



“HOW DO WE GET IT TO THE MILL?”

A study on bulking arrangements that enable sourcing from smallholders in the Ugandan vegetable oil chain

Giel Ton, David Moses Opeero and Sietze Vellema
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VC4PD



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c/o Wageningen International
Wageningen University and Research Centre
P.O. Box 88, 6700 AB Wageningen, The Netherlands
Phone: +31 317 486807
E-mail: africa.wi@wur.nl, Internet : <http://www.dgis.wur.nl>

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1 THE BULKING CHALLENGE IN UGANDA OILSEEDS: DIFFERENT UPSCALING PATHWAYS FOR DIFFERENT BULKING ARRANGEMENTS

Chapter One - *In brief:*

Uganda has many small producers that can benefit from the expanding sunflower production. Collecting scattered produce in remote areas is expensive. For efficient transport and processing, these small quantities have to be bulked in one place. In Uganda, three types of bulking arrangements exist: trader-led, processor-led and farmer-led. In each type, targeted investment policies and innovative financial institutions can increase the performance of the arrangements. Combining support for storage infrastructure with increased access to trade finance and strengthened governance structures will provide the room for upscaling and linking large numbers of poor households. These intervention need to be targeted to groups that have managed to build a minimum capacity in resolving problems around collective action and opportunistic behaviour. Previous experience with saving and credit schemes prove to form the basis for most of the successful bulking groups.

1.1 Introduction

The sunflower sector is a rapidly growing agricultural sector in Uganda. Most of the sunflower is produced by smallholders that live in the former war zone in the north. Oilseeds have become a prime cash crop and is instrumental for poverty reduction. It is estimated that 145,000 ha are planted annually¹. There are ample growth possibilities for oilseed production in Uganda, as most of the vegetable oil is still made from imported palm oil. Sunflower producers are concentrated around the city of Lira. Smallholders in more remote areas can benefit from the growth potential when they have access to seeds and output markets. To maximize the opportunities for a remunerative inclusion, these new entrants must be attractive enough for traders and processors to source their products. Only sporadically, individual farmers sell directly to the processor, Sourcing from places and persons that have accumulated oilseeds under some sort of bulking arrangement is almost always necessary, as a steady flow of oil seed is needed for processors to use their plants cost-efficiently.

In bulking arrangements, several transactions take place. All transactions imply a negotiation between the buyer and the seller on the terms of trade. Disagreements about measures, quality and price at the moment of exchanging goods are possible in each of these transactions. To avoid or resolve disagreement and conflict, a bulking arrangement needs a governance structure. Trust is necessary for cost-efficient trade. In this research we explored the logistic functions and trust building mechanisms that characterize the different oilseeds bulking arrangements in Uganda. Our research question is: *How are the bulking arrangements in the oilseed sector organized, and what are entrance points for support policies enabling the upscaling of these arrangements?*

First, we will describe the three typical bulking arrangements that exist in the Uganda sunflower sector and indicate the key functions and trust building mechanisms that sustain their operation. Second, we indicate the key bottle-necks that constrain upscaling, and possible entrance points to resolve them. In the conclusion, we will stress the importance of considering bulking nodes as form of social capital in the value chain and as leverage point for public policy.

1.2 Bulking arrangements and governance

Bulking arrangements are socio-technical systems. Each bulking arrangement consists in a combination of functions to be performed simultaneously in a cost-effective way. We define bulking as the process that brings together a quantity of product in a specific location for a certain time to sell it to a buyer under certain price and quality conditions. This definition indicates some necessary functions that have to be balanced in each arrangement, each constrained in a specific way due to the local context:

- STORAGE OF QUANTITY
- CONTROL ON QUALITY
- PROTECTION AGAINST THEFT
- FINANCE OF STOCK
- PRICE NEGOTIATION
- PAYMENT MODALITY

A bulking arrangement may have a range of additional functions, like input provisioning, saving and credit, extension, etc. However, these functions do not form the essence of bulking, although they may interact with the successful provisioning of the six necessary functions. The governance structure of any form of bulking arrangement will have to find ways to balance these functions in a cost-efficient way. The traded volumes have to be optimised by vertical and horizontal coordination mechanisms with appropriate logistic and routines. To manage the bulking arrangement in a successful and sustainable way, the system needs to have 'feedback mechanisms' that control for cost-effectiveness of the arrangement and balance trust in transactions with logistic efficiency in handling. Efficient management and trust are the two key elements that shape the governance structure of the bulking arrangement in a specific context.

Logistic efficiency depends crucially on improvements in the performance of the six functions: increasing turn-over, reducing costs of storage, reducing losses and by limiting the time needed by farmers and traders for transactions and governance of the arrangement.

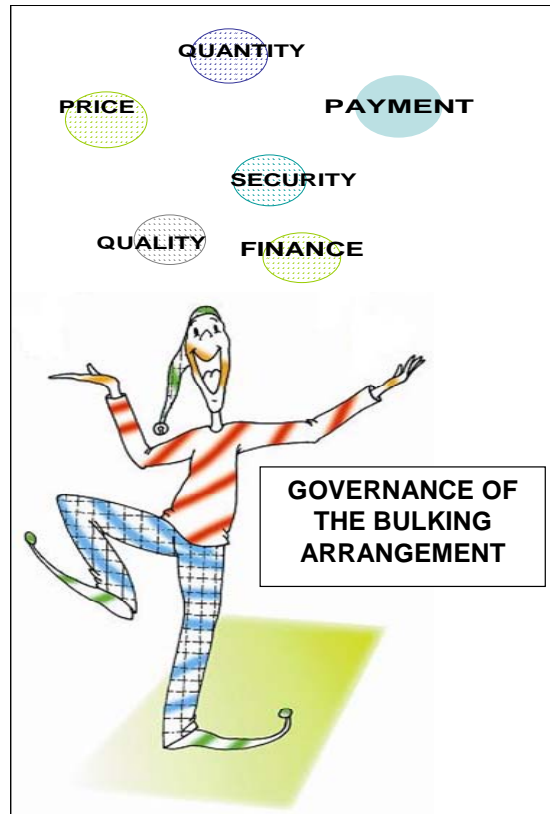
Trust results from mechanisms in place to prevent suboptimal performance in each of the functions: costs of storage facilities have to be commensurate with

volume turn-over as these fixed costs may affect the profitability of the bulking, quality control must be applied correctly to everyone's product, money has to be managed in a transparent way, loop-holes in security have to be detected and acted upon in a timely manner, and, last but not least, the final decision on prices and terms of trade has to be communicated and respected by the supplying farmer(s) as a proper outcome of negotiations.

In this paper we describe three 'typical' governance structures in bulking arrangements. We describe the logistic set-up and management and key trust enhancing mechanisms working within these bulking arrangements. that protect it against suboptimal performance of its necessary functions.

1.2.1 Bulking by traders

Typically, within rural societies, there is a nearby villager that realises bulking of scattered produce from individual smallholders. This village-based farmer-trader generally works as an agent for an urban based merchant or processor. Often the chain is more complicated with various sub-agents. The agents buy products from the farmer and assume most risk related to the storage and transportation. The logistics of storage is individual responsibility of each person in this chain of intermediation. Likewise, the risk of theft of stocks is individual responsibility of the (sub-)agent, trader or middle-man that has physical possession of the product. The village-based agent uses his house, often in the village trading centre, to store. Some village-based traders hire an additional place when bulking volumes that exceed the physical capacity of their house. Generally they manage to hire storage facilities within the same trading centre from fellow middle-men. The traders interviewed in Lira use to hire a store on the Grain Street and use it for the products they want to sell immediately. One trader explained that for speculative stocks, he uses a store separate from the commercial centre.



"I have rented a store [in the Grain Street] for daily business. Some is stored in another place, in my house, mostly for the product I do not want to sell at the moment. It is put as a stock placed outside to wait for the period."

(Trader 2, Grain Street Lira, interviewed April 2008)

The trader's biggest asset is the network of agents he or she can mobilize in the villages. Some agents are travelling agents that visit a certain area, other agents are based in the trading centre. In these arrangements, the trader or processor provides working capital and a market outlets to the agents. This commercial relations between traders and agents is secured by a set of mechanisms to control for opportunistic default, like compromising collaboration in the future or by affecting the credibility/reputation towards others traders and processors. Most of these governance structures are based on informal rules and regulations, using legal course only as a threat not as a real mechanisms for dispute resolutionⁱⁱⁱ.

"I sell to the loaders and buy through agents... You have two types of agents. Some of my agents go on their bicycle to the villages. They visit the villages three or four days a week. I advance money to improve their business. They pay back in the evening,...But, most of my agents are farmers living in the trading centres and own the sub-stores.... I do not use signed contracts with them. Often we only call by telephone. Transport takes some 50 Sh/kg and we give him something extra.... If a sub-agent diverts money, local authority is called in and try to solve it. If not solved, either the police can come in. It is often happening now, and used not to happen. E.g. 1 million is advanced to buy maize, and the agent buys something else to trade in the time lapse before he has to deliver the product. You are dealing with trust..."

(Trader 1, Grain Street Lira, interviewed April 2008)

"The agents work exclusively for me. When they accept money of others it confuses us... We give him the money he needs to buy the product. An agent in the village will have some funds themselves. We calculate the amount that he needs additionally. Trust is key. Some agents always buy for us, and it is not necessary that they reveal their capital. If he tells his capital, he thinks he may risk loosing the advance payment. .. We write it all down. We have our books. We note the day, the amount, the name and the signature. ...Some agents may divert the money advanced to them e.g. for house building purposes. But it is very rare to occur. In that case we talk with him that he has to pay back bit by bit. Sometimes during 1 year. No interest is charged. Another step to enforce the agreement is to go to the LC [Local Authority].... We do not use the police, though we will threaten with it."

(Trader 2, Grain Street Lira, interviewed April 2008)

Traders may lend part of their capital from banks or other traders. As turn-over in trade is high, money borrowed for one month that circulates several times a week can generate good profit with a modest margin per kilo. The high interest rates for commercial lending are not the major problem for traders, the issue of collaterals is mentioned more often, and seems particularly manifest when the traders work with several banks at the same time. Each traders has its own peculiar way to manage his trade capital needs.

"How do we get money for buying? That depends. Sometimes with own money, sometimes partly with trusted money Some of us use loans. But the interest are very high 23-25%/year. As a guarantee for loans the bank asks for land titles, motorbikes etc. I tried three times to get a loan from a bank, but could not agree with the conditions.... It seems that banks are not allowed any more."

(Trader 1, Grain Street Lira, interviewed April 2008)

"I work for processors and outside traders. With the Tanzanians I had a special arrangement: we had a joint bank account. I am responsible for the account, but both have to sign the cheque. The Tanzanians have to use the traders' networks. They cannot get goods without us, as we are collecting in the villages.....I get money from Centenary bank, Stanbic Bank and from an expatriate trader... I pay the bank monthly every 18th and use the credit line when needed.... I borrow just to boost business..... You give the guarantee according to the amount you want to borrow. They will judge..... It is good to have accounts in different banks....As default the banks asks for securities like a document of your land.... But very few traders have problems with the banks."

(Trader 2, Grain Street Lira, interviewed April 2008)

"I work with the bank at 22%..Not bad. Even though I need to pay some extras for processing the request and to give to the loan officer. To get the loan you always have to give him something.... As guarantee the bank accepts a land title, your house or a 'lease offer', e.g. renting your motorcycle."

(Trader 3, Grain Street Lira, interviewed April 2008)

Traders use a reference price and leave some reasonable margin to their agents. The agent is free in lowering the price to the farmer. The bargaining power of the agent is constrained by the farmers' possibility to sell to other agents, often based in the same trading centre. Markets for oilseed in the cities are open and competitive, and therefore markets near the cities tend to reflect price fluctuations in the market. In remote areas where transport is

monopolized the choice for market outlets by the producing farmers is more limited and the bargaining power of the agent higher. Prices in these remote markets tend to be lower and less responsive to price fluctuation in destination markets.

1.2.2 Bulking by contract

In some areas, bulking is realised through contractual arrangements between supplying farmers and procurement agents in which the farmer promises to sell his product in exchange for some services provided by the buyer. Contracts used to be on paper. The scope of the services to be provided to the farmer can vary a lot. It can be based on advancing money, resolving the cash constraints of farmers during the planting season, or the provision of technical assistance to production. In most cases of contract farming input provisioning is part of the deal. But the provisioning of this service is expensive and risky. Contract farming will have to respond to two fundamental challenges related with opportunistic behaviour: how to get compliance to the agreements by the farmers (considering opportunistic behaviour of farmers); and, how can we safeguard our investment in the scheme (coping with free-riding by competing buyers).

In oil-seeds the availability of quality seed is key constraint, and, therefore, most contract relations include seed provisioning as their prime service, be it on credit or paid cash at the start of the growing season. Two major bulking arrangements based on contracts are present in the oilseed sector: the Mukwano contract scheme and the seed multiplication in UOSPA. In both cases free technical advice is provided as an additional service to the farmer, and this extension officer is often the same person that enforces the agreement to sell the harvest to the contractor. Investments in both distinct value chains have to be safeguarded by some sort of exclusivity in sourcing the product. We will shortly describe the key mechanisms to do so, part of the contractual relations in both schemes.

MUKWANO

Mukwano managed to establish a contract scheme with impressive growth in sunflower seeds procured from 2005 onwards. Mukwano works with an estimated 40.000 farmers. The company, with support of USAID-APEP, managed to establish a contract scheme with impressive growth in sunflower seeds procured from 2005 onwards. Bulking is done by a site-coordinator that works exclusively for the company and provides the embedded services to the farmer. According to a study by UPTOP-EU¹¹, around half of the farmers working with Mukwano indicated that they participate in some farmer groups, against only 10% of the non-contracted sunflower producers. The Mukwano contract is signed by the farmer and Mukwano and is witnessed by the chairman of L.C. 1. The latter indicates that, when arbitration is needed, the local administrative authority can be mobilized to enforce the contract. The contract is signed only once and is binding whenever the farmer receives seeds from Mukwano or until one of the parties communicates it 4 months in advance. The contract indicates the embedded services that obliges Mukwano, the minimum price paid in cash upon delivery and the mandatory quality parameters for the produce. Increases from the minimum price are possible. However, the contract does not stipulate the procedure to define the exact price at the moment of transaction. Like in most contract farming arrangements, the economic rentability of oilseed production is the responsibility of the farmer.

"..Neither Mukwano nor the farmer shall be entitled to any indemnification for consequential losses or any other like compensation except as provided by this agreement...Neither the farmer nor Mukwano shall be responsible for failure to duly perform the respective obligation hereunder where such failure is due to natural calamities or other majeure circumstances."

(Mukwano - MAP Farmer Contract covering 2007 second rainy season, clause 5 and 10)

Legal action is mentioned in the Mukwano contract to force compliance, and police has been used in at least one occasion to control free-riding by competing traders.

"... where the farmer sells the hybrid PAN 7351 sunflower grain produce to any third party other than Mukwano, Mukwano shall be entitled to institute appropriate legal action against both the farmer and such third party whether severally or jointly.....Where the farmers breaches this agreement ...he/she shall over and above any damages or redress mechanism accruing in Mukwano's favour pay to Mukwano a penalty fee equivalent to the loss thereby incurred or suffered by Mukwano..."

(Mukwano - MAP Farmer Contract covering 2007 second rainy season, clause 7 and 9)

Side-selling, or 'poaching' is mentioned by Mukwano as major problem in the contract scheme. Intentionally or not, the fact that the PAN 7351 sunflower grains have a different appearance than the other varieties of sunflower in the area, has facilitated Mukwano to effectively detect free-riding traders, and side-selling farmers. However, the agents and traders have found some loopholes, in the system.

"The [Mukwano] agents still work on other products [except sunflower] for me... Sometimes they rebag sunflower and put other products on top to sell it to me. Another trick is to make them mix the seeds, so Mukwano does not want to buy it and we can take it."
(Trader 3, Grain Street Lira, interviewed April 2008)

Bulking is done by a site-coordinator that works exclusively for the company and provides the embedded services to the farmer.

"I am benefiting from working with the company because it has created for me employment and there is ready market. However, the commission is low given the additional responsibility we have been given of training farmers on agronomic practices and post-harvest handling..... Sometimes I use advance payments from farmers to purchase seed from the company.... A farmer pays for the quantity of planting seed he wants and I issue advance sales receipt which he presents when picking seeds from the store...."
(Site-coordinator in Akalo, Interviewed 2008)

Mukwano invests in the import of hybrid seeds from South Africa. From December 2007, part of the PAN 7351 seeds are distributed by the input dealers (UNADA). This resulted from political pressure mobilized by the traders, processors and farmers in UOSPA, and the awareness by Mukwano that the use of police and legal action was not really a viable option and had adverse side-effects. Mukwano is still the dominant channel for the hybrids, but some traders have used the opportunity to buy and sell the seeds to gain a 'licence to buy'. Legal action of the company against side-selling and free-riding is now even less viable than in the pre-2008 season. From 2008 onwards Mukwano pays the prevailing market price when higher than the minimum price agreed upon. The contract farming scheme in strict sense with exclusive marketing of sunflower to the company has ceased to exist. Not the contract clauses but the efficiency in logistics and payments are the strategy of Mukwano to defend its position as dominant buyer in the former contract scheme areas. However, the working capital used in the bulking system is still provided exclusively by Mukwano and still gives this type of bulking arrangement a distinctive feature.

The role of Mukwano's site-coordinator, the person responsible for bulking and service provisioning in the village, is essential in Mukwano's strategy. Mukwano's site-coordinators are elected by the parish in a special meeting called for by Mukwano's extension agent. A new site-coordinator is recommended by an existing site-coordinator and after being approved by the farmers in the parish, signs a contract with Mukwano.

"One is given the documents necessary for executing transactions such as farmer contracts, advance sales receipts, grain purchase receipts and delivery note.... I rent the store where they deliver their grain at 30,000/month. The company gave me turplines to use for re-drying if the grain is not well dried..... When the store is full, we contact the procurement officer responsible and the truck is sent to pick the grain from the storeThe company also delivers hybrid seeds.... I used to collect money from farmers and collect seeds from the company, but now they bring the seed to the store and then I sell on cash basis."
(Site Coordinator in Bukolo, interviewed 2008)

UOSPA

UOSPA contracts the multiplication of quality "Sunfola" sunflower seeds. The agreement is with farmers located in areas where the risk of cross-fertilisation is low. The multiplication plot needs to be a minimum of 5 acres, generally of an individual farmer, but sometimes provided for by a group of farmers. Often, the seed multiplication is concentrated in groups that manage fields in collective farming.

"Our group is engaged in block farming in which the group rents land for the production of sunflower. Some members also can volunteer land for the group to use in sunflower production. At the moment the group has three blocks (each block is on average 4 acres of land) which they rent at 60,000 Ushs/acre..... We basically produce sunflower and carry out production and marketing activities collectively as a group. After harvest, the sunflower is packed in bags and delivered to the group store.... We use the money from the seed multiplication to hire land, hire transport, hire labour and run our credit and savings scheme."
(St Luke Farmer Groups, interviewed April 2008)

Just like in the case of Mukwano, the contract limits the economic liability of the contractor (UOSPA) for any losses that the farmer may incur as a result of the production.

"... The Association may, from time to time, give technical suggestions and advice to the Seed Producer, but the responsibility of the Seed Producer under this agreement to produce, deliver and sell to the

Association high quality seed remains that of the Seed Producer. The Association shall have no responsibility for any crop failure or reduced seed yield.”
(UOSPA Seed Multiplication Agreement, clause 1 and 3)

The contract fixes the prices in the transaction in advance, both of the planting material to be paid in cash and for the resulting seed produce sourced by UOSPA. No mechanism for adjustment to changing market conditions are mentioned. The extension services provided by UOSPA are limited and quit vaguely spelled out in the contract. However in exchange the contract mentions the strict obligation for the farmer to sell exclusively to UOSPA with specific quality attributes.

“The seed producer shallnot sell any seed to a buyer other than the Association; and if he/she does, shall be in breach of this sub-clause; ... Technical assistance and supervision of the crop will be carried out by the Association or by the appointed agent.”
(UOSPA Seed Multiplication Agreement, clause 2)

“...Before payment is effected the Association will carry out quality tests of moisture content, germination and purity on samples of seed before seed is delivered to the designated warehouse for further cleaning....”
(UOSPA Seed Multiplication Agreement, clause 1)

No ways for dispute settlement are specified. However, being an association, the membership of the seed multipliers in UOSPA gives them negotiation power to re-negotiate price conditions as a group. UOSPA has resolved the problem of scale to some extent by contracting only farmers or farmer groups that use a minimum plot size of 2 hectares (5 acres) of land for seed multiplication. The cost of collecting are still high, and recovered by UOSPA through a high margin between the kilo price for the multiplying farmer and the sales price of the quality sunflower seed that results from the OTIS processing plant. The Sunfola seed chain managed by UOSPA creates value-added that translates in remunerative prices for the farmer group, UOSPA and OTIS, as a clear example of vertical coordination in the chain.

Other contract farming experiences

Many sunflower producers and oil processors have had experiences with bulking arrangements governed by contracts in cotton, notably with the district cooperatives and depot committees. Interestingly, in the case of cotton the farm prices and quality of service delivery was harmonized, until 2005, between all ginners, to prevent free-riding of competing ginners on investments in inputs and embedded services (input provisioning, extension support, transport). The embedded services to be provided by the contractor in a specific area were compensated by the granting of monopsonic sourcing within each zone. Prices for cotton were regularized by the Cotton Development Organisation, with representatives of all stakeholders in the sector. The government enabled the contract between ginners and farmers by limiting the possibilities to transport cotton using the ‘zoning system’. Trade in cotton was restricted by a system of transport licenses controlled at road blocks. In each zone the ginner had to offer embedded services and credit to the grower with a certain basic quality. In exchange, the participating ginner was assigned an area for exclusive sourcing that prevented free-riding and competition of competing ginners.

1.2.3 Bulking by processors

Several processing companies, especially in the Lira area, do not rely on spot market transactions with traders on the Grain Street but are directly involved in setting up their own agent structure in rural areas. Embedded services are more limited than in the bulking arrangements linked to contract farming as no exclusive sourcing rights are in place and free-riding on the investment by competing buyers is a major risk. However, the vertical coordination between the processor and the farmers is far greater than in the traditional agent-trader system.

Nile Agro, Twin Brothers and Gurunanak are other big processors that started to invest in an agent network after installing or upscaling their processing capacity. Trust between the processor and the agent is generated by different mechanisms. As described before, Mukwano selects their site-coordinators from the area and requires the approval of the farmers and remains the company with the biggest and most coordinated bulking arrangement. It continues the structure of site-coordinators but entered in competition with other agents or traders that buy in the area. The site-coordinators have competitive advantage above the traditional agents because they benefit from the easy flow of work capital that the company can invest in the transactions in the bulking arrangement.

"I pay them cash on delivery basis using the advance payments given by the company. When the store is full, we contact the procurement officer responsible and the truck is sent to pick the grain from the store. I get a commission of 20 Ushs/kg of grain purchased from farmers as payment for working with the company"
(Site Coordinator in Bukolo, interviewed 2008)

The former cotton ginner (Nile Agro and Twin Brothers) try to mobilize their former network of agents that worked in the depot centres several years ago. They crushed cotton seeds during the 1980s, but turned to sun flower after 2000 as cotton production in Uganda collapsed in the 1990s. They adapted their processing plant to the specificities of sun flower and added additional machinery for refining the sun oil.

"We assemble agents in meeting; explain company expectations, in terms of quantity.... Agents have verbal contracts. We advanced money to them (between 0.5 – 2 million Ushs) and pay an commission between 20-30 Ushs / kg. When we worked in cotton we also paid a small salary as incentive for agents."
(Twin Brothers, interviewed 2008)

"In April 2007, the manager of Twin brothers called me and requested me to exclusively deal with his company in sunflower supply. He had trust in me since he knew how I used to supply cotton previously. I have six stores based in different villages in Aloyi sub-county. Farmers bring their produce to the store, grain is weighed, quality is checked and if it meets quality requirements the farmer is paid cash. If seed is not well dried, he is made to re-dry or bought at a low price. After accumulating quantities enough to fill a truck, twin brothers sends a truck to pick them from the store on their cost. Twin brothers advances me money to purchase grain. For example; in 2008 season 1, I received 5m Ushs.... Sometimes I can buy using my own capital and sell to other millers. I can supply up to 150MT of sunflower to Twin Brothers per season and about 25Mt to other millers"
(Twin Brother agent in Aloyi, interviewed 2008)

"In 1998, I started purchasing cotton from farmers and sold to twin brothers. Later on when twin brothers got engaged in crushing sunflower, they also requested me to purchase grain from farmers under a different agreement. I signed an agreement to receive money from twin brothers and exclusively supply them with the grain in 2007. I received 22m Ushs for purchasing sunflower grain and 17m Ushs for purchasing cotton."
(Twin Brother agent in Dokolo, interviewed 2008)

Of the four company driven agent networks, Gurunanak has the most loosely coordinated agent network, sourcing from urban-based traders and established middle men in the trading centres.

"About 90% of sunflower grain is supplied by traders from the Lira produce line and only a small part from villages. Most of these traders use their own working capital to procure grain from farmers.... The traders receive a commission of 20shs/kg of sunflower grain supplied. Traders/agents transport their grain to the factory premises at their cost.... We provides incentives to our suppliers – for example, whoever supplies more than 100MT in a year, we give a present at the end of the year – last year (2007), the company gave out 7 mobile phones and 2 bicycles to the best performing traders/agents."
(Gurunanak, interviewed November 2008)

"I have a store in the trading centre where farmers take their sunflower grain to sell and the farmer is paid cash after quality is checked.... I use my own money to purchase grain from farmers.... I started supplying Gurunanak in 2007. They were moving around looking for sunflower grain and then I approached the manager to begin supplying them. I have not signed any agreement and I can supply to any miller or trader."
(Trader working for Gurunanak, interviewed November 2008)

Price levels and timely payment are an important asset in the competition in sourcing. Some intents are made to restore some horizontal coordination mechanisms between the processors. The small and medium millers have done so for a long time associated in UOSPA, but, nowadays, the big processors do not see UOSPA as their platform of coordination. Nevertheless, the OSSUP platform meetings have provided a place for informal contacts between processors and farmer groups, and the regional platforms induced several activities that build new bulking linkages in certain districts

"Sometimes we work with bulking producer groups who contact the company and have to deliver their products to the factory premises. UOSPA links us to these groups and so far we have worked with about 10 bulking groups. We offer them market prices but also depending of the quality of the grain delivered. The group representatives come and negotiate with us and we agree on the price."

(Gurunanak, interviewed November 2008)

1.2.4 Bulking by farmer groups

Collective marketing by farmers is another way of resolving the bulking challenge. Farmers' organizations tend to look for ways to provide the village trader's bulking service to their members, substituting these intermediaries. Members will experience lower transaction costs, as their efforts to find a buyer and complete the market transactions are assumed by the group. However, there are obviously a range of costs associated with collective efforts to perform the same services as provided in the agent-trader bulking arrangement. It is often the (perceived) net benefit that counts for the member. A resulting net benefit will provide an important incentive for member loyalty to the collective marketing group. Without external support, this net benefit must be derived from efficiencies in economic transactions compared to the trader, like economies of scale in logistics, market information or post-harvest handling.

Uganda has mixed experiences with organisations that found proper 'checks and balances' in governing their relations with their members. In the 1960-80s many farmers belonged to cooperatives. Most of these cooperatives did not manage to survive without state support. With the liberalisation and privatisation of agricultural markets and the 'waning state' in the last two decades, presently, even in export crops these collective marketing arrangements have become rare. Nowadays, Uganda smallholders have very little ongoing practices in collective marketing. Even the rich experiences of the past are gradually being lost as elder people retire or die. The lack of collective marketing practices is recognized in the Uganda Plan for the Modernisation of Agriculture that states:

"While some degree of collective action does exist, it tends not to be focused on accessing markets. In only a limited number of cases have smallholder producers formed associations to take advantage of the economies of scale that can be obtained from operating collectively in input and output markets, retaining for themselves a greater proportion of the marketing margins available."

This situation of limited experiences with collective marketing points to the organisational challenges to start-up and sustain bulking arrangements that provide an alternative to the traditional trader-merchant arrangement. The group needs to generate its 'own income' to pay for the expenses made by active members or hired professional staff. Income from service provisioning to members is used to bear the cost associated with collective action. Additional benefits generated in the collective action are distributed to members, partly by increasing the price of agricultural produce sourced from them, partly by profit sharing and investments in (social) services to the members. Some groups keep the profit and capitalize their working capital for economic activities.

The need to get a price premium to compensate the costs related with collective action explains why many farmer organisations look for niche markets. Instead of competing in the spot markets, the groups can search for markets with less competitors, selling special quality products instead of bulk. In the food industry, branding is a usual way to get a price differential with standard bulk. However, investment in 'seducing' consumers with the feel-good of a specific brand of oil are high and only available in high-volume sales of processed products. Product certification is another way of niche marketing. It emphasizes special quality attributes available to everyone that complies to certain procedures in production and processing. Organic certification is the most well-known; fair trade is another common certification system. These certification schemes encourage the establishment of separate value chains and cover raw and processed products, like in coffee and honey, but are rare in oilseeds.

The niche marketing strategy is limited to the groups that have processing plants. An example of a niche marketing strategy in oilseeds is the women group PKWI in Kumi. They started selling cassava chips and organic sunflower oil to the expat community in Mbale under their own brand. From 2008, they have a motorized mill and increasing volumes of oil will need the development of alternative marketing channels. They developed market relations with wholesalers in Kampala.

The interviews on collective marketing arrangements highlight the importance of internal financial management and the importance of saving and credit schemes as preferred institutional format that generates both trust and income in the group. Income from these credit activities complements the income from commissions applied on the products sold. The latter component increases proportional to the amount of product bulked and marketed, but the income from internal lending seems crucial and important in the initial stage of group formation to pay for the group's expenses.

"The group mobilizes funds through membership fees, share purchase by members and commissions retained (10 Shs/Kg, mutually pre-agreed fee) on products sold. We mainly bulk sunflower, maize, rice, cotton and beans to spread the risk and increase benefit. Payment is done through our SACCO, that allows savings by members and generates interest earnings from credit offers to members. These funds are used to procure inputs, office stationery, and payment of salaries (a manager and an accountant)."
(Bunambutye Area Cooperative Enterprise)

Storage facilities have functioned as a catalyst to improve the internal organisation of several groups. The fact that a storage centre is available to a community to bulk induces a process of professionalization. The management of a collective storage facility demands the delegation of responsibility by the members to a specialised committee or person, and demands ways to resolve disputes and risks. The storage can be in bulk, with the challenge of finding good quality control systems, or by allowing individual storage in a collective warehouse, e.g. through individually tagged and traceable bags or silos. The latter reduces the risk for farmers to be affected by lower quality products (e.g. with higher moisture content) of other members. Investments in basic infrastructure could benefit from leasing. Guarantee funds might be necessary to interest banks in entering in leasing arrangements with farmer groups. The context of multiple development NGOs and international donor support makes grant-based investments a promising venue for increasing bulking infrastructure of groups with a view of cluster formation. A special fund for stimulating bulking and value-adding in farmer groups could provide combinations of grant and credit based on proper business plans to groups with a proven record of trust and management based on handling (smaller) economic activities. The proposal format could be designed in such a way that farmer groups could generate the basic information needed to judge the economic feasibility of the investments proposed.

Farming a collective plot as part of a seed multiplication contract for UOSPA, has proven to be a interesting start-up activity for several small groups. Most groups interviewed had experience with the UOSPA seed multiplication programme and developed their initial experiences with the bulking of grains as a direct result of these. Seed multiplication groups need to meet the minimum requirement of a 5 acres plot with limited cross-pollination by other varieties. After some years they need to shift to the bulking and marketing of grains for processing instead of quality seed multiplication as sunflower will become an endemic crop and several different seed varieties enter the parish. In this start-up time, the organisation around the seed multiplication has been strengthened in a way that the group can become a 'core group' for bulking and marketing other (qualities of) crops.

Another key mechanism that has generated trust and management capacity is the experience with financial management. The handling of (even minimal amount of) money as a group demands periodic reporting and ways to reduce the risk of the handling of collective funds. After some time, even small amounts of money tend to be kept in bank accounts and induces the formalisation of responsibilities in the group. Saving and credit groups with some years of functioning have generated trust building that will facilitate the way to find effective governance in bulking.

"In 1998, our group received a grant of two million shillings to start a loan scheme. some members defaulted to payment off the loans and this made ten members to leave the group.... So in 1999, the remaining members started an agricultural project in which they were engaged in soya bean and beans production but used the group to access support from organizations..... We charge members and non-members 200 Ushs/bag stored. The group also buys some products like maize and sunflower from non-members at a lower price and sells at a higher price hence obtaining a profit.... The oxen can also be rented out to non-members hence earning the group more income. We plan to start a saving and credit scheme."

(Atana Women Group)

"We run a group credit and savings scheme. The credit/loan is offered at 2% per month interest rate. We have accumulated money for the loan scheme through membership contributions, share capital paid by groups when joining the group and retained earnings on sales (600shs/bag)."

(Alito Joint Christian Farmers Group)

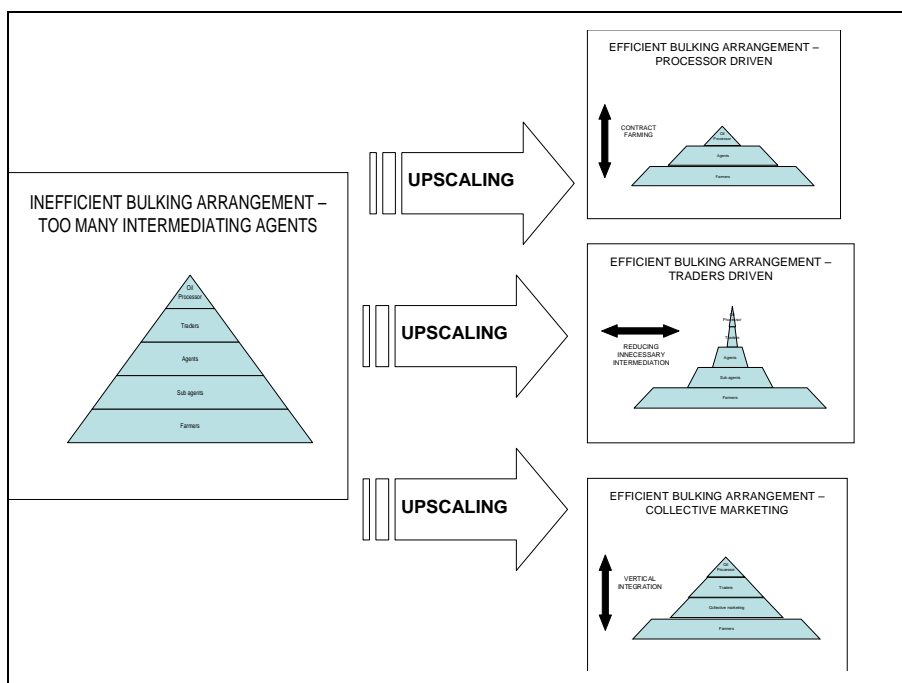
The existence of collective oil processing units proved also catalytic for generating bulking governance capacities in several groups. Even the small scale oil processing, like the RAM presses in the Eastern region, are hubs for improving the management experiences of the group. Even though turn over and financial returns are low, it generates a need for regular interactions of task groups and generate income to pay the related expense of collective action. The introduction of larger, motorized, plants in the case of P'KWI generated dynamics that rely on higher management capacities of the group. This underlines the importance of having already a solid management before engaging in these major economic activities.

"Members deliver direct to the store where the produce is weighed and farmer is paid cash for what he/she has delivered (price/kg = 500/kg). This is partial payment since the farmer is also entitled to a share of the profit after sale of the oil and seed cake and each member who has poultry and/or pig enterprises is entitled to 1/3 of the seed cake that results from his/her products. To encourage savings and generating money for our operations, 25 Ushs/kg is retained in the credit and saving system.... The 3% interest is distributed over the three types of groups in our cluster: 1% for the cluster, 1% for the sub-group and 1% for the saving clubs..... Payment of the profit from processing the oil and sales of the cake to each farmer is deferred to the end of the year."

(Popular Knowledge Women's Initiative)

1.3 Different upscaling pathways for different bulking arrangements

The bulking process is visually depicted in the figure representing the number of persons in each intermediation segment involved to generate a certain volume for the oilseed for to the oilseed processor. Efficiency gains can be realized by both reducing the number of intermediating actors by increasing the bulking capacity of each intermediation segment, and/or by eliminating some intermediation segments in the value chain by vertical integration by the processor and/or through collective marketing.



The constraints for increasing through-put of the bulking arrangements differ between the three types of bulking arrangements.

1.3.1 Upscaling trader-led bulking arrangement

In the 'bulking by trader' (type 1) value chains, the constraints are especially related with the inefficiency of the extensive networks of agents and middle men. As a result of chronic overcapacity in former cotton seed processing plants, coupled with an expanding and unsaturated market for domestic cooking oil, there is always a buyer for sunflower collected by traders. Upscaling possibilities lie in the increase of the throughput per agent/trader involved. The capacity to bulk by agents is constrained primarily by shortage of working capital and only marginally by constraints in logistics, like storage capacity or transport. Upscaling possibilities in these chains are, therefore, crucially dependent on the availability of trade finance. As illustrated above, processors and traders have access to banks, and interest rates are bearable for them as a result of the fast turn-over, but there are constraints in their capacities to provide sufficient collateral to increase their borrowing. A venue for upscaling lies in the development of financial instruments to use the stored oilseed grains as a collateral. The warehouse receipt system (WRS) is designed with that concept in mind. It is designed for farmer groups that want to store grains after harvest to wait for an improved price. The pilot experiences with WRS indicate the need to find 'satellite systems' that link smaller bulking arrangements and smaller storage facilities with the big warehouses that have been authorized and accepted by the banks under the WRS scheme. The working capital provided by the banks through these WRS systems would complement their capital to source more volume through their agent networks.

Another pathway for upscaling is to use a nearby accredited warehouse for the small and medium processor's storage needs. They would need their working capital only for the product taken out of the warehouse for processing needs, while paying only interest on the capital invested in the stocks stored in the warehouse. The working capital generated by the WRS could then be transferred through the usual mechanism for increased

purchases by traders, agents and sub-agents. The improved financial liquidity of the chain actors will generate more through-put of the involved intermediaries and result in efficiencies in logistics.

1.3.2 Upscaling contract based bulking arrangements

In the 'bulking by contract' (type 2) value chains the issue of working capital is less constraining, as the contracting companies use to have sufficient collateral for bank loans. The constraints for upscaling are especially related with the costs of investment in service provisioning and the difficulties to avoid free-riding of competing buyers. The benefits for the farmers are the provisioning of services by the company and the guarantee of a market outlet, often with a minimum price. Even without service provisioning, the benefits of the secure market outlet is an attractive risk reducing aspect of contract farming. However, the arrangement will work only in a context that price risks are perceived as a major problem by the farmers and he or she refrains from the short-term benefits of selling to the highest bidder. Experiences with price volatility and sudden price drops provide an important incentive for farmer to accept the contract conditions and terms of trade. Sudden price peaks, as the one that occurred in 2007-2008, can significantly erode the loyalty of farmers to their contractors.

Zoning systems could prevent free-riding and provide a context for embedded services in contract schemes. However, this presupposes a regional distribution of processing plants and a 'detectable' crop. Both conditions are not met in the current situation. Innovative ways of horizontal coordination between processors are needed to provide conditions for heavy investment in embedded services. The OSSUP-platform could be a venue to discuss this further. A promising venue could be to link established groups with strong cohesion and trust in preventing side-selling with processors that target investments in them.

1.3.3 Upscaling processor-led bulking arrangements

Upscaling possibilities for processors that want to establish a coordinated network of agents that provide bulking services to them will pass through eliminating the constraints for the processors to invest in pre-harvest services. Bulking arrangements in sunflower are not primarily constrained by lack of seeds. Quality seed is available to the processors, but they often lack good communication channels to the grassroots and capable extension workers that can train and supervise the arrangement. The bulking node needs to be combined with a service delivery node to be successful. Mukwano's system of site-coordinators is a good illustration of such a combined node. The successful entrance of former cotton ginners as procuring and bulking agents for the oil processor shows that (re-)staffing local storage facilities can release these constraints. Farmers can bring their produce directly to these stores, and cancel contractual obligations.

Low investments that create high farmer loyalty are critical to increase the stability of the sourcing relationship. Provisioning of post-harvest infrastructure to farmers can be another service to be included in the embedded services of the contractor. Limiting the time the farmer has to store the grains in his house, will limit the chance of side-selling to others. This service provisioning by the processor will have to increase in a cost-efficient way. Leasing storage equipment is a possible venue for upscaling. In leasing, the investment in movable equipment is financed by the bank with the physical integrity of the equipment as collateral. The processor only pays for the equipment in one payment when stolen, but if properly used, he pays a fixed amount during the economic life span of the equipment. Movable storage equipment, like metal silos can be subject to such lease agreements, just like transport vehicles or drying equipment.

Alternatively, the farmer groups in the villages can be used as an entrance point for establishing a more stable trade relation. Many farmer groups exist, but only some of them are bulking. As we will see in the following, most of the collective marketing experiences visited in the research are based on non-commercial organization experience. Partnerships between the organisations that support these groups (churches, NGOs, local government) can establish the channels for contract relations to be established. Trust between members of this 'contract partnership' is essential to make it prosper.^{iv}

1.3.4 Upscaling farmer led bulking arrangements

Upscaling bulking in a collective marketing arrangement depends, to a much greater extent than the other types of bulking, on enhancing trust and finding effective ways to reduce opportunistic action and free-riding. Bottlenecks in upscaling of smaller groups seem to be primarily related with the way the delegation of responsibilities in price negotiation and having a transparent management of working capital. Most bulking groups in North-Eastern Uganda are small with around 30 members. Typically, the larger organizations are clusters of small groups that might be members (federations) or receive support services in exchange for joining the collective marketing of a lead group^v. Cluster groups like P'KWI and Alito Joint Christian Farmers have hybrid governance structures with a core group that set the stage, and several associated groups that link up with them. Most infrastructure is property of the core group and used to the benefit of the larger constituency. The core group

has a benefit from wider membership, as the fixed costs related with the bulking are reduced by the higher through-put sourced from associated sub-groups.

To build trust, most of these small farmer groups have functions that are not restricted to the production and harvest season of sunflower. The provisioning of credit is a common function that many groups had developed already before starting to bulk and market grains. Church activities are a binding element of several other small bulking groups.

Many groups benefited from donor support in developing storage and processing capacity. In some cases the economic feasibility has not been analyzed properly before doing so. Several motorized processing plants are not functioning yet while the additional investments to make them work seem relatively low compared to the profits that could be generated with these plants. Capacity building in elaborating basic business plans is needed to assess, at least, the time and working capital required to generate profitable business to recover the recurrent costs with these donation in infrastructure in a relatively short time. This will need a methodology of capacity building and training directed specifically to the challenges of managing collective marketing experiences and may benefit from the mobilisation of existing knowledge of group leaders and managers through peer-to-peer exchange visits. In doing so, they will need to look broader than just sunflower grains. Bulking arrangements need to work with multiple crops to become cost-efficient. As agricultural calendars are quite rigid and procurement of grains is limited in time, without a continuous through-put of products and circulation of money, the margin on one crop in a reduced period of time will have to cover the cost of the working capital. Interest rates on year-round working capital are far too high for groups only based on seasonal bulking activities.

Activities and organisational arrangement that need processes of deliberations on economic issues are essential in collective marketing. The delegation of responsibilities in price negotiation and accountancy is necessary to 'jump scales' and turn a small group in significant bulking hub. UOSPA's extension support, often complementary to their seed multiplication contracts, have proven to be critical in the preparation of several bulking groups for growth in bulking capacity, e.g, by requiring that the group handles the financial transactions through an elected board member, with simple and transparent book keeping and financial reporting. The management of a saving and credit system is another important source of learning, both in generating management capacities and in providing test cases for the trust enhancing mechanisms and procedures needed for a proper functioning and scalable bulking group. Many groups use the money in their credit and saving scheme as source for working capital. In some case they do so without paying interest to the group, mixing up the saving and credit scheme with operational management. In most cases, the group also pays interest on money used from the saving and credit system. Some start to use the SACCO system. The system prescribes that part of the saving deposits have to be kept separate and cannot be used as working capital for the groups economic activities, but, on the other hand, the SACCO can increase its working capital with complementary bank loans.

Internal lending of part of the working capital in times with little turn-over is in itself a good way to generate income to pay part of these financial costs. However, long term loans to members will reduce the capital available at the moment of harvest and is, therefore, not a feasible option. Credit designs that induce pre-harvest cancellation, e.g with a reduction in interest payment or preferred access to critical harvest services, can induce members to cancel loans in kind at harvest time. Lending to members under condition of repayment with their harvest is a good way to reduce financial costs in bulking, increase trust building between members and group, while not affecting the scale of collective bulking.

A promising venue to increase the access to working capital in bulking exists when it can be derived from a credit line that generates only limited financial costs when credit is not withdrawn. Guarantee funds might be necessary to induce commercial banks to open such credit lines for farmer groups, as the banks will face the costs of immobilised capital not generating commercial interest.

No bulking arrangements interviewed is yet linked to the Warehouse Receipt System, and the volume of trade will make it unlikely that they can link with the WRS in the nearby future. Even the storage facilities of the cluster groups are too small to make it feasible to certify them as such. Additional investments are needed to meet the minimum requirements related to quality control of the products deposited. The linkage of WRS with these bulking sites will have to go through the development of satellite systems that link these stores with the certified WRS stores in the cities, be it through higher tier collective marketing federations, or through a partnership with processors or big traders, as suggested earlier.

Outside oilseeds, some experiences exist in Uganda with arrangements that link farmers organisations to the WRS. The Masindi Districts Farmers Organisation and the Kapchorwa Cooperative managed to do so some years ago, and generated pilot experiences that have been used for further fine-tuning of the WRS system to smallholder needs. In 2009, SNV facilitated the access of the Kapchorwa Farmers Association and Soroti District Farmers Association to banks that gave WRS-like credits, based on products deposited in stores handled by them. These pilot experiences may provide a good opportunity for generating working capital for the groups bulking activity. Requirements of the bank are less than in the WRS-system but still quite rigid. They look especially at the management capacity of the group, reflected in some indicators: size of the membership; clear distribution of function in the board; professional staff for marketing, storage and bookkeeping; and a ready

market. For the latter they asked for proof of a buyer. These strong requirements are not met by most of the bulking arrangements studied, and will have to be reduced or applied flexibly to be a real option for them. Linking this system with a guarantee fund, like DANIDA uses, could make it a feasible option for upscaling the collective bulking arrangements.

To generate conditions for future links to WRS, groups will need to invest in upgrading their storage facilities and quality control systems. Both Alito Joint Christian Farmers Group and the Bunambutye Area Cooperative Enterprise have plans to do so in the near future. Some groups (e.g. P'KWI, Busiu) have linked with the Uganda Commodity Exchange through computerized information systems that also prepare for the trade in uniform quality commodities through WRS. Interestingly, the information system in Busiu and P'KWI generated interest in oil exports to neighbouring countries and triggered the need for oil testing and certification by the National Bureau of Standards, a requisite for getting an export licence.

1.4 Conclusions

All bulking arrangements analyzed in this research have constraints that limit growth both in volume and in number of farmers included in the arrangements. These constraints are specifically related with the capacity to generate trust in transactions with the supplying farmers, and with buyers more upstream in the chain. Upscaling is possible, especially when the enabling policies are targeted to the key upscaling pathways in each type of arrangement.

- Processors will need to develop cost-effective embedded services to establish more stable relations with bulking agents and farmer groups, that limit their incentives for side-selling.
- Traders need to find forms to increase efficiency and turn-over of their agent network by increasing access to trade finance.
- Farmer groups need to generate income and trust in order to upscale their bulking activities.

The article indicates the importance of social capital formation, as a complementary resource needed, next to the physical capital of storage facilities and the financial capital needed as trade finance. And, it points to the importance of credit and saving schemes in fostering the basic conditions for the proper functioning of the collective bulking efforts. Bulking arrangements and warehouses are key entry points for development interventions that want to increase the throughput, quality and fairness in oilseed value chain, and add to the objective of smallholder inclusion and poverty alleviation. Enabling policies will have to address the logistic challenges, namely processors and exporters demanding a reliable and consistent supply of produce volumes and their difficulty to collect these from scattered and unorganized farmers. For bulking groups the access to subsidies for infrastructural investments is handled by one subsector of support institutions (governmental and non-governmental), while the access to finance is handled by banks and another subsector of support. And, though rare, the training in management and leadership is often supported by another group. For upscaling pathways to be effective, the support to groups with bulking potential has to be better coordinated. The three elements are all needed in combination. When support is offered in a more comprehensive way on these three dimensions, it can generate the synergy that is missing currently. Once these bulking nodes and warehouse systems are functional, they offer the opportunity for with aligning other types of chain development interventions, such as consultation on quality standards and sustainability certification schemes, innovation processes or as channels for market information.

2 COLLECTIVE MARKETING EXPERIENCES IN THE UGANDA SUNFLOWER SECTOR

Chapter Two - *In brief:*

Collective marketing by farmers' organisations is a peculiar form of governing the logistic bulking functions that faces specific challenges. This chapter describes the emergence and functioning of collective marketing arrangements involved in sunflower production. We assess their performance on two dimensions: their economic performance in carrying out economic-logistic functions, and their performance in governing supply and demand transactions with their members. Their internal governance structure takes shape in a range of internal rules and procedures. The design and adaptation of these governance mechanisms cope with several tensions ('agency dilemmas') related with opportunistic behaviour. The accumulation of experiences with group dynamics that make or break the group's service provisioning to members proves key in explaining their survival and growth. The most successful bulking groups that are currently active in sunflower production and marketing are benefiting from a previous history of creating group cohesion, be it through managing small saving and credit groups or collective production on a communal plot. These findings underline the need to prospect existing practices of collective action in rural areas and support them to develop the take-up of bulking activities as part of their existing service portfolio.

2.1 Introduction

In this chapter, we present case-studies of existing bulking arrangements in oilseed sector, specifically the sunflower sector in the North and Eastern part of Uganda. Like in all collective marketing effort, (part of) the downstream marketing is delegated by the member to the group and a principal-agent dilemma is produced, with members (agents) having incomplete information about the performance of their organisation (principal). At the same time, the commercial relations with buyers are translated in quality and quantity requirements that the organisation will have to enforce on their members, creating an inverse principal-agency dilemma, this time, with the farmers' organization as the principal and the member as the agent.

The governance structure in the farmers' organization will have to find mechanisms of coordination to resolve these tensions, a requirement for surviving as an economic actor. The challenge in each farmers' organisation is to design and adapt mechanisms that reduce these tensions with limited monitoring costs for all parties involved). A certain degree of specific trust is required between members and group to make a farmers' organization a feasible and competitive economic actor with manageable transaction costs. For a farmers' organisation it is a continuous challenge to manage these agency dilemma's inherent to collective action and to find ways to provide proper incentives to avoid the high transaction costs of reducing the risk of opportunistic behaviour. They have broadly two ways to resolve this challenge: incentive-based relational contracting and trust-based relational contracting. The first type points to the importance of workable internal regulations and procedures, contracts and controls, e.g. about quality assurance, price determination, political representations, etc. The second type points to an organisational culture, in which people manage to deal with the risk of opportunistic behaviour of agents and 'trust' each others intentions even when there exist opportunities and incentives for individuals to act against the interest of the group.

The study used a multi-method approach in which case studies are used to understand governance mechanisms and organizational changes, related with control and compliance. The purpose of the qualitative case studies is to provide an overview and typology of workable bulking models in the oilseed sub-sector. The case studies inform the discussion on policy and strategy for upscaling and replication by focusing on the trust enabling conditions in the identified workable models. Multiple case studies have been conducted that reveal specific organizational forms of bulking.

2.2 Collective marketing in the sunflower sector

As we outlined in the preceding chapter, in contrast with the contract-based and processor-led arrangements, most farmer-led bulking arrangements provide other, additional, services aside from bulking of oilseeds, especially saving and credit services and/or the production of quality seeds on a communal plot of land. We concentrate this overview on those farmer groups where bulking is one of the economic services, and where infrastructure exists and routines have been established to provide bulking services as a core activity to generate group income. As most groups rely on the sale of unprocessed grains to traders or processors, income generation for group expenses is generally based on a margin on services that organisation provides to its members. The realisation of this margin is organized in different modalities; different economic services and mechanisms for income generation exist in the each of these collective bulking arrangements, often with innovative internal rules and regulations.

“Both members and non-members bring their products, and some want to be paid cash and others can wait until products are sold. Those who wait receive a goods received note after their deliveries are recorded by the store keeper... The group has 10 million Ushs to purchase farmers’ produce annually.... However, there is a difference between the price received by those who require cash and the price received by those who can wait. Some farmers have alternative sources of income from other enterprises (poultry, bananas etc) so can wait for fair prices other than receive the market price... We also manage a savings and credit scheme. The groups mobilize savings through membership collections, the sale of group labour to a member or non-member, and retained earnings e.g. 1 basin of groundnuts per individual, which is sold and the money put in the group’s pool..... Some groups have accumulated up to 3 million shillings through the savings and credit scheme and lend it out at 10% interest a year.”

(Busiu United Farmers Marketing Group)

2.3 Case-studies of existing bulking experiences in sunflower

2.3.1 POPULAR KUMI WOMEN’S INITIATIVE (P’KWI)

Background information

In the 1970s and 1980s, there was insurgency in the Teso sub-region from both rebels and Karamojong warriors. As a result, people were forced to camp in schools, district headquarters and catholic missions for safety. During these ‘dark days,’ there was no unity and peace and the population was dehumanized and malnourished. When relative peace returned in the region around early 1990s, people had no homes and food to eat. The population realized that they could not manage to erect houses and produce food individually, so they adopted the traditional Iteso practices centred on self-help, called ‘*eita*’, ‘*aliya*’ and ‘*ebole*’. Through these, they were able to work together to erect houses and produce crops to feed themselves

In 1993, one of the lead persons in the village, part of the Uganda Change Agents Association (UCAA), a rural development focused organization, involved in teaching women and youth in church on income generating activities and family affairs, mobilized 12 women to form a group. This group of 12 started ‘*aliya*’ (rotational labor provision) in which they managed to build houses and produce food for their families. In 1994, a government programme (Agricultural Extension Programme) was working with groups and organized a competition, in which the chairperson of P’KWI won the 1st place as a small-scale extension link farmer in legumes at district and national levels, which earned her a merit certificate to visit British farms. These exposed her to new technologies and how agriculture is organized in developed countries which gave her vigor to mobilize the community. By 1994, membership had already reached 20 women.

In 1995, there was project (RED BURNET) willing to work through an organized group to support the construction of a primary school in the community and the start of several income generation activities. The income generation project targeted 400 people that would be given goats and pigs. When these reproduce, they would give the kids to other targeted beneficiaries.

In 1996, the number of members had grown to 50 and they decided to pursue registration with UNAFSA as a special interest group for poultry, because all members were involved in local poultry rearing. Later on, they took up vegetable growing and under this poultry and vegetable growing a competition was organized in which P’KWI

emerged as the best group in the district and the chairperson visited Zimbabwean farmers. Under the farmer link extension system, the group again emerged the best where the chairperson presented a paper "Extension at Practical level" in Australia. The group had expanded and it became difficult to manage it, so the group was split into four groups with P'KWI as an umbrella organization.

In 2000, the group established more external links; they registered with UOSPA, World Learning and started collaborating with Makerere university, Serere research station, and NARO in research and adoption of technologies. The group started bulking groundnuts and cassava in 2002 so as to access bigger markets and earn a fair price.

In 2005, the group admitted 12 economic groups to join them and in the 2006 admitted more 27 groups making a total of $(4+12+27 = 43)$ economic groups. The reason for this was to bulk more products targeting large buyers. When they admitted the 12 groups, the group had a microfinance scheme in which 'Learn as you Work' assisted them with 12 million shillings

Governance of the group

P'KWI as an organization upholds the principles of *self organization* and *self governance*. The organization starts from a component called a club voluntarily formed by members who have a common need and know each other quite well. Each club is composed of five members. Five clubs form another administrative unit called an economic group. After forming an economic group, the clubs register with P'KWI where each club pays 2,000 shs and each member pays 2,400 shs as initial savings with the group. This is done to encourage members to save because savings in one of the determinants of one's share of the dividends, as they distribute benefits 'in line with efforts'.

Currently, P'KWI has 43 cluster groups (*economic groups*) and a total of 214 clubs. The supreme decision making body is the Annual General Meeting (AGM), and then there is the Governing Council. The secretariat and different departments (credit, marketing, finance and administration) serve the economic groups, the saving and credit clubs and the individual members. Decisions are delegated to the various levels of authority and communicated to members through the economic group chairpersons. The chairperson of an economic group administers the five clubs that form the economic group. The economic group, therefore, represents 25 members in the secretariat and holds independent AGMs in each group, before attending the overall AGM. This *self organization* and *self governance* has helped in building up *trust* and *transparency* along the hierarchy. Provision of adequate services and involvement of members in group activities also has helped build trust.

The group's organization and governance has attracted many organizations both government (NASSARI, Teso Private Sector, Makerere university, NUSAF, VODP) and non-governmental organizations (UOSPA, FAO, RED BURNET, Habitat for Humanity, IITA, SNV and Royal Agricultural Society of the Common Wealth). This networking has sustained the expansion of the group's activities, around their goal to become a "lead organization capable of mobilizing all households to be socially acceptable through economically viable and environmentally sustainable agriculture".

In the last two years, about 10 – 15 members have been removed from the group, and these persons were particularly from one area of the district. The reasons given are over drinking, laziness and frequent absenteeism from meetings. However, the group is in the process of admitting more 6 new clubs into the group to replace the ones who have been thrown and increase membership. However, the group notes that their optimal number should have remained around 1,000 members. However, many people are interested and, therefore, they are increasing above this number.

Economic activities and logistics

The group manages a credit and savings scheme in which they lend money to members and members save their money after sale. The group accumulated money for the savings scheme through members' savings, rents and donations. The credit and savings turn over ranges from 5 – 7 million shillings per year and the interest rate is 3% per month. The accruing interest payments from the scheme are combined with profits from other activities and paid to members as dividends depending on how active a member has been in promoting processing, number of shares owned and a member's saving culture. The repayment and use of the loan is monitored by the members of club since they will be liable for the loan if the one who borrowed fails to pay

The group is engaged in a range of activities from procurement of inputs to marketing of processed products. The group procures seeds from UOSPA, using the savings, and distributes these seeds to farmers on credit, whereby a farmer pays back 10 kgs of grain for every 2 kgs of planting seed taken. Non-members may buy seeds from the

group on cash basis. There is a verbal contract by members to sell back the seeds to the group and there are incentives to do so, such as the right to part of the seed cake and a premium price after sale of oil.

The core economic activity of the group is bulking and processing of sunflower and groundnuts. After harvesting sunflower, members deliver direct to the store where the produce is weighed and farmer is paid cash for what he/she has delivered (price/kg = 500/kg). This is a partial payment since the farmer is also entitled to a share of the profit after sale of the oil and seed cake. Additionally, each member who has poultry and/or pig enterprises is entitled to 1/3 of the seed cake that results from his/her products. To encourage savings and generating money for operations, 25 shs/kg is retained in the group. Payment of the profit from processing is deferred to the end of the year. Approximately ¼ of the members have to take their seed cake, as P'KWI has inadequate capital to purchase all the members' produce as a result of stiff competition from other processors. The group hopes to resolve this by finding a reliable market for their oil and groundnut butter so that they can increase the sales of their products and increase their abilities to purchase members' produce. For example, in 2008 the group hopes to accumulate 105 MT of sunflower

In processing, the group originally acquired three RAM press machines, which they used to process sunflower and pack the oil for sale. However, due to the limitations of this machine it could not satisfy the market demand. A pilot project identified their group and, since they were already engaged in processing, donated them a motorized oil mill. They are starting up and still faced a challenge of sourcing raw material for operating the machine economically due to the fact that there is inadequate capital to purchase farmers' produce and farmers have a need to be paid in cash as they have no alternative sources of income. The group has a well-built store with metallic doors and this guarantees the security of their products. Quality of the sunflower seeds is enhanced through inspection of the produce at the time of delivery. Produce which is not clean, well dried, not pure is rejected unless it is re-cleaned, re-dried and well sorted. The group has a sieve to remove chuff and other foreign materials like stones, metal etc. For the oil, it is packaged and marked with a brand name

Prices are determined by the marketing committee but due to stiff competition from other millers and big processors, their prices fluctuate with the prevailing market prices. However, it seems that the competitors wait for the group to fix their price and raise their procuring prices above that level in areas of operation of the group. But in areas where the group does not operate, the competitors buy at 50 – 200 shs/kg less the price at which they buy at places of operation of the group. At the moment the group offers farmers 500 shs/kg of raw material and they are also entitled to the profits that accrue from value addition. Price information is basically communicated through the hierarchies of authority. Market information is obtained through phones, newspapers and market surveys. They also use posters and exchange visits as major sources of information.

2.3.2 ALITO JOINT CHRISTIAN FARMERS GROUP (AJOCFG)

Background information

Alito Joint Christian Farmers Group is founded in Apac district and is composed of 62 cluster groups. The nucleus group was formed in 1998 by 5 members (3 men and 2 ladies) who had identified common interests among themselves to produce quality oilseeds to meet market requirements for easy market access and earn better incomes. The group was registered in 2004 as a Community Based Organization (CBO) at district and national levels and it partners with UOSPA in providing extension services and inputs for sunflower production. The successes registered by the group, such as easy access to markets, higher prices for their produce and good leadership, attracted more members to the nucleus group and presently the nucleus group is composed of 58 members (42 men and 16 women). However, some members who fail to meet the registration requirements leave the group on their own. The group started bulking in 2003 where they bulked sunflower and sold to UOSPA (seed multipliers). The group started up scaling in 2005 in which they admitted 20 sub-groups and in 2008, the group is constituted of 62 cluster groups. This makes a total of 1860 farmers from the five northern districts of Lira, Apac, Oyam, Gulu and Pader. They used the annual share capital contributions from these groups to offer services and facilitating marketing activities.

Each sub-group has about 30 members and these groups are voluntarily formed. Each group has executive committee and they are independent producer organizations but affiliated to the nucleus group in order to training services and access inputs and output markets. To register with the nucleus group, the executive of the sub-group has to apply to the steering committee and if admitted pay registration fees of 60,000 Ushs and 20,000 Ushs annual subscription. The nucleus group provides technical advisory services to the sub-groups by linking the groups to organizations such as UOSPA, NARO and NAADS. The nucleus group partners with UOSPA to distribute seeds to all the sub-groups depending on their plans.

Governance of the group

The group has a steering committee which consists of three executive members and contact farmers from each sub-group. The role of this committee is to plan and take decisions regarding constitutional review, production, and marketing of members' produce. For example, in the meetings, the committee decides on enterprises to undertake pre-season planning for each crop and in this planning the interests of the members of the sub-groups are presented by their representatives. The group also has several sub-committees:

- production committee - responsible for statistics on production from all the sub-groups;
- marketing and processing - to search for market information and bargain with buyers on behalf of the group;
- disciplinary committee - to settle grievances and the machine operation, and
- maintenance committee responsible for transport and machine operations.

Major economic activities and logistics

The major activities of the group are the procurement and distribution of inputs to farmers, where the nucleus group partners with UOSPA to provide seeds to farmers on credit and recover the credit after sale of farmers' produce. However, there are cases where some farmers sell their products to other buyers making recovery of the credit difficult. This may be due to the urgency with which they require money. The group pardons such members for three seasons and if they continue side-selling, they are suspended from the groups. In the last two years, four members have been suspended from the group.

The core activity of the group is bulk marketing, in which members from each sub-group collect their products in a store, which is either voluntarily offered by a member or rented. When the store is full, the products are transported by the nucleus group, hiring a truck using group savings, to the cluster main store where the products are sold. Quality is checked before products are stored and a record is taken of each member's deliveries. Payment is deferred to a later date after sale of the products. Payment to farmers is made in a period of three weeks to one month after time of delivery. Meanwhile, farmers have alternative products that they can sell to raise income to use during this period. That is why the group is advocating for integrated agriculture, so that households can ensure food security as well as earn increased incomes to meet their household needs. Each group accumulates approximately 27 MTs per season. The group expects to accumulate 2,232 MTs of sunflower every season with each farmer planting at least two acres of sunflower. The price offered to farmers depends on the market price but their price is always higher than the price offered by the major competitor. For example, in the first season of 2008, as the major competitor offered 500/kg of sunflower, the group is offering 550/kg. The group has land (25 acres) where they establish demonstrations and the resulting output from these demonstrations are sold and the money put in the common pool of the group.

The group also runs a group credit and savings scheme in which credit (30,000 – 200,000 Shs) is lent to members. The group gives loans to members for agricultural production, which is deducted from the member's revenue after sale of sunflower. However, if a member fails to pay, he is summoned for disciplinary action, and, if he does not comply, the case is forwarded to Local Council (LC 1) court. The credit/loan is offered at 2% per month interest rate. They have accumulated money for the loan scheme through membership contributions, share capital paid by groups when joining the group and retained earnings (600shs/bag). For example in 2005, the group had lent out 1.8m Shs to farmers.

Assets Owned by the Group

Asset	Quantity	Value (Ushs)	Accumulation logic
Oil press machine	1	12,000,000	Donation from FAO
Motorcycles	2	12,000,000	Group savings
Houses	2	60,000,000	Group savings
Land	25	125,000,000	Group contributions
Cows	10	4,000,000	Grant from NUSAF
Bee hives	15	800,000	Donation

The group also undertakes contracts to supply inputs such as cassava cuttings, groundnut seeds to other farmers. They do this in partnership with FAO and other NGOs such as FIDA- International, UNESO and Concerned Parents. The group obtains improved varieties from farmer field schools established by NARO and distribute these inputs to farmer groups that the various programmes are targeting. However, the group does not

directly benefit from this venture “because we are not the target beneficiaries but only get small profits on our services that we can use for operating the group.”

AJOCFG is set to start processing sunflower in a motorized oil press. Farmers will bring their sunflower to be processed and then take their oil and cake. There will a cost for processing to facilitate maintenance and operation of the machine. Other farmers can sell their sunflower to the group in grain, which is than processed and the oil sold by the group to generate revenues. These profits can then be injected into group operations and, part of it, shared among members.

2.3.3 YOU AND ME FARMERS GROUP (ALITO SUB-GROUP)

Background information

The You and Me Farmers Group was formed in the year 2007 by 8 farmers (all men) who were engaged in sunflower and soybean production. They were small-scale farmers who were depending on sunflower production to earn periodic incomes. The major reason of forming the group was to share farming ideas and experiences. They also wanted to access training services from organizations, since there was a requirement to form groups in order to access these services.

Governance of the group

The group created a constitution to guide membership conduct and elected a committee of 9 members to help in leadership and planning. The group registered with ALJOCFG in 2007 where they paid 60,000 Ushs as registration fee as an affiliate member and an additional 20,000 Ushs as development fees. They admitted more members to the group and now total 20 (2 women and 18 men). The group is represented in the steering committee of ALJOCFG by the chairperson and the contact farmer of the group. In the steering committee meetings, issues such as storage facilities, market information, transportation and enterprise selection are discussed.

Major economic activities and logistics

They sell products through ALJOCFG, access inputs (such as sunflower, soybean, simsim and maize planting seeds) and also access training services from NAADS (group dynamics and agronomy) and UOSPA (sunflower agronomic practices, marketing and record keeping).

To facilitate their bulking activities, the group had to rent a store in the nearby trading centre at 20,000shs/month. In the store, they keep planting seeds which individual farmers come and pick depending on their plans. All members agreed to plant at least two acres of sunflower every season. They record what every member has taken from the store, so that these can pay back after sale of the grain. After harvest and post-harvest handling, each farmer delivers his/her sunflower to the store using a bicycle. The store man measures, records and checks for quality before the grain is packed in the store. “We do not accept sunflower which is not well dried, pure and clean. We have physical means of testing for these aspects.” The farmer/member does not receive payment immediately at the moment that the grain is delivered, but the member has to wait for about 1 – 2 weeks for ALJOCFG to remit the money to the group after they have sold the product. ALJOCFG provides transportation from the group’s store to the main store, or directly to the buyer’s premises.

The group supplied 4 MT of sunflower grain to ALJOCFG in season 2 of 2007, 4.5 MT in season 1 of 2008 and 10 MT in season 2; partly Sunfola planting seed to UOSPA, partly sunflower grain to millers. They payed 550 Ushs/kg while Mukwano purchased at 500shs/kg. However for Sunfola sunflower seed, they receive 700 – 800shs/kg as they are seed multipliers for UOSPA.

ALJOCFG also linked the group to centenary bank to obtain agricultural loans in which members borrow money on an individual basis, ranging from 150,000Ushs to 500,000Ushs, at an interest rate of 1.83% per month payable in 5 months. Each farmer has to give land, cattle, goats and/or bicycles as collateral. Farmers use the money for field activities like ploughing, weeding, renting land and this has increased the acreage under cultivation. However, there are high interest rates and some additional costs to make the credit officer moving, and sometimes there are delays on the side of the bank in releasing the money in time for proper planting.

2.3.4 OBANGA ATWERO FARMERS GROUP (ALITO SUB-GROUP)

Background information

The group was formed in 2007 by 10 members who were predominantly sunflower growers. What stimulated them to form the group were the radio programmes which advised farmers to organize themselves in groups to improve access to services such as trainings and support from government and Non- Government Organizations (NGOs). The group was registered with the sub-county production department in 2007. Later on, there were buyers of sunflower grain who were moving around looking for grain and, through the radio programmes, they were advising farmers to bulk their products since this reduces the transaction costs and improves market access. Alito Joint Christian Farmers Group was a prominent group in the area doing bulk marketing and this gave them confidence. "We then decided to expand our membership and preferred farmers engaged in sunflower production so that we could accumulate large quantities. Now we have 45 members (20 women and 25 men).

In 2008, the chairperson of Obanga Atwero Farmers Group discussed with the management of ALJOFCG about the possibility of joining them as an affiliate member. "We wanted to join them to improve access to inputs (mainly planting seed) and training services (agronomic practices, record keeping, quality control and integrated agriculture). This was agreed and the group paid 60,000Ushs as registration fee and 20,000Ushs as development fee. Their registration confirmed them as an affiliate member of ALJOFCG and this meant that they could market their products through ALJOFCG, easily access inputs (planting material) and training services.

Governance of the group

The group is governed by a constitution which stipulates guidelines directing members' obligations, behavior and conduct. For example; every member should pay membership and subscription fees, every member must sell the grain through the group, must actively participate in group activities. The group also has an executive committee that plans group activities and represents the group in meetings. The chairperson and the contact farmer represent the group in ALJOFCG steering committee meetings where they discuss issues such as group development, enterprise selection, credit facilities and marketing.

Major economic activities and logistics

Through their linkage to ALJCFG, the group has been able to receive planting material of sunflower, maize, groundnuts, soybean and simsim. The group obtains the planting seed on credit and then pay after sale of products. "We have been able to easily access high quality planting material and our yields are improving. In the past we used to depend on saved seed." The chairperson has been strict in enforcing sale of the products through ALJOFCG since they receive inputs from them on credit.

For the group marketing activity, the group rents a store at 20,000 Ushs/month in the trading center, using their savings (retained earnings) to pay rental costs. At the time of harvest, each farmer delivers his/her grain using bicycles to the store where it is checked for dryness, cleanliness and purity; measured and recorded. When the store is full ALJOFCG provides transport to take the grain to the central store. "At this stage ALJOFCG is responsible for finding the market for the grain and after they have sold the grain; we are paid for what we delivered less the cost of planting material. We receive payment within a period of 1 -2 weeks. In 2008 season 1, the group bulked 2 MT of sunflower grain and in season 2 of 2008, they bulked 7 MT which they sold through ALJOFCG. "When we discover a member who sells part of his grain to other buyers, we fine him/her and if he/she continues, we will expel that member from the group." The group faces a challenge of inadequate storage facilities, inadequate post-harvest handling equipment and farming equipment.

Alito Joint Christian Farmers group also plays the role of linking farmers to credit facilities. For example, ALJOFCG linked this group to centenary bank to access loans for agricultural production. However, members borrow money as individuals payable in five months (Obanga Atwero group members have borrowed up to a tune of 7m shs). The minimum and maximum amounts offered by the bank are 200,000Ushs and 500,000Ushs respectively at an interest rate of 1.83% per month. Members can give land, cattle, goats and bicycles as collateral. ALJOFCG does not guarantee the loans but assists in assessment of members and recovery of loans after the sale of farmers' produce.

ALJOFCG also has linked the group to organizations providing training services such as NAADS, FAO, and UOSPA. "Through these trainings our agricultural practices have improved and our yields are improving."

2.3.5 OBANGA ATUERO FARMERS LOAN ASSOCIATION

Background information

Obanga Atuero Farmers Loan Association was formed in September 2007. The association started with 30 members in the Bala sub-county, Apac district. This was an initiative started after farmers realized that the banks were offering high interest rates and actually seemed unwilling to offer credit to farmers. This inspired the members to start the association with the aim of promoting savings and offering credit to members. Therefore, members of the community agreed to start the association with each member paying 10,000 Ushs as membership fees and these constituted the money that would be lent out to members. One of the church leaders (a catholic parish priest of Bala) was impressed with the initiative and was able to link the group with CARITAS, which was at that time supporting Village Savings and Credit Schemes.

Governance of the group

The association has a constitution that clearly spells out the rules and regulations of engagement in the association's activities. It spells out how members are supposed to behave, the obligations and rights of members and how benefits shall be shared among members. The association has an executive committee of 9 members who are responsible for daily running of the association. They are in the process of forming sub-committees to oversee production, marketing and loan recovery.

The group managed to build up trust in church activities and saving and credit. Firstly, most of the members pray in the same church and their religious affiliation holds them together. Also the savings and credit scheme has made us trust each other but this has been mainly achieved through equal treatment and accountability. "This is our own initiative so it's our role to kill it or make it a success. The trust we have built up has enabled us take on other activities such as bulking which we feel will enhance our earnings from farming."

Major economic activities and logistics

The association's core economic activity is giving loans to members to facilitate their agricultural activities and promote savings by members as a requirement to get a loan from the association. The group offers loans ranging from 60,000 to 200,000 Ushs to members at an interest rate of 2.5% per month. The loan scheme started with 300,000 Ushs which was collected from membership fees. CARITAS (an NGO) supported the association's loan scheme in which they provided funds worth 2 million Ushs to promote their village savings and credit schemes. In 2008, the loan scheme managed a capital of about 5.6m Ushs from members' savings and interest earnings. "However, some members may fail to pay the money and this creates conflicts in the group. So far no member has left the group because we follow our constitution." When a member fails to pay, they give a notice to pay within two weeks after expiry of grace period (3 months) and if a member does not comply, they use the LC system (local authorities) to enforce payment. This has worked very well for the group. The group is introducing other sources of capitalization, in which they are offering shares to members (share value – 20,000) to increasing savings and working capital for the association.

Through the loan scheme, members were able to access funds to buy improved varieties of seed (for sunflower, maize and beans). The farmers buy sunflower planting seed (PAN 7351) from the Mukwano site coordinators. Access to improved seed varieties has led to increased yields. The group initiated collective marketing in which they bulk their products and look for big buyers to purchase their products. Farmers wait for the produce to be sold before they receive payment. This has been facilitated by the loan scheme where farmers can borrow money awaiting sale of the produce - there is also easy recovery of loans because after sale, the money can be deducted from the respective member's revenue. For example, in season 1 of 2008, the group was able to accumulate 72 MT of sunflower from members which they sold at 550 shs/kg to Mukwano. The group also bulks maize and beans which they supply to schools. "This has enhanced our incomes and we are now able to pay school fees and meet daily household expenditures."

2.3.6 ST. LUKE FARMERS GROUP

Background information

St. Luke farmers group was formed in the year 2000 by 15 members in Adyang village following the continued sensitization by the district agricultural office on radio, emphasizing on the need for farmers to organize themselves into groups in order to access services from organizations and access markets through group marketing (bulking). The formation of the group was influenced by one of the lead farmers in the village who mobilized members and encouraged them to work together to access services from organizations.

In the year 2001, UOSPA identified the group and requested to work with the group in sunflower and soybean production. "We registered with UOSPA where we paid 50,000Ushs. UOSPA started supplying us with planting seed for sunflower and soybean." They started planting sunflower as UOSPA seed multipliers and always had a ready market for our sunflower grain after harvest. However, when Mukwano introduced the hybrid variety, some farmers in the area adopted the hybrid variety and there was contamination due to cross pollination – hence this compromised our seed multiplication programme. However, they continued to work as a group and look for markets for their sunflower grain. In 2005, DITREC trained the group on group leadership skills and group dynamics.

Governance of the group

The group has a constitution as a working document that guides members' behavior and conduct. The group has an executive committee that administers the group and plans group activities. They hold Annual General Meetings (AGMs) which is the supreme decision making body. The group also has a disciplinary committee to guide members' conduct and resolve conflicts. For example, when a farmer does not participate in the group's farming activities (planting, weeding etc), the disciplinary committee gives a fine of 2,000Ushs per day and this money is used to hire labour. The disciplinary committee also engages members in dialogue in case of failure to comply with group guidelines. So far two members have left the group to take up responsibilities in other areas (church leaders). No member has left due to any conflict. We have admitted more members and now the group is composed of 30 members so as to increase volumes bulked.

Major economic activities and logistics

The group is engaged in block farming in which the group rents land for the production of sunflower. Some members also can volunteer land for the group to use in sunflower production. At the moment the group has three blocks (each block is on average 4 acres of land) which they rent at 60,000Ushs/acre. In these blocks the group basically produces sunflower and carry out production and marketing activities collectively as a group. Every member is supposed to participate in planting, weeding, harvesting and post-harvest handling activities. After harvest, the sunflower is packed in bags and delivered to the group store. Every member is responsible for searching for market information and should communicate to the chairperson. The sunflower is sold and the money is put in the group account. The group uses the money from the group account to hire land, hire transport, hire labour and run the credit and savings scheme. In 2007, the group was able to produce 5 MT of hybrid grain which they sold to Mukwano and 2 MT of Sunfola which they sold to UOSPA.

The group is also engaged in apiary project in which DITREC supported them with 40 local bee hives and UOSPA supported them with 8 modern bee hives. The first time they harvested, in 2007, they got 2.5 Jerry cans, second time – 4 Jerry cans and third time – 6.5 Jerry cans. They sell this locally at 3,000Ushs/litre of cooked honey and 6,000Ushs/litre of uncooked honey (difference in price is because uncooked honey has a diversity of uses e.g. it is medicinal).

The group operates a credit scheme in which members can get money to carry out individual farming activities. The minimum and maximum amounts offered are 50,000 Ushs and 150,000 Ushs respectively at 1% per month interest rate. "One has to present collateral (e.g. a bicycle, goat or cattle) and should have a guarantor. If he/she fails to pay we ask the guarantor to pay and if he/she fails to pay we confiscate collateral."

The group is also engaged in an innovative information system in which extension officers record training information in cassette tapes and the group listens to this information as a means of training, instead of the extension officer coming to meet them. Information on agronomic practices, environmental conservation, soil management and pest and disease control is recorded on these tapes. The Kubere Information Centre (KIC) that organizes this training programme, has also been sponsoring the women of the group under the WOUGNET programme to go for study tours in places such as Masaka in which they study how successful projects have been managed, and, when returning, they are expected to transfer what they learnt to their groups.

2.3.7 BUNAMBUTYE AREA COOPERATIVE ENTERPRISE

Background information

ACEs are one of the initiatives under the new co-operative marketing system supported by Uganda Cooperative Alliance (UCA). The aim is to take advantage of liberalization and globalization including diversification of markets and new products. This is thought to provide more room for creativity and innovativeness which allows for more marketing services offered to the producers. The idea is to raise enough quantities of standard quality and to maximize producers' benefits instead of benefits by organizations. At the same time they should ensure that the co-operative organizations have to earn enough income to sustain their operations.

Bunambutye Area Cooperative Enterprise started as small groups of farmers formed under the FETAS programme (Farmers' Empowerment through Agricultural Services) which was involved in provisioning of inputs and training services to farmers on agronomy and farming as a business. The groups were constituted by 30 members each voluntarily organized to access training services from FETAS. In 2002, some of the representatives of the groups attended a workshop which was organized by Uganda Cooperative Alliance (UCA) in which they were advised to form an Area Cooperative Enterprises which would assist farmers to bulk products and access services. So, these representatives came and shared this information with other members and it was agreed that groups jointly form the ACE, to meet the minimum membership required by UCA of 200 members. Bunambutye ACE was then formed from five parish associations of Buluguya farmers association, Busiangi Primary Cooperative Society, Bwihonge A Primary Cooperative society, Bwihonge B Primary society and Bunangara Parish Farmers Association.

The ACE received capacity building support from Uganda Cooperative Alliance in which they supported in training on leadership and governance, record keeping, financial management, participatory enterprise selection and marketing. Under the arrangement, UCA also provides finances for rent, management (salaries) and provides stationery. This support keeps on declining until UCA withdraws completely when the ACE is self sustained.

Governance of the group

The group was registered with Uganda cooperative Alliance (UCA) in 2003 and presently has 600 members from 5 parish farmers associations in one sub-county. Parish farmer associations form the bulk of the membership. However, individual large scale producers can become direct members of the ACE. The AGM is the supreme decision-making organ; the board consists of 9 member committee, and does the planning. They have a manager to spearhead implementation of planned activities of the enterprise and two sub-committees, for production and marketing. Each parish farmers association is represented in the board and decisions are communicated through these parish farmer associations. Therefore major decisions and planning is delegated to the board (approved by AGM) whereas other decisions are delegated to the sub-committees of production and marketing, which reduces on the mobilization costs and costs associated with time required to reach a decision by all the members. Trust plays a big role in sustaining delegation and coherence of the organization.

Major economic activities and logistics

The enterprise is largely established to provide services as directed by the members' interests. Therefore, the group is involved in a multiplicity of activities that include; procurement of inputs, bulking and marketing of agricultural products, and mobilizing savings and providing credit to members.

Procurement of inputs is done by the management in conjunction with the marketing committee. At the parish farmers' associations pre-season meetings are organized where individual farmers' acreage is recorded for various crops (enterprise). Local purchase orders are prepared for each rural producer organization, and these purchase orders are consolidated in one purchase order. The management purchases inputs (seeds, fertilizers) which are then purchased by individual farmers from the ACE central store on cash basis. However, through the UNADA arrangement, stockists are being established at parish level.

The large membership base has enabled the enterprise to accumulate large volumes of produce. The main products bulked through the ACE arrangement are maize, rice, cotton, sunflower and beans. Members deliver produce to the depot centers where it is picked and put into the central ACE store awaiting sale. The groups either use individuals to transport the produce to the central store using bicycles or they hire a truck to transport it. Sometimes, buyers go and purchase from the depot centers and it is the responsibility of the marketing committee

to bargain and sale on behalf of the groups. For example, in 2007 Season one, Bunambutye Area cooperative enterprise accumulated 556 MT of sunflower seed which they sold to a large scale processor.

An Area Cooperative Enterprise does not buy and trade in members' produce; rather it helps the members to market their produce to their best advantage. Ownership of the produce, therefore, remains with the farmer until it gets out of the cooperative system. Farmers wait until the produce is sold to receive their payment. Payment is made less the commission (10 Ushs/kg, which is a mutually pre-agreed fee) that are necessary for the ACE operations. Price determination is delegated to the marketing committee of 5 members elected in AGMs. However, market information regarding prevailing market prices is communicated to members through notice boards to enhance transparency.

The ACE has well- spelled out guidelines in regard to the quality requirements for each crop. Store keepers at depot centers are charged with the responsibility of inspecting the produce prior to storage. For example; in sunflower, if the grain is not well dried, and with lots of chuff, the owner of the produce is asked to re-dry and clean it before it is accepted in the store. Quality is checked locally by feeling, biting and splitting. The ACE also employs a security officer to guard the central store against theft.

The ACE is also engaged in mobilizing savings from group activities and providing small credit to the members. Savings are raised through membership fees, shares and commissions. The ACE uses the parish groups to monitor the use of credit and recover the money. The ACE offers credit ranging from 100,000 – 1,500,000 Ushs at an interest rate of 18 – 26% annually depending on the investment. When a member fails to pay, the guarantor has to pay and action is taken on the defaulting member using their constitutional guidelines.

The ACE uses notice boards to communicate market information to the farmers. Notice boards are in every RPO center where farmers can easily access this kind of information. Information from farmers is communicated through their board representative. The major sources of information for the enterprise are UCE (Uganda Commodities Exchange) through UCA, government pronouncements through radio and newspapers. Other information is shared through meetings at RPO level, parish farmer associations and AGM

The ACE owns land which they have purchased using their own savings. The land has cost the ACE 5 million Ushs and the plan is to establish a warehouse on it that will be able to accommodate all the produce of members and non-members in the sub-county and even neighboring sub-counties. The ACE also owns office furniture and stationery that was supported by UCA.

2.3.8 BUSIU UNITED FARMERS MARKETING GROUP (BUF MAG) - MBALE

Background information

In the 1980s and early 1990s, there was scarcity of basic commodities in the East where Mbale (Busiu) are located. To address this challenge people organized themselves into small groups with revolving funds where they would facilitate members in a rotation to purchase the scarce commodities. In the late 1990s, farmers started helping each other in providing labor in agricultural production and farmers formed groups of 15 – 20 members to facilitate labor provision. That time farmers were using traditional varieties of groundnuts, cassava, sunflower and maize whose yields had drastically declined. In marketing, farmers were working individually in which they sold their products in periodic markets to traders of local consumers.

In 2002, AT-Uganda introduced a project 'Life Project' to assist farmers in capacity building, training on Good Agricultural Practices (GAP) and the project promoted improved varieties of groundnuts and sunflower. This project wanted to work with organized farmers, so they worked closely with the sub-county local government to identify 10 groups of farmers in Busiu sub-county. These were groups that had been formed voluntarily for savings and labor plots and facilitated seed multiplication programme to generate seed for other members of the groups. By 2003, many farmers had adopted the improved varieties of groundnuts and farmers had produced large quantities of the crop and yet lacked where to sell the produce. To address the challenge of marketing, farmers themselves requested for training from AT-Uganda on group marketing. AT-Uganda provided funds for capacity building in 2003 in which they contracted two organizations; SEDO in Uganda and SACRED-Africa (Kenyan NGO) to train farmers on group marketing, savings and financial management. Another local NGO, Uganda Change Agent Association, was contracted to train farmers on management and record keeping. As a result of a series of trainings, the 10 groups came together in April, 2003 and agreed to form a marketing group where they democratically elected the Interim committee to manage the group. These 10 groups were composed of 2 youth groups, 6 women groups and 2 mixed groups.

By 2004, the group had managed to bulk 2 MT of groundnuts which they stored on a rented store. They sold these to a large buyer. Farmers had appreciated the initiative and then agreed to contribute share capital

(40,000/member in form of groundnuts) to raise some money for the group operations. By the end of 2004, they admitted an additional 10 groups from Busiu and Busoba sub-counties to increase the amounts bulked and provide market for their products. That time, the group used to give seeds to farmers on credit in which they would pay twice as much as they were given and these was distributed to other farmers. By 2005, their production had increased and the group won a contract with NAADS to supply groundnuts seed to other farmer groups formed under NAADS in the sub-county. The group partners with organizations such as ACDI/VOCA, SNV, EPSEDEC, UOPSA, AT-Uganda, IICD, Local government, UCE and Mbale District Farmers Association

Governance of the group

The AGM is the supreme decision making body of the group where new leaders are elected, accounts are audited and budgets are approved. The group has a management committee consisting of 9 members who direct and guide the actions of members. The management committee has representatives from various groups. The group also has sub-committees: an advisory committee to advice the management committee, a financial committee for budgeting and auditing, a disciplinary committee to resolve conflicts and direct members' behavior and a purchasing and quality control committee to purchase and receive members produce and record deliveries. Each group has its own executives who plan and guide decision making for example enterprises to be undertaken. One can register as an individual (after paying for one share at 40,000 Ushs/share) or register as a group. The group also registers after paying 40,000 Ushs for a share.

The group is surviving on the spirit of teamwork and sound rules and regulations coupled with sound leadership and accountability. For example, there was a conflict that was threatening to tear the group apart in which one member managed to convince the treasurer to give him/her money without the consent of the committee. This created cliques; those who supported the treasurer, and those who did not. So the management committee and disciplinary committee resolved these by following the constitution. The constitution states that the treasurer can give member money with the consent of the management committee, so the treasurer was made to pay the money and this was resolved amicably. "Some members join groups with diverse interests which may be divergent from common interest and this is the greatest cause of conflicts and tensions in groups. Because of these about 2 members have left the group (one joined an NGO and the other got a teaching job) but this is positive to us because it is through our training and publicity that they got there." This year (2008), the group has admitted 50 new members who have come voluntarily because they see the services and benefits other members are enjoying.

Major economic activities and logistics

The group is involved in a multiplicity of activities. When planting season approaches, the group management committee contacts organization that can provide them with seed. The committee takes an estimate of members' requirements and makes an order for those organizations to supply it. For example, the group contacts NARO (NASSARI) for groundnuts and UOSPA for sunflower through the extension officers. When these seeds are delivered to the store, farmers come and buy them from the store; some can pay cash, others take on credit (which they pay within three weeks).

The group's core activity is bulking produce in which farmers deliver their products to the store after harvest individually. When the products are delivered, the quality is checked with a moisture meter to ensure the right moisture content. Both members and non-members bring their products, and some want to be paid cash and others can wait until products are sold. Those who wait receive a goods received note after their deliveries are recorded by the store keeper. The group can have working capital worth 10 million Ushs to purchase farmers' produce annually but would require about 50 million per season. However, there is a difference between the price received by those who require cash (market price) and the price received by those who can wait (price bargained by the executive with the buyer). Some farmers have alternative sources of income from other enterprises (poultry, bananas etc) so can wait for fair prices other than receive market price. The group managed to bulk 2 MT of groundnuts in 2005, 7 MT of groundnuts in 2006, 14 MT of groundnuts in 2007 and 3 MT of groundnuts in 2008 (partial). They also managed to bulk 1 MT of sunflower in 2007. This is because most of the sunflower is processed using RAM press.

The group also manages a rural information system in which they provide price and market information, literature that can inform enterprise selection process and photocopying and printing services to the farmers and the community at large. The computer specialist gets information from internet (price, quality, quantities and literature), prints it out and gives it to group representatives to go and disseminate. These representatives go and display this information in strategic points in villages for example; business centers, churches etc where members of the community can easily access it. He makes announcements in meetings about where members can access such information. However, literature is available at a cost i.e. the group prints that members who want it have to photocopy at 100 shs/page. This is meant to maintain the system. The representatives also provide information about seasonal production forecasts to the group which they feed into the information system so that they can assess their capacity to supply particular large buyers that they access through internet.

The groups that constitute Busiu United Farmers Marketing Group also have savings and credit scheme. These groups mobilize their savings through membership collections, sale of labor (for example; if one member or non-member requires labor, one group member is sent to bargain with him/her on price and then if agreed, the group offers labor and the money is put into the pool of the group), retained earnings e.g. 1 basin of groundnuts per individual (which is sold and money put in the group's pool), and fund raisings. Some groups have accumulated up to 3 million shillings through the savings and credit scheme. The interest rate applied by the group for loans to its members is 10% per annum.

The group also has access to 8 RAM presses (3 owned by individuals and 5 owned by groups) which members can use to process their sunflower. In case of the group-owned RAM presses, a member takes his sunflower to process and takes the oil and the cake but he/she pays for the labor. Others sell their sunflower to individuals who have RAM presses. The group has also started processing groundnuts (groundnut cookies, groundnuts paste and packaged raw groundnuts).

The group is also actively involved in lobbying for training services from NGOs and research institutions to enhance their skills and knowledge e.g. from EPSEDEC (Eastern private sector development company Ltd). At the end of the trading period (one year) the profits are distributed to members according to the number of shares owned. 25 – 30% of profits is always ploughed back into the business and the remaining 70 -75% is distributed to members. The dividend is divided by the number of shares to obtain the profit value of the share. For example, one year, the share profit value was 5,000Shs.

Assets accumulated by the group

Asset	Quantity	Value (Ushs)	Accumulation logic
Weighing scales	2	30,000	Matching grant (AT-Uganda)
Furniture		500,000	Group earnings/profits
Turplines	4	120,000	Donation (AT-Uganda)
Sampling spheres	2	10,000	Donation (AT-Uganda)
Moisture meter	1	3,300,000	Donation (volunteer from USA)
Computer set, photocopier, printer and generator		5,300,000	Loan from UCE (payable in 24 months)

2.3.9 ATANA WOMEN'S FARMERS GROUP

Background information

Atana women's group is located in Apac district and was formed in 1996 under the influence of a female local politician. The group started with 30 female members and was formed to ensure food security at households, building team spirit in solving daily problems and empowering women economically, socially and politically. The driving force for the formation of the group at that time was to access support from a local NGO, the Apac Development Fund (ADF), which was providing hand tools and grants to run a loan scheme to organized groups.

In 1998, the group received a grant of two million shillings to start a loan scheme. Some members defaulted on the loans and this made some members to leave the group (10 members left the group). The group convened a meeting to try and harmonize the members' interests but after some members had paid their loans, they preferred to quit the group. So in 1999, the remaining members started an agricultural project in which they were engaged in soya bean and beans production but used the group to access support from organizations. The NAADS programme also supported them in rice production in which they obtained training services. The group faced a challenge of inadequate cultivation equipment and this limited their potential to increase production. Action Aid through Uganda Pioneers Association (UPA) supported a poultry project for income generation which they operated only for two years. The project also has provided them with 4 (four) ox-ploughs and 10 oxen to facilitate cultivation.

Currently the group has 23 members (10 men and 13 women) and is undertaking production of honey, fruits (citrus), sunflower, groundnuts, beans and soya beans. The group started bulking 'collective marketing' in 2006 and this has become its core economic activity. Other economic activities include; procuring inputs, providing extension services (done by group facilitator) and are looking forward to reinstating the savings and credit scheme, now with funds internally generated through their operations so that members feel more sense of ownership. After realizing the challenge of lack of storage facilities, CESVI (an Italian NGO) built for the group a 10 MT store in which members and non members bulk their products.

Governance of the group

Atana women's group is governed by a constitution with well-spelt bye-laws and responsibilities of the executive members (9 member committee). Every member is supposed to abide by the rules and regulations of the group and failure to do so is punishable by fines, suspension or even expulsion. The group has AGMs every year in which they approve work plans and vote for new executive members. The group also has sub-committees (finance committee to pay farmers after sale of produce and the marketing committee to search for market, negotiate with buyer and sell the products. The group is also divided into mini groups (4 – 5 members) for easy utilization of the cultivation equipment and oxen. Each mini-group has a chairperson who manages it and plans how the cultivation equipment has to rotate among members. The group holds regular meetings (once every month) in which they plan and settle grievances.

The group has managed to build a certain degree of trust through democratic change of leadership in which every member is given a change and everyone has a right to vote. "Our shared vision of eradicating poverty among households and promoting gender equality has enhanced our commitment, trust and transparency since this is what has led us to where we are now." "The fact that we own assets as a group keeps us together and focused."

Major economic activities and logistics

Membership fees, rental fees, business activities and shares are the major sources of finance for the group. The group charges members and non-members 200 Ushs/bag stored in the group's premises, membership fees is 3,000 per member and the share value is 2,000 Ushs. The group also buys some products, like maize and sunflower, from non-members at a lower price and sells at a higher price hence obtaining a profit. These funds are used to open a bank account, and save money to buy a plot of land, buy oxen (which are used in a rotation among members) and buy office equipment. The oxen can also be rented out to non-members hence earning the group more income. The group has already accumulated 1 million Ushs from their operations and is planning to start a savings and credit scheme.

Procurement of sunflower planting seed is done individually. Members go and purchase planting seeds from the site coordinators (Mukwano agents) depending on the acreage that he/she has prepared. All production decisions are taken by individual farmers. It is only marketing which is done collectively. However, working collectively has helped the group access other inputs such as planting seed for rice, ploughing equipment, oxen from development partners. After the sale of the sunflower produce, the finance committee follows up for payment by the buyer. Processing of this payment normally takes a period of not more than a week and the money is paid on a cash basis. The finance committee then withdraws the money and the treasurer pays members depending on the amount delivered to the store. "When I deliver my products to the store, they are weighed and the weight recorded, then I have to wait until the products are sold. But for sunflower, we get our money faster because there is ready market by Mukwano"

Assets owned by the group

<i>Asset</i>	<i>Quantity</i>	<i>Value (Ushs)</i>	<i>Accumulation logic</i>
Building (store)	1	Not sure	Donation (CESVI, ASDI)
Building (Poultry)	1	1,800,000	Donation from Action Aid through Uganda Pioneer's Association(UPA)
Land	1	150,000	Group savings
Bee hives	9	540,000	Donation from PASUDE
Goats	1	150,000	Donation from UPA
Ox-carts	2	1,200,000	Donation from PASUDE and CESVI
Ox-Ploughs	4	600,000	Donation from UPA and PASUDE
Bullocks	10	5,000,000	UPA, PASUDE

After harvesting the products, each individual farmer delivers his/her produce to the store and this is recorded by the store keeper. This is usually done twice (June-July and November – December). The group has two ox-carts which members use to deliver their products to the store. For the major products that they grow, (sunflower,

groundnuts, and maize) all the produce of members is sold through the store and some non-members also deliver to the store for easy marketing. For example, in 2007 the group sold 78 MT of sunflower and in 2008, they sold 1.8 MT of shelled groundnuts. Individual farmers deliver the products to the group store and the store keeper takes record of quantities delivered by each member.

Quality is controlled through inspection by the store keeper and through the training from CESVI, farmers have adopted appropriate drying technologies such as solar driers, silos and this has enhanced the quality of products. Security is guaranteed by a well-built store with metallic doors. The price setting function is delegated to the marketing committee which negotiates with the buyer and agrees on the price. The major buyers of the sunflower seeds of this group is Mukwano Industries limited. Information is basically shared through group meetings. Market information is obtained through phones (FOODNET), radio and market survey. Other types of information are obtained through trainings and workshops.

Table 1 – Case-studies on functions and governance systems in collective bulking experiences in Uganda (2008)

Name	P'kwi	Alito Joint Farmers	St.Luke	Bunambutye ACE	Busiu	Obanga Atwero	You and Me	Obanga Atwero Loan Association	Atana Women's Group
Essential functions									
Diversity of products bulked	+	-	+	++	+	-	-	++	++
Size of membership	1350 (Cluster)	1860 (Cluster)	30 (Single group)	600 (Cluster)	332 (Cluster)	45 (Alito sub-group)	20 (Alito sub-group)	30 (Single group)	23 (Single group)
Volume turnover of sunflower	Less than 200 MT	Less than 200 MT	Less than 50 MT	More than 200 MT	Less than 50 MT	Less than 50 MT	Less than 50 MT	Less than 200 MT	Less than 200 MT
Additional functions									
Processing capacity	++	++	-	-	+	-	-	-	-
Input provisioning	+	+	-	+	+	-	-	-	-
Seed multiplication	+	+	+	-	+	+	+	-	-
Extension services	+	+	+	-	-	-	-	-	+
Trust-building history									
Micro-credit	+	-	+	+	-	-	-	+	-
Induced by church	+	+	+	-	-	-	-	+	-
Collective plot	+	+	-	-	-	-	-	-	+
Credit and savings	+	+	+	+	+	-	-	+	+
Seed multiplication	+	+	+	-	+	+	+	-	-
Extension	+	+	+	+	+	+	+	-	-
Internal governance									
Delegation of price negotiation	+	+	-	+	+	-	-	+	+
Paid staff	-	+	-	+	-	-	-	-	-

2.4 Conclusions

The case-studies describe the ‘history of’ the economic, logistic and social ‘assets’ of organisation that have proven to be important in shaping the internal governance capacities of groups. In Table 1, we have summarized the key characteristics of each of the case studies in a comparative table that presents a summary of the functions and supporting trust-enhancing mechanisms. It compares the different collective marketing groups on key context characteristics, the level of performance of the functions that are essential in bulking, and gives an overview of additional functions performed by the groups. The table also presents an assessment of the relative influence of key mechanisms and processes that help explain their emergence and cohesion, and provides the backbone of their organisational strength.

Most of the groups that are currently active in sunflower production and marketing benefit from a previous history of creating cohesions, be it through managing small saving and credit groups or collective production on a communal plot. These findings underline the need to prospect existing practices of collective action that can develop the additional bulking activities as part of their existing service portfolio.

When designing strategies to replicate bulking arrangements in new oil seed producing areas with new groups of farmers, it is very important to be aware that organisational learning is difficult to kick-start. Recent intents for doing so, e.g. the perspective to organize satellite WRS in areas with NAADS-groups, as proposed by the Uganda Commodity Exchange, have a high chance of failure, as most NAADS-groups cannot be expected to be strong enough to manage significant bulking activities on a collective basis on the short term. Instead of collective marketing, their emergent organisational social capital might be an asset for upscaling or replicating bulking arrangements that face less tensions of collective action, like the more hierarchically controlled contract farming or preferred supplier arrangements for oil processing plants. It is understandable that Mukwano has build a significant part of its site-coordinator network on these ‘weak-but-existing’ functional groups.

For upscaling farmers-led collective marketing arrangements, there is a need for a more refined strategy that builds upon groups with more developed organisational social capital, and upscale the bulking activities and number of farmers involved in existing groups in a gradual process. This ‘cluster development process’ can take two typical forms: by a gradual increase of membership of an existing organisation, and by the gradual association of new groups to an existing one in a second tier federation. In the following chapter we will present two typical examples of both of these upscaling pathways. The Alito Christian Farmers, representing the ‘federation-type’ upscaling; and P’KWI, representing an growth model with sub-groups in one and the same organisation. The Alito Joint Christian Farmer Group in Apac and the P’KWI group in Kumi are both good examples of successful cluster development processes, where a strong core-group has facilitated the affiliation of weaker groups. The incentive for doing so has been strongly economic. While credit and saving schemes seem key for generating strong core-groups governance structures for collective marketing, storage infrastructure and working capital are the key elements for upscaling bulking and collective marketing by a farmer group. The costs associated with the use of this infrastructure, especially when working below capacity, functions as very strong incentive for increasing membership of a group, and the development of clusters of sub-group.

Upscaling pathways will have to ‘match’ the logistic capacities and governance capabilities of the organisation, and resolve the need for trade finance in the lapse between members supplies and downstream marketing of the products as a group. We will present some upgrading pathways that we identified in the case-studies and that take each case-studies contextual complexity and diversity in consideration.

P’KWI – the challenge of supply organisation

The historical background of the evolution of the cluster groups is based on voluntary formation of small groups around based on common interests of individuals. The size of the small groups, basically the ‘cells’ of the saving and credit scheme, with 5 members are unviable for bulking purposes. This made their aggregation into second or third tier organizations a necessity. The cluster groups (around 25 members each) form the organizational backbone for bulking.

The current centralized (third tier) commercialization of P’KWI only absorbs part of the total production of the households. P’KWI increased its processing capacity with a motorized mill in 2009. However, constrained by lack of trade finance, a large part of the oilseeds is still sold to passing traders that pay

upfront. The processing unit and associated increase in the capacities for bulking, will generate additional work for the cluster groups, as the logistic and financial unit that operate between the small subgroup and the central unit. They will need to develop logistic functions in storage and transport of raw material throughout the year. The cluster group can be functional in generating-cash-while-keeping stocks while managing a diversified outlet: delivering part of the bulked products to the central processing unit (high price, slow payment) and selling another part to other millers (pay cash, lower price).

The group is engaged in bulking and processing but has been most active to mobilize farmers to undertake commercial agriculture ('farming as a business'). The common interest of working together to produce quality products and accumulate them for easy access to markets and increase inputs has led to high membership commitment and has helped to build trust among the members. However these ample services of the organization and the strong member commitment is not yet directly linked to the group's bulking activities; proper incentives to make the bulking and processing services of P'KWI attractive to the members are still needed. Trade finance, enabling the cluster groups to pay cash for deliveries of members to the group, seem necessary to capitalize their strong organizational social capital.

ALITO – the processing challenge

Alito is the biggest collective marketing experience when membership is concerned. There are clear possibilities of up scaling the group's activities in bulking. The group can also upscale its bulking activity by increasing production levels of its members through encouraging them to increase acreage under sunflower production since this area still has relatively large acreage and/or taking up varieties that are high yielding. Increasing storage capacity seems feasible, as the group already owns a plot and proved that they could manage these kinds of investments when they build the existing, though small, storage facility.

As a result of external support, an attractive upscaling pathway for Alito is the uptake of processing. The plant has been almost completely installed. However, the technical handling and internal organization around it have not had sufficient attention yet. There is a large number of members (1075) who can produce enough raw material to run a motorized mill (already installed, not yet operational, capacity – 2MT/day). The processing unit will increase the number of staff working for the group, and require skills of the board to balance social proximity with hierarchic control. Their experiences with managing other collective assets is an asset in this challenge. However, in terms of sourcing for raw material, there is stiff competition from lead firms in the oilseed sub-sector such as Mukwano and Nile-Agro which compromises with their operations. Additional finance will be necessary to attract sufficient raw material to make the processing profitable, as costs can only be covered when the mill operates many months a year.

BUNAMBUDYA – increase throughput

Bunambudya ACE is a good example of a cooperative that re-articulated itself around an existing storage facility. The support of UCA facilitated the effective governance and management of the group. It resolved the challenge of trade finance, through trust building and by managing a loan programme to members.

The key development pathway is the increase of storage infrastructure to increase procurement for the members. Their size and organizational strength, plus their links with the UCX make them attractive as satellite in the WRS-system.

BUSIU –bulking services additional to seed production and processing

The group emerged as a Community Based Organisation (CBO), and has been able to mobilize 332 farmers to participate in bulking and RAM-press processing. As a group that plays the role of providing economic services to members its function can be up scaled and more members brought on board. The group has to refine their internal organization to make a big leap forward. The group is in a verge of registering as a company in order to win contracts to supply larger buyers.

The activities to get ownership and identification of the supplying farmers is largely around seed production (groundnut and Sunfola) and the access to animal feed as a by-product of oil processing. To increase scale, member identification with the group will have to be more focused on bulking and collective marketing raw material.

There is ample potential for increasing production and membership to bulk larger quantities. However, there is a challenge of storage facilities and working capital; the group rents a store at 35,000/month and

this is small to bulk large quantities. Both this infrastructural challenge, the internal governances and the access to trade finance are still underdeveloped for taking up the bulking function on a larger scale.

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ⁱⁱⁱ Uganda Programme for Trade Opportunities and Policy (UPTOP) with funds from European Union (EU), Contract Farming, Smallholders and the Commercialization of Agriculture in Uganda, Kampala, 2007

^{iv} See KIT (2008) Trading Up, for recommendations on partnerships to improve the trading system; and Ton and van der Mheen (2009) Sense and Sensibilities in Contract Farming, for recommendations to investors in contract farming arrangements.

^v We will present more detailed experiences with cluster group formation in Chapter 2 of this paper. In 2009, Andrea Bolhuis continued to study the strategy of cluster formation for UOSPA in 14 groups. (Cooperation and coordination. A study into the role of farmer's cluster organizations in the sunflower oilseed sector in Uganda, MSc thesis, IDS, Utrecht University, February 2010).
