



Improving Performance of Farmer Organizations in Value Chains
FAO & SACAU Regional workshop for Farmer Organizations in Southern Africa
September 2011, Johannesburg, South Africa

Case study: Kamuganguzi Potato Growers' and Marketing Association supplying NANDOS Fast Food Restaurant

Illustrating the theme: Contracts

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Background

The Kamuganguzi Potato Growers' and Marketing Association is located in Kabale District in South Western Uganda. Kabale district is the traditional production area for Irish potatoes in Uganda due to its higher hilltop areas, which are mainly free from potato blight.

The traditional marketing of ware potatoes in Uganda is informal, characterised by seasonal production and opportunistic sales to random buyers. Typically, within one month, potatoes are harvested and due to limited storage possibilities, dumped onto the market where they are sold in mixed grades of different sizes, varieties and maturity.

In 1998 Africare, the Regional Potato Research Network (PRAPACE) and the National Agricultural Research Organization (NARO) organized a Farmer Field School programme on seed potato production in Kamuganguzi sub-county. Some of the farmers went on to form the Nyabyumba United Farmers group with 40 potato producers. For 3 to 4 years the group successfully produced seed potatoes, which they sold to NGOs, who distributed them among producers of ware potatoes in the area. The success of the group led to an oversupply in both the local seed and ware potato markets. At this point, the CIAT joined the other three service providers and together they supported the group to change its business model.

Contract negotiation

With support from Africare a participatory market chain study was conducted and the group decided that Nandos, a multinational fast food restaurant in Kampala was the most attractive option. Nandos consumed approximately 10 tonnes of fresh potato every month and this level of purchase fell within the upper limits of possible supply by the group. For Nandos, the group came at the right moment as they had supply problems and were considering importing frozen French fries.

In 2003, a business meeting was held in Kampala between all players. Nandos explained that Ugandan potatoes were some of the most expensive in the region, so it was important that the farmers deliver at a competitive price. The two parties came to the following (verbal) agreement:

- Volume: The farmers were to deliver 50 bags of 100kg every 2 weeks.
- Quality specifications: The farmers should not wash the potatoes before delivery to extend shelf life. The potatoes had to be of a specific variety, large size weighing about 80 grams per tuber, oval shaped and with few eyes.
- Price: UgS 32,200 per 100 kg, payable on the 15th of each month after delivery
- Payment method: By cheque

Based on these discussions, the group and its service providers carried out a profitability analysis. When that was positive, a second business meeting was held, this time at the location of the group in Kabale. Nandos' manager had not understood the farmers' situation prior to this visit, and this visit increased his interest to work with the farmers. The visit was important to build trust and strong personal ties between the producers and the buyer.

During that visit the partners assessed the changes that needed to be made in the group's production and collection. For example, plant spacing had to be adjusted to produce bigger potatoes. Nandos requested that the group tested different varieties for the best "chipping qualities" and colour. To be able to supply year round, the group had to develop a staggered planting schedule. In addition, the farmers had to plant in fields of different altitudes to extend their cropping season and for this they had

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to hire additional valley land. The group developed an action plan for the implementation of all these changes.

Subsequently, the group signed a Memorandum of Understanding with Nandos. To manage the contract and all the changes, the group set up a management committee and a marketing and production committee. The group had to register and open a bank account to be able to receive payments by check. Leaders and group members received training on enterprise management and business administration.

Meeting the terms of the contract

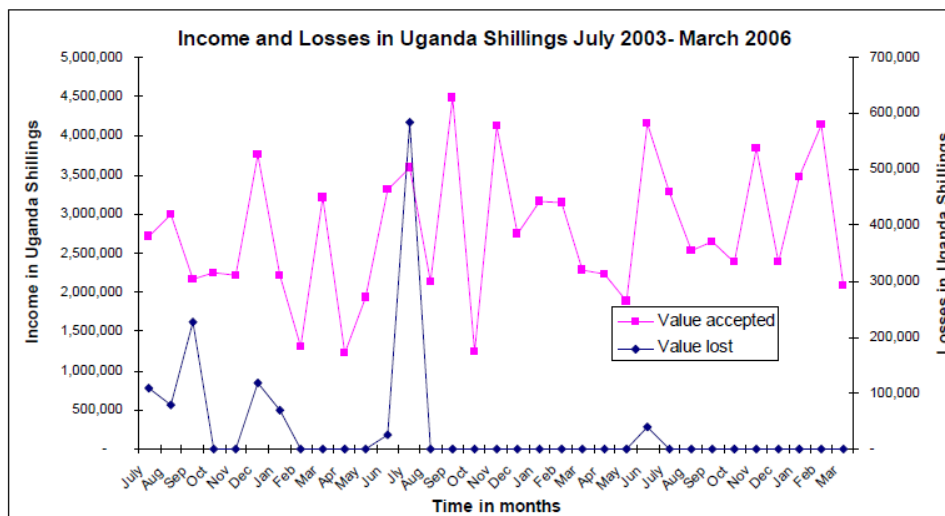
It was not easy to fulfil the contract. The group purchased a mobile phone to be able to communicate directly with Nandos and other chain actors. To be able to deliver a large volume every two weeks, the group rented a warehouse for bulking and storage. A weighing scale was purchased and the group members were trained on sorting, grading and packing procedures.

To deliver year-round, some members had to plant during unfavourable seasons. To make sure all farmers were treated fairly, they took the unfavourable planting periods in turns. Initial attempts to grow potatoes in swamp lands failed and drip-irrigation was tried instead.

Meeting the quality requirements was a constant challenge too. Initial consignments received high rejection rates due to size and moisture content problems. With time, the farmers improved their practices and the group learned to grade better and rejection rates fell (see Figure 1). To offset risk, the farmer group also identified alternative markets, so that potatoes that failed to meet the Nandos grade could still be sold.

Another challenge was that Nandos' demand was not as regular as the first contract seemed to promise. However, by keeping systematic records for over two years, the association has learnt to forecast Nandos' requirements so they can now better plan production volumes throughout the year. By 2006 the group delivered at an average level of 9.5 tonnes of accepted potatoes per month.

The initial investments paid off. Figure 2 shows the net profits made by the group. In interviews in 2006 farmers stated they could now pay the school fees, had improved their nutrition and houses, bought more land, employed workers and acquired assets like radios.



(US\$1 – 1850 Uganda Shillings)

Figure 1 Fluctuations in sales income and losses due to rejected potatoes

Source: Kaganzi et al 2008

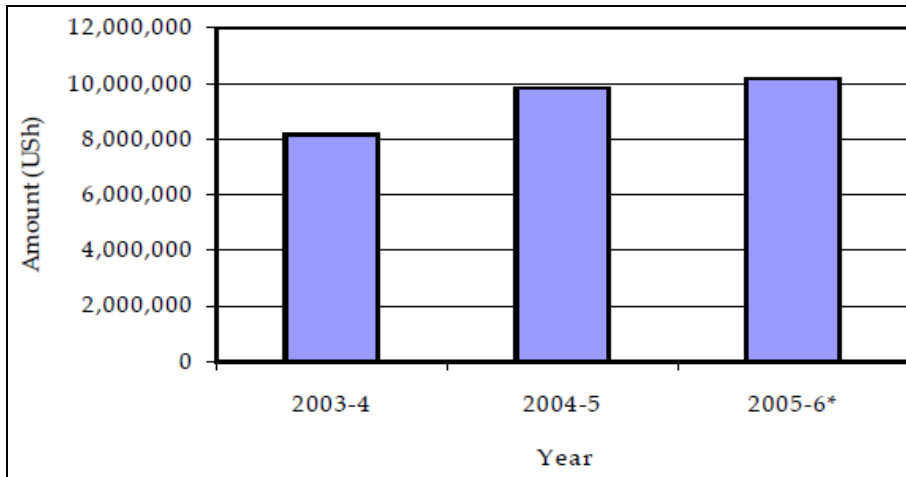


Figure 2. Estimated net profits realized by Nyabyumba Farmers United Group from 2003 to 2006 Source: Aliguma et al. 2007

Due to an increase in fuel prices transport costs increased rapidly and reduced the profitability of the business. The group decided to seek a loan and bought a truck. To maximise capitalization of the truck, they also provided transport services to others.

In the summer of 2006 the group faced a protracted drought and had been forced to cease supplies for two months. However, rather than disappoint their client, the marketing committee arranged to purchase potatoes for Nandos from alternative sources

The Kamuganguzi Potato Growers’ and Marketing Association

From 2007 onwards, when the CIAT project had ended, the group found it increasingly difficult to keep supplying year-round. The level of rejects rose again, while potato prices had increased due to rising fuel costs and demand from Nandos decreased. Around that period a FAO project helped to organize other farmer groups in the sub-county. The Nyabyumba United Farmer’s group joined with these other groups to form Kamuganguzi Potato Growers’ and Marketing Association, with a total of 112 members. FAO has also helped the formation of other potato associations in the region which form a network with the Kamuganguzi association.

The staggered production schedule has been abandoned and the association now uses a more seasonal production schedule. The production secretaries monitor which farmer is expected to supply the potatoes in a particular period, and inform the association when they will need to buy potatoes from other associations in the network. The production secretaries also continue to control quality.

The FAO project also helped built a ware potato store. The farmers are responsible for sorting their potatoes and transporting them to the store, where the quality is controlled. Farmers receive a receipt for the accepted potatoes. The bags are labelled so that when Nandos rejects potatoes the group knows the origin. To avoid loss of quality due to extended storage, farmers are only requested to bring potatoes to store when a delivery needs to take place. As the Kamuganguzi association now covers a larger area, the association also rents 2 satellite stores for farmers further away.

The FAO project helped to revive the relationship between Nandos and the potato group by facilitating meetings between the two parties, involvement of Nandos personnel in some project activities and with intermediation when one of the parties is dissatisfied. Now most of the members have their own mobile phones, which facilitate communication further. Presently the quantity supplied is about 7.2 tonnes per month.



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Lessons learned

Lesson 1. Contract preparation

Before signing the contract, there were many steps that lead to building trust between the parties and define the exact terms of the contract: the market study to identify the best business partner, a meeting at a buyer's location to verbally agree on the basic elements of the contract, a profitability analysis, another meeting at the supplier's location to assess the changes to be made in the production schedule and methods, and finally an action plan to implement these changes.

Lesson 2. Only agree to what you are able to deliver

In this case, year-round delivery was very difficult. In some situations it may be better to agree with the buyer not to deliver in certain periods, to avoid quality problems or breach of contracts. The same is to true for volume and quality: be realistic, only agree to what is possible.

Lesson 3. Quality specifications

In this case, quality requirements were very strict, but the specifications were well defined. This is in the interest of both parties. For the buyer, the specifications need to be well defined so that the supplier understands exactly what is requested and is able to deliver accordingly. For the supplier it is important to understand what is required to prevent surprise rejections.

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