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Organic certification schemes: managerial skills and associated costs

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Synthesis report from case studies in the rice and vegetable sectors

by
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Preface

The boom of organic markets worldwide has created great opportunities and expectations in developing and transition countries for their participation as suppliers. Certified organic produce are seen as an alternative for small-scale farmers to take part in this high-value product market. Premium prices for certified products have been one of the incentives that contribute to the growth of the organic sector while improving the livelihood of smallholder families. However, most smallholders are not certified, preventing their access to international or even national niche markets. The achievement of internationally recognized certification standards and procedures — mostly established by institutions in more developed countries — can require institutional capacity and financial means which are often beyond the reach of many small scale farmers in these countries. The Agricultural Management, Marketing and Finance Service (AGSF), as part of its Regular Programme analysed alternative certification schemes for organic products in order to draw conclusions regarding the institutional support and technological development required for compliance with organic standards.

The paper discusses third party certification, for both individuals and farmer groups, as well as participatory certification. Case studies from Thailand, India, the Czech Republic, Hungary and Brazil engaged in organic rice and organic fruit and vegetable production are examined. Issues analysed include the organizational structure and marketing strategies in the organic supply chain. The paper also discusses the institutional development that is needed to provide business and technical services and establish the organic quality assurance system. Organizational, managerial and business skills required by the lead stakeholders in the organic chain are analysed as well as the costs that they incur for effectively managing organic projects. Similarly, the managerial skills required at the farm level are considered as is the use of cost-benefit analysis. The paper also reviews the legal and institutional framework that facilitates organic production and certification.

The paper is aimed at staff of government, private and non-government organizations working at the policy level and in the field, and at donors' organizations that support organic production and certification.

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Acronyms and abbreviations

AAN	Alternative Agriculture Network – Thailand
ACT	Organic Agriculture Certification – Thailand
ACFS	National Office of Agricultural Commodity and Food Standards – Thailand
AE	Agri-Environmental subsidy schemes – Europe
APEDA	Agricultural and Processed Food Export Development Authority – India
BAC	Bioagricert company – Italian-based company
BRFO	Ban Keng Organic Rice Group
COF	Center for Organic Farming in Uttrancha
DASP	Diversified Agriculture Support Project – India
EAGGF	European Agricultural Guidance and Guarantee Fund
ECOCERT	Certification body
ECOVIDA	Participatory Certification Network
EMATER	Governmental Agency for Technical Assistance and Rural Extension Services
EMBRAPA	Brazilian Enterprise for Agriculture Research – Brazil
EPOS	Association of organic farming advisers, researchers and instructors accredited by the Czech Government
EU	European Union
FNMA	National Environmental Found – Brazil
FVM	Minister of Agriculture and Rural Development – Hungary
GNEN	Green Net-Earth Net Foundation – Thailand
GMO	Genetically modified organism
HRDP	Horizontal Rural Development Plan – the Czech Republic
IAF	International Accreditation Forum
ICS	Internal Control System
IFOAM	International Federation of Organic Agriculture Movement
INMETRO	National Institute of Standardization, Metrology and Industry Quality – Brazil
IMO	Institute for Marketecology – certification agency
ISO	International Organization for Standardization
KEZ	Kontrola ekologického zemědělství (Organic Farming Control)
KÖM	Minister of Environmental Protection – Hungary
MAELA	Agro Ecological Movement for Latin America and the Caribbean
NAEP	National Agri-Environmental Plan – Hungary
NPOF	National Program on Organic Farming – India
NPOP	National Programme for Organic Production – India
NRDP	National Rural Development Plan – Hungary
NSCOP	National Steering Committee for Organic Production – India
OA	Organic agriculture
OBEP	Organic Basmati Export Program – India

OF	Organic farming
PGS	Participatory Guarantee System
PNMA	Ministry of Environment for implementing the National Environment Policy Brazil
TOPS	Top Organic Products and Supplies Company Limited
UOCB	Uttaranchal Organic Commodity Board
USS & OPCA	Uttaranchal State Seed and Organic Production Certification Agency
WTO/TBT	World Trade Organization - Technical Barriers to Trade

Executive Summary

In recent years, organic trade has experienced an outstanding and continuous growth. Both supply and demand factors are responsable for this boom. Particularly important are the consumers' concerns with safe food and environmentally friendly production. Certification is critical in organic markets because it gives buyers the confidence that a product meets organic quality and process standards, ensuring food integrity from farm to sale. It is also a way to protect consumers, producers and traders against a misleading use of labels. Therefore, certification enables organic producers to access new export and domestic market opportunities and premium prices due to the fact thort organic quality adds value to products.

In developed countries, economic incentives and enabling policies and regulations have promoted the establishment of organic standards and institutions. Farmers in developing and transition countries still face institutional and economic constraints to reach the stage of certified organic producers, making it particularly costly for smallholders to participate in this market. Certification is therefore often seen as a barrier for small farmers' participation in export markets.

In this report, three certification schemes operating in developing and transition economies are assessed. The first is third party certification for individuals, a well-known and internationally recognized certification system. The second scheme is also third party certification, in which small-scale farmers may be certified in groups under an Internal Control System (ICS). The third scheme corresponds to participatory certification called the Participatory Guarantee System (PGS), which targets local or national markets and involves the participation of small farmers, small enterprises, traders and consumers in the certification process.

The report provides a comparative analysis of the organizational structure and marketing strategies in the organic supply chain, gross margin analysis and the improved managerial skills required at the farm and supportive organization levels in the three schemes. Case studies were selected from organic grains for export, Basmati rice from India and jasmine rice from Thailand, which comply with the ICS; and organic vegetables and fruits for export and/or domestic markets in Hungary and Czech Republic, and for local markets in Brazil, in order to illustrate compliance with third party certification systems as individuals in the former cases and with PGS in the later.

The world market for certified organic foods has been estimated to be worth US$27.8 billion in 2004 and, compared to conventional markets, may offer greater opportunities of access to small-scale farmers through modern food chains due to the added-value attribute of organic produce. However, the trends and characteristics of the organic trade in terms of volume and turnover vary at the individual country level depending on government support, food chain linkages, the particular commodity and the strength of the organic market.

Institutional and policy development to support organic farming and marketing is relatively recent in the studied countries. In less than two decades, the institutional framework has been strengthened in terms of promulgation of legislation, the definition of standards and the set-up of programmes, certification bodies and control systems. There are various driving forces in this development in the case studies discussed. In the Czech Republic and Hungary, strong proactive public sectors have established strict quality assurance regulations that are compatible with the EU Agri-Environmental measures. In contrast, in the other countries analysed, the policy and institutional development of the organic sector has been improved mainly due to the long-lasting advocacy from non-governmental organizations (NGOs), farmers' organizations and other civil society organizations.

Compliance with organic food standards and requirements implies that all organic food chain actors should be interconnected through ruled procedures in the quality assurance system. All these actors – farmers, processors, manufactures, exporters and importers – must be certified that they comply with organic standards and regulations. Certification and accreditation bodies are tools within the quality assurance systems to ensure that organic standards and procedures are followed. In addition to the policy and institutional framework, these involve an organizational structure engaged in decision-making at different levels for the development of business and the provision of financial and technology services to support organic production. To provide these services, managerial and technical skills should be developed along the chain. The costs of certification at the national level, therefore, include setting up the quality-assurance system, as well as the provision of services for improving managerial and technical skills at different levels. Organizations that support farmers or groups in becoming organic certified – private, public or NGOs – are required to develop these skills to implement business and marketing plans. They must also implement measures for enhancing farmers' abilities in order to ensure the organic quality attribute of the certified produce.

Several differences in costs for the supportive organizations have been observed. If all the technical and business services, inputs and implementing systems of certified groups in a project are provided by the organization, costs will be necessarily high, particularly for set-up. Similarly, costs turn out to be high when the organization targets different import markets demanding different certification, and, subsequently, costs per farmer increase. Costs tend to be lower when the actors in the organic value chain are well coordinated and vertically integrated or linked, due to lower transaction costs. Investments in technological development to enhance organic systems tend to be high when public support or alliances with other stakeholders are lacking. A special feature in the participatory certification is the investments in participatory learning and technological development for building long-standing knowledge through networking. In spite of these differences, the stakeholders in the organic value chain see the certification process as positive in all case studies. The certification process enhances the skills and knowledge of staff and farmers in coping with the growing organic trade, which it is still expanding with competitive prices.

Certification costs at the farm level also entail assessing farm management changes because farmers need to develop skills for managing organic technology; otherwise, they could incur productivity losses and thus not be granted certification. For instance, conversion costs and productivity losses are high in the Czech Republic and Hungary case studies under third party certification. These setting-up costs are associated with the conversion plans required by the

scheme, but are also linked to the previous conventional farming system. In the organic rice case studies, initial investments in infrastructure can be high, particularly in building dykes to prevent neighbouring fields from contamination. Direct certification costs – the lowest of which are found in the ICS case studies – are a low proportion of total ongoing costs and gross income. The costs are lower under the ICS because certification is granted to farmer groups. In addition, costs are lower because the sharing mechanisms – between the supportive organization and the farmers – are generally part of the firms' marketing strategies. Training and extension costs for farmers to ensure organic quality and documentation, record keeping, as well as the certification fees of external bodies could be shared by the export firm or leader organization that is part of the ICS and the farmers.

Direct certification costs – fees and monitoring visits – are higher under third party and participatory certification schemes. In the former scheme, this is expected because the certification process is granted individually. In the latter, these high costs are expected because marketing and networking activities are taken into account as an integral part of the scheme in order to build lasting local market relationships through consumer education. In general, costs associated with changes in farm management to convert to organic have important impacts on profitability and income levels.

All the case studies show profits, although differences among them have been observed. In general, the fruit and vegetables case studies show higher ongoing costs and higher revenues (US$/ha/year) than the organic rice case studies. In the profit analysis, the organic rice case studies and the Brazilian fruit and vegetable case study show the highest profit. The former operate under ICS and the latter under the PGS. Factors other than the certification scheme might explain the differences, however. Profits also depend on the bargaining and business abilities of farmers in the value chain, which in turn depend on the availability and quality of their assets such as natural resources, capital, network, skills and knowledge. Farmers in the Brazilian case study also participate in marketing, and occasionally, processing activities. Very small-scale farmers in the Indian case study and the Thai case studies under the ICS are able to take advantage of international marketing opportunities because they are well integrated into or linked to the value chain, and because fair and well-defined social rules are in place.

Other non-financial benefits have been identified by organic certified farmers. Improving overall product quality and farm resources are benefits that provide long-term sustainability. They also add value to farmers' products. The certification process is therefore seen as having financial and non-financial benefits for farmers and their communities by promoting the improvement of their resources and thus stimulating sustainable rural development.

Actions have been identified that may enhance the competitiveness of the certified organic sector and the participation of farmers.

For government: priority should be given to support institutional development and the setting up of norms and standards at the national level in order to facilitate small-scale farmers inclusion.

For supportive organizations (government, trader and NGOs):

- Intervention strategies on technology development should be implemented with a long-term view, particularly targeting pest control and management and appropriate agro-processing technologies.

- Financing mechanisms should be established to support organic development projects at the initial phase.

- Market development should be supported. The different studies show a consensus on the three major areas to develop: strengthen value chain linkages, information technologies (IT) development and local market development.

- Strategies should be implemented to reduce costs of training activities in order to improve efficiency. This could be achieved through joint training among institutions and experience sharing through networks. Training will include not only production, but also marketing and processing activities.

For development organizations:

- Cost-effective technologies should be investigated and disseminated among farmers to help them meet certification requirements.

- Assistance should be given to incorporate small-scale farmers in the organic supply chain. Development organizations could help small-scale farmers in developing and transition countries to identify lucrative markets and the required certification scheme.

- Training should be provided on management and market development along the organic food supply chain in order to increase transparency and better linkages between actors, and to improve specific managerial skills for better production planning and market development.