

# Increasing Market Opportunities for Smallholder Farmers Through Partnerships with Buyers

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**Country: Uganda**

**Sector: Economic Development**

## CONTEXT

Nearly 60% of people in Uganda's West Nile region live below the poverty line compared to the national average of 31%, according to an estimate from the 2008 West Nile Profiling Report. And while the rest of the country witnessed big declines in poverty over the last decade, the rate of decline of poverty in West Nile has been just 10%. The population is predominantly rural, so agriculture is the backbone of the regional economy; cassava, sesame, beans, cotton, tobacco and groundnuts are the major commercial crops. Unfortunately, rural farmers lack access to sustainable and profitable markets for their products. Eradicating poverty in the region therefore requires improving smallholders' access to markets and increasing their productivity. However, the issue has proven to be quite complex for several reasons.

First, the region has experienced several political upheavals since the overthrow of Idi Amin in 1979, which forced many West Nile residents into exile for over a decade. Their return in the 1990s was followed by an insurgency perpetuated by Joseph Kony's Lord's Resistance Army (LRA). Although the region has been stable since at least 2008, West Nile has nonetheless suffered through a longer period of political instability than any other region in Uganda, emerging with its social and institutional structures destroyed. This has obviously had a detrimental impact on governance, community development and service delivery.

Second, cooperative unions and societies collapsed in the early 1990s, becoming less competitive as a result of liberalisation and negative government policies toward cooperative movements. The demise of these cooperatives left the marketing of agricultural farm products in the hands of individuals, prompting corporate buyers to rely on middlemen to consolidate produce. The addition of middlemen to the marketing channels eroded "farm gate profits"—profits that reach the farmer. Making matters worse, freelance middlemen are not regulated and often act unethically. For example, some middlemen cheat farmers by using manipulated scales. Others take produce on credit and fail to honour payments. For their part, middlemen often accuse farmers of adulterating produce with sand or improperly drying produce to artificially increase its weight. Such instances have generated mutual mistrust between farmers and buyers.

Third, private sector buyers are suspicious of development organisations' intentions, as the latter have traditionally allied with marginalised rural communities composed of smallholder farmers. Development organisations have also admonished private sector buyers, including middlemen, for their often exploitative actions in pursuit of profits. This has drawn an equally strong response from private sector buyers, who accuse development organisations of distorting markets by introducing subsidies that create inefficiencies in the value chain and ultimately increase operation costs. This thread of mistrust running across the major value chain actors has undermined several initiatives aimed at improving productivity, creating employment, increasing household earnings and strengthening the value chain.

To address value chain inefficiencies, SNV Netherlands Development Organisation sought to rebuild trust between the different actors by finding areas where they could complement each other and create synergies. SNV and the local capacity builder (LCB), Nile Pro Trust, sought to slowly build confidence in the intervention process by guaranteeing delivery of quality produce to buyers and timely payment to producers.

The intervention, which focused on sesame in this pilot phase, was conducted under the auspices of the West Nile multi-stakeholder platform (MSP). Nile Pro Trust was tasked with coordinating client activities and mobilising farmers to engage in collective marketing activities. SNV provided the market linkage services, which resulted in the engagement of two key corporate actors in the sesame value chain to buy sesame from farmers in bulk.

The first company was involved in all the discussions and planning activities of the MSP. Therefore, it was able to build trust and work closely with the farmers and the facilitators (SNV & Nile Pro). The second company, on the other hand, was more hesitant to participate in the MSP but developed a greater interest in the intervention toward the start of sesame marketing season. It was thus introduced to the process in December 2010 after it arranged a meeting with the producer organisations' representative, which culminated in the signing of a memorandum of understanding.

An evaluation of the entire agricultural value chain from production to market indicated that the main actors are farmers, middlemen and buyers. Meanwhile, local governments, financial institutions, input suppliers and development partners offer a facilitation role. To understand the role of each of these actors, SNV and Nile Pro Trust supported MSP processes in West Nile with actors representing a cross section of the whole value chain. The MSPs resulted in a strategic framework that harmonised the roles of each actor in working toward shared strategic objectives while staying true to regional priorities.

The strategic framework laid the foundation for cooperation amongst the actors across the value chain. One of the key problems the MSP sought to tackle was the lack of an efficient market for sesame, the main product in the region. This intervention focused on identifying the meeting point of farmers' and buyers' interests to create a shared interest around which a market-oriented partnership could be developed. Increasing buyers' earnings would be possible through increased volume of supplies, reduced procurement costs and better quality products. Increasing farmers' earnings, on the other hand, would be possible through reduced unit production costs, increased productivity and increased farm gate prices.

This partnership between farmers and buyers was designed to address three major systemic weaknesses of the value chain. First, the partnership would foster confidence and understanding of each actor's motivation in order to build trust. The intervention particularly aimed to restore trust between farmers and buyers by building a "confidence bridge" through a third party. As LCB, Nile Pro Trust filled this role of trusted third party and attempted to help the two sides find a mutually beneficial arrangement that would increase both sides' earnings.

Second, it would reduce marketing channel costs for the buyers by creating one-stop loading points. The partnerships between the companies and producers required farmers to take their produce to designated bulking centres where buyers could pick it up. In return the buyers were meant to procure the produce from the agreed bulking centres; provide guidance to farmers on quality requirements and product specification; supply bagging materials for bulking; and offer a higher price than the open market.

Third, it would increase farm gate prices by strengthening farmer institutions' abilities to manage collective marketing. Due to the collapse of cooperatives, farm inputs and produce were not being aggregated, which would have reduced costs across the value chain, leading to greater profits and spurring productivity. Yet SNV's approach of using high-level farmer organisations is undermined if farmer organisations are weak. Strengthening farmer organisations to consolidate produce cuts out exploitative middlemen. SNV and the LCB addressed institutional problems farmers faced that undermined their ability to act collectively by implementing a series of entrepreneurial development trainings for farmer producer organisations in Yumbe, Arua and Moyo. The trainings included sessions on record-keeping, business management, collective marketing and group dynamics and governance. These trainings aimed to build the organisations' capacity to engage with other corporate partners.

## OUTCOMES

The intervention was designed to enable area farmers to market 10,000 metric tonnes (MT) of sesame in 2010. In this, it had mixed results. SNV and Nile Pro Trust delivered effective capacity building services that enabled farmer producer organisations to legally register at the district and sub-county levels as CBOs and engage in collective marketing. The two corporate buyers were successfully identified and engaged as market partners to purchase the sesame for the season.

The partnership with the first company registered significant success for both parties, with the company able to buy more than 2,000 MT of sesame from West Nile—a record purchase for the company. Farmers also benefited by selling at a premium price of UGX 2,350 (€0.70) per kilogram, 18% higher than the price offered on the open market for the season because the agreement substantially reduced marketing channel costs.

In contrast, the second company was reluctant to offer the open market price. As it was introduced to the process only during the marketing stage, it did not completely understand the method behind the intervention and took a more legalistic approach than farmers were comfortable with. It sought through the MoU to both fix the price for the season at UGX 1,800-2,000 (€0.50-0.60) and have farmers guarantee delivery of the agreed volume at one central place before payment. The first company had a more open and informal approach, in which no legal documents were signed and both sides trusted the SNV and LCB facilitators to guarantee delivery and payment.

The intervention's failures highlighted the fact that building partnerships is a painstaking process that requires significant time and resources to sufficiently generate mutual trust.

Although the full impact of this intervention may only be realised one or two seasons from now, the immediate impact to the farmers has been increased income for their produce. There has been a major change in attitude toward more cooperative and collective action based on the benefits in this intervention, including:

- An increase in technology uptake as more farmers are demanding high-yielding sesame II seed. The Agency for Accelerated Regional Development (AFARD), a member of the MSP that promotes commercial farming in West Nile, took up seed multiplication in the March-June season. It was able to provide the 4,500 kilogrammes of seed needed for the main sesame season from July to August 2011 targeting 9,000 acres. The foundation seed was obtained from Serere with support from Nile Pro Trust. Productivity is up from 200 kilograms an acre to an estimated 300 kilograms per acre due to uptake of technology.
- AFARD has secured funds to construct two warehouses in Yumbe and Nebbi to facilitate bulking.
- The reduction in value chain costs is set to make the sector more competitive and attractive for further investment and financing. The buyer already subsidised the cost of marketing logistics like bagging materials and weighing scales for the farmers. Buyer financing will surely increase to include production financing as the level of trust and confidence in the partnership grows.
- The partnership is replicable once more actors are fully committed to generating mutual trust.

## IMPACT

The intervention fell short of the projected results, with farmers only managing to sell 20% of the 10,000 MT they had planned to market. However, the partnership with the first company resulted in the following positive gains:

- Farmers earned 18% more than market farm gate price for their produce, while buyers saved money and resources by cutting out the cost of hiring several consolidation agents.

## LESSONS LEARNED

- Farmers incurred no transportation costs to get their sesame to market, as bulking centres were set up in each parish within walking distance.
- Post-harvest loss was significantly reduced due to the shorter distance the farmers had to move with the produce. Studies show that 15% of Uganda's farm produce is lost through spillage and deterioration of quality while being transported.
- The overall quality of sesame sold was high because farmers received both technical information and inputs like bags for safely handling the sesame.

Partnerships for sustainable development with the private sector are increasingly likely to yield positive results. However, partnership building is not easy and there is still only limited research and understanding of what practices lead to an effective partnership. Thus, this case study highlights several effective practices in partnership building, including:

- Participatory engagement of all parties in the partnership throughout the conception, planning and execution stages;
- Extensive research to identify key roles of each value chain actor and establish shared interests;
- Clear objectives that are shared and agreed by all parties. A shared objective is one which results in each partner achieving its individual objective at a much lower cost than if it acted alone;
- A willingness on the part of each actor to bring something of value, whether material or nonmaterial, to the table;
- A credible facilitator and guarantor of the partnership who can resolve disputes and renegotiate terms in case of any operational changes;
- Mutual trust rather than a legal contract. The former creates a psychological contract, whereas the latter creates suspicion due to farmers' low legal literacy. The enforcement of the psychological contract is motivated by the risk of losing the benefits accruing from the partnership. For this reason, it is easier for organisations to adapt and collaborate in case of problems, ensuring voluntary collaboration and the pooling of risk.

## SUSTAINABILITY

By playing the role of broker and allowing the partners themselves to manage the partnership, SNV and Nile Pro Trust have provided a foundation for sustainability. However, developing supporting infrastructure like bulking stores and warehouses as initiated by AFARD—one of the key beneficiaries from the market partnerships—will be key to institutionalising partnerships of this nature.

**STANDARD  
DATA**

Start and end date of Memorandum of Understanding	1 <sup>st</sup> March 2010 – 1 <sup>st</sup> March 2013
Assignment Agreement	1 <sup>st</sup> June 2010 – 31 <sup>st</sup> June 2011
Composition of SNV team	Agaba Anthony, Aldo Hope
Number of primary process days SNV advisors till date	114 PPD
Number of primary process days LCB till date	70 PPD
Involved partnerships	Arua DLG and AFARD
Financial resources invested (except PPD)	Ugx 10,000,000 (€2,926)