

Case study – SCAPEMA UGANDA

1. **Title** – Actor collaboration in improving competitiveness of selected value chains
2. **Country** – Uganda
3. **Intervention** – Multi-stakeholder platforms (MSPs)
4. **Period** – January - June 2008.
5. **Organizations involved** –

Mukwano Industries, UOSPA (Uganda Oil Seeds Producers & Processors Association), VEDCO (Volunteer Efforts for Development Concerns), VODP (Vegetable Oil Development Program), UNFEE (Uganda National Farmers Federation) UIRI (Uganda Industrial Research Institute), USAID –APEP (Agricultural Productivity Enhancement Program), Wageningen University and Research Centre, Centenary Bank, Post Bank Uganda, ACDI/VOCA, Oikocredit, UNADA (Uganda National Agro-input Dealers Association), Victoria Seeds Ltd., Stanbic Bank, NPA (National Planning Authority), SNV-Uganda, DANIDA ASPS (Agriculture Sector Program Support Program), MAK-DFST (Makerere University, department of Food Science and Technology) and NARO (NASSARI

6. **Executive summary (½ page)**

In weak markets especially in rural areas in Uganda, SMEs normally thrive on skewed information and business opportunities. They tend to have a narrow picture of the sector and attempt to use the skewed information to freeze out any peer or potential competitor. This situation breeds suspicion and mistrust among the actors which contributes to sector stagnation. Using the value chain approach seeks to change the unproductive market dynamics and promotes the notion of taking a broader view of the chain before the self interest of individual positions. Indeed complex problems require innovative solutions. Such solutions are created when diverse stakeholders are able to meet, share experiences, learn together and contribute to decisions. Ultimate success then lies in developing the collective commitment and capacity to turn ideas and plans into action. This can be achieved through multi- stakeholder processes and social learning. Typically these MSPs involve policy makers, community and private sector representatives, NGOs, researchers and extensionists from different levels, sectors and disciplines.

Multi stakeholder processes seek to use participatory approaches and collective action to solve industry challenges. In applying the approach, it is important to develop an understanding of the sector one is interested in. This can be done through conducting analysis of the targeted value chain to develop a modest understanding of the sector, including the general and specific market drivers, the different actors with their respective roles, potential for sector growth, market situation, constraints and opportunities and the general policy environment.

A value chain analysis once done well will have probably created opportunities for initial interactions with the different actors. But in case not it is very important that sufficient time is allocated to holding bi-lateral discussions with respective actors to explain the value chain approach to market access and how the approach delivers benefits to all actors irrespective of the function played. This stage is meant to answer questions, clarify expectations to the potential members and solicit a buy-in to the entire multi-stakeholder process. At this stage once all known actors have been mobilized and sensitized, it will be now due for the launch of the first platform.

Preliminary sessions of the MSP have got to develop a rapport among participants to know each other but most importantly to develop a shared vision for the industry. Such a decision will require individual participants taking a step back to view the broad industry

picture as primary and then their individual position secondary. This step emphasizes the need for collective action in solving the industry constraints in order for each actor to realize better gains in their respective functions. The logic of the MSP is that the results of collective action together are far greater than individual achievements added together.

The fundamental principles of facilitating MSPs follow from the original ideals of participatory approaches. It seeks to leverage the power relations of members and using the respective positions not to compete but to complementarily work together in order to enhance value chain efficiencies and competitiveness of the entire industry. Experiences gained indeed show that openness, and willingness to collaborate makes all actors stronger and none weaker. It increases productivity, market share of respective actors and optimum utilization of resources based on reduced costs of accessing information and collaboration

7. Objectives of the intervention--: To promote efficient and equitable linkages for the economically active poor along the value chain and the strategic partnerships with key stakeholders using the Public Private Partnership (PPP) model (Private sector, civil society, government bodies). This approach seeks to enhance "meaningful dialogue" focusing on impacts and economic performances, strategic planning, cooperative implementation or action, collective monitoring and mutual learning. The achievement of this objective is supposed to be realized in three impact areas namely: -

- Increase production through more effective coordination and know-how exchange
- Increase income through more effective price negotiation and access to finance
- Increase employment in coordination, representation, quality management and by securing and up scaling production

8. Setting/ situational analysis

Multi stakeholder process can be applied to any situation be it economic development or any another. Within economic development can be applied with value chain approach. For purposes of this case study, sunflower value chain has been targeted to explain its application.

The vegetable oil seed sector is one of the seven strategic commodities selected by the Ugandan government for transforming agriculture from subsistence to commercial farming within the policy framework of the Poverty Eradication Action Plan (PEAP). The oil seed sub sector directly influences livelihoods of over twelve million Ugandans mainly in North Eastern Uganda and accounts for over 70% of vegetable oil production in the country. Uganda had a vibrant oil seed sector up to the mid 1970s. The economic turmoil and civil unrest in the 1970-80's brought the sector completely to its knees.

Since 1986, concerted efforts in form of enabling policies by government, including macro economic stability and human resource development, privatization and liberalization with support from the donors have made a U-turn around in the Uganda oil seed sector.

Sunflower is the lead domestic raw material for vegetable oil with annual production of over 162,000 MTs in 2006 from 31,000 MTs in 1992¹. Sunflower is an important substitute for palm oil which gives the country an opportunity for backward integration in that increased production would lead to reduced importation of palm oil, while maintaining the processing capacity. Sunflower production supports poverty alleviation of more than 500,000 farming households whose livelihood directly depends.

Of the total oil seed produced in Uganda 49.9% is produced in the Northern region², 35.2% in eastern districts³, 4.9% Central and 10% Western⁴. In the period 1992 to 2004, area under sunflower grew at an average annual rate of 11.7% rising from 39,000ha to 145,000 ha in 2004. However, despite the growing production area for sunflower, year after year yields have remained relatively low over the same period at 0.8 metric tons per ha.

Sunflower is produced from both hybrid and open pollinated variety (OPVs) input seeds. Since Uganda is not able to produce hybrid seeds, they are currently imported from South Africa and Kenya by large private sector company Mukwano Co. Ltd. Sunflower production is exclusively done by small holder farmers; while processing on the other hand is by all categories of small, medium and large scale processors but with varying capacities.

During the situational and value chain analysis done by SNV, it was noted that much as sunflower has potential to transform lives of about 12 million Uganda in its predominant producing areas; it equally has a pool of constraints that limits its capacity to generate the desired productivity, incomes and employment as explained below:

- i. *Inadequate access to high yield seed*: Good quality seed access is constraint number one in transforming sunflower oil seed value chain. Uganda uses two main types of sunflower seeds i.e. the hybrid (Pannar) and OPV (Sunfola) seeds. Pannar Hybrid seeds are better yielding per acre with higher oil content compared to sunfola, but the main challenge is that hybrid seeds are neither produced nor multiplied here hence is purely dependant on its importation from South Africa and Kenya. OPVs on the other hand are currently being multiplied by NARO in collaboration with UOSPA; besides farmers also use own retained seed although poor yielding and less oil content.
- ii. *Lack of market information*: Throughout the sunflower value chain the demand for both oil and seeds far exceeds the supply. The skewed demand versus supply attracts speculators and opportunists who take advantage of limited information between the respective actors. This situation hence breeds low business ethics, lack of trust and reliability among actors in the chain. Even where some farmers are engaged in contract farming with processors, this doesn't provide a guarantee of actual delivery of yields by farmers to the processor; which makes it hard to predict if investments in the oilseed sector eventually turn out to be profitable.
- iii. *Poor input supply system and unequal power relations in the market*: The good quality high hybrid seeds are imported by only one company Mukwano with capacity to procure in large volumes due to the high level of financing involved. While this provides a stepping stone for potentially increased productivity, this

¹ MAAIF-Uganda National Bureau of Statistics

² Dokoro, Lira, Oyam, Kitgum, Pader, Gulu, Nebbi and Arua,

³ Busia, Pallisa, Budaka, Tororo, Bukedea, Sironko, Kumi and Soroti

⁴ Kasese, Hoima and Masindi

company's' structure and business model of contract farming often times at negatively skewed terms to its farmers. Two reason for this, the company is not a seed dealer, hence it isn't it core business to deal in seeds, secondly, it has vested interests in tagging seed access to own purchase of yield for their processing factory as their core business. This situation often puts the farmers in position of inferior bargaining position.

- iv. *Weak producer groups*: Producers groups that exist are weak and not able to effectively engage and dialogue with other actors on issues that affect them. This limited capacity hinges on two levels one on civic expression while the other lies on the knowledge and skills in agronomy and post harvest handling. Both factors imply that limited skills will compound in poor quality and low yields which translates into low incomes and low productivity.
- v. *Access, suitability and cost of finance*: The majority of the actors in the value chain have got limited sources of financing for investment which hinders the sector growth. The banking sector is emerging from comfort zone of monopoly, but even still are largely urban clientele focused with limited financial products. This scenario burs the small holder farmers and small & medium scale processors to access appropriate and affordable financial services. Consequently they resort to rely on own savings that often times is insufficient.

9. Approaches and methods

In line with PEAP and MDGs, PIE practice area aims at ensuring that poor people gain from economic growth through increased incomes (profits), employment, productivity and access to basic services. Therefore the goal is to "increase access to and delivery of goods and services for wider wealth creation and inclusion of the poor to local, national and international markets". In the impact area of income, production and employment SNV interventions emphasizes value chain development as a key means for configuring gainful relationships that enhance productivity and employment of the poor. This is achieved by enhancing the local capacity to embrace market opportunities through four interventions namely, rural information systems, producer group strengthening; value chain financing and multi-stakeholder platforms.

For purposes of this case study, this paper addresses how MSPs has enhanced local capacity in oil seeds value chain, increased competitiveness and returns on investment of the chain participants. The thrust of MSPs is centered on the promotion of efficient and equitable linkages for the economically active poor along the value chain through strategic public private partnerships. MSPs are meant to address the following specific objectives:

- To create networks and linkages among the various actors in the value chain to facilitate information/ knowledge sharing
- To establish avenues for interaction among actors and create business opportunities
- To create an understanding among the various stakeholders of each others constraints and opportunities to appreciate how each actor in the chain is interlinked and how they actions supports the entire chain

MSPs were initiated for oil seed value chain in early 2007. This launch was preceded by a sub-sector analysis together with stakeholder mapping. During the actor mapping, time was taken to sensitize the respective actors and individually to solicit a buy-in to engage in transforming and streamlining the sector based on the identified challenges. Once mapping was done, it was followed with sensitization of these actors to solicit a buy-in. The analysis done noted that much as the sector has high potential for growth and capacity to generate increased incomes at household level notwithstanding the

contribution to the national economic development⁵, it equally has a collections of constraints that unless addressed will remain a road block to prosperity. The constraints were ranging from poor coordination and confusion of the actors, lack of market information, inadequate access to high yielding seed, poor input supply system and unequal power relations in the market, weak producer groups; access, suitability and cost of finance.

Initially a national level was organized and held to which the synthesis reports of value chain analysis were presented. The findings were validated and confirmed: indeed there was poor coordination; some members felt there was no level playing field among actors and others felt that some powerful actors in course of their business inadvertently hurt others. It was agreed that this forum should start as think tank to facilitate solving these constraints in order of priority. It was also decided that since other actors are based at district level who missed attending, other similar platforms be organized at that level to address their constraints too.

10.Outcomes and impacts (service provision, market access and actors in the value chains)

During the national level MSP, it was noted that some of the constraints were perpetuated by lack of opportunities for information sharing and this created suspicion amongst actors. For instance, limited access to good quality seed was perceived as a creation of the large corporate monopoly of Mukwano Co. Ltd, whereas the firm was merely importing seeds for its contract farmers. On the hand wasn't aware that due to the high price farmers could buy upfront on open market. Through this platform another actor specialized in input distribution UNADA⁶ in attendance emerged that was willing to work with Mukwano to popularize the hybrid seeds. Based on this analysis, UNADA and Mukwano entered into a tripartite agreement with ASPS – Danida and this collaboration has facilitated more farmers to access and plant high yielding seeds, serving 50% of farmers above what Mukwana traditionally engaged in last season alone. This increased access to seed is projected to boost production by more than 30% of the entire sunflower value chain.

The entrance of UNADA as a seed distributor of highbred seeds has increased seed access channels to 3 (including Mukwano and UOSPA). This liberal seed sources has unlocked the limitation of farmers' "controlled" selling of the product to the highest prices offers. For instance the price of sunflower product for milling has increased by about 33% to reach the highest price ever achieved of 450/= a kilo. This price increase has attracted more farmers to adopt sunflower production based on the associated incomes including those that had earlier abandoned its production due to the poor market prices of as low as 150/= about 2-3 years ago.

The liberal market has attracted more small scale processors to enter into the business because they can compete for the product for milling on open market. This number of small scale processors has increased by 32% from 25 millers in 2006 to 33 in 2008. Much as there is missing data on the volumes milled, this drive to enter into the market is an indication of business attractiveness and likely profitability. For instance currently CN Cotton, a subsidiary of Nile-Agro Industries, one of the leading oil seed processors in

⁵ This can be viewed from various fronts of GDP, and import substitution, foreign exchange savings and generated employment.

⁶ UNADA, stands for Uganda national Agro-inputs dealers association, which brings together all input stockists across the country to cooperate on issues broader than individuals can address e.g. quality compliance and regulation, standards etc

the north eastern region with a daily production capacity of over 200 tonnes of sunflower is operating at 28% capacity. Based on the low level oil seed production in the Eastern region, it keeps their production plant busy for only 2 days in a week. They committed in a recent MSP that **“they are ready to pay cash for all the oil seed produced in the eastern region at the prevailing market price.”** This stimulates market driven production, secures a market for the produce as well as ensuring the farmers of a fair price.

Access to suitable financing in the value chain is still a bottleneck, but thanks to MSPs from which based on improved coordination, one donor ASPS –Danida Program was able to provide guarantee for UNADA to purchase the hybrid seed from Mukwano. This guarantee has been able to facilitate UNADA to engage in transacting in *Panner seeds* that demand large capital base without which it wouldn't do. This service which attracts a management fee also serves to strengthen UNADA financial capacity, and raises its profile and standing to transact large businesses. For instance in the recent regional MSP in Lira, members have started to ask why UNADA cannot independently import hybrid direct without going through Mukwano.

The willingness of a highly capitalized large corporation to sit on round table to discuss and negotiate with small and weak farmer organisations; as well as small scale processors whose turnover is less than one million capital size is another indication of the power that MSP can have over all actors. In regional MSPs held, all have had good representation on big private sector actors like Mukwano, Cotton CN and donors such as APEP, ASPS, etc

Contemporary thinking suggests that successful businesses cannot be sustained unless there is trust and confidence among the value chain participants. Since the launching of MSPs, there is evidence to suggest that there has been positive qualitative improvement in how the participants relate. The initial suspicion and mistrust appears to be declining as members are openly willing to talk amongst themselves and ask questions to get correct information than make wild allegations and counter accusations. This was observed for instance during the recent regional MSPs in Lira where Mukwano Co. Ltd who had entered into an agreement to import hybrid seed for UNADA which it would purchase 80 tons of seeds. But it was noted that only 50 and 30 tons worth US \$ 220,000 were not bought and delivered to farmers. This ideally meant that this amount of capital has been lying unutilized but attracting high cost of capital. But through dialogue, it was resolved that total cost should be computed and built in the cost of seed which will be used in the coming season without raising eyebrows from both farmer leaders and processors. Such an example shows how improved communication helps to appreciate how a constraint of one actor can influence others and hence a joint action brings about win-win situations.

11. Insights and lessons

MSP has demonstrated that value chain actor interactions during platform meetings improves communication and information flow within the participants and initiates networking which didn't exist prior. This was evidenced during the platform meetings where financial institutions were exposed to clients in potentially rewarding value chains. For instance financial institutions like Centenary Bank and Post bank Uganda were able to note that UNADA and other actors are dealing in lucrative businesses which make them bankable. Lessons learnt to date have confirmed that once MSPs are properly organized and facilitated, they can independently attract financing either from private or public sector. ASPS-Danida funded program which was invited and introduced to oil seeds MSPs was so much impressed and has taken it on among its supported value chains. Based on

oil seeds potential for rewarding markets benefits for poverty reduction, ASPS-Danida provided financial guarantee to UNADA to access highbred seeds from Mukwano through tripartite agreement without which this linkage wouldn't be easy to broker.

Progress achieved in oil seeds MSPs has demonstrated that proper value chain analysis is very critical to improve its efficiency. Value chain analysis encompasses broader economic goals than supply chain analysis, with major emphasis on creating additional value, which in-turn increases incomes, economic opportunities and helps reduce poverty reduction. This means given its broad outlook but with specific leverage points; it makes it easy to attract both public and private investment aimed at generating equitable linkages for the small holder farmers. This has been proved from the interest and participation on the various private sector actors which has teamed up with some donors (like APEP and ASPS-Danida) to work together to streamline critical limiting factors affecting the chain especially financing and technology development.

Since MSPs are loose network of like minded actors who come together to understand and solve specific constraints within the value chain, it has been observed that it should always remain action oriented and focused. Much as core business of different actors differs, the common purpose of coming together to share information and act of common constraints overrides the individual objectives of respective actors.

MSPs perform best minus bureaucracy. Time spent either in meeting or performing a transaction with multiple benefits should be sought and be rewarding; time value of money should be emphasized. Members have noted that for successful platforms, the agenda should always be short and focused to maintain interest among members.

12. Conclusion

This case study of multi-stakeholder platforms in oil seeds demonstrates that SNV Uganda's four intervention areas namely rural information systems, producer group strengthening; value chain financing and multi-stakeholder platforms are closely intertwined and cannot be implemented in isolation. But most importantly it has demonstrated that an investment of less than Euro 10,000 (expenditure made in about 12 months) can generate far significant changes among value chain participants. For instance through this intervention, access to hybrid sunflower seed (*Pannar*) has increased from 100 tones in 2007 to 150 tons of seeds planted first season on 2008. This input will increase the product available for oil production by more that 40% based on yield ratio of 1acre to 900kgs from hybrid *Pannar* compared to 1 acre yielding below 500kgs in a single season. While a comprehensive study hasn't been done to estimate the number of participating farmers, on average 75,000 farmers have planted this improved seed on at least one acre of land and is projected to reach more than 100,000 farmers using high yielding varieties in addition to those accessing other certified seed produced by NARO though UOSPA in North and North Eastern Uganda. This is a clear testimony of how advisory services within the specific value chain can increase productivity, income and employment of the poor small holder farmers.