SMALLHOLDER FARMER ORGANIZATIONAL MODELS IN UGANDA AND KENYA
Successful Models, Best Practices and Lessons
SMALLHOLDER FARMER ORGANIZATIONAL MODELS IN UGANDA AND KENYA

Successful Models, Best Practices And Lessons Learned
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List of Acronyms and Abbreviations

ACE                  Area Co-operative Enterprise
AGM                  Annual General Meeting
AGRA                 Alliance for a Green Revolution in Africa
BDSP                 Business Development Services Provider
DIFACOS              Doho Irrigation Farmers’ Cooperative Society
FOs                  Farmer Organizations
JICA                 Japan International Cooperation
KACE                 Kangulumira Area Cooperative Enterprise
NARO                 National Research Organization (Uganda)
NGO                  Non-Governmental Organization
NIB                  National Irrigation Board (Kenya)
PAFA                 Pallisa Farmers Association
SACCO                Savings and Credit Cooperative
UCA                  Uganda Cooperative Alliance
UNFFE                Uganda National Federation
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Preface

According to a European Union (EU) report, “Sustainable Food Consumption and Production in a Resource-constrained World”, the world population growth combined with rising incomes and changing diets, will require production of around 70 percent more food by 2050.

This is a big challenge considering the looming resource constraints as well as increasing frequency and intensity of droughts and floods due to climate change.

Market-oriented smallholder farmers are capable of significantly contributing to addressing this global food challenge by growing food for a substantial proportion of the world’s population, with positive impact on their incomes and economic growth.

In Uganda smallholder farmers contribute to ninety four percent of all agriculture production and for nearly all the food production. Ugandan small holder farmers have tremendous opportunities to contribute to global food sufficiency.

This opportunity can only be realized if disaggregated smallholder farmers can get organized to achieve the efficiencies in the input and output markets.

Majority of farmers in Uganda and Africa at large, remain disaggregated, despite compelling evidence that effective small holder farmer organizations can be powerful economic engines that help farmers tap into local and global market opportunities.

A handful of existing farmers organizations have successfully served as vehicles for linking farmers to markets and for rural transformation. There are also some interventions that have have succeeded in
sustainably integrating organized farmers into modern local and global supply chains and markets.

Learning from their success provides vital guidance in creating successful and sustainable organizational structures in Uganda and East Africa.

This study by VECO East Africa and Uganda Cooperative alliance was therefore commissioned to capture best practices, experiences, guiding principles that lead to successful farmer organizations. We hope this will serve to inform farmer organizations and the actors supporting development of farmer organizations on what works and what pitfalls to avoid.

There are other good cases and learnings this report could have been captured. We hope this initiative serves as a cue and incentive for other stakeholders in the development, public and private sectors to also document and share good practices and models.
Executive summary

Effective Farmer Organizations have long been considered central in upgrading smallholder farmers to commercial status. Efficient smallholder aggregation intermediaries have proven to be critical in addressing product aggregation, provision of technical assistance and more recently as vehicles for inclusivity. We consider inclusivity to mean the inclusion of Farmer Organizations’ participation in modern sustainable markets which also enables the social inclusion of marginalized women and youth.

When well-managed, Farmer Organizations can empower their members to achieve increased incomes and better quality of life. Reducing Transaction Costs (TCs), increasing market stability and predictability are drivers of increased incomes for smallholder farmers.

Other drivers are addressing input and output market failures and access to technical capacity in value chains. Farmer Organizations can therefore also play a critical role in reducing costs of sourcing and improving the quality of produce.

In practice, however, the development of sustainable farmer organizations that can realize these benefits at scale has proved to be difficult. This is because of the many challenges in finding the right aggregation models; in achieving the right enabling environment and in practicing appropriate governance and management.

Despite these challenges, successful Farmers Organizations do exist in East Africa. These farmer organizations have successfully and sustainably integrated their members into modern local and global supply chains, with positive impact on national development.

These organizations have built the necessary capacities to develop a profitable business model and create economies of scale. They are
also able to guarantee quality, food safety and, as a result, can access sophisticated markets. As a result, over time they have developed the capability to deliver value to their membership and become sustainable.

Learning from these Farmer Organizations’ successful practices and models – and failures – increases the chances of creating successful and durable organizational models for smallholder farmers in Uganda, Kenya and East Africa.

Towards the end of 2014, VECO East Africa commissioned a study aimed at developing this deeper understanding of best practices, experiences and guiding principles of successful Farmer Organizations that are able to effectively integrate farmers in markets and value chains.

Main findings of the Study

From the cases in Uganda and Kenya, this study found that there are six dimensions which when well planned and executed lead to successful Farmer Organizations. These are: clear problem definition and articulation; clear business model; design; capacity; inclusiveness (market); inclusiveness (social) and implementation.

These six features are described in detail below:

1. **The Problem**

   This is an articulation of why the Farmer Organization was formed. It outlines the need, the problems it sought to address and motivation of the founders. A clear definition of the problem that Farmer organization seeks to solve is important in developing an appropriate business model.

2. **Business Model**

   This refers to how the Farmer Organization creates value and captures
value. It is the approach to addressing technical assistance needs as well as input and output market linkages and partnerships.

3. **Design**
   This is the internal institutional design which promotes effective oversight and service delivery. It also fosters ownership and manages and mitigates risks.

4. **Capacity**
   This pertains to management and staff capacity, and their ability to provide efficient service. It also refers to the operational capacity at each organizational level. In addition, it refers to the ability to articulate a compelling strategic vision, value proposition and ability to enter into successful partnerships and networks.

5. **Inclusiveness**
   This is first and foremost the capacity to access and sustainably participate in markets. It is also about the farmer organizations having clear and effective standards, policies and leadership which enable quality membership participation.

   In addition, it refers to financial disclosure and reporting and meaningful participation by genders and age groups.

6. **Implementation**
   This is the implementation of strategies and plans by developing effective operational, control, financing, marketing, and staffing systems.

   Membership retention is at the core of implementation.
1. **Commodity Aggregation Model:** This model is relevant to value chains that require economies of scale to be profitable due to relatively small margins per unit and the need for large scale aggregation to meet market requirements.

Value chains adopting this model are primarily those in food staples and commodity cash crops that require aggregation and minimum value addition. Profitability depends on scale. The evolution of this model depends on aspects such as the need for bulking to enable better market linkages and access to productivity enhancing inputs and technologies. Farmer Organizations applying this model can be engaged in several value chains or specialized in one value chain.

2. **Cold Chain Model:** This is applied where produce requires cold chain logistics within a short period of time after harvest of products such as milk, flowers, and export horticulture.

   The major focus is minimizing spoilage and preserving the quality of produce in order to have an opportunity to participate in the market. A short length chain is vital in achieving an effective cold chain, to ensure that the quality of produce is retained. Farmer Organizations applying this model are specialized in one value chain, usually in a high value sector.

3. **Certification Model:** This model applies to specific market required certification such as Global Gap, Organic, Utz Kapeh, Rain Forest Alliance, Fair Trade and 4C. Farmer Organization sizes are relatively smaller because of the high costs of supervision and compliance.

In addition three typologies of Small holder Farmer Organizations were identified in Uganda and Kenya:
This study looked at 19 farmer organizations which provided a representative sample of types of farmer organizations in Uganda and Kenya. The following learning was found which can be classified under the six dimensions of successful farmer organizations:

**THE PROBLEM**

1. A clear definition of the problem that farmer organizations seeks to solve is important in developing an appropriate business model, deciding the type of farmer organization and the aggregation model to be adopted.

2. The motivation of the chain initiator, especially a for-profit firm, such as a trader, importer or processor can have long-lasting positive or negative outcomes on the type of farmer organizations model and the business model.

**BUSINESS MODEL**

3. Interventions must be highly value chain specific with sensitivity to the product, market and wider environmental context.

4. Efforts with farmer organizations will be more productive when focused on domestic and export markets that provide returns to different levels of quality.

5. Farmer organizations are more sustainable if they enable farmers to capture a significant price premium which provides a source of revenue for the farmer organization, and when there is regular interaction between farmers and the farmer organization.

6. Interventions need an integrated and phased approach to input and output constraints. Market linkages must be priori
tized with input market strategies designed to respond to the market requirements.

DESIGN

7. The regulatory form of the farmer organization does not change member behaviour. Training and mentoring with good leadership is therefore critical.

8. An anchor investor can provide oversight in Farmer Organizations, however, the Farmer Organization’s influence and reputation in the eyes of members can be weakened by the influence and means of a “towering” investor.

9. Owner incentives need to be aligned by rewards being proportional to effort – a focus on rewarding quality of product is integral to this.

10. Establish independent business units within the Farmer Organization as profit-centers to deliver different services.

11. The optimal number of levels in a farmer organizations depends on the economies of scale in farmer-outreach activities and in the logistics and capital investment profile of the value chain.

12. Secondary-level Farmer Organizations may need independent revenue streams to survive. This is not easy in certain value chains and markets that do not reward quality. In these cases FOs should focus on delivery of tangible services with almost immediate returns to farmers.

CAPACITY

13. There are three critical factors to good management at the
primary-level Farmer Organization: transparency and communication; homogeneity of purpose; and leadership.


15. Chain Initiator/Lead management support and training is critical to Farmer Organization success or failure.

INCLUSIVENESS (MARKET)

16. Export market oriented value chains are those that require a certain degree of value addition at the Farmer Organization level (such as coffee, dairy and summer flowers) and have better prospects of linking farmers to long-term modern and dynamic markets.

INCLUSIVENESS (SOCIAL)

17. Engaging women, youth and other marginalized groups in creases farm productivity significantly. For example, it was found that female farmers are more likely to adopt a new technology than male farmers.

IMPLEMENTATION

18. Trust is built through the interactive experience of the stakeholders. The chain initiator, in some cases chain leader, acts as a guarantor of the FO model during the learning cycle.

19. Actors in Farmer Organization development should cover set-up costs during the learning cycle but take care not to insulate the Farmer Organization from on-going costs to avoid creating donor dependency.
CHAPTER 1

INTRODUCTION

1.1 Background

Smallholder Organizations, can be an effective strategy to reducing rural poverty. Farmer Organizations (FOs) enable an increase of income for smallholder farmers by reducing transaction costs (TCs) and increasing market stability and predictability. Incomes also increase by addressing input and output market failures and improving access to technical capacity in value chains.

In practice, however, the development of sustainable farmer institutional models that can realize these benefits at scale has proved to be difficult.

This is because of the many challenges in finding the right aggregation model. There are also challenges in achieving the right enabling environment and adopting and practicing appropriate management models.

1.2. Rationale and objectives of the study

Despite these challenges, there are still cases of smallholder’s organizations that have successfully and sustainably integrated their members to modern local and global supply chains, with positive impact on national development.

These organizations have built the necessary capacities to develop a profitable business model and create economies of scale. They are also able to guarantee quality and food safety and, as a result, can access sophisticated markets. They have also built over time the capability to deliver value to their membership.
Learning from their successful practices and models – and failures – increases the chances of creating successful and durable organizational models for small holders farmers in Uganda and East Africa.

Towards the end of 2014, VECO East Africa commissioned a study aimed at developing a deeper understanding of the best practices, experiences, guiding principles for successful farmer organizations that are able to effectively integrate farmers in markets and value chains.

This publication presents findings of an extensive study drawn from literature review, expert input and field visits involving nineteen farmer organizations in Kenya and Uganda. These farmer organizations were engaged in at least nine different value chains as follows: dairy, rice, coffee, summer flowers, dessert bananas, pineapple, passion fruits and vegetables, maize, cassava and groundnuts.

They were also involved in diverse associated enterprises such as input services, land preparation, savings and credit, value chain logistics-processing and logistics.

Nineteen case-studies were chosen and visited: dairy, summer flowers, fruits and vegetables, coffee, rice, maize, groundnuts and bananas. Of these, ten of the farmer organizations made for good learnings and case studies are described in detail in this report.

1.3 Study Methodology and approach

The goal of the study was to gain an understanding of different types of farmer organizations and consolidate key learnings to improve their impact and sustainability. The study was carried out in five phases in order to address the key questions which were defined as:

What are the different kinds of Farmer Organizations?
What are the dimensions for successful Farmer Organizations?

What kinds of legal registration do the Farmer Organizations take on?

What are the major strengths and weaknesses of Farmer Organizations?

In what context are the different Farmer Organization models used?

What have been the key learnings and how do these translate into improved impact and sustainability?

The following work plan was followed:

1. Literature review
2. Interviews and field visits in Kenya and Uganda
3. Exploration of perspectives on farmer organizations
4. Documentation of Uganda and Kenya sample case studies

1.4 Report outline

This report starts with the introduction the problem statement.

**Chapter one** presents the background, objectives and methodology of the study.

**Chapter Two** is an analysis of the history and nature of smallholder aggregation models.

**Chapter Three** presents selected case studies, while the **fourth chapter** presents key lessons learned from the comparative analysis of the
case-studies and models.

**Chapter five** ends the study report with conclusions.
CHAPTER 2

Why Smallholder Organizations?

2.1 The history of Farmer Organizations in East Africa

Cooperatives were first established as institutions for implementing policy during the colonial era. They continued to exist and thrive after independence as they were seen as effective vehicles for both policy mobilization and produce marketing because of their power to assemble thousands of people. It is no wonder that cooperatives were closely linked with produce marketing boards, with the former acting as aggregators of produce and the latter acting as marketing agents and demand aggregators of farm inputs.

With the gradual breakdown of cooperatives between 1970s-2000, and the privatization of agricultural extension and produce marketing, most co-ops were not able to adjust to the new realities. Due to political patronage, pervasive corruption and mismanagement a new generation of farmer organizations began to emerge and evolve.

They were first expressed through common interest groups, self-help groups, small commodity groups, and eventually larger smallholder aggregation models.

The evolving Farmer Organizations were characterized by deeper thought on business model, governance, incentives, inclusiveness, capacity and design.

Figure 1 below illustrates the history of farmer aggregation models in east Africa.

Figure 1: History of Farmer Aggregation Models in East Africa
2.2 How can effective Smallholder Organizations Models address poverty?

In the absence of targeted support, smallholder farmers are ineffectively linked to input and output markets. They face problems reaching their goal to raise productivity due to lack of access to technology and capital, despite their apparent higher productivity in labor terms.

Commercializing small scale farmers’ value chains through Farmer Organizations is a way to address these constraints. The overall purpose of commercializing small farmers within a Farmer Organization is to link farmers into markets and to secure price and volume increases. Commercialization also serves the purpose of strengthening farmer’s trust in the market.

This process of developing business orientated farmer organizations has the potential to enable coordinated action which can reduce Transaction Costs (TCs) in accessing farm inputs, agronomic knowledge, technologies and markets.

This is due to the nature of many transaction costs like new technol-
ogy and market information which are subject to high economies of scale. Similarly, transaction costs in areas of information, logistics (such as grading, record keeping, transportation, warehousing and certification), negotiation and enforcement can also be reduced by spreading costs across an organization with many members.

**Information and knowledge sharing** in an institutionalized fashion can also increase farmers’ productivity and market power. **Organizational benefits** to cooperative action include: an enhanced advocacy voice and institutional knowledge retention through passing on of skills to new generations and members.

This should also improve farmer organizations power to access external interventions from government, donors or other agencies, who are attracted to working with established groups because of the potential to reduce the costs and increase the impact of their outreach activity.

### 2.3 Challenges of using Farmer Organizations as a Strategy for Smallholder Farmer Value Chains

#### 2.3.1 Scale versus sustainability

The potential benefits of Farmer Organizations have been highlighted by many academic and practitioners in the rural development field. In practice, however, it has been difficult to develop sustainable institutional models to realize these potential benefits. The experience of cooperatives in many African countries indicates that problems of oversight, inclusiveness and sustainability tend to compromise the effectiveness of farmer organizations.

The high failure rate of cooperative forms of Farmer Organization is a result of a basic tension at the heart of Farmer organizations: achieving the scale and profitability to provide its members access
to the benefits of working in cooperation (e.g. economies of scale in extension, credit provision and market linkages and value addition), the organization becomes prone to management problems because it out-grows the management capacity of farmers, however well-meaning they can be, capture by political and other non-business interests, poor governance and ineffective oversight.

The business model also evolves and requires a shift in the skill set of board and management; essentially a refocus on strategic input, while ensuring continued operational excellence. Most FOs lack the capacity to sense when in the lifecycle of the FO this shift needs to be made, and for those that do, lack the will to make it happen, preferring the comfort zone.

There is therefore a critical need for farmer organizations to develop stronger business plans and concurrently develop the skills of board and management to implement the business plans. These new plans and skills must have the capacity to shift quickly and respond to market opportunities, rather than donor opportunities.

2.3.2 Costs and benefits to cooperation

Collective action problems often arise in horizontal cooperation. It is sometimes not in the individual actor’s immediate short-term interest to co-operate with another set of individuals because the costs outweigh the benefits.

Farmers can be more effectively incorporated into the supply chain. From the individual farmer’s perspective, it is only worthwhile working within a Farmer Organization if the following conceptual equation holds:

\[
\text{Reduction in TCs} + \text{Increase in Price} > \text{Ownership TCs} + \text{Set up costs (output and input including financing)} + \text{(Increase in VC margin or added value)} + \text{(Oversight and decision-making)}
\]
The equation needs to hold at both the farmer and the Farmer Organization level. For a farmer organization to be sustainable, the gain for farmers in reducing their TCs through cooperation and the increase in price has to be greater than the additional oversight costs required to manage the cooperation.

Ownership costs can be conceptually broken into monitoring and decision-making costs. Monitoring costs are classic principal-agent oversight problems and the decision-making costs are coordination challenges.

Moreover, an additional set of costs exist associated with setting up cooperation. These set-up costs include building trust, creating the enabling environment, introducing technological innovation and other one-off costs.

The key challenge facing development organizations who want to promote sustainable forms of farmer cooperation is how to intervene and mobilize farmers into an institutional form where the above equation holds.

2.3.3 Dimensions for success: The Purpose, Business Model, Design, Capacity, Inclusiveness (Market and Social), Implementation

Successful farmer organizations can be developed around the dimensions of the Problem, Business Model, Design, Capacity, Inclusiveness and Implementation. Each dimension enhances the sustainability of the farmer organization by increasing the gains to farmers.

It also minimizes the set-up and oversight cost. Actors in Farmer Organization development should therefore aim to help FO’s address each of the following dimensions effectively.

THE PROBLEM: This is a consensus on the reasons for existence. It
is a clear definition of the problem that farmer organizations seek to solve. The purpose is important in developing an appropriate business model, determining the type of Farmer Organization and Aggregation Model to be adopted. The definition of the problem can be by the Farmer Organization itself, or can be triggered by a chain initiator or chain leader based on market opportunities. At this stage, there is little attention for detail on the type of organization that is to be established.

**BUSINESS MODEL:** This is a clear definition of how the FO creates and captures value. A profitable business model optimizes the opportunity for reducing TCs and develops innovative changes to the supply chain that can be captured as there is increased income for farmers. Key considerations are:

1. What is the effectiveness of the intervention in addressing value chain and TC issues?

2. Are the TC reductions sufficient to overcome the market failures or barriers?

3. Is the model profitable for the different stakeholders?

4. What investments are needed across the value chain to drive higher returns on investments to smallholder farmers and all key value chain participants?

5. What is the approach to addressing technical training needs and can this be supported by the business model adopted?

6. What are the inherent costs of addressing compliance to certification, maintaining of cold chain, perishability of produce investment risks, among others?

**DESIGN:** An effective institutional design ensures the oversight TCs
are outweighed by the gain to farmers. Consideration needs to be given to how effective oversight mechanisms can be institutionalized, especially given the increased diversity of stakeholders once the FO is on a large scale. The design should take into account the inherent risks within the business plan.

**CAPACITY:** Building effective operational and strategic capacity ensures that the service delivery and oversight mechanisms are functioning as efficiently as possible. This requires the FO to ensure it has a business plan which can acquire sufficient internal organizational management and expertise on a sustainable basis.

**INCLUSIVENESS (MARKET):** This is knowledge and ability to access and sustainably participate in modern and dynamic markets. Key questions which must be answered are:

1. In what ways can smallholder farmers capture the highest possible value of the final product price?
2. Do the chain leader and market linkages allow farmers to move up the value chain over time?
3. How far can smallholder farmers move up the value chain for complex products and processing?

**INCLUSIVENESS (SOCIAL):** Governance has a disproportionate impact on the quality and success of FOs. This is because it is related to issues of social inclusiveness, fairness and quality of membership and leadership. The following questions are relevant to ask:

1. In what ways do the poor, women, and the marginalized influence decision making in the institution?
2. What is the quality and fairness of the decision making processes?
3. What social capital exists in the institution and how has it been managed for the greater good of all members?

IMPLEMENTATION:

The study found that the FOs that had a clear purpose definition from the start and that developed a business model with a clear causal logic, began on a stable footing. Actors in FO development should therefore be involved at the earliest point possible in order to assist FOs to make the right decisions, especially regarding the design of an informed business model.

As part of this, the planned external intervention should consider how to support FO set-up costs and address start-up issues, especially in moving along the learning curve and developing trust between members.

2.3.4 Farmer Organization Types by Registration Kenya and Uganda

Three types of Farmer Organizations by registration were studied and are summarized in figure 2 below:

Figure 2: Description of Levels of Farmer Organizations
Regardless of the Farmer Organization, the group can either be multi-value chains or specialized. Multi-value chain groups tend to be more challenging to implement because they require greater managerial and technical capacity. The characteristics of these groups are compared in Figure 3 below:

**Figure 3: Multi value chains vs. Specialized Groups**

<table>
<thead>
<tr>
<th>Multi-industry</th>
<th>Specialized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sells one major crop/product through farmer organization + other crops from different industries</td>
<td>Sells one major crop/product through farmer organization</td>
</tr>
</tbody>
</table>

- **Decreases time commitment and cost per farmer** — decreases requirements of attending group activities; only one membership fee
- **Decreases time commitment and cost per farmer** — decreases requirements of attending group activities; only one membership fee
- **Increases income streams** — farmers remain active and productive all year (most beneficial if farmer’s major crop is seasonal)
- **Lack of management capacity** — in most countries, farmer education level is fairly low and may lack necessary skills to manage multiple marketing channels
- **Distractions from focus of group**

- **Manageable** — easier for people with little formal education to manage
- **Multi-crop in same industry** — as long as farmers are already producing those crops, possible through one farmer group as they only need to manage one marketing channel (also increases income streams)
- **Informal rules do not allow multi-industry groups** — applies for certain crops e.g., dairy, coffee, tea, cotton
- **Outside assistance** — it is more difficult for NGOs/government to provide additional support

Our research shows that multi-industry farmer organizations are more challenging to implement due to lack of necessary management skill from farmers to juggle changing needs.
CHAPTER 3

Case-studies and Smallholder Aggregation Models in Uganda and Kenya

The case studies are organized on the basis of the three Smallholder Organization Models described in the previous chapters. These are Commodity Model, Cold Chain Model and Certification Model. They are discussed by applying the seven features of Farmer Organizations described earlier including: The Problem, Business Model, Design, Capacity, Inclusiveness (Market), Inclusiveness (Social) and Implementation.

3.1 Commodity Focused Model

3.1.1 Mwea Rice Growers Multi-purpose Co-op Society, Kirinyaga County, Kenya

Background: Rice has been grown in Mwea since the late 1950s. Ownership of the technical and marketing agency has changed over time from a government irrigation and marketing board to farmers’ cooperatives.

In 1964, the Thrift Co-operative Society became the Mwea Irrigation Scheme licensee with membership drawn from rice growers who were tenants of National Irrigation Board (NIB). NIB, a government parastatal managed the management of the irrigation infrastructure and controlled rice marketing in Kenya.

In 1966 the Government of Kenya built Mwea Rice Mills Ltd and allowed the Society members to buy shares. Farmers established Mwea Farmers’ Cooperative Society in 1967 to take care of members’ stake and interests in Mwea Rice Mills because the by-laws could not allow individual members to become shareholders. In 1993 Mwea Farm-
ers’ Co-operative Society was split into Mwea Rice Growers Multi-purpose Cooperative and Mwea Rice Farmers SACCO.

Each of the approximately 12,000 farmers in the Mwea Rice Scheme currently pays K.Sh. 2,000 per acre, per annum to NIB for a total acreage of 32,000. An additional 10,000 acres is under development with Japan International Cooperation Agency (JICA)’s assistance. Annual rice production is approximately 250,000 Mt.

**The Problem:** Rice farmers needed to increase rice yields and take greater control of rice processing and marketing to obtain higher returns.

The Mwea Rice Farmers SACCO (now called LAINISHA) was set up to provide members with short-term and long-term loans based on three times the value of their shares and deposits in the SACCO. To retain greater control in processing and marketing, Mwea Rice Growers Multi-purpose Cooperative Society took over shareholding of Mwea Rice Mills after liberalization of the rice sector in 1999. The society later purchased its own mill.

Mwea rice farmers through their Cooperative and SACCO, now have greater control of the rice value chain including the key functions of production, processing and marketing, previously the responsibility of NIB. The NIB remains responsible for maintaining the water canals, access roads to the rice fields and managing the water resource for irrigation.

The Cooperative currently has a membership of about 4,000 farmers, over 2,000 being active members.

**Business Model:** The Cooperative reported that a driving factor in its efficient operations is the ability to harness the benefits of collective effort. The Cooperative enables access to inputs like fertilizers and agro-
chemical, transports rice to receiving centers, as well as providing seeds for planting on loan. They have also offered mechanized land preparation on loan basis. As an important step in paddy rice value addition, members have taken full ownership of the Mwea Rice Mills and now undertake milling of rice eight months in a year.

Farmers also pooled their financial resources to strengthen the Mwea Rice Farmers’ SACCO, now renamed LAINISHA SACCO, which caters for both members and non-members in and around Mwea town and the greater Kirinyaga County.

These activities by the cooperative and SACCO mean that farmers are guaranteed a reliable market and have the means to supply that market. The split of the cooperative into several business units has also been very effective for management and sustainability purposes, including oversight advantages and peer reviews referred to earlier.

It minimizes the effects of contagion in case of mismanagement or other problems emanating from one business unit. Secondly, each management team can focus on enhancing the services they are responsible for and identify the cost drivers. It does, however, require high management expertise to manage the complexity of the inter-entity transfers as well as to develop business vision and management skills.

**Design:** Because of the scale of operations and the choice of value chain, TCs are reduced and farmers can capture a high proportion of final market price through value addition activities.

The following costs and risks have been reduced through economies of scale:

1. Investments in the establishment of an office block means that farmers have lowered the expense of recurrent rental costs.
2. Ownership of LAINISHA SACCO allows the cooperative to
borrow funds at a lower price and make a margin out of on ward lending to farmers.

3. Investments in land preparation equipment such as tractors and combine harvesters ensure that farmers can receive services and pay via check-off at harvest time.

4. The cooperative has also diversified heavily to guard seasonal cycles of rice activities.

5. Participation at different points of the value chain ensures that the cooperative can guarantee a minimum purchase price to its members. This has also enabled the cooperative to become a price stabilizing factor across the scheme, regardless of where a farmer (member or non-member) chooses to sell their rice.

**Capacity:** The cooperative built its strength on the investments and knowledge accumulated over time by the interactions of its key staff and board members with the NIB, donor agencies such as JICA, and the Ministry of Agriculture.

The management team consists of general manager, board of directors, finance manager and agricultural manager and front office operations. The board of directors is experienced in business and leadership and ensures effective oversight over the management.

There is also a healthy mix of experience in the staff and management of the cooperative, by including those who previously worked in rice bodies. This has ensured that there is management capacity to manage the complex operations of supporting producers and managing the rice mill, driving its impressive growth.

**Inclusiveness (Market):** Smallholder farmers are able to capture the highest possible value because of the vertical integration of the busi-
ness including retail outlets in Nairobi and several other major towns in Kenya.

**Inclusiveness (Social):** This is the weakest aspect of the cooperative. The SACCO ensures that the wider community is involved through access to credit however this is a limited achievement when considering social inclusion, especially for women as only a few women are members of the Cooperative, and none are in the board of directors.

This is because the Cooperative’s by-laws require a member to have a title deed to the land under rice production. As a result, only women whose husbands have passed away and those whose husbands or brothers have handed over their rights to them are members. This requirement is a major barrier to inclusion, as obtaining titles to land is a difficult and tedious process for everyone, and particularly so for women in Kenya and more broadly in East Africa.

In addition much poorer members of the Cooperative can only obtain services and access markets through selling to other members which could lead to exploitation.

This FO is therefore delivering on business objectives but may not deliver for the poorer members. Development organizations therefore need to work with FOs to inculcate the values of fairness and inclusiveness at the establishment stage and later in the growth trajectory of the FO.

**Implementation:** As a mature co-op, Mwea is successful in attracting and retaining membership because of the range of services it offers its members.

Stiff competition from two other privately owned mills in the region ensures that each mill is competitive in services offered to farmers. The cooperative has been successful in maintaining scale and keeping the proportion of the management costs at a manageable level.
3.1.2  Kameke Area Co-operative Enterprise, Pallisa District, Uganda:

**Background:** Kameke was first registered in 2005 as a farmers’ association under Pallisa Farmers Association (PAFA), and formally registered as Kameke Area Cooperative Enterprise (ACE) in 2012 with the assistance of VECO and Uganda Cooperative Alliance (UCA).

Kameke ACE comprises five primary co-operatives each representing the 5 sub-counties of Palissa District. Each primary co-operative has an average membership of 116 farmers and a total membership of 580 farmers, all linked to the ACE.

**The Problem:** The main objective of Kameke ACE is to address problems of low bulking capacity, low levels of value addition, weak linkages to profitable markets and difficulties accessing credit to improve productivity.

The ACE helps its members to bulk, add value and market produce, primarily cassava and groundnuts delivered by primary co-operatives. While the original goal did not include collective purchases of agri-inputs, over time it has become one of the major activities of the ACE.

**Business Model:** The ACE has enabled farmers to achieve economies of scale in the production and marketing of three value chains: cassava and groundnuts.

Kameke ACE’s operating model is based on maximizing revenues from trading activities based on the two key value chains. The promise to membership from the ACE is payments of better prices for their produce than what they would otherwise receive if they sold directly to traders. The ACE generates its trading commission (10% of gross sales) by finding a market that can pay significantly higher prices, so that it is able to keep its promise for premium or market price and
still generate revenue for its operations.

Kameke ACE also lowers transaction costs through coordinating delivery of services to its members. It operates as a business hub through which local private business service providers deliver extension services and also coordinates collective purchases of key inputs (crop solutions, farm implements, seeds). In addition ACE recently began to bulk commodities, and carries out value addition (such as cassava flour, chips). It also finds and manages buyers including negotiations for favourable prices, building on their market power generated by reason of aggregation and knowledge of markets by the management.

Kameke ACE also provides financial services to its members, and has helped to establish five Village Savings and Loan Associations (VSLAs), each representing a primary co-operative. These then aggregate to form the Kameke SACCO, which in turn links to Centenary Bank in Mbale, and potentially, Opportunity Bank. The ACE has attracted key partners such as BareFoot Power for supply of solar panels to members and the broader community.

This appears to be a good business model however because of the volatility of commodity prices, and their general lack of product differentiation, even with the best marketing efforts, Kameke can only reasonably expect to improve its offer prices by small margins. This means that dependence on basic commodities to cover operating and administrative expenses is unlikely to reach a breakeven point soon, unless:

i.) the current volume of trade is increased from approximately 30 mt in 2013 to over 460 mt

ii.) the business model is changed to include a bigger share of business from higher value processed products or it switches to a new product.
**Design:** The ACE adopts a second tier farmer organization model, which is effective for aggregation of commodities if efforts and resources are directed towards achieving that objective.

ACE’s ownership is by primary cooperatives, allowing for large geographic outreach, and the potential to reach and serve the needs of thousands of members. The management and leadership structure are fit for purpose, and promote effective oversight and service delivery. However, the structure of the secondary cooperative model is that members do not attend AGMs, and may not be able to articulate their concerns directly, but through their representatives. This could compromise the oversight mechanisms in the future. As for risk management, the ACE is not yet at the level of awareness of its importance, and therefore does not have strategies to identify and mitigate them.

**Capacity:** The ACE has invested in three staff positions: manager, accountant and secretary. These form the management team, and work under the supervision of the executive committee, comprising of the ACE chairman, the treasurer, and the secretary.

The ACE does not have human resource, finance, or basic operation manuals. Data management is also still manual, although there are computers, showing a need for further training of staff on key computer packages and follow-up supervision to ensure compliance.

Kameke has received technical assistance from VECO towards the cost of office and store building, office equipment and furniture, and basic processing equipment such as a grain grinder, motorized groundnut shellers, motorbikes, and cassava milling equipment, cassava chippers, and moisture meters and weighing scales. In addition, VECO assisted the ACE to establish and set up Kameke SACCO through administrative support for key staff positions, and training on technical and management skills.
Uganda Co-operative Alliance provides group mobilization and formation, and capacity building while African Innovation Institute provides training to produce high quality cassava flour. Other partners have been brought on board through VECO’s efforts with the aim of addressing identified areas of need for the ACE.

**Inclusiveness (Modern Markets):** As a commodity aggregation model, the opportunity for Kameke ACE to participate and succeed in inclusive modern markets is dependent on its ability to increase its aggregation and bulking capacity, and to increase the value addition and processing aspects of the business, where the net earnings are high. This is a necessary shift for the long term sustainability of Kameke, and should also be linked to the exit strategy of the direct administrative support.

**Inclusiveness (Social):** While policies and procedures on inclusiveness are already written in ACE’s by-laws, they mostly address membership issues such as participation and discipline, but do not expressly address how.

**Implementation:** VECO’s intervention has been around reducing establishment costs and is now evolving towards strengthening the management (staff and executive committee) and technical capacity of the ACE to increase its aggregation capacity and to produce and market higher value and more profitable products, e.g. high quality cassava flour, maize flour, and to access new markets. Succeeding in this transition will require a deeper attention to the business model and to link it to an exit plan.

**Table 1:** Summary of strengths and challenges: Kameke Area Co-operative Enterprise.
<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges</th>
</tr>
</thead>
</table>
| **Business Model**  | • Business is structured to finance its operations through sales commissions | • Model depends on income from trading activity of commodities vs. value added products. Hence low revenues to ACE.  
|                     |                                                                           | • Model does not support operating and administrative expenses.                                       |
| **Design**          | • Strong buy-in by the primary cooperative societies.                     |                                                                                                       |
| **Capacity**        | • Competent core staff.                                                   | • Lack of business plan                                                                             |
|                     | • Capable leadership provided by the executive committee.                 | • Inadequate systems in place.                                                                        |
|                     | • Chairman is respected in the community                                  | • Lack of a clear exit plan from direct donor assistance for operations and administrative expenses creates donor dependency. |
| **Inclusiveness**   | • Opportunity to increase incomes from value added derivatives.           | • The business incomes are based on low value commodities like cassava.                               |
| **(Market)**        |                                                                           |                                                                                                       |
| **Inclusiveness**   | • Target value chains do not require many assets—thus allowing women and the marginalized to participate. | • Women and the poor not included in the ACE leadership.                                              |
| **(Social)**        |                                                                           |                                                                                                       |
| **Implementation**  | • Short learning cycle to commercialization of commodities Value chains.  | • High transaction cost and long lead time to build efficiencies because of the need for investments e.g. in transport, assembly points etc.  
|                     | • SACCO provides finance/credit access to both members and non-members.   | • Achieving quality standards and market specifications takes time for value added products.            |
3.1.3 Doho Irrigation Scheme Farmers’ Cooperative Society, Butaleja District, Eastern Uganda

**Background:** Rice production by government in Doho swamp started in 1942 to feed World War II soldiers in East Africa. After the war, production declined until 1972 when government committed to revitalize rice production as a way of promoting import substitution, foreign exchange earnings and proper land utilization. The government demarcated the land into blocks, strips and plots, which were allocated to individual farmers on rental basis for rice production.

However, several challenges constrained the effort, including flooding of River Manafwa, scarcity of irrigation water during dry seasons, pests and diseases, and lack of high-yielding rice varieties due to low levels of research. In 1974, farmers appealed for government intervention and the latter, with the help of Chinese experts, took over the Doho Swamps and constructed a rice irrigation scheme during the period 1976-1985. In 2013, the government handed over the management of the scheme to Doho Irrigation Farmers’ Cooperative Society (DIFACOS), a First Tier primary cooperative society after DIFACOS registration.

**The Problem:** Government needed to withdraw its support from Doho scheme, and required organized farmer participation and leadership. In the meantime, farmers needed to continue drawing income benefits from the rice value chain, including, milling, marketing and field services, such as inputs, canal cleaning, and others. DIFACOS became an effective vehicle to achieve these aspirations.

Its objective is sustainable management of the scheme, including collecting of plot fees for maintenance of the scheme (desilting, canal cleaning and other activities). The cooperative has 534 active small holder farmers, 93 of whom are women, and has a target of recruiting

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2 D Serunkuma and et al 2003. Collective action in canal system management
most of the remaining 4,000 smallholder farmers who lease plots in the scheme.

**Business Model:** The goal of DIFACOS is to increase rice production through provision of irrigation services and provision of improved seeds and farm tools to farmers. It will also provide milling and marketing services.

DIFACOS business model includes the following two income strategies:

i.) Purchase paddy at harvest season from members and non-members; mill, package and market, and retain a mark-up. Recently they bought at a farm-gate price of UgSh 2,000 and sold milled rice at UgSh 3,000.

ii.) Mill paddy for farmers and earn commission of approximately UgSh 100 per kg of paddy. Given the small net margins typical of rice milling, it is important that DIFACOS has the necessary milling capacity and is able to purchase and mill large quantities of paddy, in order for it to provide its members with the necessary services.

In order to expand its services the Cooperative recently acquired a new mill, with a capacity of 1 Mt per hour and intends to undertake basic milling beginning 2015. However there are concerns about the returns from this investment as total annual tonnage from Doho is only expected to be 6000mt from the 2,380 acres which are cultivable. This assumes current yield of 2.4mt per acre which is very low compared to 8mt per acre in Mwea.

A detailed business plan therefore needs to be undertaken to validate the profitability of the model, given that:

i.) yield per farmer owning on average 0.6 acres is currently too low to lift them out of poverty.
ii.) capacity of the rice mill at 1 mt per hour is too small to generate the scale, product range and profitability for DIFACOS sustainability.

As the cooperative is new, no financial records were available for a detailed analysis.

**Design:** For logistical effectiveness of service delivery, the scheme is divided into 11 blocks each of about 300 acres, then into strips each of 20 acres and lastly into individual plots ranging in size from 0.5-2 acres. Each block (300 acres) has a Chairman responsible for ensuring canals are clean, roads are maintained and irrigation user-fees (Ugx 100,000 per year, per farmer) are collected on time. Strip leaders are in-charge of 20-acre land-strips and assist the block chairman, while an executive committee for DIFACOS, elected by the farmers work with a technical officer (seconded by the government) who runs the technical aspects of the scheme.

As a legacy issue, it will be difficult to register new members to DIFACOS because of the past negative history associated with cooperatives that is prevalent in this region of Uganda. This is being mitigated by ensuring that services that attract and retain members such as investment in appropriate rice milling capacity is undertaken and inputs are provided on credit to farmers.

**Capacity:** DIFACOS employs a competent technical team for effective operations of the cooperative in each of the key functions of production, finance and accounting and equipment operations. The full team comprises of a manager, an accountant, the technical advisor, a secretary and five security officers. However it should be noted that the accountant was only recruited recently to address financial management challenges. There is added supervision by the executive committee, comprising of chairman, treasurer and secretary.

Apart from the irrigation management, DIFACOS has no written systems in place such as financial management, human resource
manuals, strategic management, or even a business plan. In addition there does not exist a risk register. The major risks identified are related to: the business model; steep learning curve; financial risks (including fraud - recently money was stolen by staff, has not been recovered and was not insured). There is also the risk of sub-scale of low capacity milling equipment, droughts and floods, given that the rice variety is paddy which requires a lot of water to produce.

The cooperative inherited productive assets from government, which are all in working order, and follow the technical management guidelines, with at least one technical officer still seconded by government. The group has partnered with private business development services (BDS) providers, development partners, including VECO, such as IFDC, JICA, NARO and relevant government ministries.

**Inclusiveness (Markets):** With significant investments in technical and business training of cooperative membership, there is a reasonable opportunity for import substitution of rice from locally grown DOHO rice. However, significant challenges related to the business model, incentive structure for membership, low yields and steep learning curve must first be addressed. It appears that increasing membership may be achievable with a reasonable level of effort, given that there are already over 600 fully registered members, even before the full range of services have been demonstrated.

**Inclusiveness (Social):** The cooperative has 93 female members, who have leased plots and are actively involved in rice production. Some of the women have taken leadership roles, such as land strip leaders, through deliberate empowerment policies of the cooperative management and leadership. The SACCO is all inclusive. For instance, members and non-members borrow money from the SACCO for school fees and for trading activities, including women and the poorer in the society.

**Implementation:** The model is implemented in such a way that it
allows innovations and specialization such as autonomous financial access component and water for production components. It is recommended that VECO and other development partners redirect their efforts on business model development, operational capacity and institutional capacity to ensure success. Support should also be given to the DIFACOS-SACCO, which has a membership of 94 paid up individual members in order to ensure success of the bulking of paddy at the cooperative through a check off system.

**Table 2: Summary of strengths and challenges of DIFACOS**

<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Problem</strong></td>
<td>• Problem well defined and aligned with the business model.</td>
<td></td>
</tr>
<tr>
<td><strong>Business Model</strong></td>
<td>• Rice has an attractive market in Uganda and across east Africa • Rice growing conditions are ideal • Assets left by government are in good working conditions</td>
<td>• Rice yields too low-2.4 mt as opposed to easily achievable 8mts pa. • Milling capacity of new mill too small (1mt/hr.) to run a profitable operation. • Sub-optimal model overall due to sub-scale at several levels.</td>
</tr>
<tr>
<td><strong>Design</strong></td>
<td>• Effective extension services delivery model. • Strong technical capacity and oversight by board of directors.</td>
<td>• Average plot sizes (0.6acres) too small to be profitable.</td>
</tr>
<tr>
<td><strong>Capacity</strong></td>
<td>• Competent accountant, manager &amp; technical officer.</td>
<td>• Lack of business plan • Inadequate systems in place. • Lack of risk management plan in place.</td>
</tr>
</tbody>
</table>
**Inclusiveness (Market)**
- Opportunity for import substitution of rice.

**Inclusiveness (Social)**
- Women and youth profitably participate in the value chain.

**Implementation**
- Sacco provides credit to members and non-members, thereby strengthening cohesion.
- Current business model increases cohesion.

### 3.1.4 Saba-Saba Agribusiness Cooperative Society, Makuyu Sub-County, Kenya:

**Background:** Saba-Saba Agri-business Cooperative Society Ltd. is a banana grower’s organization that was formed in 2004 as a self-help group in Makuyu Division, Murang’a County. It was registered in 2008 as Saba-Saba Agribusiness Cooperative Society through TechnoServe’s assistance, with funding from Alliance for a Green Revolution in Africa (AGRA). The original goal of the cooperative was bulking and collective marketing of farm produce (milk, bananas and other farm produce). The farmer organization has grown from humble beginnings meeting under a mango tree to its current state where it has acquired basic assets to promote group activities more efficiently. The cooperative has a membership of 132 farmers, 50% of whom are women. The cooperative is now planning to start a SACCO by leveraging on their savings.

**The Purpose:** The Cooperative was established to address the problem of banana marketing, manage uncoordinated buying, secure price and volume increases by farmers and strengthen farmers’ trust in collective action. In addition, farmers needed access to credit and to clean and disease free planting materials and other yield increasing inputs. The co-operative is now in the process of launching a SACCOb, which should help address the problem of credit access.
**Business Model:** A key component of the cooperative is to increase the value of the farmers’ crop by training members on how to grade their produce and to use quality-enhancing production techniques, since quality is compensated significantly in the market. This collective action reduces transaction costs for both farmers and trade. It also guarantees good quality and ensures proper weighing and grading, leading to better market price for the farmers, and increased incomes.

The cooperative charges members K.Sh.1 per kilogram of banana sold and more for non-members. The model is based on mobilizing farmers for collective action; training members on agronomy; banana harvesting; grading and banana handling; finding and managing buyers; and making payment to farmers for deliveries. The business model has worked well for 132 members, and several non-members, but taking the current model to scale will be difficult as the cooperative will need to invest in new assets such as transportation and cold storage among other things.

**Capacity:** The cooperative has a lean staff consisting of a manager, watchman and two casual laborers. A major role of the manager is to attract support from development organizations, and to ensure the smooth and professional running of the co-operative, including proper and accurate records. This level of organization is seen to be adequate for the needs of Saba-Saba at its current level of growth. The cooperative is led by a management committee which comprises of three women and two men.

**Inclusiveness (Market):** Members of the cooperative are linked to domestic fresh fruit markets and are making reasonable income from the market linkages with urban based wholesalers. There is an opportunity to increase the level of income by its members by including banana ripening as a value added service.

**Inclusiveness (Social):** The membership of the cooperative is well
balanced, and includes a significant number of women and youth, even in leadership. Clear by-laws exist, together with enforcement mechanism to ensure compliance, and the cooperative adheres to best practice in the way it treats its members, particularly women, those who are poor and the marginalized. The proposed SACCO is expected to mobilize new members.

**Implementation:** TechnoServe supported Saba-Saba with initial establishment by helping in farmer mobilization, facilitation of access to tissue culture banana materials, development of business model, procedure and policy manuals, pricing strategy and assistance in the hiring of the manager. It also provided support in the construction of an office and grading floor on a piece of property purchased by the cooperative on loan. In the absence of this direct financial help, Saba-Saba has organically grown to its current level, and has been building on its learnings to become more efficient and strike a right balance of depth and breadth of service offer and commission payments by farmers.

**Table 3: Summary of strengths and challenges of Saba-Saba Agribusiness Cooperative Society**

<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Problem</strong></td>
<td>The problem is well defined.</td>
<td>FO has not explored ripening of bananas which would provide more income to farmers and members.</td>
</tr>
<tr>
<td><strong>Business Model</strong></td>
<td>• Business model is based on sales commission.</td>
<td>• Lean management structure</td>
</tr>
<tr>
<td></td>
<td>• Links to nurseries that provide tissue culture for bananas.</td>
<td>• FO has not explored ripening of bananas which would provide more income to farmers and members.</td>
</tr>
<tr>
<td><strong>Design</strong></td>
<td>• Executive committee with systems appropriate to their scale.</td>
<td>• Difficult to reach scale</td>
</tr>
<tr>
<td></td>
<td>• Grading and weighing shed and store.</td>
<td></td>
</tr>
</tbody>
</table>
3.1.5 Kangulumira Area Cooperative Enterprise, Kayunga District, Central Uganda

**Background:** Kangulumira Area Cooperative Enterprise (KACE) is a second tier farmer organization that was originally started as a Community Based Organization (CBO) in 2001 and was later registered as a cooperative in 2003. KACE, through its’ 29 primary cooperatives and CBOs has a total membership of 3,442. KACE has also evolved to include a functioning SACCO that provides access to credit to its members.

**Problem:** KACE was formed with the purpose of addressing the problem of irregular and exploitative markets that were pre-dominated by middlemen. Members had been impoverished by years of loss making from low prices of their produce, especially pineapple.

| Capacity | ● Competent management, operating with proper operational plans. Progressively building assets, for example, they have acquired one acre piece of land in Saba Saba town. |
| Inclusiveness (Market) | ● They are participating in modern and dynamic fruit markets in Kenya. ● Not yet capturing full value of bananas due to lack of ripening. |
| Inclusiveness (Social) | ● Most of group members are women. |
| Implementation | ● Has evolved a model that achieves efficiency at the current scale of operations Building up scale efficiencies is difficult and requires significant assets. |
which is widely produced in the district. Farmers came together to benefit from collective action with the goal of raising their incomes by eliminating middle men in the marketing of their produce, and capturing higher value from processing/drying activities.

The cooperative has been successful in overcoming the challenge of marketing of farmer produce, and continues to explore new markets, new technologies for value addition and opportunities for higher value capture of pineapple. Through these efforts, farmers are able to access better markets for both fresh produce and for value added products such as dried fruit and pineapple wine. Fresh produce or dried products are sold to Kampala based juice processors and dried fruit traders including Jakana, Sulma Foods, Fruits of the Nile and Flona Commodities.

**Business Model:** The ACE generates revenues primarily from charging marketing commissions, training on agronomic practices and value addition. Revenue also comes from sales of inputs such as seeds, direct sale of dried pineapples and fruit drying charges. The revenues generated are adequate to meet the ACE’s operating and administration expenses, and still retain a net profit.

Operationally, the ACE acts as a collection and bulking center where members bring their produce for further onward sale and value addition. The focus is on pineapple but others like Jack fruit and papaya are also managed on a smaller scale. As long as each of the primary co-ops can achieve a truck load of pineapples, the secondary model adds more costs and does not always generate adequate returns.

In addition, they have received grants from aBi Trust, Coop Africa, UCA and Ministry of Trade and Industry. These grants have gone towards purchase of equipment such as fruit dryers, training and construction of office block and drying rooms.

**Design:** The management provides oversight of the operations at the
cooperative while the leadership of primary cooperatives and community based organizations provides oversight at the farmer level. By design, the ownership of the produce does not pass to the ACE, but remains with the primary cooperative, and in effect the farmer. This presents significant risks to farmers particularly in the event that produce is damaged while in the hands of the cooperative.

**Capacity:** KACE has a basic staffing comprising of a qualified manager and several casual laborers. This presents a major risk in the event that the manager absconds, is no longer available to work or is involved in theft of funds and farmers produce. The cooperative is governed by a board with each member having a minimum qualification of secondary education.

KACE has a business plan whose development was supported by UCA and the Kayunga District Commercial Officer in 2013 for a period of four years ending 2017. KACE returns a reasonable profit and books of accounts are kept, with audited accounts dating back to 2006. Regular AGMs are held and important information communicated.

No written systems are in place and KACE has not given adequate thinking and planning on the kind of risks they could encounter and how to deal with them. Key risks appear to be: 1) high exposure to theft by employees and over dependence on one person running the entire operation; 2) reliance on limited number of buyers who may change specifications e.g. low profits in 2014 due to a buyer demanding for organic certified dried fruit.

The fruit processing/drying technology seems appropriate for the current needs given the cost competitiveness. Purchase of equipment was mainly through a mix of donor support and retained earnings, with the bigger proportion being donor funding.

KACE has attracted several development partners such as Coopera-
tive Africa, UCA, and previously, TechnoServe. It is unclear how big a business KACE can become and this is one area where further technical assistance is needed. There may also be opportunity to boost its profits for example by charging higher commissions.

**Inclusiveness (Markets):** Exports of dried fruits presents fantastic opportunity for KACE to access and profit from global dried fruit markets. Currently dried fruits are sold to the wider East Africa, Europe and Japan. While opportunities for growth in these markets are significant, the ACE will need to build capacity to operate in sophisticated modern markets. This calls for training of the current manager and sensible expansion of the current organization structure.

**Inclusiveness (Social):** The co-operative’s board comprises of nine members, five of whom are women. As for membership, there are five community based organizations with 100% women’s membership, comprising a total of 486 members. In addition other primarily cooperatives have significant women’s membership.

**Implementation:** The cooperative has expanded its offerings from linkages and market access to building their own SACCO so that members can access comparatively lower priced credit. In addition, the trading and fruit drying operations are efficiently managed, building on significant experience.

**Table 4: Strengths and challenges of Kangulumira Area Cooperative Enterprise**
<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges and threats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Problem</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Model</td>
<td>● Model allows for greater aggregation with significant number of farmers.</td>
<td>● Marketing of fresh fruit at second tier level (current model) does not confer value to members.</td>
</tr>
<tr>
<td></td>
<td>● High efficiency in operations maximizes profits.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fruit drying at primary cooperative level is a good business case.</td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>● Effective oversight by competent Executive Committee.</td>
<td>● Co-operative managed and operated by only one staff member.</td>
</tr>
<tr>
<td>Capacity</td>
<td>● Co-operative has four year strategic plan that is being implemented.</td>
<td>● Not enough staff to implement business plan and policies, and weak business systems.</td>
</tr>
<tr>
<td>Inclusiveness (Market)</td>
<td>● Small holder farmers integrated into modern export markets through dried fruit sales.</td>
<td>● Lack of transparency in pricing by importers.</td>
</tr>
<tr>
<td>Inclusiveness (Social)</td>
<td>● Strong women participation in value chain leadership.</td>
<td></td>
</tr>
<tr>
<td>Implementation</td>
<td>● There is trust between the farmers and the leadership.</td>
<td>● Inefficiencies due to sub-optimal business model.</td>
</tr>
</tbody>
</table>
3.2 Cold Chain Model:

3.2.1 Athi Gravity Cooperative Society, Thika Sub-County, Kiambu County, Kenya

Background: Athi Gravity was established in 2001 when farmers came together to produce French Beans for export markets at a time when demand was high. New, challenging market standards (maximum residual levels, EUREPGAP) led to growing beans becoming unprofitable and Athi Gravity explored opportunities for alternative value chains. Wilmar Agro was incorporated in 1995 and in 2001 it started a strategy of using smallholder out-growers. Wilmar currently sources from approximately 3,000 farmers and is Kenya’s largest exporter of summer flowers sourced from smallholder suppliers. Main export markets are the Netherlands, the United States and the United Kingdom. Wilmar met Athi Gravity and contracted them to produce summer flowers in 2009. The group began with a membership of 25 farmers, and now has a membership of 30.

Business Model: The Business model that Athi Gravity uses is one closely linked with the market needs of Wilmar, the chain leader. Because of the sensitivity of flowers to climate, poor handling and time to cold chain after harvesting, Wilmar contracts farmers directly, and assist them to establish farmer organizations that are relevant to their business model. The firm provides intensive training and inputs, and at harvest, leads the grading and sorting of flowers and provides farmers with feedback on quality of their flowers.

Design: The products and operations of the Farmer Organization are supervised by Wilmar. The firm buys flowers from Athi Gravity and maintains a close supervision of the value chain. The farmer organization brings farmers together for training and other logistical support. The close attention and two pronged assistance to the group and the individual member by Wilmar is a result of the characteristics of the flower value chain, stringent market conditions and perishability of
summer flowers, because the flowers must be in the hands of consumers in Europe and USA within 24-30 hours of harvest. This also means that Wilmar has to invest strongly at the farmer level, in fact, way beyond the typical farmer organization level investment which is a key differentiator with other types of technical assistance support. In addition logistics (grading, bulking, dispatch) have to be efficient to ensure produce enters the cold chain shortly after harvest.

**Capacity:** Athi Gravity has been trained on all aspects of flower production by Wilmar, itself supported by several development organizations including USAID. With this support, Wilmar has built relevant management, marketing and quality control systems for Athi Gravity. Wilmar has a dedicated team of 14 qualified agronomists and regional managers, who provide technical support to FOs such as Athi Gravity. Investment in Athi Gravity helps to guarantee a steady supply of flowers that meet market demand and requirements.

Farmers receive individualized technical support from the agronomists and regional managers at every stage of the production and grading cycle. The FO has adequate managerial capacity and is led by a team of three competent individuals who are chairperson, treasurer and secretary.

**Inclusiveness (Market):** Smallholder farmers are integrated into sophisticated, global flower supply chains through the partnership with Wilmar.

**Inclusiveness (Social):** As a small FO, inclusiveness is a normal part of operations and women’s participation is strong. There are fair policies in all aspects including the distribution of irrigation water. However, one needs to have a certain level of education to grow summer flowers and the ability to receive fairly complex trainings. Therefore, none of the members can be described as very poor or particularly marginalized.
**Implementation:** The model promotes high quality of flowers which is a necessity for export markets, and continuous investment in farmer training is vital. Due to the nature of this value chain there is strong engagement from Wilmar who provide a technical person to support grading at harvest time to each individual farmer. As a result invoicing is delivered on an individual farmer basis. While this is good for Wilmar, and is a key requirement for export marketing, it also means the FO does not conduct group transactions and therefore has found it difficult to mobilize group savings and credit facilities as would be expected of such a group.

**Table 5: Summary of strengths and challenges of the Athi Gravity cooperative society**

<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges and threats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Problem</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business Model</strong></td>
<td>• Business model is profitable and farmers have access to premium markets with the support by Wilmar.</td>
<td>• Farmers do not have access to alternative markets.</td>
</tr>
<tr>
<td><strong>Design</strong></td>
<td>• Intensive oversight by Wilmar and management.</td>
<td>• Strong oversight by Wilmar inhibits growth.</td>
</tr>
<tr>
<td></td>
<td>• Wilmar pays farmers individually, funds do not go to farmer organization.</td>
<td></td>
</tr>
<tr>
<td><strong>Capacity</strong></td>
<td>• Lots of management and technical support by Wilmar.</td>
<td></td>
</tr>
<tr>
<td><strong>Inclusiveness</strong> (Market)</td>
<td>• Integrated into very sophisticated global markets.</td>
<td>• As currently arranged, group cannot survive without Wilmar.</td>
</tr>
</tbody>
</table>
3.2.2 Kieni Dairy Products Ltd, Nyeri County, Kenya

**Background:** Kieni Dairy was registered in 1995, and started operations in late 2010. The cooperative is a second tier farmer organization and has a membership of 9,400 members with an active membership of 5,400. The dairy bulks, chills and sells approximately 20,000 litres of milk daily. Kieni farmers were supported to mobilize and establish the dairy by Heifer International. The market has large institutional buyers who reward quality, since milk can be easily diluted or contaminated.

**The Problem:** Kieni was formed to address the challenge of milk marketing for farmers in Kieni Sub-county. Other problems were low prices and irregularity of milk purchases; and low access to inputs and technologies such as Artificial Insemination (AI), feed supplements, and lack of livestock extension services. The co-operative has addressed the marketing challenge by bulking and chilling milk and selling a value added product usually at a higher price directly to large processors. This has helped to cut out intermediaries and increases farmers’ bargaining power. Substantial margins and cost-
savings have been captured by the FO.

**Business Model:** The dairy applies a hub model through which fragmented small-scale producers can bulk their milk, access markets and extension services. The cooperative is structured as a profitable agribusiness by operating at a scale significant enough to support both the dairy farmers and a network of businesses, which deliver farm supply and other services to dairy farmers and the surrounding community. Kieni bulks on average 20,000 litres per day from about 5,000 farmers—organized in primary dairy farmer cooperatives. The milk is bulked and chilled, allowing the chilling plant to gain formal market access by farmers to Daima and Kenya Cooperative Creameries in Nairobi and Kiganjo respectively. The dairy also generates revenues from sale of agro-inputs and from leasing trucks to transport milk and other products.

**Design:** Kieni Dairy is collectively owned by farmers through shareholding in the cooperative. These elect a board of directors that leads the cooperative by abiding to the general cooperative management practices. The most important service that a hub provides to its members is market access for their milk. It ensures that farmers receive a competitive price, while the hub is able to cover its costs and generate a profit by charging a commission on every liter sold, while ensuring that farmers retain the incentives.

Market access motivates members to increase their production and their productivity, because farmers face many constraints in increasing production and productivity of their farms and dairy operations. Constraints include poor rural infrastructure; limited government services, especially training and extension support; weak private sector services for agriculture and livestock production systems; limited private sector transportation services; and virtually non-existent financial services. Kieni addresses these challenges by partnering with business development service providers to develop sustainable dairy enterprises. There is an explicit exit strategy in place developed with
the assistance of Heifer Project to establish relationships between the FO and commercial business services providers.

**Capacity:** The cooperative is managed by qualified full time staff including a general manager, responsible for the operations of the dairy, an accountant responsible for financial function and an extension officer responsible for farmer productivity and agro and vet inputs. Seasonal workers are hired on a need basis. A qualified board of directors, elected from the primary co-ops that own Kieni Dairy, provides effective oversight and direction. The dairy has clear systems and policies including finance, human resource, production and procurement.

With both strong leadership and management, Kieni has experienced rapid growth of its business as demonstrated by the financial statement. Kieni has a current business plan and a strategic plan that was developed with the support of the East Africa Dairy development Program.

**Inclusiveness (Market):** The structure of Kenyan dairy value allows farmers to profitably participate in inclusive modern markets, as long as milk can be chilled and bulked. Kieni has been successful in executing its business strategy and this has enabled it to access and sustainably participate in profitable and modern markets. Over time, it has had opportunity to expand into dairy processing for the increasingly growing dairy market as a result of increased urbanization and rising income levels of a significant number of Kenyan consumers.

**Inclusiveness (Social):** The Dairy has policies which promote social inclusion, including of the poor and those with alternative and divergent views. However, women have little role in management and leadership, and in effect the dairy is male dominated across the value chain. The nature of regular interactions and cash-flows between the FO and the farmers creates trust and facilitates the cash-flow of the FO very significantly.
Implementation: Kieni has been successful in achieving significant scale in milk collection and in providing allied services, such as extension services because it has been able to mobilize farmers to scale. Achieving even greater efficiencies is within the reach of Kieni because of the ownership structure that has been adopted and because of the opportunity for Kieni to draw on several strengths available within the cooperative, and especially the entrepreneurial energy, and knowledge in managing risks.

Table 6: Summary of strengths and challenges of the Kieni Dairy Product Ltd.

<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Problem</td>
<td>Well defined problem aligned with the business model.</td>
<td></td>
</tr>
<tr>
<td>Business Model</td>
<td>• Kieni has been successful in executing its business strategy and this has enabled it to access and sustainably participate in profitable and modern markets.</td>
<td>• Model requires large Poor infrastructure and low level of investment hinder growth</td>
</tr>
<tr>
<td>Design</td>
<td>• Effective oversight provided by a robust and competent board of directors.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• the company has several business unit contributing to its bottom line.</td>
<td></td>
</tr>
<tr>
<td>Capacity</td>
<td>• Strong and competent management.</td>
<td>• Lack of risk management plan.</td>
</tr>
<tr>
<td></td>
<td>• Business plan and strategic plan exist and are followed</td>
<td></td>
</tr>
<tr>
<td>Inclusiveness (Market)</td>
<td>• Small holder farmers effectively integrated into efficient modern markets</td>
<td></td>
</tr>
</tbody>
</table>
3.2.3 Dwaniro Dairy Livestock Cooperative Society, Kiboga District, Uganda

**Background:** The cooperative was established in 2011 and fully registered in 2013 by dairy farmers located in Dwaniro sub-county, Kiboga district, with the support of development partners (Gates Foundation, Heifer International, TechnoServe). The dairy began operations with a daily volume of 2,500 liters, and has gradually grown to the current capacity of about 6,000 liters from 396 members. It has established itself as a business and bulking hub for milk, by building on its relatively large chilling capacity (7,200 litres). In 2013 an agro input shop and a food shop were also established through which members and non-members can access agro and vet inputs and food commodities at reasonable prices.

**The Problem:** The problems that farmers in the Dwaniro area faced, prior to the establishment of the dairy, were: low prices and irregular purchases of milk, low access to affordable agro and vet inputs necessary for improving dairy productivity, and lack of livestock extension services. On the other hand, private dairies were finding it difficult to access adequate volumes of quality milk.

**Business Model:** The dairy is managed as an agribusiness using a hub model through which fragmented small-scale producers bulk their milk and access markets services. A dairy hub typically starts with

<table>
<thead>
<tr>
<th>Inclusiveness (Social)</th>
<th>• Diary policies which promote social inclusion, including of the poor and those with alternative and divergent views</th>
<th>• Women are not involved in dairy value chain because of culture.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation</td>
<td>• Strong interaction and trust between farmers, management and leadership. • High member retention due to strong value proposition.</td>
<td></td>
</tr>
</tbody>
</table>
2,000 to 5,000 farmers, although the number can be less, as long as the volume of milk collected is able to break-even, typically 5,000 liters per day for economic viability. The most important service the hub provides to its members is market access that ensures that farmers receive a competitive price, while the hub is able to cover its operational and administrative expenses and generate a profit. The dairy’s financial records demonstrate that Dwaniro is a profitable business, allowing the cooperative to provide services to its members and to generate internal growth.

The chilling plant is essential to gain formal market access by farmers (in this case Jesa, Sameer, traders), as Dwaniro’s distant location from markets does not permit it to sell milk in major markets without bulking, cooling and transportation. However, without a chilling plant, farmers have the traditional market as an option for milk sales, unless they are in close proximity (within 2-hour or about 50 kilometres drive to the processor such as Bubuusi, in which case the farmer organizations tend to be weak)\(^3\).

Other key services offered to farmers include credit for drugs and food purchases from the Cooperative shops; and access to training and technologies by partnering with business development service providers.

**Design:** The cooperative is owned by 396 members based on their shareholding and demands of local registration regulations. Members elect a board of directors and abide by general cooperative management practices. Oversight is provided internally by the Executive Committee while externally it is provided by the Ministry of Trade, Industry and Cooperatives through the District Commercial Officer. The leadership of Dwaniro is trusted by farmers and monthly discus-

---

3 An example of this is Cooperative Society which is located within 5 kilometre radius of JESA Dairies. Due to the strong relationship that JESA has built with smallholder suppliers over many years, members have had low level of acceptance of Bubuusi as an intermediary. The proximity to JESA also means that individual farmers from neighbouring villages can sell to JESA within 2 hours of milking, and so do not need to chill milk outside of the JESA infrastructure, as this would add costs to them, and the additional revenues may not be sufficient to cover the added costs.
sions are held by board and management on the financial status. The Board of Directors meets monthly, one of the critical success factors of the cooperative.

While a formal risk management strategy does not exist, given the food safety and quality requirements for dairy, production risks are adequately covered. However, other risks need to be managed better such as:
1. low production due to drought risks which also affects access to feed and increases disease risk
2. low farmer mobilization and low uptake of AI (appears to be affected by cultural beliefs)
3. financial risks due to large volumes of cash handled and for which cash in transit is not insured
4. lack of insurance cover to protect its staff and assets in case of theft, fires, and accidental damage.

**Capacity:** On strategic capacities, the farmer organization has a five year strategic plan which ends in 2016, and that was developed with the support of TechnoServe. It is being implemented and the organization is currently doing a mid-term review of the strategy.

The Cooperative has a full time accountant who ensures records are up to date and accurate. A qualified manager is in place and the management team is strong and has facilitated rapid growth of the cooperative. An extension officer responsible for the agro and vet inputs manages productivity by smallholder farmers. There are several casual workers who are called upon based on need.

The dairy has manuals (finance, human resource, production and procurement) however a major weakness is that policies are not always followed e.g. procurement procedures.

As regards to cooling technology, the dairy uses older, high energy consuming technologies. This is primarily due to the cost of acquisi-
tion of more efficient technologies.

**Inclusiveness (Market):** The dairy value chain lends itself to inclusive modern markets, as long as milk can be chilled and bulked. Dwaniro has been successful in executing a business strategy that allows it to access and sustainably participate in profitable and modern markets.

**Inclusiveness (Social):** The Dairy has policies which promote social inclusion, including of the poor and those with alternative and divergent views.

Women are encouraged to participate in the management of the cooperative and youth have opportunities to operate “sheltered” business development services in the value chain such as transportation of the milk from the farms to the hub. The cooperative has emphasized and ensured women representation in management, and the accountant, extension officer and drug shop attendant are all women, however, the predominant culture in Dwaniro inhibits women from participating in dairy activities.

**Implementation:** While Dwaniro collects over 5,000 litres per day of milk (typical break-even point), it does need to expand its milk collection to over 10,000 litres per day to fully utilize potential economies of scale. This requires additional mobilization of new suppliers which is a difficult undertaking, given the expansive area and low population density in Dwaniro and surrounding areas. We can therefore anticipate that greater efficiencies will take longer to achieve.

Regarding financial access, the cooperative has developed useful partnership with Uganda Development Bank, and recently received Ugx 400 Million for onward lending to its members and non-members, thereby strengthening member retention.

Establishment of a SACCO will require a larger number of registered members to ensure adequate capital.
### Table 7: Summary of strengths and challenges: Dwaniero Dairy and Livestock Cooperative Society

<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Problem</td>
<td>Well defined problem aligned with the business model.</td>
<td></td>
</tr>
<tr>
<td>Business Model</td>
<td>• Business model is profitable</td>
<td>• Model requires large volume of milk</td>
</tr>
<tr>
<td></td>
<td>• Hub approach provides key services to farmers in house or through dedicated service providers</td>
<td>• Chilling plants requires large investments in physical assets.</td>
</tr>
<tr>
<td></td>
<td>• Strong value proposition to membership.</td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>• Effective oversight provided by a robust and competent board of directors.</td>
<td>• Failure to achieve break-even on volumes is a threat to the business.</td>
</tr>
<tr>
<td>Capacity</td>
<td>• Staff and management are qualified for their roles.</td>
<td>• Lack of risk management plan.</td>
</tr>
<tr>
<td></td>
<td>• Business plan and strategic plan exist and are followed.</td>
<td></td>
</tr>
<tr>
<td>Inclusiveness (Market)</td>
<td>• Small holder farmers effectively integrated into efficient modern markets.</td>
<td>Ability to negotiate higher prices is weak.</td>
</tr>
<tr>
<td>Inclusiveness (Social)</td>
<td>• Youth have specific roles in value chain. Transportation.</td>
<td>• Women are not involved in dairy value chain because of culture.</td>
</tr>
<tr>
<td>Implementation</td>
<td>• Strong interaction and trust between farmers, management and leadership.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• High member retention due to strong value proposition.</td>
<td></td>
</tr>
</tbody>
</table>
3.3 Certification Model

3.3.1. Nakanyonyi Robusta Coffee Scheme, Mukono District, Central Uganda

**Background:** Nakanyonyi Robusta Coffee Scheme is a project of Kyagalanyi Coffee Company which itself is part of VOLCAFE Group. The Project was started in 1992 by Kyagalanyi and has since received support from development organizations such as USAID/APEP Coffee Support Network. Kyagalyani saw this as an opportunity to secure a steady supply of conventional coffee from Nakanyonyi farmers, among others, as supplies previously delivered to Kampala were facing steady decline from competition. Scheme members used to produce and sell conventional robusta coffee until about 2007, when the first certification (Common Code for Coffee Community (4C)) was secured, allowing over 3,000 members of 157 coffee producer groups to obtain higher profits for their crop. The Scheme is situated in Nakanyonyi parish, Mukono district located in Central Uganda. Nakanyonyi is also certified by Utz Kapeh.

**The Problem:** The problem is two-fold: On the one part, Kyagalanyi as the chain initiator needed constant supplies of high volume and quality coffee for its growing export markets. Over time, Kyagalanyi’s market has evolved toward a greater demand for certified robusta coffees, and hence the support to Nakanyonyi for certification. On the other hand farmers were facing serious problems with exploitative coffee brokers, irregular off take, low access to inputs, low bulk- ing capacity and lack of warehousing facilities. In addition, they did not have adequate agronomic knowledge and could not access clean and disease free planting materials because they were not linked to an organized production and marketing system.

**Business Model:** The scheme adopts a backward linkage model where Kyagalanyi, the exporter, partners with small holder coffee farmers to ensure the supply of certified quality coffee for export. To do this, the
scheme supported the development of 157 farmer producer groups and then entered into Deeds of Understanding with individual farmers who are members of these groups. The deed lays out the terms of partnership and the role of each party in the agreement. Within this arrangement, the Scheme mobilizes farmers, trains them on coffee agronomy, provides clean coffee inputs and manages compliance with Good Agricultural Practices including support for certification.

All coffees produced by members of the scheme are delivered to central warehouses at Nakanyonyi for final haulage to Kyagalanyi’s stores in Kampala. Farmers receive a premium price for certified coffee as opposed to ordinary coffee, and deductions are made at the time of payments for all input received. Inputs include fertilizers, tarpaulins, coffee seedlings and basic farm implements.

**Design:** The project management, who are employees of Kyagalanyi, provide an oversight role of all scheme operations including supervision of the extension team that is responsible for the 157 producer farmer groups. While this model has helped farmers to access premium markets, members have little input into decision making including in the management of the Scheme, and are essentially price takers, albeit premium prices. This presents farmers with significant risks in the event of adverse decisions by the chain initiator, who in this case also doubles up as the chain leader and off-taker.

**Capacity:** The project employs a team of 15 qualified staff headed by the project supervisor with the mandate of mobilizing, recruiting and qualifying farmers to the scheme. Systems are well documented however books of accounts are not kept at the scheme level, but by Kyagalanyi Coffee Company. On risk management, the scheme adequately identifies and tackles all the possible risks, partly due to the requirements of certification and partly due to the corporate capabilities of Kyagalanyi. For example, all plant, equipment and staff are insured for possible risks.
Inclusiveness (Markets): This partnership has helped farmers access specialty coffee markets in Europe, US and Asia and transition from selling in the coffee commodity market to the specialty coffee market (which has a significant price premium and is prone to less price fluctuations).

Inclusiveness (Social): The Project has been well received in the community with 50% of participating farmers being women. Women and the youth are also well represented at the producer group levels.

Implementation: The project follows a 4C standard operating procedure and is operating at near full capacity because of time and support put in by Kyagalanyi and donors. In addition, there’s a clear flow of logic and accompanying activities in certification models and farmers have learned and perfected the practices over time. Once certified, members remain loyal to the requirements of certification, because of the significantly high penalties of non-compliance-- and conversely because of the strong good gains from consistent compliance.

Table (8): Summary strengths and challenges: Nakanyonyi Robusta Coffee Scheme

<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Problem</td>
<td>Problem well aligned with business/sourcing model.</td>
<td></td>
</tr>
<tr>
<td>Business Model</td>
<td>• Well thought out backward linkage.</td>
<td>• Top-down model confers undue power to chain leader as opposed to small holder farmers.</td>
</tr>
<tr>
<td></td>
<td>• Chain initiator assists in certification, provides agronomic and business training.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Farmers can access yield enhancing inputs on credit.</td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>• Ownership structure provides for effective oversight.</td>
<td></td>
</tr>
</tbody>
</table>
### 3.3.2 Flona Commodities Limited: Nakatundu/Kangulumira, Kayunga District

**Background:** Flona Commodities is a private limited company incorporated in Uganda since 1995 with the objective of linking smallholder farmers to niche markets profitably. It partners with smallholder organic farmers, especially women and youth, to promote fruit drying that ensures quality export products and enhance sustainable development for the rural poor. Flona buys fresh fruit from organically certified Ugandan fruit farmers who produce pineapples (such as Kasambya groups in Kayunga), processes, dries and packages it for markets in Europe and Japan, as well as supplies to regional markets.

<table>
<thead>
<tr>
<th>Capacity</th>
<th>Flona Commodities Limited: Nakatundu/Kangulumira, Kayunga District</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background:</strong></td>
<td>Flona Commodities is a private limited company incorporated in Uganda since 1995 with the objective of linking smallholder farmers to niche markets profitably. It partners with smallholder organic farmers, especially women and youth, to promote fruit drying that ensures quality export products and enhance sustainable development for the rural poor. Flona buys fresh fruit from organically certified Ugandan fruit farmers who produce pineapples (such as Kasambya groups in Kayunga), processes, dries and packages it for markets in Europe and Japan, as well as supplies to regional markets.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Inclusiveness (Market)</strong></th>
<th>Smallholder farmers integrated in specialty coffee markets, enabling them to earn premium prices by reason of certification.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inclusiveness (Social)</strong></td>
<td>50% women participation in value chain.</td>
</tr>
<tr>
<td><strong>Implementation</strong></td>
<td>High level of loyalty due to the close partnership between company and farmers as demanded for by certification.</td>
</tr>
<tr>
<td></td>
<td>High incentives to keep the partnership as a result of significant benefits.</td>
</tr>
<tr>
<td></td>
<td>Weak link between farmers and final market.</td>
</tr>
<tr>
<td></td>
<td>Low transparency in price discovery.</td>
</tr>
<tr>
<td></td>
<td>High risk of accessing optional premium markets in the event of Kyagalanyi pulling out.</td>
</tr>
</tbody>
</table>
**Business model:** Flona set up an organic fruit drying facility at Nakatundu, in Kangulumira, Kayunga District, and supports farmers to produce organic fruits and access export markets with premium prices. Flora passes on some of this premium to the farmers but also retains sufficient provide ongoing supervision, compliance and marketing services. The company processes and sells about 9 mt of dried fruit per year.

**Design:** Flona has oversight role of all organic operations of farmers located in Iganga and Mityana. The farmers produce individually but access training services as a group as a result of the model undertaken. Farmers are certified for Certification of Environmental Standards GmbH (CERES) and Institute for Marketecology Organic Certification (IMO).

**Capacity:** Flona has a team of 50 staff headed by the director. The team is both functionally and technically qualified to conduct activities including participation in preparing farmers for auditing. The fruit processing and drying technology seems appropriate for the needs, given the cost competitiveness. As for risk management, the scheme has given adequate thinking and planning on the kind of risks they could encounter and how to deal with the risks. For instance appropriate insurance is in place to mitigate the risk of potential loss by the project and subsequently by the exporting company.

**Inclusiveness (Markets):** Flona provides export markets for certified organic produce, thereby integrating farmers into modern organic markets. Smallholder farmers are equipped with agro-processing skills and modern techniques for quality production to meet international export standards and hence are able to participate in international organic produce markets.

**Inclusiveness (Social):** Women and youth are appropriately engaged in organic farming and certification. Flona actively cultivates relationships with categories of farmers to ensure a supply of high-quali-
ty fruit for processing and sells the dried product to buyers abroad as well as on the domestic market.

**Implementation:** As a certification model, participating farmers follow CERES and IMO for their organic certification. Flona meets the cost of certification estimated at Ugx 15 Million per annum which requires Flona to provide organic training, and ensure compliance and regular auditing. There is a high level of loyalty as a result of the relationships built over a long period of certification processes. In addition, there are high costs involved with exiting the scheme and farmers risk losing premium prices obtained from specialty markets.

**Table 9: Summary of strengths and challenges of Flona Commodities Organic Project**

<table>
<thead>
<tr>
<th>Model Feature</th>
<th>Strengths</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Problem</strong></td>
<td>● Problem well aligned with Producer challenge.</td>
<td></td>
</tr>
</tbody>
</table>
| **Business Model**  | ● Chain initiator supports certification and pays a premium for good quality, certified product.  
● Farmer receives agronomy and business training. | ● A top down model confers undue power to chain leader at the expense of smallholders.        |
| **Design**          |                                                                           | ● Farmers have no shareholding in Flona, therefore have little bargaining power                |
| **Capacity**        | ● Competent field and management staff.  
● Ability to attract development support for certification, training and extension services. | ● Family owned business.                                                                     |
<p>| <strong>Inclusiveness (Market)</strong> | ● Small holder farmers integrated in specialty coffee markets. | ● Insufficient connections between farmers and final                                           |</p>
<table>
<thead>
<tr>
<th>Inclusiveness (Social)</th>
<th>• Women and youth form the bulk of the members involved in organic certification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation</td>
<td>• High level of loyalty by farmers due to higher price incentives and the high cost of exit from scheme</td>
</tr>
<tr>
<td></td>
<td>• Changing needs of the organic markets affects longer-term agreements</td>
</tr>
<tr>
<td></td>
<td>• Premium prices by reason of certification.</td>
</tr>
<tr>
<td></td>
<td>• Low transparency in price discovery.</td>
</tr>
</tbody>
</table>
CHAPTER 4
EMERGING FEATURES AND KEY LEARNINGS OF SUCCESSFUL FARMER ORGANISATIONS

THE PROBLEM

Learning 1: This is where it all begins: A clear definition of the problem that FOs seek to solve is important in developing an appropriate business model, deciding the type of farmer organization and the aggregation model to be adopted. A wrong definition or understanding of the problem can lead to a weak analysis of solutions, leading to sub-optimal farmer organization and business models.

Learning 2: The motivation of the chain initiator, especially a for-profit firm, such as a trader, importer or processor, can have long-lasting outcomes (positive or negative) on the type of farmer aggregation model and the business model. The analytical and logical rigor by the FO itself, the government or NGO is needed to avoid adopting weak models.

BUSINESS MODEL

Learning 3: Interventions must be highly value chain specific with sensitivity to the product, market and wider environmental context.

The nature of the value chain fundamentally shapes interventions and the nature of the FO. The value chain itself is shaped by the product, market and wider economic context that form the parameters of the intervention and shape the success and replicability of the model.

Nature of the product: This includes the amount of inputs and working capital needed, standards and certification requirements,
requirements for cold chain, degree of investment, capital and labour required, length of production cycle and harvest.

The length of the production cycle will affect the length of the learning cycle and the degree and regularity of interaction within the group.

A product with an annual production cycle may mean that farmers’ trust in the FO will take longer to build because the interactive process of selling and fulfilling the group’s purpose only occurs once a year.

It also affects the risk exposure being asked of farmers. Farmers may be reluctant to invest a full year’s revenue in a new system of which the benefits are yet to be proven. FOs organized around products with an annual production cycle will probably need more guarantees, will take longer to implement quality improvements and will rely on “training by seeing”.

It also explains why it is so difficult to eliminate otherwise inefficient brokers from the value chain, who have established credibility and long-term relationships with farmers.

**Nature of the market:** This encompasses factors such as: the depth of the market; logistical environment; stakeholders; export and domestic market; intermediary and consumer size; competitors, whether buyers are speculative or interested in long-term links with producers; contract features (such as consignment); degree of traceability in the supply system and the premium paid for quality in the domestic market.

**The quality premium is key:** successful projects tend to be those in sectors where farmers gain immediate benefits from the intervention and then can increase their returns from quality by gradually increasing investment and inputs and learning new techniques over time.
Nature of the wider economic context: This includes regulatory requirements for the sector, land tenure, security, effectiveness of financial markets, historical experience with farmer cooperation (Uganda in particular) and global technological developments in the sector (new varieties, for example).

Learning 4: Efforts with FOs will be more productive when focused on markets (domestic and export) that provide returns to different levels of quality.

The strength of the FO is very dependent on its ability to provide good markets to its members. In the cases studied, farmers reported that they came together for collective action to address marketing problems first. A focus on addressing these problems cost effectively is vital in ensuring the long-term growth and development of the farmer organizations. Access to yield improving technologies and finance tend to follow rather than lead a successful marketing effort.

Learning 5: FO models are more sustainable when they enable farmers to capture a significant price premium (which provides a source of revenue for the FO).

Business models that enable the FO to pay a premium or competitive market price after charging a service fee allows the farmer organization to meet its operational and administrative costs. Additional income on top of this enables the FO to provide inputs and agronomic and animal husbandry training necessary to increase scale efficiencies. Getting the business model right early on is therefore key.

Learning 6: Interventions need an integrated and phased approach to input and output constraints. The order of priority is normally to address marketing links, and afterward address input market failures to increase quality and then yield. Certain value chains (dairy, export horticulture) and niche markets (certified coffee, organic dried fruits) require a focus on quality first.
Farmers can benefit from the VC by increasing yield, increasing quality and improving marketing links with yield increases adding most value, followed by quality and then marketing. Most interventions, however, need to address the marketing links.

A few sectors require quality increases first in order to access markets. Quality should be the priority focus of the intervention in supply chains where new markets critical to the success of the project have high quality standards and when quality issues affect bulking of farmers’ produce. In these cases, quality problems will create obstacles to effective cooperation on all levels, whether primary or secondary. It has the potential to create a lowest common denominator effect; for example, many primary-level FOs refuse to cooperate on a secondary level because of negative returns to cooperation that come from quality issues from the bottom-performing groups. In these sectors, FOs need to focus on traceability systems, assumptions behind quality improvements and quality-enhancing delivery mechanisms, while also constantly reviewing if the secondary tier model is the most effective.

**DESIGN**

Traditional cooperatives and farmer business groups with less than 100 members use personal regular interaction, reputational costs and trust mechanisms to oversee the effective management of the FO. Once the FO is scaled up to a secondary association or membership is well over 100, then effective oversight becomes sufficiently problematic and can compromise the sustainability of the FO because of the following factors:

1. **Free-riding effects**: This occurs when returns to individual members do not reflect the individual member’s effort or risk and thus rewards are not proportional to efforts (exacerbated in ownership structures where members have equal number of shares or receive the same dividend payments).
2. **Public goods dilemma:** With a very large FO, there may be an incentive for the individual member or worker to draw down from the FO’s apparently infinite resources since the impact appears to be negligible. The cumulative effect of these individual decisions, however, is crippling to the organization.

3. **Principal-agent problem:** Managers have control and access to resources far larger than their salaries in a context where they tend to be much more educated than the owners of the company. There is a knowledge and expertise imbalance between the farmers (who rarely have the understanding and ability to fulfil corporate governance requirements) and the salaried staff they hire. The incentives of management can be different to those of the farmer-owners.

4. **Politicisation:** the FO becomes co-opted as a political springboard because of its large resource base. The outcome is that management is not hired on the basis of expertise and decisions are not made for business reasons.

**Learning 7:** The regulatory form of the farmer organization does not change member behaviour.

Oversight and cohesion problems are present in all forms of FOs, whether in companies limited by guarantee, or by shares or cooperatives of all sizes. Education and training of members are key to improving behaviour, as well as qualified and ethical management and leadership team.

**Learning 8:** An anchor investor can provide oversight in FOs however, the farmer organization’s influence and reputation in the eyes of members can be weakened by the influence and means of a “towering” investor.
The idea behind an anchor investor is to access the skills of an entrepreneurial leader or champion that possesses technical and business experience and who is focused on protecting the long-term viability of the FO because of his/her substantial investment and or business interest in the supply chain. The interests of a key champion are therefore aligned with those of the FO in many ways. The anchor investor has a minority shareholding, but has pre-emptive rights, including over procurement, strategic and staffing decisions, and field level decisions on production. In Uganda, Bubuusi evolved through this kind of structure and has benefited immensely from JESA’s inputs. However, it has struggled to stand on its own because JESA has over-shadowed it.

**Learning 9:** Owner incentives need to be aligned by rewards being proportional to effort – a focus on rewarding quality of product is integral to this.

Regardless of the regulatory form of the FO and whether it provides services at a cost or pays dividends, returns to members must be compensated on the basis of their contribution to the FO. This requires a special focus on compensating quality as well as volume, through clear record keeping and standard operating procedures.

**Learning 10:** Minimize the risk borne by the FO by designing the institutional structure so that farmers, service providers or supply chain actors bear as much risk as possible.

All designs are a choice about how to share risks between farmers, the FOs and other supply chain actors in different ways. For example a FO can protect farmers from price fluctuations and quality failures (a critical problem for Kangulumira ACE with pineapples). Other risk exposures derive from the specific design of the delivery mechanisms of services like credit and agricultural inputs. A good rule of thumb is to minimize if not eliminate risk at the FO level by designing the institutional structure so that either the farmers, service providers
or supply chain actors bear as much risk as possible. Once the FO has the institutional capacity, it can start examining alternative risk-management strategies on behalf of its own farmers.

**Learning 11:** Within the FO, establish independent business units as profit-centers to deliver different services.

Splitting the FO into independent business units delivering different services with separate management teams, procedures and profit responsibility can have the following positive results:

1. Enhances control and oversight because of parallel and peer-oversight dynamics between the management teams.
2. Management incentives and rewards are aligned with the performance of their own business unit.
3. The added-value of each service is enhanced, because it is easier to identify and hold management responsible for quality of the service and because the cost-drivers are easier to identify.
4. Prevents contagion from one business unit to another and enhances sustainability.

The Mwea Multi-purpose Coop is based on this model and it appears to work effectively. The investment arm (farm equipment service rental, real estate and LAINISHA SACCO) are established as independent entities.

**Learning 12:** The optimal number of levels in an FO depends on the economies of scale in farmer-outreach activities and in the logistics/capital investment profile of the value chain.

In value chains such as dairy whose activities are daily and require constant communication with members, the creation of primary co-operatives can risk weakening this communication function. However Kieni Dairy has a different experience because of anchor
investors who have ensured that communication pathways are open and are clear, and that any conflicts are addressed effectively. There are therefore different approaches to address this critical issue and it should not be automatically assumed that primary associations are needed.

**Learning 13: Secondary-level FOs may need independent revenue streams to survive.**

Financial independence is important for FOs’ sustainability in sectors where there are little price premium gains to coordination and there is a risk that oversight and coordination costs to members can easily outweigh the potential gains to farmers, which may be uncertain and long-term. This can critically undermine the establishment of a FO as members may not want to invest in such an uncertain venture.

This problem is seen most frequently with ACEs in Uganda, where ACEs are established without robust business models that can clearly demonstrate value to farmer-members compared to primary cooperatives or private brokers. Several ACEs across different value chains do not receive reasonable income streams from their members apart from membership dues, because of this mismatch.

**CAPACITY**

**Learning 14: There are three critical factors to good management at the primary-level FO: transparency and communication; homogeneity of purpose; and leadership.**

In most primary-level FOs, management is done internally by the members themselves. Transparency, homogeneity of purpose, and leadership are therefore critical to the effective management of primary-level FOs and to minimize conflict and decision-making costs.

Transparency and open communication promotes trust in the FO’s
leadership and facilitates collective oversight. This should start with transparency and communication around the development and implementation of FO by-laws which are critical for sustainability. Collective ownership and knowledge of by-laws is the best form of conflict resolution or conflict avoidance mechanism for a primary-level FO.

Homogeneity in purpose means the members face common problems, which reduces coordination costs and facilitates collective action to address common TCs. It often means that in practice members produce the same product, have farms of more or less the same size, live in the same community or have similar needs or face common constraints.

Good leadership needs to show an entrepreneurial spirit and vision. The best leaders are those who are elected by others; are knowledgeable and allow for participation by the rest of the group in decision-making procedures (which include facilitate bottom-up decision-making).

**Learning 15:** Secondary-level FO management expertise both in the sector AND in business/financial management is absolutely critical.

The level of technical expertise required at the secondary level depends on the business model and institutional design. Some of this can be outsourced but there is a fundamental requirement for the FO management to have both technical knowledge of the supply chain sector and excellent financial and business management skills.

**Learning 16:** Chain Initiator/Chain Lead management support and training makes the difference between FO success and failure.

Actors in farmer organization development should consider providing support for the first few years of the FO’s existence as this can
make a lot of difference to the success of the organization. Providing leadership on the intervention concept and vision during the start-up phase is a critical role that actors can play, since stakeholders will often interpret the model in their own interests.

**INCLUSIVENESS (MARKETS)**

**Learning 17:** Farmer organizations involved export market oriented value chains or those that require a certain degree of value addition require initial establishment and technical support to reduce the learning curve effect. It is also important to get the farmer organization model right, as failure in this regard can be costly to long-term sustainability.

**INCLUSIVENESS (SOCIAL)**

**Learning 18:** Engaging women, youth and other marginalized groups in agricultural programs increases productivity significantly. For example, it was found that women farmers are more likely to adopt a new technology than men farmers. Increasing women’s access to control of income also increases program sustainability and growth-oriented household expenditures, particularly on education and child health.

**IMPLEMENTATION**

**Learning 19:** Trust is built through interactive experience of the stakeholders. Chain initiator (in some cases chain leader) acts as a guarantor of the FO model during the learning cycle.

A key role of Chain Initiators at the beginning of a project is to act as the glue holding together stakeholders who would otherwise be prone to mistrust each other. By acting as a guarantor of good faith, the initiator effectively reduces the stakeholders’ high oversight and monitoring costs as the stakeholders are going through the first itera-
tions of their new relationship and thus enabling trust to be gradually developed. FOs need to build success and credibility with their members by providing tangible benefits in one area before expanding into more complex areas.

**Learning 20:** Actors in FO development should cover set-up costs during the learning cycle but take care not to insulate the FO from on-going costs, to avoid creating donor dependency.

Actors can provide critical assistance during the learning cycle phase to ensure that teething issues do not break down trust. Bridging roles that actors can play during the learning cycle are: incorporating set-up costs into the project (for example, training the FOs in certification standards, introducing new research findings to the FO, paying partner set-up costs such as capacity-building). It also includes overcoming unexpected short-term cash-flow problems (which destroy trust between parties), and monitoring FO performance.

The concern with these interim set-up measures is that the FO and the success of the whole project become dependent on the actor’s assistance and oversight. Farmers and other key stakeholders should be requested to sign-up for the FO vision and any material changes should be explained. The FO should be clearly communicated as a business venture with risks as well as potential rewards rather than a way to mobilize charity for social or poverty-reduction purposes.