Report Details
Case studies of lead firm governance systems in the context of commercialization of smallholder agriculture in Uganda

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INTERNET VERSION OF THE FOLLOWING REPORT PART:
‘SUMMARY AND DISCUSSION OF MAIN FINDINGS’

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Summary and discussion of main findings

Introduction

The study is set in the context of: (a) overall weak farmer-buyer relations in most parts of Uganda’s agro-sector which affect the development prospects of small holder farmers (SHFs)¹, and (b) a growing interest by the private and public sector, including the Government of Uganda (GOU) and development agencies in the contribution of value chain (VC) analysis and support interventions to economic development in the country. This study analyzes the governance of domestic value chains (DVCs) in the agricultural sector in Uganda. It focuses at exploring how agricultural produce buyers set up, coordinate and monitor - that is govern - the DVCs with their supplying farmers. Particularly how buyers govern the latter’s activities and performance and thus the division of labour in the DVC. Governance in this context constitutes for instance: (i) setting the requirements for farmers in terms of product quantity, quality and delivery, or production processes, (ii) monitoring compliance, and (iii) assisting farmers to meet the set requirements. This study focuses on such governance systems of various buyers which operate a DVC with SHFs. The buyers are called lead firms (LFs) of the DVC. The research was concerned with: the rationale and functioning of the business relation between the LF and SHFs, related benefits and costs as well as lessons-learnt, farmers’ upgrading as well as opportunities and challenges which will have to be addressed by the VC actors or call for assistance from for instance GOU and respective support institutions.

Research methodology

The study explores five case studies: Bee Natural Products (BNP - honey), Sulmafoods (SF - fruits and vegetables), Outspan (OS - sesame and chilli), Ibero (IB - coffee), and Jesa (JE - dairy products). All cases are selected from the agricultural sector. Depending on the sub-sector, the LFs interviewed are processors or traders who sell their products on domestic and/or international markets. The main selection criterion for LFs to be included in the study was that the LF was known to engage directly with SHFs and in a more long-term and developmental manner which could include provision of training, advice, pre-finance, or inputs.

The study is based on presentation and analysis of in-depth interviews with LFs and SHFs as well as support institutions and industries (SIs/SIDs) that interacted with the LFs and SHFs and thus - in some way - carried out governance functions in the DVC. SIs are non-commercial

¹ We use the terms SHFs and farmers interchangeably.
players such as government and donor agencies/programmes and NGOs. SIDs are commercial partners of the LFs and SHFs and e.g. supply some of the inputs used by SHFs. At times, this supply comes along with embedded services such as product specific or general training and advice. Interviews were conducted using a questionnaire which was developed by the researchers.\textsuperscript{2} Qualitative field research by a team which consisted of researchers and research assistants was carried out between the months of April to August 2007. LFs’ interviews were held with the LFs’ management (managing directors, general managers, owners) and/or field coordinators (operations managers, farm managers, purchase managers, field supervisors). For each case study, interviews were also held with two to four farmer groups of between 3-15 people, and three to four SIs/SIDs.\textsuperscript{3}

The main purpose of the interviews was: (a) to understand the governance structures in place between the two VC actors involved in the actual trade (LFs and farmers) and (b) the interaction of the LFs and SHFs with SIs and SIDs respectively. In this sense the researchers did not analyze the entire VC but only a particular part of it. Other actors in the VC, e.g. other buyers in Uganda (supermarkets or final consumers) and abroad (importers) were not interviewed. This was beyond the scope of the study.\textsuperscript{4} The team did also not provide extensive further background information in the case sections or undertake further follow up research and analysis on issues raised by LFs, SHFs and SIs/SIDs as this would have exceeded the scope of the study.\textsuperscript{5} In this sense, the very positions that LFs, SHFs and SIs/SIDs put forward and their links to the theme of VC governance are the findings.

A small note: quite often there is an inclusion of (lengthy) quotations of the respondents’ statements in the main report. These quotations are supposed to help the reader to get a

\textsuperscript{2} The questionnaire for the LFs had the following sections: (1) Background of the buyer’s business, (2) Basis of the relationship with farmers, (3) Governance of the VC, (4) Farmers’ upgrading, (5) Role of other VC actors, especially support institutions, and (6) Outlook regarding VC with SHFs. The team also had specific questionnaires for supervisors of the LFs. The questionnaire for the SHFs had similar sections (adjusted to the farmers’ perspective), while the questionnaire for SIs/SIDs examined the assistance provided to the VC which forms part of the VC governance.

\textsuperscript{3} The interview focus was rather on SIs than SIDs. However, in some VCs, there were few or none SI active while some SIDs carried out significant governance work which was then explored through interviews. With some of the SIs, no face-to-face interviews were carried out; only the written responses to the questionnaire were used then.

\textsuperscript{4} Some months after the beginning of the research activities, the NGO Land O’Lakes (U.S.) provided additional funding which allowed carrying out two more case studies in the dairy sector: Sameer and Paramount. The responsible researcher was William Ekere (Department of Agricultural Economics and Agribusiness, MUK). The findings of these two cases were not included in the UPTOP report however. The research team plans to publish all the seven case studies at a later point in time if the necessary co-funding can be secured.

\textsuperscript{5} The team could not further verify the statements made by the respondents. By interviewing a wide range of actors for each case, however, the situation described by the various respondents, if read together, can be seen to be close to ‘reality’ (within the usual limits of a report setting). In a strict sense much of the write up would start with ‘according to the respondent’ - for matters of readability of the report, these phrases are left out most times.
personal impression of the statements being made by the respondents. The statements are furthermore used to allow the actors at first describe the governance situation in the respective VC and give their views on the relevant matters. We intend to give them a voice by presenting their positions in their own words. This description of the situation by the actors is the foundation of the report; the researchers then analyse (comment and interpret) these statements where appropriate. The respective researcher had the responsibility to make the analysis to his/her best knowledge, understanding and assessment of the situation at hand. Due to limited report space and research time this cannot be done with every aspect raised or after every respondent’s statement that is presented. Some statements are indeed also self-explanatory.

The general picture: governance activities of the LF and results regarding SHFs
All LFs have undertaken efforts to establish and maintain direct and constant relations with their farmers and build their production capacities and group organization. Below are the reasons that explain the above: (i) the desire to strive for sufficient product quantity and quality in the context of an often weak supply base due to low farmers’ capacities, (ii) control of diseases and pests in the production area, e.g., cattle diseases, (iii) meeting standards of the target market, e.g., traceability requirements in case of organic agriculture (OA), (iv) putting into practice the LF’s Corporate Social Responsibility (CSR) plans, (v) publicity and marketing needs of the LF, (vi) statutory regulation, (vii) market dynamics such as enhanced competition, and (viii) interest in local development around the LF’s rural base (processing plant, own farm, supplying farmers). Most LFs studied realized that having good relations with farmers and their local communities and creating mutual interest in the LF’s success (a win-win situation for the LF and farmers) is a pre-condition for meeting production objectives. In this context, some of the LFs actively tried to enhance: the interest of farmers and surrounding communities in the LF’s business project and prospects, and develop attitudes and behaviours among farmers and community members that could directly and indirectly benefit the LF (higher farmers’ supply, information provision, and loyalty levels) and, in turn, the supplying farmers.

6 It was at times difficult for the researcher to interpret a particular feature of the governance system based on several hours of interviews with the respective actors only; indeed, every reader (based on e.g. reference to different assumptions about ‘the market’) can read the situation (e.g. respondents’ statements) in different ways. 7 A key objective of the study was to document the actors’ views. By bringing their information and views on paper, we wanted to shed some more light on the issue of governance in DVCs in Uganda. The broad scope of and extensive interviews for the study was intentional in that we aimed at presenting as much as possible the different governance issues in the DVCs. As mentioned, a number of quotes and points raised are thus merely documented. However, we are of the view that even then they can still inform the VC actors and stakeholders as well as the debate in general and stimulate future in-depth research.
Findings reveal: LFs have to consider social aspects such as the community’s sentiments in order to be accepted and grow in a rural setting. In this context, setting up a factory (or project office) in the respective local area helps LFs get security from farmers and other local stakeholders ensuring the factory is not a ‘white elephant’ but protected (in the wide sense) by the relevant actors. A factory is also a booster of trust and confidence as it indicates to the farmers and stakeholders a more formal business approach and long-term commitment of the LF to the locality, especially compared to on and off ‘middle men’. Moreover, it is evident that standards (organic, fair trade, quality and others), or market requirements in general - which necessitate LFs and farmers to be in close contact (beyond spot transaction) have fostered relations and cooperation between the two parties.

LFs governance activities offer significant benefits to SHFs in form of: (i) training, advice, inputs and encouragement on matters of production and group dynamics (organization, management, activities, and leadership). Given the report’s findings, a mix of technical and non-technical training topics can be considered essential for successful VCD. Also, the identification of successful farmers amongst the group of SHFs is important. LFs often designate such farmers as lead farmers (LFAs) who act as role models and champions of innovations the LF would like to see adopted by other SHFs. LFAs also help to build and deepen trust and loyalty of farmers with LFs. The use of LFAs was found to be effective for farmer-to-farmer learning.

Besides, farmers noted as positive: (ii) the provision of production inputs and equipment as well as related services by the LF, (iii) linking farmers to SIs/SIDs and other farmer groups for training, finance, input supply or professional advice, (iv) providing a stable market and thus incentive for farmers’ upgrading, (v) helping to address farmers’ risks, and (vi) allowing farmers to have access to premium prices.

LFs further assist farmer groups in handling internal control systems necessary to meet foreign buyers’ requirements, hence assurance of a market for the produce. LFs such as JE also deduct a farmer’s financial obligation to the respective cooperative (or any other VC player, e.g. a bank, or input supplier), which could be a useful arrangements also in other DVCs. Generally, such service can be particularly useful for agricultural credit, as it provides means for loan recovery at no or limited administrative costs to the financial institution. For specialty markets

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8 Services were offered by LF with/without charge, at subsidized prices, or related to soft loans.
(e.g., organic markets), the LFs meet the costs of certification which would initially be prohibitive to SHFs. However, the certificate is issued to and is owned by the LF, which puts SHFs at a disadvantage in case they would want to change the buyer. In such cases of switching buyers, farmers would lose the premium price attached to the certification scheme since they would have no evidence of certification.

Farmers in all the 5 case studies, appreciate the relationship with their LF; despite existing challenges in each of the relationships. Farmers stressed the point of learning from the LF and benefiting directly and indirectly from its presence. There are cases where, following the success of the pioneer group of farmers in dealing with the LF, other farmers expressed their desire to join the respective VC - at times however, limited markets do not allow the LF to take extra farmers on board (SF case).

The upgrading results of the interaction and cooperation between LFs and farmers are usually significant: respective farmers (not all though) have increased their skills, operate with better processes, expand their fields, achieve higher productivity, increase quantity and improve quality (the latter resulting in lower rejects by the LFs), have better group organization, coherence and activities, or develop a more business oriented mind with incidences of long term thinking and planning. Farmers’ upgrading also shows that farmers can improve their production practices and products yet face a more substantial challenge in terms of technological advancement. Farmer groups that are well linked with a supportive LF are also foundations for setting up SACCOs which are institutions for encouraging rural savings and credit services and can also be intermediaries for the implementation of the Warehouse Receipt System (WRS), which is meant to ease SHFs access to credit after depositing their produce in certified buyer’s store (including farmers’ cooperative society or any farmers’ buying entity).

Regarding the above improvements, farmers stated to be significantly advanced compared to farmers who are not in the DVC of the respective LF and do not generally have relations with a buyer. To a significant extent, the better performance of farmers who work with the LFs is due to regular interaction with a buyer who gives farmers more than just payment for their product, but sets supply standards and assists farmers (directly and indirectly) to meet them. The socio-economic benefits for SHFs due to their participation in DVCs and upgrading and hence increased incomes (through better and more regular payment and less quality related rejects) were noted to be: improved quality of life, better health and housing as well as better schools.
for their children. The differences noticed above offers an important insight to DVC proponents including state officials: considerably positive effects in terms of development of both farmers and DVCs can be achieved if proponents would support LFs, their farmers and other VC partners in relevant matters of VC development (VCD).

Given that the LFs studied were usually the only ‘developmental buyer’ with the most explicit governance system in the locality where farmers were interviewed; one can assume that the above mentioned positive developments would have been less significant and slower (or entirely lacking) in the absence of these LFs and their governance efforts. That is why GOU and its partners have to get more serious about promoting VCD through enhancing LF-SHFs systems. A key message of this report to GOU and its development partners: given the historical context of private sector development (PSD) in Uganda, business practices that fall short of commitment, cooperation, trust and long-term perspective in business with the VC partners (which seems the common practice of the majority of economic actors in the agro-sectors at the moment), undermine or slow down the process of VCD in the country.

Besides, LFs still experience deficits among farmers in terms of: adoption of improved agronomic practices and environmental management, technology advancement, group organization and governance, understanding VC matters and applying a more long-term business perspective, risk taking behaviour, as well as trust, loyalty and honesty (e.g., honouring the payback-scheme for inputs in the BNP case). Due to their investment in the farmers’ capacity and the need to get the farmers’ output, LFs often favour a continuation-approach with the farmers; thus they find it hard at times to actually punish and (temporarily) exclude defaulting or disloyal farmers from the DVC. LFs responses moreover revealed the importance of farmers improving on the soft factors in VC business: communication, commitment, trust, responsiveness, and eagerness to improve. LFs appreciate farmers who can govern themselves. It was also noted that enhanced farmers’ awareness about commercial agriculture (after trainings) does not guarantee that they practice it successfully.

The findings indicate that LFs have to be ready to (continue to) invest in SHFs also in future in terms of: innovation, improved inputs, promotion of best agronomic practices, certification costs, or linkage building with SIs and SIDs to mobilize assistance. Such continued support can yield positive returns in the long run. There are high expectations - among farmers and VC stakeholders such as SIs and SIDs - that LFs further increase the scope of their support and enhance VC governance. Respective farmers’ suggestions imply that there is room for
governance improvement in every VC studied, in addition to improvements on price issues. To fulfil some of these expectations and take DVC governance to a higher level, LFs will have to show a continued good, and in some issue areas improved performance on various fronts (not just price) to keep or enhance the contentment and loyalty of the farmers. LFs need to be strong in market expansion (marketing), amongst others, to finance its support measures and make or keep the set up with farmers sustainable. Some of the expectations that are directed towards the LF (e.g., in areas of pre-finance or input provision) are related to the fact that the weak or uncommitted SIs do not provide respective services or assistance.

Various challenges in the governance systems studied
Farmers emphasized that the LFs’ measures and behaviour is generally different from other buyers or agents operating in the respective areas. Other buyers mostly purchase the produce (sporadically) but do not develop farmers’ production or group capacities. They often prefer to interact with individual farmers instead of groups, and limit these interactions to the buying season only. Other buyers are also rather informal (less visible, e.g. have no factory or field office) and less trustworthy than the LFs studied. The study thus differentiates between ‘developmental’ (LFs studied) and ‘non-developmental’ buyers9. Based on the interviews, part of the deficient characteristics of non-developmental buyers are as follows: (i) being less concerned with enhancing farmers’ product quality and volume (due to respective characteristics of the buyer’s product, target market and business vision), (ii) not caring for farmers, (iii) seeing investment in farmers’ capacities not as their role: not as an investment in a sustainable and long-term oriented business structure (DVC) but a waste of the buyers’ resources, (iv) being overwhelmed by the numbers of farmers in their supply system, (v) lacking the competencies and/or motivation to address loyalty and trust issue in the DVC, or (vi) fearing that providing farmers support might strengthen the technical capacities and thus bargaining power of farmers.

There is an important effect in this context: the ill-treatment of farmers by some (non-developmental) buyers affects farmers’ perceptions and attitudes vis-à-vis (developmental) buyers that are interested in establishing relationships. It makes the latter’s more difficult and costly. One can compare this externality effect to unregulated environmental pollution: the buyer who has to handle the damage by investing in perception and attitude change of and trust

9 A respondent from the state SI NAADS referred to them as ‘sub-standard buyers’.
building with farmers is not compensated by the ‘polluter’ (the previous buyer whose behaviour caused farmers’ scepticism towards buyers in general). This lasting effect in terms of possibilities and ‘costs’ of trust and relationship building between VC actors should be of concern for stakeholders who wish to promote DVCs. The state should look into this externality effect and establish if there is a role for it to intervene. It seems more effective to regulate buyers’ behaviour (and that of other actors) in the first place than dealing with the direct and indirect costs of their actions for the process of VCD afterwards. VCD proponents need to promote appropriate behaviour of buyers (and VC actors in general); this is cooperative, transparent, and long-term oriented behaviour. Thus, what can GOU do to limit ill-treatment of farmers by certain buyers; besides maybe: (a) starting to blacklist VC actors with improper business practices, and (b) promoting good relations between farmers and buyers in various ways?

Despite the upgrading efforts and related results of both LFs and SHFs, some LFs face a supply problem (farmers produce too little or sell to other buyers); while other LFs face a market access problem (the farmers’ supply is sufficient but the LF lacks a strong market or buyer).

Further, there is conflict of interest between promoters of organic and conventional agriculture with the latter advocating for the use of chemicals. Chemical dealers bring chemicals to the organic project areas where the use of artificial chemicals is not allowed. Chemicals persist in the soil for years and therefore could constrain the wide adoption of organic farming in an area for many years to come, thus affecting prospects of respective organic DVCs.

Moreover, almost all LFs suffer (actually or potentially) from the loyalty-problem: Farmers who benefit from the LFs’ support - in the beginning of and often later on in the relationship - sell to other on-off buyers who can pay a higher price to farmers because they had not invested in their capacities (or supported them in other ways) in the first place. While LFs can reap some loyalty benefits from the initial: (i) ‘eye opening effect’ of introducing a new business to farmers (e.g., modern beekeeping) and/or (ii) assistance more general, this initial boost can fade out to some extent over time with farmers’ loyalty levels - for various reasons - getting lower; before getting up again at times, e.g. when the farmers ‘get burned’ in their transactions with cheating buyers. We refer to these dynamics as ‘loyalty cycle’. Given the competition for farmers produce, LFs will have to find new ways of boosting or refuelling the farmers’ loyalty
in later phases of the relationship; often through better prices but better in combination with other measures as well.

Some LFs face a problem of deficient payback practices of farmers and difficulty in enforcing contracts and agreements with defaulting farmers. Enforcement of ‘supply and pay-back’ contracts seems not feasible with SHFs. For instance, when it comes to deducting the expenses made or money advanced by the LF for equipment, some farmers default by side-selling to buyers offering slightly higher prices ostensibly to meet other pressing financial needs. Farmers’ refusal to pay back the LF through selling their produce to the LF and adhering to an agreed deduction scheme constrains relationship building and further development of the DVC. The limited enforcement efforts or successes of the LFs are related to the following: (i) limited staff capacity of the LF to enforce contracts, (ii) fear to lose reputation among farmers by being rigid and running after defaulting farmers, (iii) need for LFs to keep farmers in the VC to ensure higher supply (in a low supply-high demand environment), (iv) lengthy and costly court processes and (v) (in the BNP case) pressures from local politicians who de-campaign the LF. Overall, it is not clear if enforcement is not economical (in a broad sense, including reputation costs)\textsuperscript{10} for the respective LF or if other reasons are decisive. It could point to management deficits (see the thin staff level) or general problems of (young) LFs that makes limited profits which cannot cover such enforcement activities.

The described problem is particularly severe in the BNP case as acknowledged by BNP and its supporting partners; it was estimated that about 50% of the farmers who have received inputs on a loan basis from BNP are not straightforward in terms of repayment. This should worry proponents of VCD in Uganda: LFs face considerable risks in extending financial services to farmers. Again, the state has to think about possible interventions in support of VCD in this context. BNP is already approaching public SIs like NAADS (National Agricultural Advisory Services) to assist in issues of price negotiations, farmers’ loyalty in VC operations and repayment for inputs, and partnerships in the DVC in general. Further to the point, in case the arguments of the de-campaigning local politicians are actually (technically) flawed, public SIs such as NAADS might need to carry out sensitization seminars for politicians and other stakeholders to point to the role of LFs vis-à-vis other less developmental buyers in VCD. In particular local governments and other stakeholders need to understand that in VC operations

\textsuperscript{10} In some cases enforcement is not financially sustainable: for example if a court awarded a LF costs to be paid by SHFs, the latter will no be able to pay such fees and the LF will lose not only the produce that farmers side-sold but also the cost of taking farmers to court.
LFs provide, among others, a guaranteed market access to SHFs’ produce hence stimulating further production.

Some case studies reveal that the LF’s farm gate price for agricultural produce grown by farmers under VC arrangement should be both competitive and flexible. Competitive in that it should be somehow benchmarked on the prevailing open market spot prices at harvest time to avoid temptation by some SHFs to breach their contractual obligations. Flexible in that the LF might have to consider adjusting the contract price somewhat upward (where feasible) if the market prices at the harvest season turn out to be higher. Most LFs search for market niches in domestic and foreign markets that allow them to give SHFs a premium price to increase farmers’ loyalty and supply. For instance, LFs of organic products in general pass a portion of the world price premium for OA to farmers, thus offer a premium price above the prevailing local price which keeps farmers motivated to engage in the more labour-intensive and costly OA (compared to conventional agriculture).

LFs stressed the high level of initial and continuous training efforts needed to keep the farmers motivated, committed and knowledgeable. Costs for training and monitoring of farmers typically constitute the majority of a LF’s governance costs - because these activities require considerable field staff and logistics in the context of many scattered SHFs with low production capacities. Infant LFs in particular have challenges of costs recovery due to little capital outlay. Most LFs solicit the support of stakeholders (SIs/SIDs including NGOs, or donor/state agencies) to enhance the assistance provision to farmers and/or lower the financial burden on the LF. Overall, LFs try to recover the costs of VC governance through: (1) higher prices of the final product they sell, (2) increased volume traded and (3) involving farmers in payment (via deduction) for services and inputs. As the VC system with farmers expands (thus the governance workload), some LFs, for various reasons, do not adequately expand their staff system including staff levels, remunerations, and qualifications as well as rules of engagement of staff with farmers.

Lessons learnt from interacting with farmers as noted by LFs’ Managing Directors (MDs) and supervisors (SVs) point to technical and non-technical aspects, for instance the importance of: (a) being transparent and patient, (b) investing in farmers to get the product, (c) treating farmers with respect and developing a social relation, (d) fulfilling promises made, (e) taking into account group dynamics, (f) communicating well with VC partners and having feedback circles, (g) enhancing reputation as a buyer, and (h) having communication, training and
leadership skills (e.g., being able to guide, advice and counsel farmers). SVs particularly reported that they had to learn how to better interact, pass on information, make joint decisions and be patient in the relation with farmers.

**Formation and dynamics of farmer groups** is another major issue in DVCs. Often different from farmers outside the LF VC, all farmers interviewed are organized in groups. Frequently, the LF has initiated the group formation process. The group arrangement has brought many advantages for farmers such as: (i) sharing of equipment and certain labour cost, (ii) collective crop production from clearing the farm land to harvesting or (iii) learning from each other, e.g. through knowledge sharing on good agricultural practices, among others. Due to group processes, the output per farmer has increased. Enhanced group organization and management has also boosted coordination including communication with the LF. LFs’ SVs assessed that enhanced group cohesion of farmers is linked to issues of common interests among farmers and between farmers and the LF, as well as training, sensitization about market requirements, and incentives provided by the LF. The characteristic of the respective group leadership has been singled out as another decisive factor for success or failure of a group.

However, the still existing **weak group structure** (or, generally farmer institutions from grassroots to higher levels in the VC) in most farmer groups is a major challenge for SHFs and the LFs that interact with them. Some farmers still relate their involvement in farmer groups as part of strengthening their cohesion based on the tradition of strong ties etc. among rural folk; or, what some analysts call ‘social capital’ and which is apparently weakening nowadays. A major challenge is thus to use the farmers’ norms and practices of joint action and networking as well as common goals (‘social capital’) which are applied to certain areas (e.g. the commitment to help each other in matters of production) also for cooperation in investment, financial and other business operations for enhanced economic development. Higher trust levels and better cooperation practices amongst farmers are required to foster members’ collaboration in such matters. Indeed, all LFs called for improved farmer organization. Given the above findings, this issue area should be of major concern for SHFs and LFs as well as the GOU and its development partners. One LF for instance stated that it would increase prices for farmers if there is a higher level of group organization thus reducing the LF’s supervision costs. Other LFs expressed willingness to enhance cooperation with farmers when farmers’ organization improves (making farmers a more advanced business partner for the LF).
It has to be noted in this context that very few of the LFs studied have group oriented rewards and sanctions in their VC which would foster group development. The study argues that for purposes of transforming and commercializing agriculture it is imperative for LFs (and other stakeholders) to also emphasize group performance and use incentive schemes which target groups, not just individual farmers.

There are moreover general weaknesses in most LF governance systems in terms of designing and implementing a system which rewards and sanctions farmers’ performance and non-performance respectively; reasons for this could only be established to a limited extent and need further investigations. An exception is the inter-farmer competition in the SF case. The annual assessment is done considering parameters such as volumes, soil management, record keeping, food security and planting. There are different categories: winner, run up, and token for participation. Participation in the competition is compulsory. Accordingly, the competition has a range of positive effects: the farmers’ level of motivation, effort, learning and group actions, as well as their loyalty and sense of belonging to the LF has improved.

Further, bulking of produce (farmers’ collective marketing) still faces challenges of lack of stores in villages where produce can be bulked by SHFs as they wait for the buyer to pay for and collect the produce. There are also behavioural challenges: SHFs generally need time to practice collective marketing and thus understand the issues of this approach (compared to the traditional practice of individual sales to spot buyers at local markets). In some cases, farmers want to be paid as soon as they deliver the produce to the store, and find it difficult to store the produce and wait for the buyer, especially if it is a first-time-transaction and trust levels vis-à-vis the LF are low. This is where the WRS comes in: farmer cooperatives would borrow money from financial institutions or government programmes like ‘Bonna Bagaggawale (Prosperity for all)’, and issue to farmers receipts for their produce. Farmers in immediate need of money could then discount their produce receipts at SACCOs formed alongside their marketing cooperatives. The buyers would then enable SACCOs to offset their indebtedness to financial institutions/programmes when they pay for the produce.

The LF’s delay to pick the produce from stores or pay for the produce or any other related hook up in the buying season interrupts the confidence building of farmers in bulk marketing. The reported experiences of bulk marketing reveals: VCD is a process in terms of: (i) learning of all actors and (ii) gradual improvement of the systems and practice in the VC. For instance,
farmers need time to practice, learn about and gain trust in collective marketing; LFs time to practice and learn about other issues. Overall, VC actors need to invest in mutual trust building; any hick-ups (operational and other problems) in a buying season, caused by any of the VC actors, prolong and thus destabilize this gradual process. Only with time and successful repeated interactions can practices in the DVC be improved towards advanced or more commercial levels.

**Handling trust and relationships in the DVC**

**Trust** is another major issue in VCs: Many respondents - both farmers and LFs - refer to trust as the basis of the mutual business relationship. The LFs have usually a high awareness of the importance of trust and try to develop trust with farmers; especially in the absence of use of any or enforceable contracts. Indeed, where contracts do not exist to guide expectations, the level of trust - defined as suspending uncertainty and having positive expectations about the behaviour and good intentions of the other - has to compensate for the insecurity in the arrangement. However, the research identified varying levels of trust: weak, fair and strong; declining, unchanging and improving.

**Farmers** showed awareness of the role of trust in the VC (often due to experience with the LF) and highlighted actions that target developing trust with their LF, e.g. improving quality and quantity of the produce, applying the LF’s advice, practicing what was learnt in the trainings, being patient with LF’s deficits and believing in the LF, complying with contract provision, selling to the LF on credit, selling only to the LF and informing the LF when they sell to other buyers (e.g., in times when LF cannot take produce, SF case), reserving produce for the LF as opposed to selling to other buyers at higher prices, communicating to the LF internal dynamics in the farmer group or issues of supply and demand in general. Farmers referred to a mix of tangible/technical (quality, quantity) and non-tangible/social (patience, belief) dimensions when reflecting on their active trust building efforts; this should be noted by LFs, other farmers as well as researchers.

A number of groups reported that during their relation with LF they have learnt about the importance of relationships, loyalty, honesty and trust in business or the relevance of working with a developmental buyer (e.g., SF case). When assessing the costs and difficulty of switching the buyer, groups referred to indirect (loyalty) and direct (price, market, future
business) costs. Farmers who have a perspective of several seasons ahead apparently tend to weigh the loyalty factor higher in their decision about switching business partners than more short term oriented farmers who focus predominantly on price. Many of the issues raised above point to significant learning steps in the context of development of SHFs; they touch a mix of technical and non-technical aspects.

Respondents further indicated that LFs built trust and relationships with farmers by the following: providing an assured market (regular high level transactions improve relations) and taking all or most of the farmers’ produce, buying from and working with a group for a longer time and fulfilling promises over that time (having a clean record in terms of not breaking promises or outright cheating). Further: by paying a more than average local price, paying regularly, being flexible in terms of payment methods and other matters, providing assistance (in forms of inputs, advice, visits, training, pre-finance, or problem solving). Important in the context of LFs’ trust and relationship building with farmers is finally: giving incentives to improve farmers’ performance and exposure, increasing farmers’ identification with the LFs’ project, being transparent, reliable and physically visible and approachable (accommodate farmers concerns), being part of farmers’ social life, and being concerned with farmers development and well being. Across the case studies regular payment is one of the strongest factors that binds farmers to a LF; thus, LFs should try to minimize incidences of late payment and/or late collection of the product.

Regular face-to-face interaction between the LF (including field staff) and farmers both in good and bad times (periods of high/low demand) is crucial for establishing, keeping and enhancing relations in DVCs and keep or boost the farmers’ motivation and confidence in the LF. It is thus important that buyers are willing to invest in a good field presence. Training farmers is also effective in increasing farmers’ commitment and loyalty regarding the LF, and improving the farmers’ understanding of VC matters. There is an interesting example of one BNP supervisor (honey) referring to the social or family context of farmers when he trains and sensitizes them about issues such as bee care or loyalty to BNP. He asks farmers: ‘How would you feel when you bring up a child and it turns against you’ (to make a point on loyalty towards BNP); or explains ‘killing a bee is like killing a baby or killing the unborn baby inside the mother[’s womb]’ (to make a point on improved beekeeping practices). Besides, there are examples that trust in the VC has been improved by using an advanced machine (equipment)

11 By developing a social relation, participating in village events, making small contributions to school fees, helping to build a school, renovate a church, or fund raise for other causes, among others.
for quality control or weighing when farmers supply their produce to the LFs. Generally, such machines can be useful governance tools in agricultural VCs in Uganda; they help stabilizing the LF-SHF relationship. A machine which is correctly measuring the parameters of concern (milk quality, coffee weight etc.) is perceived to be neutral or fair and additionally provides valuable information and feedback to farmers (on their produce quality etc.).

To sum up, the above mentioned various factors that have a positive impact on trust in the VC suggest the following: LFs have to do well on various relevant trust dimensions to win and keep the trust of farmers.

Interestingly in this context, the level to which a LF’s actions are seen as ‘fair’ depends on the fairness (behaviours) of other buyers in the locality. Besides, some farmers could not assess the ‘fairness’ in the relation with the LF since they had no information about the price structure in the VC. Indeed, the case studies show that it is important for the stability, growth and sustainability of the VC that farmers are aware of: (i) the benefits (and costs) of being in a constant relation with a developmental buyer, and (ii) their own role and contributions to this arrangement so that the VC stabilizes in a win-win situation where positive expectations about the other are fulfilled, thus trust enhanced, and both parties gain from long term benefits of steady VCD. In this context, some LFs have the challenge of exploring ‘fair trade’ practices where the final selling price, as well as costs and the profits earned at the end of the transaction are known to all actors in the VC. For instance, one SI was of the view that the respective LF was retaining a greater proportion of the organic export price premium compared to what it was paying the SHFs. We argue that LFs clarifying to farmers and where appropriate adjusting the cost/payment structure in the DVC could be one of the effective ways of winning the loyalty of the farmers.

However, LFs are not always successful in developing and deepening trust and relationships with farmers. Farmers indicated that LFs’ deficits in the following categories undermine relations and trust between the LF and farmers: timely payment of farmers, price levels (compared to non-developmental buyers), price negotiations with farmers (giving farmers a voice), flexibility, timely and logistical arrangements to pick the produce, communication, as well as field staff treatment by the LF and staff turnover. On the latter point, LFs have to realize that (i) (actual or perceived) unfair treatment of its field staff (in terms of low job

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12 Perform well as VC governors and act with some considerations of the farmers’ interests in mind; be pro-farmer.

13 Do well in terms of regular payment and others issues.
security and remuneration) and (ii) a high staff turnover (no matter what the reasons) undermine relations with farmers. Farmers get scared and lose confidence and trust in the LF when field staff change too often. Relations are also undermined by LF’s buying agents cheating either (i) farmers on price or (ii) the very LF (by misusing company money, taking produce to a competitor, among others). Based on the BNP case, one can say that farmers (especially LFAs) and other stakeholders of the VC (such as SIs) closely follow human resources changes and this may make farmers emotional in a particular way. In such situations, to restore confidence, LFs - after they have resolved the matter - need to communicate to farmers the actual events, their reasons, the company response and the way forward. For that, LFs need public relation competences; which some of the LFs studied in this report generally seem not to have at sufficient level. Not communicating, even in times of crisis, creates a vacuum for rumours and instability of expectations on the farmers’ side which can affect trust levels and make trust building more difficult (costly) in later periods of the relationship.

Further to the point, LFs have to take into account that relations between (good) field staff and farmers are something of value to the company: field personnel are important on the technical front (giving farmers training and advice) and the trust front. Field staff can be creators (or destroyers) of trust. The issue of field staff thus needs to get sufficient attention and support from the LF’s management. This includes careful recruitment of field staff to avoid as far as possible having to fire for instance a SV because of his/her cheating. Staff-farmer relationships are an asset for LFs which it can lose if a SV leaves the company. Besides, fired field staff can later turn against the LF and de-campaign the firm (BNP). Changes of field staff need to be communicated to farmers to keep their confidence in the relation and business with the LFs.

There are moreover external factors that affect the LFs’ success in trust formation with farmers: (1) competition for farmers’ produce and related ‘interference’ of other buyers into the VC in that they try to capture the produce after the LF has developed farmers’ capacities, (2) ‘price wars’ with other (often non-developmental) buyers (LFs studied are usually the price setter in the area), and (3) de-campaigning of the LF by other buyers and their political allies. Indeed, the competition for produce from other buyers is a major risks that some LFs (after having developed farmers’ capacity) have to bear. To address this risk, codes of conduct (CoC) for buyers are in the making for instance in the Ugandan Fruits and Vegetables (FV) industry which aims at limiting the local traders’ taking over of both farmers and foreign buyers (importers). It is hoped that this will bring stability in the operations of the FV industry through
behavioural change. It is important that stakeholders including policy makers follow up and support the initiative on CoC in this industry. Good practices and lessons learnt need to be transferred to other sectors.

Overall, there are expectations among some respondents that buyers in Uganda (in certain sectors) are under business pressure to enhance their relationships with farmers in the near future: to meet targets in terms of quantity, quality and standards. Thus, buyers that are on the edge of setting up direct and long term oriented relations with SHFs should benefit from available knowledge in the country on the specifics of such a move (some of them are documented in this report). Lessons learnt from the cases should be utilized. The LFs’ learning process needs to be linked to respective SIs that can partner with LFs on governance matters.

Besides, LFs emphasized that the following farmers’ deficits undermine the establishment of high-trust DVCs, and makes DVC governance more costly and risky:

- the price focus/obsession (switching the buyer for a few Ushs thus not honouring agreements with the LFs),
- deficits in loyalty and honesty after farmers have received inputs from the LF on credit and are supposed to engage in repayment via deductions from payment for supplied produce,
- unpredictable behaviours and
- short term business orientation, as well as
- low organizational level of farmers.

In one case (BNP), the LF and farmers called for intervention of GOU in price setting and sensitisation of farmers about relationships and loyalty matters in DVCs. Overall, the adverse impact of weak farmer organization on VCD should be of great concern to stakeholders, especially farmers and GOU; the latter having the primary responsibility of developing her people. Farmer groups have incoherencies that limit the impact of the support provided by GOU and the LF; low mobilization, or low training participation in some incidences are related issues. Groups can fall apart because of low activity and coherence levels. These findings point to the relevance of the success of the recovery of collective action of farmers (cooperatives) in Uganda. Better group organization and governance enhance the performance of the farmers (thus LF/DVC) and reduce the LF’s governance costs thus potentially allowing the latter to increase prices for farmers (as stated by some LFs). The work to do in the organisation and development of farmer institutions is significant, with roles for various parties in this respect. An emphasis on group strengthening constitutes a vital pillar of sustainability of VCD efforts.
The role of Government as well as support institutions and support industries

There is a close link between the nature and level of success of state measures on one hand, and the level of effectiveness and success of measures of the DVC actors and SIs in promoting VCD on the other. Also, state decisions impact on: (i) relationships between DVC actors including the division of labour in the DVC, and thus (ii) the structure of incentives/profits of each actor, among others.

The efforts and results of the state in supporting the VCs studied have been mixed. On one hand, characteristics of public sector operational regulations, guidelines and implementation levels (or lack and gaps thereof) are sometimes a challenge to LF’s efforts towards effective VCD. Respondents also noted that some government decisions and interventions were insufficiently researched prior to the move and/or suffer from ad-hoc methods and corruption in the state system.

On the other hand, government policies and programmes have helped the DVC, the LF and/or the farmers, mostly in terms of training and equipment provision or infrastructure improvement and general security. The partnership between BNP is probably the most advanced cooperation between GOU and the LFs in the case studies. Farmers were trained in both technical and organizational issues and linked to BNP. Technology was provided to farmers on credit with a binding arrangement to supply BNP with honey for matters of repayment. Since NAADS supports the idea of having farmers contractually bound to the buyer in the PPP (Public Private Partnership), it has to clarify in future the methods of contract enforcement given that many farmers did not honour the MOU because of better prices from other buyers who were not part of the PPP. For situations like this - in which a LF (and partner in a PPP for farmer development) and many other buyers are severely competing for the produce in the locality - the GOU (in partnership with farmers and the LF) has to find a more lasting arrangement to ensure its PPP meets the set targets.

Both NAADS and BNP stressed the point that price setting and loyalty matters need to be resolved in the West Nile honey industry and are in favour of a regional price setting mechanism that handles price setting prior to the harvesting season. The NAADS support for meetings between BNP, farmers and DVC stakeholders in this context is commendable, so is the plan to equip farmers with knowledge and skills relevant for price calculations and negotiations with BNP. Some of the above support tools need clarification in terms of rules
of engagement for the state for the BNP and other DVCs (see below). The details and results of this PPP should be studied more and lessons learnt for such forms of PPP established.

The BNP case also shows: public intermediaries such as the Local Government Production Officers can be essential in helping the economic actors to set up and improve the DVC. Within the experimental context of VCD in Uganda, there is need for the state: (a) to spell out and sensitize public employees such as the Production Officers about their role in VCD as well as (b) to train and counsel them and organize exchange of experience between public servants who are in similar position regarding their role in promoting VCD.

In other cases, the government support in crucial issue areas is largely non existent, which leaves the LF with a significant burden regarding the development of both the DVC and the farmers. Some LFs noted that by ‘doing the work others should be doing’ they considerably overstretch their scope of activities beyond core functions (buying produce and training farmers in essentials) to develop farmers’ capacities (at times from scratch). This is a crucial observation: the more committed LFs in Uganda, especially in sectors that are new to an area (or the country), risk getting overwhelmed by the governance activities they have to carry out to develop the DVC sufficiently. This is due to the weak farmers’ capacities and the low effective support provided by SIs. LFs thus appeal to the responsible authorities to play their part more effectively in future.

Getting other stakeholders involved in the development of farmers’ capacities is a major strategy of all LFs to reduce their governance burden and costs. Such partners are NGOs, development agencies, government institutions and input suppliers. In this sense LFs take on a linking and mediatory function for farmers. There are examples of good cooperation between LFs and SIs/SIDs; which benefit farmers, the LF and the DVC. Further, SIDs such as input suppliers - due to their commercial and partly developmental interests - can provide more than the products they sell to farmers, but also ‘extras’ such as advice and training on both the use of their products and general related issues, At times, actors of the SIDs are filling the gaps left by the weak public support system. A government policy should aim at optimizing: (i) the extra benefits farmers get out of such collaborations, (ii) the regulations of the SIDs, and (iii) the existing PPPs of buyers, input suppliers and other VC actors/stakeholders at national and local level for regular and cost effective training provision (see JE case).
Some non-state support programmes and SIs made useful interventions. In many cases, the support from SIs was essential for the LF to build the DVC with farmers. It is thus important that both public and private SIs keep designing and effectively implementing relevant interventions so that LFs and SHFs benefit. Interviews with SIs suggest that it is possible to carry out interventions which foster direct relations and thus interaction between LFs (exporters) and farmers, and thus can stabilize the prices farmers get for their produce. Market requirements (e.g. traceability, quality based competition) can be used as a pushing factor for relationship building purposes in the VC. In this context, the case studies reveal the importance of joint emphasis in terms of product priorities by GOU and LFs to coherently promote a particular product in a particular geographical area.

Overall, SIs and SIDs (including agro-consultancy firms) have to fulfil an important linking and mediatory function between farmers and buyers. This therefore makes their ability to fulfil their function an important factor in VCD. Development agencies should thus be concerned with involving local SIs/SID (including training and technology providers) in their work - instead of over reliance on project staff - so that meaningful interactions between local VC actors and stakeholders can take place and continue after the project. Some donors/state support interventions face a sustainability problem after the end of the project.

Further, there are examples where two or more SIs partner with a LF and other VC actors to complement one another and improve the performance of the DVC actors (including farmers) and the entire DVC. This was witnessed for instance in the cases of both BNP and IB. In particular, different SIs may have different (yet relevant) interests like food security and standards, welfare of children, sustainable agriculture of other crops and livestock and environment conservation which all combine to address issues of poverty and performance of farmers. This approach can be more effective than stand alone, single development programmes that target on only single issues in the DVC. Overall, GOU and development agencies have to learn to design and implement programmes that include (not just farmers but) the buyers and other VC actors such as agents and transporters and improve issues along the DVC. BNP for instance received support from a SI for improved quality systems in its DVC - the support targeted both the LF and the supplying farmers.

Overall, LFs seem to be ever looking for partnerships with effective SIs that would like to engage in giving assistance to farmers. LFs highlighted that they at times face difficulties in
finding appropriate partners (cases of BNP and JE). This does also apply to outsourcing of functions such as marketing, transport and farmers’ training. In some incidences there is surprisingly little interaction between the LF’s field staff and the coordinators and implementers of government programmes, which indicates lack of understanding and cooperation in VC operations, among others.

A notable observation by some SVs (SF case) was that the level of commitment towards developing strong farmers to supply future markets is higher among LF’s field staff than the private service providers (PSPs) who work on short term/seasonal contracts, get paid for their services and move on (e.g., NAADS’ PSPs). This comment raised the issue of sustainability levels of: (a) embedded services provided by the LF because of an inherent (commercial) interest in development of farmers and VCD, vis-à-vis (b) external short term service provision based on cycles and contract incentives of state or donor programmes. NAADS and other public SIs have to consider how: (i) to incorporate more the developmental LFs in their activities, and (ii) to strengthen the provision of meaningful embedded services to SHFs by LFs or LFs’ long-term SID partners (e.g., agro-consultancy firms).

Importantly, uncoordinated (or an inappropriate mix of) interventions from different development agencies (including NGOs) can lead to ‘confusion of farmers’ as well as confusion and setbacks in the VC in general. For instance, different private sector actors as well as SIs are currently promoting organic and conventional farming in the same areas. There are reports about a conventional project (of one SI- promoting use of chemicals and treated seeds) next to an organic project (of a different SI). However, the organic code has stringent conditions which make the adoption of the two types of farming mutually exclusive. Related complaints by farmers and LFs that are active in OA point to regulation gaps in terms of conventional and organic areas. If these practices continue, organic VCs can lose their organic certification and be sanctioned for several years; which would be to the disadvantage of those farmers who currently benefit from organic price premium. There is thus a need for agricultural areas to be zoned clearly, demarcating areas for organic and conventional farming.

There are furthermore incidences where the design and implementation of development programmes shows poor awareness of prevailing DVC issues and/or inadequate cooperation with the LF. For instance, in the BNP case, beekeepers are supported by a SI with skills and technology for honey processing to become more independent from the
dominant LF and (supposedly) sell at better price to any (often non-developmental) buyer; without any meaningful consultation with the LF prior to the intervention thus neglecting important relationship dimensions of the DVC (‘whoever is the buyer is not of great concern to us’ - respective programme officer of the development agency). In general, isolated interventions which assist one VC actor (e.g., the farmers) without involving other VC actors, at least at the level of meaningful consultations, could have negative consequences regarding the relationship and development of the respective DVCs.

In another incident in the BNP case, a SI’s provision of low-quality production equipment to farmers has advanced product quality standards lower than the one preferred or promoted by the LF. Such apparently insensible interventions - that do not adequately consider the existing VC context (e.g. the LF’s strategies) - can, first, cause confusion and setbacks in both the LF VC and the sub-sector in a location. Second, they may leave the farmers worse off in future when for instance (i) the low-quality equipment produces lower product output and quality levels or (ii) the link with the LF has been cut, and thus, training, advice and market access is not offered anymore by the LF to the farmer group while the other (better paying) buyers are not advancing such embedded services.

Noticeably, related to the IB case study, some local administrators (LC3s) would want to tax activities of the LF’s projects of farmer development (including coffee buying). This would be counterproductive to farmers as the tax would be passed on to the farmers in the pricing mechanism. It would also discourage donors and LFs to engage in similar projects.

Given the above evidence and the respective demand by LFs and SHFs for better stakeholder coordination, the report recommends that GOU, donors and SIs (and to some extent SIDs) should be concerned with promoting a more harmonized, integrated and coordinated system of: standards, practices, and knowledge, as well as economic development strategies and priorities and thus support interventions for proper VCD in a specific location. VCD can be carried out with good results in partnership between VC actors and stakeholders, where all players need to know about and follow their roles and responsibilities. The option of promoting and investing in such partnerships is both a chance and challenge given the overcrowded aid sector in some geographical or issue areas in the country. The LFs have to keep shouldering part of the related actors’ coordination, but without the efforts of the powerful state and donor SIs results oriented coordination of support measures remains illusory.
Further evident, **staff of SIs can improve their understanding of VCs** by working with both the technically knowledgeable staff of the LF and the farmers over some time, which can eventually improve the SIs’ service provision (case of NAADS-BNP). From the experience of the private sector SI NOGAMU (National Organic Movement of Uganda, see SF case), it is evident that it takes time and effort to make institutions adjust to working within a VC framework and carrying out meaningful VC informed interventions. Designing and implementing appropriate measures requires a lot of ever updated information and knowledge - thus research, interaction and experience - about the VC; its actors (farmers, exporters, importers abroad and, if possible their clients) and the governance of their relations. Given the current weaknesses of the institutional structures of the relevant public support system, the state has a significant task ahead to make full (or better) use of the VC approach in designing and implementing respective support measures including regulatory improvements.

No doubt, **public SIs have to create meaningful relations with LFs (and smaller buyers) and farmers** and use these relations for promoting VCD. This however would constitute a significant challenge for public servants who have kept distance from such forms of interactions with private sector actors in the recent past. In the absence of meaningful relations (or in the transition period towards such a state of affairs), more state support might have to be provided to private sector institutions such as NOGAMU (National Organic Movement of Uganda) to play a useful role in VCD. The state should however try to involve all professionals (from the public and private sector) who have experience in linkage building of VC actors, or, generally, working according to a VC approach. Such experts could help the state, where required, in training and assisting public servants at both central and local government level in VCD. There should be training workshops on VCD support interventions and institutional processes. It is also timely to have workshops and consolidating trainings organized for field staff of LFs (and for LFAs) who are involved in the governance of VC. This can help in taking stock of various approaches to VC governance, sharing lessons-learnt and providing state officials and other VCD proponents with insights about issues on the ground.

Moreover, in the context of its economic diversification agenda, GOU has to consider more the **contribution of those LFs who are pioneers** in: developing the supply base of a new sub-sector in a particular geographical area (e.g. by training farmers in a new activity) and demonstrating to following actors that this new commercial activity is possible and viable in this area. Given these positive externalities where the benefits for society are much higher than the private benefits the pioneer can reap commercially, there is an argument for support of the
LFs’ (risky and costly) efforts and investment into VCD in new sub-sectors or activities to arrive at a social optimum (increased level) of such efforts, especially in the early phase of sub-sector development (Rodrik 2004, Lall 2004)\(^\text{14}\). Without such state support (including protection from copy-cats, e.g. non-developmental agents who reap the benefits of the capacity building), the pioneer firm (LF) will invest less than desired in capacity building (including technological upgrading) of farmers which slows down sub-sector’s development, hence diversification. The pioneer will scale back these investments because it knows following buyers will later trade with farmers and thus benefit from the demonstration and capacity building effect and out-compete the pioneer on price; because these buyers have not invested in VCD (e.g. farmers’ training). This scenario is at play in the case of BNP regarding honey production in the West Nile region. There is a market failure in terms of information, technology and capacity building externalities which have to be addressed by policies (ibid).

Again, not all buyers are willing to co-operate in support activities that benefit farmers, because they don’t want to invest in long term development and feel that the state should do that anyway. That is why GOU should seek to **enhance cooperation** with those VC actors (LFs and others) that are not just purely short-term commercial (money for product) but also somehow developmental (which is long term commercial in a way) in their orientation towards matters of VCD.

However, GOU will have to **clarify on its conception and involvement in PPPs in DVCs**; the scope of support provided to both LFs (for building and managing the governance systems with farmers) and the respective farmers. GOU needs to spell out guidelines (rationale and principles) for its engagement in partnerships with a particular LF: On which basis (e.g., demonstration effect in case of the pioneer firm, public good character of LF’s governance efforts) is the buyer chosen and supported? What are - based on the guidelines - the roles of the state, the LF and farmers in this PPP? How does the state monitor that private sector parties fulfill their obligations and work towards the PPP goals over a period of time. What are the sanctions for breach of the obligations? The analysis of the BNP-NAADS case shows that this clarification has to include to which extent the state wishes to engage with LFs not only on matters of farmers’ production (training and equipment for farmers) but also sales and marketing (loyalty, contracts, prices). Given current state of affairs, since (according to

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respondents) NAADS supports that farmers are contractually bound to the buyer in the PPP of BNP, it has to clarify the methods of contract enforcement among others, and get farmers to appreciate the link between LF’s investment in farmers and prices offered by it.

GOU will have to address the issue of ‘sub-standard buyers’ (NAADS term) whose practices and behaviours (as well as products) undermine continuous, consistent and speedy VCD. It is going to be interesting how GOU might attend to business practices in the agricultural-sectors. It would be a rather new ground for the administration given its overall liberal stand on regulating market actors and dynamics (due to its politics of ‘non-interference’ with market forces). Yet, the state should think about how it can stimulate better buyer-farmers relations. Amongst others, it could consider fostering a national traceability system, quality based competition and provision of other incentives to make buyers build relations and cooperate with farmers. Further, specifically for coffee, GOU has to put in place more serious and enforceable measures on all stakeholders who default on quality (poor harvesting and post-harvesting, buying wet coffee). Farmers in the IB case associated poor quality control measures with vote seeking of the L/C system; L/C leaders are not keen on assisting to apprehend wrong doers because they fear losing votes.

Finally, GOU has to work on meaningful regulations and step up its support with regard to VCD, including effectiveness of extension services and microfinance institutions, among others, to enhance farmers’ capacities. The study has pointed to some respective gaps and inadequacies that have hampered VCD in Uganda in the past years up to now. In short, there is considerable effort in Uganda to address regulatory and bureaucratic bottlenecks to investment; GOU should be concerned with the same in regard to VCD. However, more regular practical support of VC actors on the ground that ensures effective assistance and actors’ learning will require effective local support structure with staff who are willing and able to interact meaningfully and regularly with the VC players. Market growth for LFs remains one important but not the only crucial pre-condition for sustainability of VCD in Uganda in terms of ability to finance governance activities and enhance the actors’ business and upgrading; the GOU has to help in the issue areas discussed in this report.

**LF deficits that need improvement**

Based on respective deficits, there are indications that LFs (at least one respectively of those studied) have to improve the following:

- Enhance staff and logistics levels to improve DVC efficiency and minimize hick ups (especially in the buying season) which delay the learning and trust building process in the VC,
- Minimize incidences of delayed payment to farmers,
- Improve systems and relations with farmers and other DVC stakeholders thus DVC efficiency. Below listed measures can improve the LF’s (and thus VC’s) competitiveness in both soft (responsiveness, reputation, stock of information, loyalty from farmers and customers) and hard (quality, quantity) dimensions,
  - Improve communication with farmers (on price calculation and negotiations, or business strategies, among others) and stakeholders of the VC, including the consumers and general public. Already, several LFs have started to move away from price declaration towards price negotiation with farmers,
  - Improve relations with LFA's and regularly seek their views and advice on the gaps, threats and strength of the LF’ governance system,
  - Some LFs have to step up their methods of relationship management in the DVC through meetings, suggestion boxes, public relations department, website, press articles, or questionnaires to track governance performance of the LF and related views and suggestions of farmers and VC stakeholders,
- Improve field management through: (a) adequate field staff level and remuneration and (b) improved rules and guidelines for field work with farmers. This part of management functions of LFs did not in some cases studied get the appropriate attention from management. Yet, not only can improved middle and lower staff levels (field management and staff) improve supervision of farmers but also the relation of LFs with farmers and thus the latter’s trust and confidence in the LFs and the future of the business relation,
- Limit cheating of LFs’ buying agents/field staff, e.g., by proper publicity of the prevailing price,
- While the strategy of engaging other stakeholders in farmers training is correct. LFs have to consider offering regular training as well. NGOs for instance are often not providing regular training, but only on-off support interventions. There are furthermore always newcomers in the LF supply system who need first time trainings while refresher trainings are necessary for all farmers. LFs (such as JE which does not do farmers’ training itself)
should note that trainings do not only enhance farmers’ technical capacities but also their loyalty to the LF. The loyalty factor might become particularly important when new competitors enter the same sub sector in the LF’s geographical area,

- Some LFs have to organize more ‘chain visits’ of their farmers to the LF’s headquarter, outlets and customers such as supermarkets in Kampala. The farmers’ ‘learning by seeing’ is important not only in: (i) technical terms (learning about what happens to the product, why quality inputs matter, how the LF product compares to other products in the Kampala market), but also (ii) in terms of farmers’ motivation, loyalty and trust re the LF. Some LFs could consider providing more information about their farmers (including farmer group pictures) on both the respective LF’s products and website. That could be helpful, among others: as a marketing tool (used already by some Ugandan exporters), in enhancing farmers’ identification regarding the LF and its products (thus increase the their motivation and loyalty to supply the LF and improve performance of the VC), and, generally, strengthening LF-SHF’s relations,

- Work more innovatively with existing farmers in the VC on challenges of loyalty and side selling, instead of merely expanding the number of supplying farmers to get the required volumes. LFs need to give farmers a feel of inclusion, through communication, consultation, and responsiveness, but they can as well consider measures such as end of the year gathering or giving farmers company symbols (sticker for farmers guest book, t-shirts), or pictures that illustrate other parts of the VC, for instance customers who enjoy the LF’s product. The latter might make farmers feel proud to be part of a larger system of quality production that links them to the country and the world,

- LFs also has to invest in the management of farmers’ expectations - especially through communicating what functions and price LFs is able to provide, and why other things such as pre-finance, or technology provision should be the responsibilities of the SIs - as this is an important channel to limit farmers’ expectations and thus disappointments (and trust deterioration) in case the LF fails to perform as expected,

- Initiate, develop and apply appropriate systems of rewards and sanctions for farmers for performance (including loyalty) and non-performance (including disloyalty) respectively. Note that not just rewards but also (monetary and symbolic) sanctions change the incentive context for the respective farmers. LFs have to consider linking support provision (inputs and training) with a more strict binding agreement for farmers. LFs that face a large number of defaulting farmers have to ‘talk more’ about their rewards-sanction system (and
its application) to ensure a sensitization and demonstration effect to other farmers, e.g. those who are indecisive about loyalty.

**Regarding the four hypotheses of the study:**

(I) Production and trade dynamics at the level of SHFs and LFs are related to forms of relationships between VC actors; and thus to forms of VC governance. Deficits in terms of loyalty and trust between SHFs and the LF for instance reduce the produce that SHFs sell to LF and increase side selling. Further, speciality markets’ requirements (e.g., organic certification) foster LF and SHFs to have a close and continuous relation which includes joint harvesting, quality checks, and training; LFs need to build up a field presence for that. The training, advice, or pre-finance offered by the LF strengthens the skills and capacities and thus performance of SHFs in terms of output quantity and quality. LFs also link SHFs to SIs such as NGOs or SIDs which again strengthens the SHFs. All these measures are a result of advanced relations (the network type governance) between buyer and farmers that are markedly different from the purely transaction based (arms-length) approach common in Uganda. (II) Thus network relations with a LF offer better earning and upgrading conditions for SHFs than arms-length spot-market relations.

(III) The case studies show that different forms of governance require different degrees of farmers’ capabilities. Network relations with LFs come with requirement for SHFs to enhance their skills in agronomic practices, post harvest handling, sorting, or storage. LFs offer assistance to raise the required skills, yet also demand that the SHFs improve their work practices over time. Further, SHFs need skills for intense communication, trust building, and transparency vis-à-vis the LF; they also need to show loyalty. Integration into such relational modes of governance requires a high degree of relevant capabilities.

Finally (IV) the report shows that enhanced skills and collective actions of SHFs reduce the LF’s costs and risks of coordination and monitoring. For instance, training provided to farmers (by the LF and its partners) reduce the monitoring costs of the LF in the later periods; through better skills and performance as well as self-governing capacities of the farmers. In the same vein, enhanced farmer group structures reduce coordination costs for LF. In addition, governance costs are reduced by enhanced opportunities to efficiently transmit knowledge and information between LF (and its partners) and SHFs which is a result of better farmers’ group
formation (thus acting increasingly as one voice), improved communication practices of farmers, and the increasing mobile phone use.

**Further research is needed on the following matters:**

- Case studies of governance systems of other LFs in Uganda, e.g. in the sugar (all main players), textile (Phoenix Logistics), fish and coffee industry,
- The challenges for LFs in setting up and enforcing systems of rewards and sanctions for good and poor performance of farmers,
- The relationship between rewards, sanctions and farmer groups performance in the DVC,
- The relationship between LF’s support activities and farmers’ loyalty levels. The role of LFA as a link between LFs and farmer groups and the reasons for different outcomes of LFA’s activities e.g. in terms of mobilizing farmers and enhancing their loyalty towards the LF. Similar research gaps exist for the role and ‘effectiveness’ of all other VC ‘governors’ including (1) SVs as links between LF management and farmers, (2) consultancy firms, and (3) local government,
- Effectiveness of different methods for farmers’ training, and impact of governance tools such quality testing machines on VC relations and actors’ performance,
- Managing relationships in the DVC (from the perspective of all economic actors as well as stakeholders),
- Influence of dimensions that have been grouped under ‘social capital’ on the performance of the LF,
- Trust links in the DVC: different actors - their role, behaviour and impact regarding distrust as well as high/low trust in different links in the DVC,
- Farmers’ trust levels and commitment vis-à-vis the LF and farmers’ switching,
- The link between a farmer group’s geographical distance from Kampala, its economic options and the level of loyalty towards a specific buyer, generally: factors that impact on loyalty and trust levels in the DVC,
- The views and calculation of LFs regarding: (a) interacting with groups vs. individual farmers, (b) enhancing loyalty vs. expanding the number of farmers to achieve supply volumes,
- The governance practices and rationale of ‘sub-standard buyers’, and in this context: the motivation of what we call non-developmental buyers to only engage in arms-length trade with farmers vs. the different approach of the apparently few more developmental buyers,
• Experiences of the FV industry in designing and applying CoP for the industry,
• Experiences (possibilities) of state measures to limit ill-treatment of farmers by certain buyers,
• Political economy issues in VCD: (a) links between the state and VC actors (LFs/SHFs) and the impact on outcomes of VCD (e.g., relation between categories of links of various LFs with the political and bureaucratic system on one hand and the LFs’ governance practices and success on the other), (b) link between governance modes (actors’ practices) in the DVCs and wider structural forces and imperatives in the domestic/regional/global economy, (c) the role of SIs in the politics of VCD, and (d) politicians’ views and activities regarding matters of LF’ governance and VCD,
• Experiences and views of the farmers regarding various governance matters in their VCs,
• Problems of farmer groups to cooperate internally on matters of finance and investment and other strategic business issues,
• Gross margin analysis (cost-benefit) along the VC to establish amongst others: (i) the unit costs of a product for the SHFs, (ii) if additional upgrading efforts of farmers are worthwhile in terms of extra income or higher sustainability of the economic activity, and (ii) the LF’s calculation of prices and assistance given to farmers in the context of public funding for the LF’s VCD,
• The sustainability issue of public support for VCD (and related LFs calculation and behaviour),
• VC informed support interventions and institutional processes; for instance, the experiences of SIs such as NOGAMU in applying a VC approach to guide its actions, e.g. in linking importers and exporters with farmer groups. Comparable experience of state institutions in marketing, linkage building and training. The question for the GOU should be how its SIs (UEPB, MTTI, embassies, NAADS, and others) can be structured (staff organization, skills and incentives) in a way to carry out VC interventions successfully, where appropriate,
• Details and results (lessons learnt) of PPPs for VCD between the state and LFs (or state-SIDs).

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