculture. Especially additional certificates such as FairTrade or Fair for Life held by export companies guarantee employees and farmers an appropriate treatment regarding social components of work. But only four companies hold these certificates. Hence, in line with economic upgrading also social upgrading took place as the situation of workers and farmers also improved. The component of enabling rights in the context of social upgrading is more difficult to analyse. Employees and farmers have rights to form associations and conduct collective bargaining. But especially for small-scale farmers the situation can be difficult as they are heavily dependent on the export companies because they are their most important buyer and moreover they pay for their organic certification. Hence, dependent relationships in organic agriculture value chains as in conventional agriculture may limit social upgrading in some areas.

With the upgrading to processed fruits many benefits come along also for the farmers. As a consequence of upgrading, export companies demand higher quantities of fresh fruits which in further consequence leads to an increased income of small-scale farmers (Interview Kivumbi, 2015, 5/6). It takes five tons of fresh fruit to produce one ton of dried fruit (Gibbon 2006: 14).

"So the more we buy from our farmers the more they are actually able to meet their needs." (Interview Tushabe, 2015, 1/34) Usually farmers only sell a fraction of their total production to organic export companies. The rest is sold on the local market, but they do not get a premium price for that. Processing fruits leads to an increase in the fraction sold to exporters, which in further consequence increases the income of small-scale farmers (Interview Bbosa/Mwadine, 2015, 3/49). Especially for companies like Envalert or Soleil Enterprises Ltd which are on the interface between business company and NGO the potential of improving the situation of farmers is high (Interview Kivumbi, 2015, 5/6; Interview Tushabe, 2015, 1/62). Apart from the improvement of the economic situation of farmers their social situation improved as in line with organic agriculture projects also other problems have been tackled. For example, services such as clean water, sanitation etc. were provided for the rural population. These things were mainly done by donors and NGOs, but often in close collaboration with export companies (Interview Muwanga, 2015, 7/5).

Upgrading for farmers and farmer groups in the organic fruit sector by themselves is almost impossible, because the standards for export are too complicated and it is too difficult to control the quality for individual farmers or farmer groups. The only possibility, where they could upgrade by themselves is on the local market (Interview Anguparu, 2015, 2/53). For exports, they need the link to export companies.

### 6.1.7 Reasons for upgrading

As the most important upgrading path was functional upgrading to processing, this section focuses on processing. The rationale behind exporters' entry into the processing segment is similar across all companies. Main reasons given are the perishable nature of fresh fruits, different requirements in terms of size and weight for fresh fruits and a higher demand for processed fruits. In general, all those reasons played a role in the decision making of exporters, the only difference is the importance which was given to the different aspects.

The short shelf life of fresh fruits is very demanding for exporters. After harvesting fresh fruits have to be transported very quickly to the final consumer; otherwise the fruits will not be enjoyable. Because of that air freight is the only option for exporting fresh fruits. But even then it is not 100% sure that the product is still fresh when it arrives at the final consumer. For instance, problems with the flight schedule or any other reason for a delay have a negative impact on the quality of the product (Interview Isiko-Nabongo, 2015, 6/5). Hence, in order to

overcome challenges regarding the shelf life of fresh fruits exporters entered into the processing segment of the value chain (Interview Tushabe, 2015, 1/11).

Another reason is that the requirements for fresh fruits are stricter compared to dried fruits. The fruits are obliged to have a certain size and weight for export and it is very difficult to control these issues. When fruits are processed these requirements do not matter anymore. This was the key reason for Envalert and Jali Organic Ltd to enter the processing segment (Interview Kivumbi, 2015, 5/8; Interview Muwanga, 2015, 7/12).

Another rationale for processing is that the demand for processed fruits is higher which makes it easier to find a buyer (Interview Bbosa/Mwadine, 2015, 3/44). It also occurred that there were times with no demand for fresh fruits. Consequently, the only chance was to upgrade to the processing segment in order to stay in business. Jali Organic Ltd ended up with this result after conducting some market research (Interview Muwanga 2015, 6/7).

Last but not least benefits for farmers have been identified as a reasons for export companies to enter the processing segment. As processing requires higher inputs the income of farmers has increased and has also led to other social benefits. Especially for companies at the interface between business company and NGO this was a strong rationale.

## 6.2 Development cooperation's involvement in upgrading

The development projects assessed in the course of this research focused on export companies and small-scale farmers. Furthermore, institution building was an important part of the involvement in Uganda's organic sector. In this section the role of development cooperation in upgrading at export companies is presented and linked to different types of interventions. The main question discussed is: In which areas have exporters received support from development cooperation actors? Many of the described areas are crucial for the operation of the business itself, but are particularly significant in the context of upgrading to processing and packaging.

### 6.2.1 Equipment

One of the most important preconditions for entering the processing segment of the value chain is to get the right equipment. In this context, the availability of capital and know-how is crucial. Regarding the intervention typology introduced in chapter 3, as export companies were supported to develop new activities in processing, interventions in the area of processing

equipment can be characterized as “developing new or alternative linkages in the chain”.

There are different ways of how to get processing equipment. One way is to build the machine by yourself or by an engineer. In this context it is important to identify the right technology beforehand and additionally to find a good engineer. This was the case for Envalert. UNIDO supported them during the whole process. At first they identified the right technology and also the engineer. After these issues were addressed, they helped to finance the dryer. UNIDO paid the costs of the engineer and contributed to the direct costs of the machine (Interview Kivumbi, 2015, 5/10; 5/13).

Another possibility of getting processing equipment is to buy premade machines and install them. As it is difficult to get appropriate machines in Uganda, they are imported from other countries. In the case of Flona Commodities Ltd the dryers came from Austria. Again UNIDO was the main partner. They helped to find the right technology and supported the company financially with a 50% contribution (Interview Isiko-Nabongo, 2015, 6/18; 6/20). In the case of Flona Commodities Ltd the first dryers were wooden, but some years ago the EU changed its hygiene requirements, so new stainless dryers were needed. The purchase of the new dryers was to some extent supported financially by TRAC (Interview Isiko-Nabongo, 2015, 6/33).

I could not verify where Biofresh Ltd got their equipment from, but like Flona Commodities Ltd, they were also supported by TRAC. In that case the financial support was 50% of the total costs of the dryer. The other part was an investment of Biofresh Ltd (Interview Bbosa/Mwadine, 2015, 3/14). TRAC is still one of the most important actors in this area and finances new dryers with a 45% contribution (Interview Namuwoza, 2015, 8/10).

Soleil Enterprises Ltd was supported by aBi Trust to get their processing machine. They organised everything for them, beginning from identifying the right technology to acquisition and finally they also paid for it directly (Interview Tushabe, 2015, 1/55). It is one of the few cases where the dryer was paid 100% and the company did not have to make any contribution.

Amfri Farms Ltd has sourced their equipment also from other countries, but their approach is different. For them it is important to get the machines from the region, because if something needs to be repaired it is difficult to get spare parts if the machine is from a country far away. Additionally, it is easier to get someone who has the knowledge to repair the machine. For that reason Amfri Farms Ltd tries to source their equipment from Kenya (Interview Anguparu, 2015, 2/20). Another particularity of Amfri Farms Ltd’s story of getting processing equipment is the role of its Danish partner company. They were crucial in the procurement process. The role that

donor agencies fulfilled for the other export companies is hence taken over by Solhjulet, especially in the context of identifying the right technology of the equipment. But Amfri Farms Ltd had to finance it on their own (Interview Anguparu, 2015, 2/20; 2/26).

The situation of Jali Organic Ltd is different compared to all the other export companies in the organic sector, in particular in the context of upgrading activities. They managed to finance the whole equipment on their own. Indeed, they tried to get some support, but did not succeed (Interview Muwanga, 2015, 7/14).

All in all, exporters have been supported by development cooperation on different levels in the context of acquiring processing equipment. First, before getting a buyer it is important to find out which dryer and which technology is appropriate for one's own company. A lot of knowledge is required to know how and where to get the right machines (Interview Anguparu, 2015, 2/53). Many exporters were supported in this early stage of identifying the right technology (Interview Anguparu, 2015, 2/20; Interview Kivumbi, 2015, 5/13). Apart from the knowledge which dryer is the right one, the most important part of getting a dryer is to finance it as it is a big investment. Most of the exporters were supported financially to different degrees, just one got 100% financing. The others had to contribute some part ranging between 50% and 70% (Interview Bbosa/Mwadine, 2015, 3/14; 3/44). The firms in the organic fruit sector are very similar therefore it is paradox that the support varied to such a great extent. Hence the differences cannot be traced back to the size of firms, but the data from empirical research does not provide enough information to give an explanation for these differences.

### 6.2.2 Recruitment of farmers

Recruiting new farmers is crucial for exporters since they are the backbone of production. Regarding the intervention typology, interventions in this area can be best classified either as "improving linkages in the chain" when the focus is working with existing farmers or as "developing new or alternative linkages in the chain" when the focus is recruiting new farmers.

In general exporters try to get new farmers continuously for several reasons. One is that they want to increase production and they need new farmers to do that. Another reason is that some farmers drop out of organic agriculture and then exporters have to find new farmers to replace the old ones. "As long as the farmer is willing to go into the organic principle, they are very good. But if they are being forced to go into it, it's difficult for the new farmers" (Interview Anguparu, 2015, 2/13).

Basically there are two ways how exporters get new farmers. In the first scenario farmers or farmer groups ask export companies if they could enter organic agriculture. This is rarely the case but it happens. The other way is that export companies actively seek for new farmers. Usually they go out to the field and try to identify potential farmers for their business. After identifying them they ask them if they want to start a business relationship with them. Or another possibility is to ask existing farmers if they know someone who would like to join. This method is sometimes more efficient because the new farmers trust someone who is already working for an export company. Especially in rural areas this is a good way of recruiting new farmers (Interview Isiko-Nabongo, 2015, 6/16; Interview Kakooza, 2015, 9/3).

Like in many other areas especially in the beginning donor agencies actively supported recruiting new farmers. EPOPA was one of the first ones who helped companies in this area (Interview Anguparu, 2015, 2/27). But as with equipment, the importance of development cooperation for recruiting farmers varies across different companies. For the majority support in this area was less important while for others like Envalert it was crucial (Interview Kivumbi, 2015, 5/36). The reasons for these differences are not clear. One interpretation is that it is more important for smaller companies as they often do not have the capacities to recruit new farmers on their own, because it is a very time-intensive work. Additionally to donor agencies, NOGAMU is very active in this field. As they are the intermediary between farmers and exporters, NOGAMU can always be asked if they know some farmers who wish to enter organic agriculture. This is one of their main services (Interview Namuwoza, 2015, 8/1).

The longer export companies are in business the less important is support in that area. Over time they got some experience about recruiting new farmers and are not reliable on support from others any more. Hence, although development cooperation played a major role in this area in the beginning, in recent times the importance of this support for export companies decreased.

### 6.2.3 Training

Training is a very important component of organic agriculture as many requirements have to be fulfilled. Development cooperation was very active in the field of training, for farmers as well as for export companies depending on their focus. But the mode is different. Sometimes they send consultants or pay for training which is conducted by other organisations and sometimes they do it on their own. Support for training helped export companies importantly as training is

very time and cost intensive. Regarding the intervention typology, particularly support for training at the farmer level can be classified as "working on the weakest link". Regarding export companies, the classification depends on the specific type of training provided.

*Training for farmers*

Training for farmers is on a very basic level and is mainly about certain techniques of organic farming and how to comply with the required standards of organic agriculture. Additionally, they are thought some basic knowledge so that they can do business with the export companies (Interview Tushabe, 2015, 1/25).

As training for farmers is the backbone of a functioning organic agriculture, many different actors provide training. Export companies themselves organise trainings for their own farmers, because for them it is very important to have farmers who know how to do organic agriculture (Interview Anguparu, 2015, 2/14; Interview Tushabe 2015, 1/25). Additionally, many NGOs provide trainings for farmers. Their rationale behind this is that training of farmers is a possibility of integrating them into the economy. Especially NOGAMU is very active and providing trainings to their members is one of their main field of activities. Sometimes the trainings are for free; sometimes stakeholder have to pay for it (Interview Twijukye, 2015, 2/4).

*Training for exporters*

Apart from training on the farmers' level also export companies have a need for training. Training for the exporters are less about organic agriculture in general and more about how to do business in a successful way. These trainings are often provided by donors, especially the ones which have a focus on business development. Additionally, as for farmers, training for exporters is also one of NOGAMU's core services to its member, especially in early phases and for people who are new in the organic business (Interview Muwanga, 2015, 7/8; Interview Twijukye, 2015, 2/4). Donors and NGOs are the main actors but not the only ones who organise trainings for exporters in Uganda. In the case of Amfri Farms Ltd their Danish partner sent consultants and instructors for training to Uganda (Interview Anguparu, 2015, 2/23). This is a good example of a successful intervention regarding "improving knowledge and resource flows along the chain".

### 6.2.4 Business linkages

Business linkages are crucial for a successful business. This is of particular interest for firms that want to enter the market, but also for established ones who are looking for consumers of new products such as dried fruits. Especially in the beginning exporters were supported by development cooperation in different ways, mainly in the area of market research/marketing and trade fairs. It can be doubted that without the support of development cooperation in the area of business linkages export companies would have developed to such an extent. Regarding the intervention typology, interventions can either be classified as "developing new or alternative linkages in the chain" when new buyers are targeted, "improving linkages in the chain" when already exiting buyer relationships are targeted, or also "improving knowledge and resource flows along the value chain" when the focus is on general marketing activities that should increase knowledge about the export company.

There are many different ways how exporters find buyers. A very simple one is the company's website. It that case there is not much involvement of development cooperation. Interested buyers look on the website and request some samples. If the samples are satisfying, they agree on trade conditions and start doing business (Interview Anguparu, 2015, 2/28; Interview Tushabe, 2015, 1/19). This is the easiest way, but not all exporter companies have professional websites. Furthermore, not all of them are actively looking for new buyers. There are some companies which have more requests than they can handle, in particular the bigger ones. Especially in the beginning it is however very hard to get a buyer and if the company does not have its own website, they need to look for other possibilities. One of these possibilities is that they get linked through business networks such as AgriProFocus (Interview Tushabe, 2015, 1/20).

The work of NOGAMU is also crucial in this context. There are different ways NOGAMU links buyers with suppliers of organic products. One possibility is that they get direct inquiries from buyers and then they pass it on to appropriate exporters. So in that case the export company is directly linked with the buyer. On which criteria the selection of the exporters is based is not clear. Sometimes NOGAMU just passes on information about exporters and their products so that the buyer can choose on his own. Another possibility is that buyers visit NOGAMU to look for suppliers. NOGAMU takes them around and shows them different export companies (Interview Namuwoza, 2015, 8/4). Based on their experiences during their visit they can decide if they would like to start a business relationship with one of the exporters or not.

*Market research and marketing*

A first step in getting buyers is to conduct market research in order to evaluate the demand for certain products. In early stages of business market research is crucial and can take a very long time period of even up to two years (Interview Muwanga, 2015, 7/19). When exporters already have successful business relationships with buyers, market research becomes less important. For instance, Amfri Farm Ltd's demand is much higher than what they can supply, therefore there is no need for market research (Interview Anguparu, 2015, 2/36).

NOGAMU cooperates with international organisations like the Centre for Promotion of Imports from developing countries or the Organic Monitor Ltd to provide information about market opportunities for their members (Interview Namuwoza, 2015, 8/6). Furthermore, NOGAMU conducts market research at trade fairs.

> *We ask partners questions related to prices, the different product forms they are interested in, the packaging and all these trends and of course the volumes and quantities that the different buyers need. So that way we are able to translate into forms that we then pass on to the different exporters, existing and potential exporters. (Interview Namuwoza, 2015, 8/5)*

There are different ways of how to find new buyers, but a good base are general marketing activities. Support in the area of marketing also started with EPOPA and still continues nowadays. While in other area the support of development cooperation has decreased, the support for marketing has remained constant on more or less the same level. Especially for Amfri Farms Ltd marketing activities have been crucial for their long term success (Interview Anguparu, 2015, 2/27; 2/46; Interview Bbosa/Mwadine, 2015, 3/40; 3/41). In the case of ORGUT the creation of an own brand and marketing activities were financed by TRAC (Interview Isiko-Nabongo, 2015, 6/41).

*Trade fairs*

Trade fairs are an excellent possibility to find new buyers, but also to get in contact with other actors and additionally to held meetings with partner companies (Interview Anguparu, 2015, 2/29). There are some regional trade fairs in many parts of the world but definitely the most important one in the organic context is the international Biofach[6] in Germany. The involvement of development cooperation in the area of trade fairs started like support in many other areas

[6] Biofach is the world's leading trade fair for organic food held annually in Nuremberg.

with EPOPA. They sent delegates of export companies there to find new buyers. Even today it is widely accepted as a successful strategy and still supported by donor agencies. Exporters have to contribute a bit if they want to go to Biofach (Interview Bbosa/Mwadine, 2015, 3/40). But not all of them have to contribute the same amount; it depends on the size of the company and additionally on their time in business. Enterprises which are new in business and smaller in terms of size get higher support. Mostly it is paid for the stand at the exhibition and the company has to pay for the flights and accommodation. If a company does not get any support usually they don't go because it is too expensive for them. NOGAMU has also supported exporters to go to Biofach. Every year they support about 30 exporters to go to that fair (Interview Namuwoza, 2015, 8/3).

### 6.2.5 Certification

Organic certification is inevitable for entering the international market. If products are not certified as organic, it is not possible to sell them as organic products and get a premium price. Regarding the intervention typology, support for certification can involve different interventions but most generally it can be classified as "improving knowledge and resource flows along the value chain" with complementary interventions belonging to the three other intervention types.

From an economic point of view, it makes sense to support export companies in the beginning with certification as the costs are very high and without it they are not able to enter the international market. When EPOPA was in place much support was given to companies for certification. But this is not always seen as successful in the long run. Some export companies could not afford the costs of certification on their own after the support ended and dropped out of the market (Interview Ssekyewa, 2015, 10/13). In further consequence this also had negative implications for the local certification body UgoCert as they lost customers.

> *But after the project EPOPA some of these projects could not sustain certification. So in other words as far as we are concerned we see that as not being sustainable using donor funding to pay for certification fees. Because if the linkage between producers, the exporter and the market is not strong these people do not continue after the project. (Interview Ssekyewa, 2015, 10/13)*

Exporters have received support from development cooperation for certification mainly in the early phases of their business; only some still receive support nowadays but on an unregularly basis (Interview Bbosa/Mwadine, 2015, 3/39). They have to apply for it every year. If they get

support it is a pleasant situation, if not some of them have problems to break even. Especially smaller ones like Soleil Enterprises Ltd are subject to this problem (Interview Tushabe, 2015, 1/32). But most businesses manage to pay for their certification costs on their own. The costs of certification are high and range between US$ 4.000 and 12.000 including costs of quality management and internal control system management to ensure that organic principles are followed (Kwikiriza et al. 2016: 25). But it is a cost which is inevitable and they have to live with it (Interview Bbosa/Mwadine, 2015, 3/26).

Organic certification is not the only kind of certification that is relevant for companies in the organic sector. Also other certifications in the area of sustainability play a role, in particular FairTrade and Fair for Life. Exporters have also been supported to get these kinds of certifications (Interview Isiko-Nabongo, 2015, 6/29).

## 6.3 Impact and changes of development cooperation

This section links the insights from chapter 6.1 and chapter 6.2. which is crucial in the context of the overall research question. The first part of this chapter analyses the impact of development cooperation on a firm level as well as on a broader sector level. The second part focuses on the main changes in the involvement of development cooperation on a general level and in particular for export companies.

### 6.3.1 Impact of development cooperation

The main goal of donor interventions in the organic fruit sector in Uganda was poverty reduction. In order to reach a significant impact in this area it is important that benefits go beyond single companies but have effects on the overall sector and specifically on farmers. Especially the integration of small-scale farmers in organic value chains contributed to the overall goal of poverty reduction as production, employment and income among these farmers increased. All exporters were supported to a certain extent, some of them more others less and in different areas. Especially the support for processing equipment, training, recruitment of farmers, business linkages and certification was crucial for exporters to become successful business companies and to ensure upgrading processes. This sub-chapter describes the impact of these activities at the firm and farmer level. Furthermore, the impact of development cooperation's interventions is analysed in a broader institutional context.

*Firm and farmer level*

The biggest impact of development cooperation in Uganda's organic fruit sector as seen by export companies was on functional upgrading to processing. In this context substantial support for processing machines has been identified as significant. This support enabled export companies to establish themselves in the processing segment. "I can assure you much of what we see in terms of infrastructure development at the processor's level can be attributed to contributions from donors that we are working with." (Interview Namuwoza, 2015, 8/16) Entering the processing segment with the support of development cooperation improved the situation of the exporters. Moreover, also the situation of small-scale farmers improved substantially. When fruits are processed more inputs are required. Therefore, exporters require higher quantities from farmers which improves their economic situation (Interview Tushabe, 2015, 1/25). Consequently, development cooperation had a sustainable impact on farmers within the organic sector.

It is clear that the impact of development cooperation was the biggest in the area of functional upgrading, but also support on product upgrading had an impact. Exporters managed with the support of development cooperation to get additional certificates, which added extra value to the already high-value organic products. Furthermore, export companies managed to add other types of fruits to their product segment. Without development cooperation this would not have been possible. Also in the area of process upgrading, interventions at the firm and farmer level had an impact as perceived by export companies but empirical research provided less details on this dimension of upgrading.

Development cooperation further established partnerships with buyers, other companies and institutions. These partnerships are crucial for successful business and are still active (Interview Anguparu, 2015, 2/26). "Access to profitable markets, transfer of knowledge, and provision of embedded services […] are some of the key benefits expected […] from strengthening links with international buyers." (Jaffee/Henson/Diaz Rios 2011: 42) The company which benefited the most from such a program was Amfri Farms Ltd. They have been part of a business-to-business development program of DANIDA. In the course of this program a very strong partnership with a Danish company was created, which continue up to today. In the course of this relationship a lot of knowledge has been transferred (Interview Anguparu, 2015, 2/23).

One of the biggest impacts of development cooperation in Uganda's organic sector is that export companies are now able to do business on their own. They got independent from their donors and are today only supported partially on an unregular basis (Interview Bbosa/Mwadine, 2015, 3/34).

> *One of the most important things these development agencies have helped us is to mobilise the farmers, train them and get certification. And when that is done then these development workers have more or less left us to move on our own. (Interview Kivumbi, 2015, 5/36)*

Hence, development cooperation was crucial for establishing many export companies and enabled them to do business on their own. Export companies did not mention any activity, which was not useful for them. Most likely the broad support for certification can be seen as intervention with limited sustainability. For remaining companies it was important to get that kind of support, especially in the beginning. But there were also other companies that got this support but dropped out of the organic market after the support for certification costs ended. There was no sustainable impact on these companies. Whether these companies shifted to conventional agriculture or had to shut down completely is not clear, because there is not data available on firms that are not anymore in organic agriculture.

> *It's important that money is put where it can have spin-offs, much wider effects. If it will be put in direct support let's say for certification, then operations will probably not able to sustain themselves. So it should be put for example in creating sustainable market linkages such that when an operator goes into processing the market requirements are met. (Interview Ssekyewa, 2015, 10/22)*

This finding supports the view that also actions at the institutional level are necessary in order to ensure a sustainable impact on export companies and in further consequence on the organic sector as a whole.

*Institutional level*

For development cooperation to have an impact in the long run it is important to not only directly support export companies but strengthen institutions on a broader level. Although the involvement of development cooperation in Uganda's organic fruit sector focused on interventions at the firm and also farmer level, the establishment of the umbrella organisation NOGAMU was an important step to promote the growth of the organic sector as a whole.

NOGAMU has been supported substantially from the beginning and even nowadays the majority of their budget is financed by actors of development cooperation. Without the support of development cooperation, the work of NOGAMU would not be possible, which would have a huge negative impact on the organic sector as a whole. Especially for export companies it is an important point of contact if they need help with anything.

The role of NOGAMU has changed a bit as in the beginning it was mainly a platform for its members. But the number of their activities has increased and today they are doing business as well. With the support of TRAC a trading arm was created which is in charge of the program ORGUT. Furthermore, funds for projects in the organic sector are channelled through this organisation as direct interventions of development cooperation shifted to working with local organisations for implementation of projects.

The fact that NOGAMU also acts as lobby organisation for the organic sector in the political discussion is important for the growth of the organic sector. Particularly in the context of creating a supportive environment for organic export companies and farmers continued support is crucial.

### 6.3.2 Changes of development cooperation's involvement

On a general level, export companies perceived a decline in support of development cooperation and identified different reasons for that. One of them is that there is less money available for development cooperation which is to some extent due to the fact that especially Europe has been in an economic crisis (Interview Anguparu, 2015, 2/31). It is a fact that budgets for development cooperation have decreased and this also had implications for the work of donors in Uganda. Furthermore, export companies have the impression that donor agencies have shifted their focus to other sectors and other rationales behind their actions (Interview Bbosa/Mwadine, 2015, 3/4; Interview Kivumbi, 2015, 5/37). No further information was provided by exporters on which sectors and which rationales. But it can be confirmed that the focus on organic agriculture per se has shifted to supporting general business related activities in broader sectors.

Export companies also observed that the number of development cooperation actors has decreased. This can also be traced back to changes in relationships with donors. In early years exporters had more direct interactions with donor agencies. But today support is more often channelled through other organisations such as NOGAMU, aBi Trust or PSFU. These

organisations continue to play a crucial role in the organic sector and are financed to a large extent by donors but export companies do not necessarily perceive them as actors of development cooperation.

*Changes for exporters*

There is no doubt about the important role of development cooperation for the organic sector in Uganda. All organic fruit exporters have been part of projects or at least received some funding from donor agencies. But the degree of involvement has changed which is also perceived by export companies. In general, all exporters were supported in the beginning, when they entered the organic sector. Most of the companies started with organic agriculture right away, only a few converted from conventional to organic. Money was given for building factories, buying equipment, recruiting farmers and certification. Basically these were the most important factors in establishing an organic export company. Later on support in areas such as training, marketing and linking to buyers got more important.

After the companies have installed their basic equipment the involvement of development cooperation has decreased (Interview Tushabe, 2015, 1/15). Also the ones which were parts of development projects were not supported to the same extent after the projects ended (Interview Anguparu, 2015, 2/26). Development projects have predefined ends and it is obvious that the support of development cooperation in business areas decreases at some point as supported companies should be able to do business on their own. The reasons for this decline is on the one hand linked to the overall decline in budgets and shifted foci described above; on the other hand interventions have had the objective to enable companies to conduct a sustainable business after some time without continued support.

As described in chapter 6.1 interventions focused on functional upgrading. After successful entering of the processing segment export companies were more or less left alone with support being more unregular today. These changes and decline in involvement has led to several challenges for export companies which are explained more detailed in the next part.

## 6.4 Remaining Challenges

Despite the large support from development cooperation, export companies in Uganda's organic fruit sector still face many challenges on different levels. Some of them are linked to their core business while others affect further upgrading opportunities. In this section the remaining challenges identified as the most important by export companies are presented.

### 6.4.1 Capital

Major issues regarding capital have already been presented in the context of processing equipment (6.2.1). Although export companies in the organic fruit sector have received substantial financial support from donors, interventions have not addressed broader aspects such as macro policies including interest rates that would allow access to capital on a more sustainable basis. Hence, capital issues have remained one of the biggest challenges for export companies, especially in the context of processing infrastructure.

Overcoming capital challenges, in particular getting funds for investments is hard for several reasons. On the one hand the financial market in Uganda is not agro-friendly and on the other hand it is difficult to find international partners who are willing to invest in organic businesses. But investments are necessary for private companies to keep in business and particularly investments that need to be done in processing infrastructure are quite high - between US$ 100.000 for small companies and US$ 4.000.000 for bigger ones (Interview Anguparu, 2015, 2/38; Interview Kivumbi, 2015, 5/19). Getting capital for investments is challenging for all exporters in Uganda's organic sector.

There are different ways how export companies can acquire money for investments. One possibility is to go to a bank or any other finance institute and try to get a loan. Getting a loan itself is not a problem, the problem are the interest rates. In general, interest rates in Uganda are very high, but for businesses operating in the agricultural sector they are even higher. Finance institutions justify this higher rate with the higher risks associated with agricultural business. Mainly their reasoning is based on the fact that agriculture is seasonal and vulnerable to weather conditions (Interview Tushabe, 2015, 1/52; Interview Namuwoza, 2015, 8/20). Additionally to the high interest rates, credit periods are very short. The combination of these conditions makes it very difficult and risky for businesses to get a loan. If something unexpected happens then the credit can threaten their business as a whole (Interview Isiko-Nabongo, 2015, 6/39). Exporters are not aware of any programs that address these issues.

As capital is one of the biggest challenges for export companies, they look for partners on different levels to overcome this challenge. They look for business partners who help them finance their investments. The difficulty of this task is indicated by the fact that none of the export companies succeeded in finding the right partner so far. Appropriate partner in this context means that they share the same principles of organic agriculture (Interview Anguparu, 2015, 2/38).

Apart from private partners, exporters also seek support from government agencies and actors of development cooperation. Basically they look for loans or equity funds. But it is not easy, because for business companies it is difficult to get support for capital investments (Interview Muwanga, 2015, 7/17). It is interesting that exporters perceive it as more difficult for private companies to get financial support, because in the course of this thesis it was shown that support for private companies was substantial. Another reason identified by export companies is that companies from the organic sector are not the most popular ones, because the sector is very small compared to other sectors. Consequently, companies from bigger sectors have better chances to get support because they are well known by important stakeholders and have more connections which can be helpful. "If nobody knows you, nobody will support you" (Interview Anguparu, 2015, 2/31).

It is true that budgets of development cooperation have decreased and foci shifted to some extent which also affected opportunities of getting financial support for investment. But there remain possibilities in the organic sector. But today export companies have to apply for it on their own and support is more often channelled through local institutions. This requires more bureaucratic work linked to applications and export companies may not have the necessary capacities to manage these challenges.

### 6.4.2 Processing

Despite widespread interventions of development cooperation in the context of processing major challenges of processing capacities and technology remain. These challenges are of particular importance to make functional upgrading sustainable. If exporters want to add more value to their products, they need to overcome these challenges.

*Processing capacity*

Export companies have been supported substantially by development cooperation to get processing machines with a certain capacity, which at that time was appropriate for each company. But the significant increase in demand for organic products, in particular dried fruits from Uganda led to an insufficient capacity of these machines. Therefore, the limited capacity of these machines and the ability to supply the demanded quantities continues to be a challenge for all exporters (Interview Muwanga, 2015, 7/32). "Today our biggest focus is to expand our infrastructure, especially the processing capacity, because we can't keep up with customer's orders." (Interview Anguparu, 2015, 2/36)

But the limited capacity of processing equipment is not only a problem regarding increased demand. There are buyers that request large quantities and if the export companies cannot supply these quantities, no business will be established at all. Especially for small companies this is a problem, consequently finding a buyer even if they can only supply small quantities is a big challenge. Only if they manage to establish a business relationship, then they can grow together step by step (Interview Kivumbi, 2015, 5/26).

The problem of small quantities also affects transport. Nowadays most businesses in the organic sector export by plane which is very expensive (Interview Anguparu, 2015, 2/50). Additionally, the prices for air freight are not in the control of exporters and they can increase at any time causing serious problems for businesses. This situation gets even worse when exporting fresh products, because they are relatively heavy and export by plane yields almost no margins (Interview Kivumbi, 2015, 5/7; Interview Isiko-Nabongo, 2015, 6/40). Exporting via the sea through Mombasa would be much cheaper but for this kind of transport bigger volumes would be necessary.

> *Most of our buyers want to get our products by sea. So we have to put in a container and a container would take about 6 tons minimum and to accumulate the 6 tons it takes us a lot of time. So by the time we have the 6 tons, the first load has expired so that becomes a challenge for us. (Interview Kivumbi, 2015, 5/18)*

A positive effect of exporting via sea is that it decreases the total price of the products for consumers, consequently the competitiveness of export companies on the international market increases.

Early interventions of development cooperation focused on the firm level but they did not solve the problem of limited processing quantities. As the issue of quantities is very demanding for all exporters and in particular for the smaller ones, ORGUT has been created in 2014. The focus of this intervention is at the sector level, as it links different companies. Furthermore, it enables SMEs to get in business with buyers who demand higher quantities. Without programs such as ORGUT these market opportunities would be lost (Interview Tushabe, 2015, 1/43; Interview Namuwoza, 2015, 8/14). Consequently, ORGUT contributes to overcome the challenge of processing capacities.

*Technology*

Interventions of development cooperation considered technology as a crucial aspect in the context of processing equipment. All exporters use solar dryers to process their products. In general, this type of technology is a good option as the running costs are very low. But as the sun is not shining all the time and the possibilities of storing energy are limited, a back-up is needed. Development cooperation was aware of this situation but they did not take into account problems linked to the back-up options. Consequently, technology particularly issues related to back-up options of solar dryers remains a challenge for export companies. In Uganda's organic fruit sector only two back-up options are used: biomass and energy, both of them are very expensive (Interview Tushabe, 2015, 1/38). Additionally to the high energy cost, the grid in Uganda is not very reliable (Interview Anguparu, 2015, 2/49).

### 6.4.3 Packaging

There have been no interventions of development cooperation in the area of packaging. Due to the missing support export companies still face many problems, which they have not managed to overcome yet. A big challenge in the context of packaging remains the high costs of packaging material which can make up to 30% of the price of the final product (Interview Isiko-Nabongo, 2015, 6/40). Another issue is that it is hard to source good quality packaging material. In Uganda it is almost impossible, consequently it needs to be imported from other countries, mainly Kenya or India (Interview Tushabe, 2015, 1/41). As long as packaging material is expensive and it cannot be sourced locally entering this segment of the value chain remains a big challenge for export companies. Additionally, customers often require very specific packaging material (Interview Anguparu, 2015, 2/51).

### 6.4.4 Farmers

The crucial role of farmers for exporters' business is obvious. Therefore, challenges on the farm level also have implications for export companies themselves. If farmers cannot produce on a regular basis exporters get problems in doing their business.

The lack of irrigation equipment at the farm level is a big problem because a good irrigation system would provide solid production throughout the year (Interview Isiko-Nabongo, 2015, 6/47). But the support of development cooperation for irrigation systems was not sufficient to overcome this challenge. Particularly in the context of climate change the weather gets even more unpredictable and the challenges on the farm level will increase in the future (Interview Bbosa/Mwadine, 2015, 3/47).

Another big challenge is that farmers keep dropping out of organic agriculture. Organic agriculture is more labour intensive than conventional agriculture because it uses specific farming techniques that require a significant labour input such as non-chemical weeding (FAO 1998: 14). Consequently, when farmers lack labour problems arise. Hiring additional workers is often too expensive so they may start spraying in order to manage problems with their crops (Interview Kivumbi, 2015, 5/40).

Closely linked to this problem are contracts, which play an important role in the relationship between export companies and farmers. At first it is not easy to make contracts with farmers and it is even more challenging to get farmers to stick to these contracts. For instance, if there is a lack of food in neighbouring countries the prices for food in general go up and if farmers can get a higher price somewhere else then they leave the exporters. Hence, in order to make contracts work in the organic sector trust is crucial. The relationships are mainly built on trust and less on formal contracts (Interview Isiko-Nabongo, 2015, 6/37). Enforcing contracts will still be difficult in the future, therefore trust will remain a considerable aspect of business relationships. Development cooperation has not conducted specific projects to prevent farmers from dropping out or regarding the enforcement of contracts, but their influence on these issues is anyways limited. For instance, to improve the enforcement of contracts actions at higher levels would be required but all implications of such measures on farmers would need to be taken into account.

### 6.4.5 Product quality

The quality of products is a crucial issue in the relationship between suppliers and consumers. If the product quality is not satisfying, then a buyer will not keep up with the business. Of course these general rules are also applicable to the organic sector.

Issues of quality arise in particular in the context of different techniques for processing. The problem is that different machines create different flavours and qualities (Interview Bbosa/Mwadine, 2015, 3/28). Therefore, it was important for exporters to get their own machines with appropriate technology. Development cooperation played a crucial role for that, but product quality still remains a challenge for the exporters which are part of ORGUT (Interview Kivumbi, 2015, 5/32). As ORGUT sources the products from different companies and regions it is very difficult to reach a satisfying level of harmonization and quality. Apart from technology, problem arise also on the farm level. If inputs are sourced from different regions, the fruits can have different tastes. It is important to keep that in mind and try to manage this issue. The next years will show if ORGUT is able to overcome this challenge and establish itself in the organic export market.

### 6.4.6 Certification

Although export companies have been supported in this area and are still supported on an unregularly basis it still remains a challenge for them due to the high costs. Apart from the direct costs for certification, investments are required before getting certified. Exporters must also ensure that their farmers comply with organic standards. Farmers need to be trained and all the costs for that accrue to the exporters. Especially in the early phases of companies' operations this is very challenging (Interview Kivumbi, 2015, 5/39). Certification has to be renewed every year, therefore it is a continuous challenge for exporters (Interview Isiko-Nabongo, 2015, 6/38). The high costs of certification will remain with the exporters in the future as there is no evidence that the existing system will change and farmers or another institution will pay for farmers' certification.

## 6.5 Recommendations

This section provides some recommendations for exporters as well as for actors of development cooperation to improve the situation of export companies in Uganda's organic fruit sector. The recommendations given are linked to the remaining challenges.

As export companies are not able to change the situation on the financial market in Uganda, they should intensify seeking partners who are willing to provide capital for investment. It requires actions at the government level to strengthen the financial system and to improve access of agricultural businesses to affordable and useful financial services. There are some attempts to overcome bottlenecks in the financial sector. For instance, the Uganda Development Bank Limited provides financial services with a focus on SMEs in the agricultural sector (UDBL 2017). But export companies in the organic sector have not cooperated with them so far. The reason for that is unclear. Another possibility would be to intensify cooperation with existing institutions in the organic sector. aBi Trust is already a well-known partner in the organic sector and recently they established an investment arm called aBi Finance (aBi Trust 2016b). Hence, there is potential for development cooperation to intervene in this area. Additionally, training on how companies can acquire funds from different sources would be a possible solution to address this problem.

Increasing the processing capacities of each company does not make sense. It is better to improve collaboration among existing exporters so that they can bulk their products and sell together. For instance, projects like ORGUT go in the right direction and have the potential to provide solutions particularly for small companies to overcome the challenge of processing capacities. Additionally, development cooperation's support should be high enough to finance equipment with appropriate quality. Particularly in the context of harmonizing the quality of products this issue is crucial and saving in this area does not pay off. Furthermore, exporters should seek for alternative back-up options as biomass and energy are both very expensive.

The high costs of packaging material and quality issues are hindering export companies to enter the packaging segment. It would be necessary to establish a local supplier where exporters could source packaging material with good quality at affordable prices. Development cooperation or even NOGAMU could help local suppliers of packaging material to meet the needs of export companies from the organic sector.

Irrigation equipment on the farm level would be extremely important to guarantee continuous production throughout the year. It is definitely an area where exporters should seek support from partners. As farmers are often the targeted group of NGOs or other donor interventions, it would be a chance to cooperate with them to improve the situation of farmers and also benefit export companies. Another important issue with farmers is their drop-out rate which should be kept as low as possible. Recruiting new farmers requires a lot of effort and investment, therefore avoiding drop-outs is cost effective. It is important to talk with farmers about this issue and understand their challenges and motivations as well as to raise awareness about the consequences for themselves as well as for the export companies.

As ending support for certification has led to several companies leaving the organic sector in the past, it should be made clear in the beginning of interventions that support for certification is limited to a certain period of time. It is crucial for the long-term success of interventions that companies are aware of that and that they develop capacities to deal with certification costs on their own.

# 7 Conclusion

The objective of this thesis was to analyse the role of development cooperation for upgrading in Uganda's organic fruit sector from an exporters' perspective. Data from empirical research enabled a scientific analysis of the view of exporters on this topic. In this concluding section the major findings of the thesis are summarized and linked to the research question and sub-questions.

In the course of this thesis, it was revealed that development cooperation has played a crucial role in the process of upgrading in the organic fruit value chain. The extent of support varied among different companies but without the help of development cooperation upgrading would have been much more difficult if not impossible. Export companies have been supported in various ways such as in recruitment of farmers, training, business linkages and certification. But the most significant intervention was support for processing equipment which was crucial for entering the processing segment of the value chain. Upgrading to the processing segment was an important step for exporters as it enabled them to add more value to their products and to address challenges related to the export of fresh fruits. It has also led to positive effects for farmers as the demand for raw fruits increased. Furthermore, development cooperation has helped to create business relationships. Although development cooperation's involvement has

had a positive impact not all support was sustainable. Several export companies dropped out of the organic market after the support for certification costs stopped as export companies were not prepared to deal with these high costs on their own after the support ended.

In order to ensure a sustainable impact of development cooperation it is important that not only upgrading processes at the firm level are supported but that also institutions are built at the sector level that can support these processes once development cooperation support goes away. In the case of Uganda's organic sector, the apex body NOGAMU was created with support of development cooperation. It is definitely a strong organisation in Uganda's institutional landscape and has pushed the development of the organic sector. Furthermore, NOGAMU is crucial for upgrading projects as it is directly involved in many projects as the key stakeholder in the organic sector. NOGAMU is still mainly financed by development cooperation and also channels financial support of many donor agencies to export companies. This institutional anchoring is seen as important to make development cooperation interventions sustainable and increase the voice of actors in the organic agriculture sector.

The involvement of development cooperation changed over the years. At the firm level the involvement has decreased as the objective of interventions was that the targeted companies become able to conduct business on their own. Consequently, support was relatively high in the beginning when these companies were established and decreased over time. Further, the way support for the organic sector is organised has changed over the past years. Today the interaction with export companies is more indirect which could be a reason for the export companies' perception of decreased involvement. Financial support is often channelled through local institutions such as aBi Trust or NOGAMU that are not necessarily perceived as development cooperation by export companies. To get funding through these institutions, exporters have to apply for support and compete with others which can lead to challenges. Additionally, the shift of foci of development cooperation and in general declining budgets have contributed to a decrease in support.

Despite important development cooperation interventions, there remain a number of challenges for Uganda's export companies. One of the biggest problems is acquiring financial resources for investment on a sustainable basis which is closely linked to the challenge of expanding processing capacities to remain in traditional end markets and expand to new end markets. Other main remaining challenges include the price and quality of packaging material, the harmonisation of product quality and certification. It is important to overcome these remaining challenges in order to remain a successful organic fruit exporter in the future.

Some recommendations have been given in order to overcome the remaining challenges. In general export companies should intensify seeking for support from other actors such as development cooperation, local institutions or NGOs. Furthermore, it should be clearly communicated when the support ends in order to prevent any unintended impacts such as the drop out of companies in the context of certification. Moreover, actions at government level would be required to overcome certain challenges, particularly capital issues.

*Unexpected results*

The number of unexpected results of this thesis is limited. The importance of development cooperation for export companies in the organic sector has been shown in other studies (see for example Gibbon 2006: 26f) and therefore was expected. This thesis linked the role of development cooperation to the specific context of upgrading and the view of export companies. A surprise was the identification of social upgrading of farmers as a rationale for economic upgrading by export companies. This could have been expected to some extent for companies which are aligned with NGOs, but that it was also decisive for other companies was unexpected. Additionally, the role of NOGAMU for the whole sector in general and for upgrading in particular was more important than expected. It is a key organisation for all actors in Uganda's organic fruit sector.

*Outlook*

From an economic as well as a developmental perspective it is desirable that Uganda continues its way in organic agriculture. Especially the integration of small-scale farmers, which are the main actors at the production level, has had a significant impact on farmers' economic situation and livelihoods. Although the sector is small and the effects on the whole population are minimal, it is a successful approach to development and serves as a role model for future projects. Meanwhile all remaining export companies in the organic sector are able to do business on their own without substantial support. Exporters in Uganda's organic sector have good business perspectives for the future as the demand for organic products is overreaching their supply. In order to benefit from this opportunity, exporters have however to overcome remaining challenges. Local institutions such as NOGAMU, aBi Trust or PSFU should be strengthened in this regard. Additionally, it is important to target the services of these organisations better to actors in the organic sector, especially export companies and farmers.

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# Appendix

## Interview Schedule

| | Company | Interview Partner | Position | Date | Location |
|---|---|---|---|---|---|
| 1 | Soleil Enterprises Ltd | Juliane Tushabe | Manager | 06/07/2015 | Head Office, Kampala |
| 2 | Amfri Farms Ltd | Lilian Anguparu | General Manager | 10/07/2015 | Head Office, Kampala |
| 3 | Biofresh Ltd | Richard Bbosa | Assistant | 13/07/2015 | Head Office, Kampala |
| | | Sonia Mwadine | Director | | |
| 4 | Edson Twijukye | Edson Twijukye | Farmer | 14/07/2015 | Edson's farm, Luweero |
| 5 | Envalert | Patrick Kivumbi | Managing Director | 15/07/2015 | Head Office, Kampala |
| 6 | Flona Commodities Ltd | Stephen Isiko-Nabongo | Managing Director | 17/07/2015 | Head Office, Kampala |
| 7 | Jali Organic Ltd | Ephraim S. Muwanga | Director | 21/07/2015 | Head Office, Kampala |
| 8 | NOGAMU | Chariton Namuwoza | Chief Value Chains & Programs | 21/07/2015 | Head Office, Kampala |
| 9 | Amfri Farms Ltd | Stephen Kakooza | Farm Manager | 24/07/2015 | Amfri Farms Ltd.-Farm, Kyampisi |
| 10 | UgoCert Ltd | Charles Ssekyewa | Chief Executive Officer | 27/07/2015 | Head Office, Kampala |