



Sustaining linkages to high value markets through collective action in Uganda

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ABSTRACT

Uganda's rapid urbanization offers new market opportunities for smallholder farmers to supply higher value markets such as supermarket chains and fast-food restaurants. Supplying these formal outlets offers higher incomes but accessing and maintaining links to these markets requires significant upgrading in terms of product quality and business management. To meet these conditions farmers need to become more organized which requires increased levels of social capital, to strengthen internal and external relations with group members, service providers and market chain actors. One farmers' group in south-western Uganda has successfully sustained sales of potatoes to a fast-food outlet in Kampala. Farmers had to learn a series of new skills and integrate multiple technical, organizational, financial and marketing innovations. This paper outlines how collective action combined with strong leadership and an iterative market-led learning process enabled a smallholder farmers' association to meet the considerable challenges of achieving the stringent quality parameters of a modern food outlet.

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Introduction

Over the past 20 years, market opportunities for smallholder farmers in Africa have changed considerably due to the dissolution of government marketing boards, globalization and market reform. In many cases, this has left farmers with few technical or financial services and reduced links to traditional export markets (Poulton et al., 1998). New domestic market opportunities have also emerged as a result of urbanization, rising consumer incomes in specific segments, and demand for higher food standards (Best et al., 2005). However, gaining access to these markets often requires farmers to adopt new marketing skills and strategies. In the case of smallholders, collective action is needed to meet basic market requirements for minimum quantities, quality and frequency of supply which they could not achieve as individuals. Governments and development agencies are developing strategies to assist smallholder farmers to meet these emerging market trends and considerable emphasis is being placed on using collective action as a means to engage with markets more effectively.

These trends offer higher incomes, but only to suppliers able to meet the more exacting standards set by international retailers and consumers seeking high quality, trustworthy products, at consistent prices. These principles also apply to modernized food outlets,

such as fast-food restaurants, hotels, institutional buyers and tourism companies, essentially all markets where international food standards are required (Reardon et al., 2003).

Such trends are evident in Eastern Africa, with the growth of supermarket outlets from Kenya (such as Uchumi and Nakomatt) and South Africa (Shoprite, Metro, Game stores) and franchised fast-food outlets such as Nandos, Steers, Pizza Hut and Sub-way. Although market share is currently small, these outlets play an increasingly important role in setting standards for urban food consumption. Estimates suggest that supermarkets already control up to 30% of the food retail trade in urban Kenya and 55% in South Africa, capturing the higher income consumers (FAO, 2003).

To assist smallholder producers to take advantage of these new markets, research, development and government agencies are devising strategies to enhance their competitiveness. For example, the National Agricultural Advisory Development Service (NAADS) in Uganda, is investing heavily in the formation of farmer groups as a means of improving the market performance of smallholder farmers. A critical question for such projects, is whether they take into account the skills and social structures needed for farmer groups and their service providers to select the most appropriate products, technologies and markets, and to develop profitable and sustainable enterprises to supply dynamic markets?

Whilst there is substantial evidence indicating the benefits of collective action in enabling local organizations to manage common natural resources more effectively (Uphoff, 1996; Uphoff

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and Wijayaratna, 2000; Meinzen-Dick et al., 2002), less attention has been given to the role of market forces on the outcomes of farmer based collective action (Agrawal, 2001). The literature suggests that collective action is an important factor in improving the business performance of large organizations (Johnson et al., 2002), and clearly, co-operatives rely upon collective action in both input and output markets (Jones, 2004). However, there are few studies showing how collective action improves the marketing performance of smallholder farmer groups (Barham, 2007).

This study reviews the factors that enable groups of smallholder farmers to engage more effectively with dynamic and higher value market opportunities. The findings confirm the need for 'change agents' who can impart the skills required to engage with markets and also highlight the considerable social and technical innovations needed for a smallholder farmer group to achieve long-term market linkages with a multinational fast-food restaurant. Whilst this may raise some concerns about replicability, it also underlines the incentives and collective purpose that a long-term business relationships can forge.

Context

This paper focuses on the efforts of the Nyabyumba Farmer Group, located in Kabale District, south-western Uganda. In this region, 90% of the population is engaged in agriculture, on average plots of 0.5 ha, earning less than US\$1 per day. This cooler, high altitude area is the traditional production zone for 'seed' and 'ware' potatoes¹, due to lower incidence of potato blight. The farmers' group was formed in 1998 with support from Africare, an international NGO, to produce disease free seed potatoes, with the aim of re-stocking the area with clean planting material and boosting ware potato production levels. Yields had fallen significantly due to the effects of war, leading to serious erosion in the quality of potato seed. These efforts were supported by the Regional Potato Research Network (PRAPACE²) and the National Agricultural Research Organisation (NARO).

In 1999, the Nyabyumba farmer group helped form the Uganda National Seed Potato Producers' Association (UNSPPA) and for four years the association successfully produced seed potatoes. Most sales occurred through NGOs who supplied seed to farmers. Increased seed potato sales led to expansion of UNSPPA from 20 to 120 members, 60% of whom were women. However, growth in the seed potato market foundered in 2004, when NGOs and farmers ceased buying seed, as farmers with higher yields based on improved seed material had oversupplied the local market. Therefore to re-stimulate the seed market, the Nyabyumba farmers needed to develop new marketing strategies to promote ware potato sales.

Methodology for participatory market research

CIAT's Agro-enterprise team works with several international service providers (NGOs and NARS) and associated farmer groups in developing countries, with the aim of designing improved strategies to link poor farmers to growth markets. The methodology is based on CIAT's participatory area-based approach to agro-enterprise development, (Lundy et al, 2002), which has four basic steps:

1. Identification and strengthening of a local 'working group' composed of producer groups, associations, research and extension organizations, NGOs, and other service providers.

2. Identification of market opportunities available in an area and subsequent market chain analysis.
3. Participatory business planning, analysis and the design of a shared strategy between market chain actors leading to the implementation of options agreed upon by the actors in the previous step.
4. Identification and promotion of relevant business development services to support market sustainability of the agro-enterprise.

The agro-enterprise methodology is an iterative, participatory learning process, within a defined territory, which aims to build the 'market facilitation capacity' of service providers to support the entrepreneurial needs of farmer organizations and local business development services (Ferris et al., 2006). The methods used to gather information in this case study included: (i) focus group meetings with farmers, service providers and buyers; (ii) semi-structured interviews with ware potato market chain actors; (iii) market visits with farmers and service providers to evaluate product options; and (iv) direct observation. The data were collected over an 18 month period, which enabled the research group to carry out market analysis, business planning and market linkage development.

The Nyabyumba Farmer Group was selected for a number of reasons: they represent a common situation whereby initial success in supplying a local market can lead to oversupply if marketing strategies do not take into account the sudden increase in supply that can be achieved using new agricultural production technologies. The group was also working with CIAT and a number of CIAT partners on natural resource issues. This group was of particular interest as they were located in a remote area, but sought to supply a relatively high value product into a high value market.

Results and discussion

The results are summarised here under the four steps of the agro-enterprise methodology.

Step 1. Group formation and partnership development

As the Nyabyumba Farmers' Group had already formed a 'working group' comprising three service providers and selected a marketable product (ware potatoes) the intervention began at Step 2.

Step 2. Product identification and market analysis

A participatory market study was undertaken to evaluate marketing opportunities for ware potatoes from Kabale through marketing intermediaries to selected outlets in the capital city, Kampala, located 450 km from the production area. The market survey identified four channels: (i) local markets, (ii) Kampala wholesale markets, (iii) small shops in Kampala, and (iv) higher value, formal outlets such as supermarkets and restaurants. For each of these markets, information was gathered on buying conditions including price, frequency of purchase, quality requirements, payment conditions and managers' interest in receiving supplies from the Nyabyumba Farmers Group (NFG).

Based on these findings, the NFG decided to focus on supplying Nandos, a multinational fast-food restaurant in Kampala. Nandos consumes approximately 10 metric tons of fresh potato every month. This was beyond the supply capacity of the existing farmers' group, offering opportunities for expansion and to develop a long-term, higher value business relationship.

Step 3. Business planning and enterprise development

This step began with the development of a basic production and marketing plan with the farmers, which was discussed with Nan-

¹ Ware potatoes are those sold into retail markets for consumption. Seed potatoes are sold for production only.

² PRAPACE – Regional East and Central Potato and Sweet Potato Research Network.

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