Oil seeds in Uganda: Combining business-led development and multi-stakeholder dynamics in boosting a diverse national sub-sector

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This case is one of a series specifically prepared by SNV and local partners for the “Seas of Change” event, taking place in The Hague, 11-13 April 2012. The cases cover a range of commodities and approaches in value chain development across Africa, Asia and Latin America. They usually include several of the following elements: strengthening of producer organisations, productivity improvement and value addition, business development services, inclusive business ventures, contract farming, marketing arrangements and improved chain financing. The work has been done with local entrepreneurs, NGOs and government bodies. Among the international collaborative partners are: IFAD, FAO, EU, USAID, DANIDA, Helvetas and IDB. For an overview of these SNV cases please see www.snvworld.org/en/sectors/agriculture

Key features
The case sketches a rapid development in Uganda’s oil seed sector; with increases in production of over 400% from 2005 to 2009. It focuses on a combination of two interventions; a) a collaboration between the leading Uganda processing firm Mukwano and SNV, to develop a contract farming scheme for more than 50,000 farmers; and b) the facilitation of multi-stakeholder platforms at both national and regional levels to facilitate joint agenda setting. The emerging collaboration between various actors led to improvements in general farming practices, business relations and input provision. Jointly they also influenced government policies and financing streams. The combination of these two interventions was particularly powerful and eventually helped to improve the incomes of more than 100,000 farmers. A strong focus was put on improving farmer capacity to deal with markets and vibrancy of the farmers-market interface. It led to major productivity increases and an increase in price of oilseeds of 350% with a corresponding rise in farmers’ incomes, and significant substitution of national imports.
1. Context and background

Towards the end of 2008, SNV Uganda and the Mukwano Group of companies signed a partnership agreement to implement an Inclusive Business model aimed at expanding capacity among rural farmers in order for them to be able to participate in the oil seed value chain. The oil seed industry ranked high on the government agenda due to its poverty reduction potential. In particular, sunflower, the main oil seed produced in north-eastern Uganda (a post-conflict zone), had the potential to transform the lives of some 12 million people\(^1\). However, this rich potential was yet to be realised due to challenges including inadequate access to good quality seed, lack of market information, poor input supply systems, weak producer groups, poor bulking and post-harvest handling facilities and technologies, and limited access to affordable finance. For farmers to participate in the sunflower value chain and realise their economic potential these constraints had to be addressed. This was the subject of the SNV-Mukwano partnership.

This partnership came about through a scoping mission of the sub-sector in 2005, which was a turning point for the oil seed value chain. The mission was supported by SNV, which triggered a series of multi-stakeholder actions. Key among these actions were the Weaving the Oilseeds Web stakeholder conference (2006), where various main actors in the value chain, such as Mukwano, appreciated the business case in the oil seed sub-sector; the launch of the Oil Seed Sub-Sector Platform (OSSUP, 2007), marking the start of multi-stakeholder activity in the value chain, as well as the start-up of regional Multi-Stakeholder Platforms (2008). The Regional MSPs negotiated with Mukwano to release hybrid seeds to small-scale farmers. This was also the point of interaction with SNV.

Mukwano Industries (U) Limited is a privately owned enterprise registered in Uganda. Mukwano Industries commenced operations in 1986 with a single laundry soap production line and has since expanded to become the pre-eminent supplier of edible vegetable oil in Uganda. Mukwano largely operates in mid-northern Uganda, where peace was recently restored after some 20 years of insurgency. With the return of peace, Mukwano saw the opportunity to promote business and investment by developing a local oilseed market, providing an alternative to imported palm oil. Apart from Mukwano, 36 other smaller processing mills exist in Northern Uganda. Until 2010, when Mt. Meru millers entered the market, Mukwano enjoyed up to 70% of market share, while the small millers who operate under an umbrella organisation, NUOMA (Northern Uganda Oilseeds Millers Association) accounted for the remaining 30%.

In the past, Mukwano worked with the Ugandan Oilseed Producers and Processors Association (UOSPA) to secure uptake of Sunfola, an open-pollinated sunflower variety. Unfortunately, the oil content and farm yield of this variety was relatively low and inhibited farmer production and expansion. Following the introduction of the new sunflower hybrid PAN 7351 variety in 2003, which provided better yields than the open pollinated varieties, Mukwano promoted sunflower production through field demonstrations, which stimulated demand for improved production techniques. The company increased its grain uptake from less than 5,000 metric tonnes (mt) in 2004 to over 40,000 mt in 2008, with a value of US$11 million from an out-grower scheme involving about 45,000 smallholder farmers.

Currently, Mukwano supports an out-grower scheme of approximately 54,000 smallholder farmers in the districts of Masindi, Oyam, Apac, Lira, Dokolo, Kaberamaido and Amolatar, making it a lead firm in the sunflower value chain in Uganda. There is interest and potential among farmers in this region to increase sunflower production to exceed 100,000 mt per annum.

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2. Underlying business model

This case focuses on the contract farming model which Mukwano developed, together with SNV, with out-grower schemes for 54,000 farmers, 35% of which are women. However, this contract farming model was facilitated by the processes initiated by the Oil Seeds Sub-Sector Platform (OSSUP). The platform was initiated by UOSPA, as an experiment to promote more co-ordinated action in the oil seeds subsector. UOSPA, representing oil seed farmers and small oil processors, had already worked with several donors in the past, but these actions had never proved to be sustainable. Without this intervention, actions such as the contract farming model developed by Mukwano, would have been much more difficult. This was because OSSUP is a multi-stakeholder platform in which the main actors in the oil seed sector, such as Mukwano and UOSPA, came to set a prioritised agenda, which was shared with other parties who had the capacities and the resources to facilitate change. It was possible to set this prioritised agenda due to certain conditions such as the growing trust between actors and a more nuanced view of each other roles. This appreciation of each other’s diversity accommodated a system in which deals could be made and solutions could be found. One of the actions facilitated by the platform was this setting-up of an out-grower scheme by Mukwano.

Before 2009, Mukwano Industries dealt with about 40,000 individual farmers for its supply of hybrid sunflower seeds. This model was costly; it did not guarantee supply of oil seeds for Mukwano and disadvantaged farmers by limiting their ability to participate in chain activities, sharing of margins, bargaining power and sustainability of incomes. Mukwano developed a contract farming model with out-grower schemes for 54,000 farmers, 35% of which were women. With support from SNV, the farmers were organised into 1,860 functional Producer Organisations (POs) of around 30 farmers each. SNV Uganda worked with Mukwano to enable producers with market access, since interacting with markets is an important aspect of the livelihood strategies of many rural poor producers. This was done by addressing three core issues:

(i) **Physical access to markets** is most often limited by long distances and lack of roads and/or impassable roads. Difficulties in accessing markets reduce opportunities for rural farmers, limiting their ability to buy improved inputs (seeds) and sell their farm output profitably. To resolve this situation, Mukwano established input sales and procurement centres at a parish level all over the out-grower scheme. This improved the incentives for producers to engage in more profitable sunflower production.

(ii) **Market structure** – characterised by extreme asymmetry of relations between the large numbers of rural poor farmers and the few market outlets. Such markets are usually uncompetitive, unpredictable and highly inequitable. To overcome this hurdle, Mukwano operated an out-grower scheme including functional contract farming. The establishment of this commercial relationship with a large private sector agribusiness raised farmer confidence, enabling greater seed production.

(iii) **Producer skills, information and organisation** – Farmers were offered extension services, inputs and production technologies. In addition, they were given information on what markets are, how they work and why prices fluctuate. To allow critical numbers of farmers to interact with markets, SNV and Mukwano piloted the emergence of High Level Producer organisations (HLPOs), comprising 5 to 10 POs. The pilot demonstrates that provision of market and price information assists farmers to make production decisions. Such information gives farmers a clear understanding of market processes and enables them to develop strategies on how to achieve better margins from their agricultural output.
In this way, the sub-sector was transformed from isolated individuals to a network of economically empowered groups and co-operatives. To form and strengthen the POs and improve the quality of service delivery to poor rural farmers, SNV Uganda and local capacity builders offered training to Mukwano agricultural extension personnel and group executives on producer organisation and leadership development, enterprise management, group governance, and farming as a business. Thus, 1,861 POs were organised, of which 480 POs (30%) have since had their executive management capacity enhanced. As a result of this support, PO members were able to demand and access improved production technologies and inputs such as hybrid PAN 7351 seed, Codal Gold pre-emergence herbicide and Diammonium Phosphate and UREA fertiliser use through Technology Observation Plots (TOPs).

3. Evolution of the initiative

This intervention increased company revenue through the reduced cost of extension services and increased amounts of grain for processing, improving production and supply of crushing material from 5,000 mt to 40,000 mt/year. However, the economic empowerment of farmers as legitimate, credible and viable economic partners in the oilseed value chains was not complete and farmer groups were still dependent on Mukwano’s extension services, which represented a significant investment for the company.

In 2010-11, the SNV/Mukwano objective of strengthening farmer groups evolved to organising farmers into production and marketing co-operatives as a second level of farmer organisation. The aim was to further consolidate the legitimacy, credibility and viability of farmer organisations as value chain partners. Through a pilot, four farmer co-operatives – Angetta, Oculukori, Abukamora and Omarali – were formed representing a total of some 2,000 farmers. These farmer co-operatives demonstrated a better response to market incentives than the much smaller farmer groups did. They specifically guaranteed seed supply and extension services and they made bulking for marketing and strong collective bargaining easier.

2010–2011: from donor dependent solutions to endogenous market-based systemic solutions

While partnering with Mukwano Industries in the consolidation and aggregation of its supply chain, SNV was also very active in facilitating local and national multi-stakeholder dialogues to promote co-ordination and co-operation among value chain actors and service providers. This was aimed at sustaining these local-level business relationships, enhancing healthy business relationships and catalysing the growth of the sub-sector.2 In addition, through OSSUP, increased interaction took place between several actors in the value chain. These dynamics led to all kinds of initiatives within the value chain, from which farmers eventually profited: several input suppliers collaborated to make better seed varieties available to farmers; better harvest collection practices brought efficiency gains to both farmers and processors; a network of rural market information systems empowered farmers, while better price arrangements benefited both farmers and traders and more effective practices were extended.

The potential of the vegetable oil seed sub-sector has been realised by the value chain actors themselves with limited impulses and facilitation from others. These actors generated further interest in the sector’s development among donors and other development organisations, researchers, public institutions, NGOs, and local and international financial institutions in the following their methodology.

Donor contributions increased, OSSUP, the national multi-stakeholder platform, negotiated a guarantee scheme from DANIDA for the Uganda National Agro Dealers Association to access imported hybrid seeds from Mukwano Industries in order to distribute them to farmers. USAID and DANIDA support helped to set up practical demonstrations of how to improve agronomy practices. IFAD and the Ugandan government committed themselves to supporting the production of local hybrid varieties.

Banks created new financial products for small farmers. An agricultural loan guarantee scheme with Stanbic Commercial Bank was negotiated for oil seed farmers to access loans for ploughing implements, with a 50% guarantee from donors, which benefited 50,000 producers. The Centenary Bank developed an Animal Traction Loan (leasing), secured by business contracts between farmers and processors, using farmer savings and credit from co-operative organisations.

A number of actors joined together to successfully advocate for more conducive government policies and financing for the sub-sector. Government policies on liberalisation and privatisation were conducive to the sector’s development, creating an enabling environment for investment.

Lastly, several contextual factors were conducive for the further development of the sub-sector: Restored peace provided political stability, which, in turn, contributed to the return of farming families. Production was also boosted by rising global food prices, high national population growth and ensuing demand for food, including cooking oils. An expanding domestic market and the wider East African market have contributed to making the sector more dynamic.

4. Impact

**Improving poor farmer access to markets**

In the post-conflict areas of eastern, northern, and north-western Uganda, the sunflower industry was revived and annual production rose steadily from 70,000 mt in 2005 to over 300,000 mt in 2009. The price of oilseeds also grew from some USh 200/kg (£0.05) in 2007 to USh 700/kg (£0.18) in 2010, with a corresponding rise in farmer incomes. This increase in prices was partly due to an increase in global market prices; however the OSSUP platform also created more stability in prices through more co-ordination between members of the platform. Poor households also benefited from more stable conditions for marketing their product. At least 100,000 farmers now produce oilseed, benefiting more than 500,000 people. It is estimated that in the long term, some 400,000 farmers and their families could benefit.

SNV Uganda worked with Mukwano to enable producer market access by addressing physical access to markets, the structure of the markets, and producer skills. Interacting with markets is an important aspect of the livelihood strategies of many rural poor producers. This was seen as a critical element for producers to increase their household incomes while enhancing their food security.

As a clear indication of empowerment, the more farmers learnt about governing themselves as a co-operative, the more they realised the gaps in their knowledge and practice, providing incentives for further improvements in their farming and business practices. In addition, small producers enlarged their influence through their representation in Producers Organisations and in

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3 These impact figures are deemed conservative by some of the researchers who looked into the processes and actions that evolved from initiating the platform. The figures may actually be higher, but are very difficult to measure due to several reasons, which involve the variety of oil seeds crops (not only sunflower but also sesame, soya, cotton etc) grown in different agro-ecological zones. In addition, these regions involve a variety of processing-market chains.
regional and national MSPs. This increased their engagement in micro-macro linkages and allowed them to become more directly involved in broader VC management and governance.

The key growth in capacity has been the development of multi-stakeholder relations, which have been substantially improved through active dialogue, resulting in increased trust among the value chain actors. An external evaluation, using the ‘five capabilities’ framework, showed that the farmer ‘capability to relate’ both within the value chain and with external actors has grown strongly (IOB evaluation, 2010)

5. What are the key implications for scaling inclusive business?

While it is important to facilitate farmers to respond to market opportunities, it is at the same time important that they are able to confront and are supported to overcome the challenges that hinder them from accessing the benefits of these market opportunities. This is a prerequisite for the up-scaling of inclusive value chain development. Farmer ability to confront challenges must be improved not only in physical terms, but also in psychological terms, through improvement of their confidence and ability to interact without fear or prejudice. Farmer organisations have been key in building farmer confidence, but it is only if they are governed well that they are able to be true representatives of farmer voices, and show clear economic benefits for members.

Production and business services are critical starting points for farmers to negotiate the primary hurdle of engaging in value chain development. Companies that are able to provide these services in flexible business terms engage farmers into their supply chains. However, it is useful that such services are also available through other market mechanisms. In the end this makes the companies more responsive to the needs of farmers, since it minimises monopolistic behaviour.

Further support in sub-sector development and improvement of the business enabling environment is key to sustaining the gains made under such programmes and creates incentives for more firms to participate. The more firms that participate, the greater the competition and the more options there are for farmers. This vibrancy in the value chain creates sustained confidence for farmers.

Further support should be directed towards assisting farmers to understand how to gear their production to diverse potential markets, how to access these markets and gain a better understanding of how markets work. The link with private sector actors like Mukwano is an excellent opportunity for farmers to learn more about markets and market requirements. However, structured learning on market requirements has been made possible through intermediary agencies like SNV and not through companies or market mechanisms, which see it as an extra cost. For up-scaling, an important point is to improve farmer knowledge of the market in a sustainable way.