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Improving ethical behavior through inter-firm cooperation in the local agricultural value chains of Uganda

Authors:

Jeroen van Lindert, Christopher Wickert, David Katamba, Catherine Tindiwensi & Andrew Seruma

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For more AGRI-QUEST details, contact:

David Katamba,
AGRI-QUEST Lead Researcher
Website: www.agriquestuganda.com
Email: info@agriquestuganda.com
Tel: +256 774972532; +256 752794612

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Improving ethical behavior through inter-firm cooperation in the local agricultural value chains of Uganda

Introduction

The agricultural sector is the biggest workforce in Uganda (UN, 2017). The sector mainly consists out of smallholder farmers which makes small enterprises very important for the growth of the Ugandan economy and the government's goal to reduce poverty (Worldbank, 2007). However, smallholder farmers encounter several problems in the value chain that hinder their growth. They are confronted with problems such as difficulty in acquiring high quality production facilities, services and market information, not being aware of product standards and low bargaining power in the selling process. These problems are affecting smallholders' potential to grow and their behavior in the value chain, which cannot always be described as ethical. The thesis of Van Lindert (2017) confirmed the importance of behaving ethically in order to improve competitiveness and increase the transformation of actors in the value chain. However, the practical solution is not there yet. This paper will look into inter-firm cooperation in the local value chain of developing countries and how this can help smallholder farmers to overcome the problems they encounter. The goal is thereby to improve ethical behavior among smallholder farmers.

This paper is an extension of the thesis of Van Lindert (2017) which unfolded the interplay of unethical behavior and the buyer-supplier relationship. It revealed the interplay between the driver 'competing self-interests' and the low degree of collaboration in buyer-supplier relationships, the driver 'ease to avoid sanctions' and the low degree of monitoring in buyer- supplier relationships and the driver 'short-time mindset in fulfilling self-interests' and low degree of focus on potential future business in buyer-supplier relationships in the local agricultural value chain.

Most (local) agricultural businesses in Uganda seem to be unsuccessful in getting a competitive advantage from configuring the value chain, or the set of activities involved in creating, producing, selling, delivering and supporting its products or service (Kramer & Porter, 2011). Nichter & Goldmark (2009) exposed how vertical inter-firm cooperation (between buyer and supplier) can expand a (smallholder) firm's set of viable business opportunities and improve a firm's capabilities. Horizontal inter-firm cooperation (between farmers) can help actors to overcome the disadvantages of being small by improving their bargaining power with buyers and suppliers and the access to market information, services and production facilities. Donaldson and

O'Tolle (2000) established a model which measures the underlying (social and economic) motivations of the relationship between buyer and supplier. A strong belief and action component which results in mutual cooperation is classified as the bilateral relationship. Mutual cooperation will minimize unethical behavior in the transactions between buyers and suppliers.

Investigating how inter-firm cooperation is able to boost the degree of ethical behavior in the local agricultural value chains is important because this improves

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competitiveness and increases the transformation of (smallholder) farmers (Agri-Quest, 2017). Inter-firm cooperation seems to be a promising instrument to overcome the problems that smallholder farmers encounter. Increasing awareness of product standards and improving access to high quality production facilities, services, market information and bargaining power will presumably improve the degree of ethical behavior of smallholder farmers. Setting up and supporting inter-firm cooperation with the aim to reduce the problems smallholders encounter is already a popular strategy of development organizations in Uganda. This makes it even more important to get better insights in how the different types of inter-firm cooperation affect smallholder farmers and the degree of (un)ethical behavior in the local agricultural value chain. Studying inter-firm cooperation and how this affects the degree of (un)ethical behavior of smallholder farmers will not only give better insights and explanations for these specific types of inter-firm cooperation and actors but will also lead to a better understanding of (un)ethical behavior in the local agricultural value chain of developing countries as a whole.

During the field trips in Uganda, it became clear that most farmers sold their products individually, even when working in clusters. However, some farmers made use of collective marketing or contract farming. Inter-firm cooperation and how the different types of inter-firm cooperation affect the degree of (un)ethical behavior is insufficiently discussed by Van Lindert (2017) and are therefore recommended for further research. This paper will discuss how the different types of inter-firm cooperation can help smallholder farmers to overcome the problems that they experience and how this affects the degree of (un)ethical behavior in the local agricultural value chain. In order to give as much insight as possible, a descriptive research design of three cases is chosen. The first case will study a cluster of farmers that sells individually. The second case will study a cluster of farmers that makes use of collective selling. The last case will study a progressive farmer who has contracted more than 250 farmers.

This paper will proceed with a theoretical chapter that will elaborate on the concepts of unethical behavior and inter-firm cooperation. This is followed by a chapter that, based on both literature and empirical findings, will relate the theoretical concepts to the local agricultural value chains in Uganda. Subsequently, a short chapter regarding the research approach is presented which is followed by a comprehensive description and analysis of the cases. The paper ends with the interpretation of the findings and recommendations for actors and development organizations acting in the local agricultural value chains.

Conceptual background

One can speak of unethical behavior if behavior has a harmful effect upon others and is “either illegal, or morally unacceptable to the larger community” (Jones, 1991, p. 367). Van Lindert (2017) unfolded the specific interplay between the drivers of unethical behavior and elements of the buyer-supplier relationship in the local agricultural value chains of developing countries: competing self-interests and the low degree of collaboration, the ease to avoid sanctions and the low degree of monitoring and the short-time mindset in fulfilling self-interests and low degree of focus on potential future business.

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Kramer & Porter (2011) showed that a business can gain a competitive advantage from how it configures the value chain, or the set of activities involved in creating, producing, selling, delivering, and supporting its products or service. This makes that inter-firm cooperation in the value chain can increase the profit of every business participating in the value chain by reducing costs and improving the possibility to fulfill ultimate customer demands (Dekker, 2003). Coordinated collective efforts can allow smallholder farmers to attain collective efficiencies and give access to activities which are unattainable without cooperation within the value chain. Mesquita & Lazzarini (2008) summarized the findings of several studies regarding collaborative ties and pointed out that collaborative ties can help small and medium enterprises to exploit complementary competencies, solve common production problems, share knowledge, technologies and inputs and develop greater responsiveness to global demands and attain greater export levels as a result.

Inter-firm cooperation can be divided into vertical and horizontal linkages within the value chain. Horizontal linkages are cooperation's between actors who have the same positions in the value chain: farmers that cooperate with farmers. Horizontal linkages will help actors to overcome the disadvantages of being small by improving their bargaining power with buyers and suppliers and access to market information, services and production facilities. (Nichter & Goldmark, 2009). It also facilitates the collective learning process whereby ideas are exchanged and developed which might increase product quality or utility and the access to 'better' markets (Tambunan, 2005). Clusters, farmer groups and cooperatives can be classified as horizontal inter-firm cooperation.

Vertical linkages are cooperations between actors along the value chain: buyers and suppliers. These linkages can expand a firm's set of viable business opportunities, improve a firm's capabilities, guarantee a flow of orders, facilitate the sharing of critical market information and reduce the need for capital investments (Nichter & Goldmark, 2009). Beske, Land & Seuring (2014) showed how companies that engage in long-term relationships build up trust and commitment to each other's goals. Vertical linkages thereby seem to be essential for understanding and aligning each other's interest.

Donaldson and O'Tolle (2000) established a model with four types of relationships between buyer and supplier based on two components: belief and action (figure 1). The model measures the underlying motivation of the relationship. The belief component captures the social

bonding, and the action component the economic ties, of the partners. A relationship can be very open and cooperative without having strong economic ties (recurrent) or very uncooperative but with strong economic ties (hierarchical).

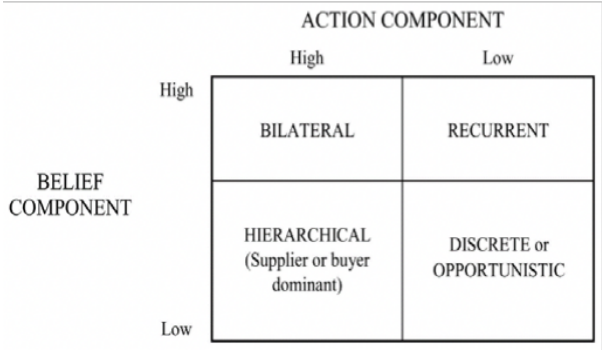

Figure 1: Relationship matrix

The first type of relationship is the bilateral

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relationship which is characterized by mutual cooperation; the second type is a recurrent relationship in which there is open communication but the committed actions is low; the third type is a hierarchical relationship wherein the buyer or supplier is dominant; the final type is a discrete relationship which does not govern the exchange (Donaldson & O'Toole, 2000). The bilateral relationship is preferred because mutual cooperation seems to decrease the degree of unethical behavior. This study will investigate if and how inter-firm cooperation can promote the

development of relationships (by one or two of the components) towards a more bilateral relationship.

Research context

Uganda is a country located in the eastern region of the sub-Saharan Africa with Rwanda, Tanzania, Kenya, Congo and South-Sudan as neighboring countries and is therefore not connected to the ocean. Uganda has around 35 million inhabitants, with an average population growth rate of 3% per year. More than 28 million people in Uganda live in rural areas, which is more than 80% of the inhabitants (UBOS, 2014). Uganda is a multilingual country with 41 individual languages. The most important are English, Luganda and Swahili (Ethnologue, 2017). Uganda is a poor country; the average income per capita in 2015 was around $800 which is much lower than the Sub-Saharan average of $1127 (UNDP, 2016). The database of the World Bank (2017) points out that in 2012 34,6% of the people lived at less than $1,90 per day, with this group being even bigger in the rural areas. The agricultural sector is the biggest workforce in Uganda: in 2013 almost 72% of the labor force worked in this sector. Despite this large labor force, it is only responsible for 27% of the gross value added in Uganda (UN, 2017). The economy of Uganda is growing pretty fast, with a GDP growth rate of 5,4% (UNDP, 2016). However, the agricultural sector stays behind and grew by only 1,3% annually on average, which was even lower for the food crops subsector (UNDP 2015).

Districts Bugiri and Oyam

The study is conducted in two districts: Bugiri and Oyam. Both districts have around 390.000 inhabitants with a high percentage of the inhabitants living in the rural areas, even for Uganda (UBOS, 2014). Bugiri lies in the east of Uganda and is known as the rice basket of Uganda, which is the value chain that this study focused on. Oyam lies in the north of Uganda which is the least developed area of Uganda. Cassava is a very common product, in the first place for self-sufficiency. However the value chain is developing: nowadays 15% of the cassava farmers in Oyam have the goal to earn money with cassava. The studied value chains generally sell the products within the district. Only a small percentage is exported.

Unethical behavior in the local agricultural value chains

The degree of unethical practices in the local agricultural value chains of Uganda can be classified as high. The unethical practices vary from mixing stones with the rice or mixing varieties of rice while selling it in the same market, to input dealers selling fake products to the farmers, farmers not drying their products properly to have more weight, farmers stealing from

their own family to buy alcohol, and farmers not paying back their loans. Empirical findings pointed out that selling low quality products, because of poor cutting and threshing methods, are also seen as unethical behavior by most actors in the value chain. For them, there seems to be a very thin line between unethical behavior and producing low quality.

Inter-firm cooperation of value chain actors

The vertical inter-firm cooperation between buyer and supplier can generally be classified as low and very informal in Uganda. Several input dealers or brokers are giving out loans or products to farmers without using contracts. Some brokers/dealers also bought a field of cassava or rice before harvesting. However, this was mainly because the farmer was in high need of money which made it cheaper for the broker/dealer to buy the products beforehand. Another common form of inter-firm cooperation is the formation of farmer groups and clusters, which is a form of horizontal inter-firm cooperation. Clustering farmers in farmers groups is a popular instrument of development organizations in order to reduce the disadvantages of being 'small'. Being a cluster can help with the access to better production materials, market information, and services. Inter- firm cooperation between farmers can also help to access better markets and increase the bargaining power of farmers, especially if they make use of collective marketing. At the end of the Catalist project of the IFDC in which they formed clusters, only 19% of the clusters were using collective marketing. This paper will pay extra attention to the important distinction between clusters that sell individually and clusters that sell collectively.

Research approach

This study has a descriptive approach with the aim to give as much insight as possible in the different types of inter-firm cooperation in the local agricultural value chain of Uganda. Three different types of inter-firm cooperation are chosen in order to examine how it helps smallholder farmers in overcoming the problems they encounter as smallholder and how this affect the degree of (un)ethical behavior in the local agricultural value chain. The next chapter will introduce and analyze three cases with different forms of inter-firm cooperation. The cases are selected out of 5 (farmer) clusters groups, 1 progressive farmer. Extra insights are given by 5 agricultural officers/district leaders, 1 employee of an empowerment organization, 2 input dealers, 1 trader and 2 rice millers and 2 academics and 2 development organizations.

Case Studies

The first case is the most common type of inter-firm cooperation in the studied local agricultural value chains: farmers are part of a cluster but are selling their products individually. The second case described is a cluster group that sells their products collectively. The last case described is the rarest form of inter-firm cooperation in the studied value chains: a progressive farmer that makes use of contract farming.

Case 1: Kapyanga cluster group (individual selling)

The Kapyanga cluster group consist of six farmer groups: Demba, Kaawo, Buyoda, Ndikabona, Comrades and Atambula Empola. The cluster has given farmers the

possibility to follow trainings of several ongoing projects in the Bugiri district. The trainings helped farmers in planting practices by showing farmers the benefits of line planning compared to the normal broadcasting method and planting rice at different intervals which both results in higher yields. Members of the cluster also learned the right drying practices (so it stays free from contamination) and suggested farmers to weight and measure the quantity before selling, which makes sure that buyers cannot lie about the number of kilos. The farmers of the cluster sold their products individually.

The members of this cluster mentioned the need of (new) interventions to overcome the problems they experience as smallholder farmers. They expressed their desire for interventions regarding the funding and the facilitation of seeds, fertilizers and drying facilities like tarpaulins. One of the farmers expressed that he experiences somewhat of a contradiction. A middle-men rejected his rice because it got stones, while the next time it had no stones but the middle-men was complaining about the lack of weight. The farmer experienced this as a contradiction and had the feeling that he could not comply with the desires of the buyers. Another mentioned problem is farmers' lack of money. This 'forces' the farmer to sell immediately after harvesting. Buyers sometimes come to the houses of farmers when the man is not around to take advantage of the lady being alone, which results in low prices. The farmers were aware that the improvement of quality and collective selling could help them to get extra money because it would give them the opportunity to source for good markets and higher prices.

Analysis

Nichter and Goldmark (2009) exposed that horizontal inter-firm cooperation can help actors to overcome the disadvantages of being small, by improving bargaining power with buyers and supplier and access to market information, services and production facilities. Tambunan (2005) stated that it should also facilitate the collective learning process wherein ideas are exchanged and developed This might increase product quality or utility and the access to 'better' markets.

The formation of the cluster shaped the possibility of getting trainings from development programs in the district. The members learned good production practices and were told about the advantages of selling collectively. The cluster thereby facilitated the learning process of farmers because it enabled them to follow trainings and made it possible for them to share ideas with each other. However, the members also expressed the need of interventions in funding, market information, seeds, fertilizers and drying facilities which points out that the cluster insufficiently facilitates farmers in accessing a high quality of services, production facilities and market information. One of the members experienced buyers complaining of putting in stones and supplying insufficient weight as a contradiction which illustrates the low level of understanding between buyers and suppliers. During the interview, the members expressed the feeling that buyers underrate their efforts of producing high quality rice, which even felt unethical to them. They had the feeling that the lack of market information has the effect that buyers underrate their efforts of producing high quality rice. This and the farmers lack of money which made them unable to wait for better future prices resulted in low bargaining power in the selling process.

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The cluster discussed in this case seems to support the learning process but does not sufficiently facilitate farmers to access high quality services, production facilities and market information nor does it improve their bargaining power. The relationship with the buyer can be classified as a hierarchical (with a dominant buyer) or discrete relationship because of the little exchange (Donaldson & O'Toole, 2000). Horizontal cooperation between farmers without selling collectively seems thereby insufficient to enhance the relationship with the buyer or facilitate the farmers to overcome the problems they encounter. Clusters in which farmers sell individually are thereby barely reducing the degree of unethical practices in the local agricultural value chain. In an interview with the IFDC, it became clear that only 19% of the clusters were doing collective marketing, which means that 81% of the clusters is comparable to this case.

Case 2: Kiteigalwa cluster group (collective selling)

The Kiteigalwa cluster contains more than 5 farmer groups: Around 30 members of the cluster joined the discussion There were members of the Mukulu Alwa Okulira, Balikyegomba, Abenakyo and Twezimbe farmer group present. The cluster is set up by the International Fertilizer Development Company (IFDC) which executed the Catalist project with the aim to create a strong end to end relationship. The group discovered in 2014 that the IFDC was giving away rice seeds to establish demonstration gardens. At this point, 4 groups with 20 members existed. They invited more friends and applied for the Catalist project of IFDC. The group has multiplied the seeds that were given, which made it possible for other farmers to join. They became a cluster of 5 groups with 110 members.

The cluster is founded to share information and because it would enable them to do the agriculture practices together (by moving from one farm to another), and create a saving culture. IFDC has given seeds, tarpaulins, threshers and demonstrations, and has also involved members of the cluster to participate with different partners in the value chain such as Africa 2000 network, Africa trainers entrepreneurs forum and Village Savings and loan Associations (VSA).

The members still experienced problems regarding production materials (hand cutting), the use of pesticides, birds destroying their field, irrigation of the land and the lack of finances for high- quality post-harvesting facilities. Farmers had problems to cultivate a large amount of land and experienced big production losses because of birds, diseases and unpredictable weather and were still 'forced' to beat the rice with sticks which reduces the quality of the rice. The members also mentioned problems in accessing financial support which could help them to overcome the mentioned problems. The 'Village Savings and loan Associations' tried to help them, but they did not get the money at the right time of the year. The farmers make use of collective selling and do not allow members to bring in bad quality rice. The cluster has several policies to ensure quality among the members in the cluster, it is for example not allowed to dry on the bare ground.

Analysis

This type of inter-firm cooperation is comparable with the previous described

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case and should therefore help actors to overcome the disadvantages of being small by facilitating the collective learning process, and improving the access to market information, service, production facilities and bargaining power with the goal to increase product quality or utility and the access to 'better' markets. (Nichter and Goldmark, 2009) (Tambunan, 2005). It is noteworthy that almost all members of 'Kiteigalwa' wrote down the name of the cluster on the respondent list instead of the name of their farmer group as in the first case. This illustrates the strengths of the cluster compared to the first case which could affect the outcomes of the case as well.

The cluster succeeded in their aim of sharing their knowledge in several ways. Members of the cluster are trained by development organizations but the cluster also facilitated trainings by the (leaders of) the clusters itself. The members have better access to information because they share information among each other and work together on one field which makes it easier to cultivate the land and increases the learning process. Members of the cluster borrow tarpaulins from each other to overcome the lack of drying facilities and have the possibility to access high quality production facilities for a lower price compared to farmers that are not part of the cluster.

The cluster has put in several policies to ensure the quality of the products among the members of the cluster. The collective selling had the effect that members monitored each other's behavior and practices. They did not allow other members to bring in bad quality rice because this would affect the rest of the group as well by getting a lower price or losing the possibility for future business with that buyer. The cluster gives access to external buyers because buyers trust the group and the quality they produce. Buyers sometimes pre-financed the production materials (vertical inter-frim cooperation). At the time of buying they pay less however, and the farmer ends up losing because of the low degree of bargaining power.

This cluster enhances the exchange and development of ideas between smallholder farmers, improves bargaining power and access to market information, services production facilities and better markets and thereby facilitates members in overcoming the disadvantages of being small as mentioned by Nichter and Goldmark (2009) and Tambunan (2005). The improving bargaining power is enhancing the mutual cooperation between buyers and suppliers, it is evolving into the direction of a bilateral relationship (Donaldson and O'Tolle, 2000). This type of inter-firm cooperation has a positive effect on the degree of ethical behavior by decreasing the existence of the drivers for unethical behavior: high competing self-interest, ease to avoid sanctions and short-term focus in fulfilling self-interest (Van Lindert, 2017). The horizontal cooperation between the farmers that sell collectively seems thereby an appropriate instrument to reduce the degree of unethical practices in the local agricultural value chains.

Case 3: Contract farming

Opio Oceng is a progressive cassava (stems) farmer in the Oyam district and the chairman of the biggest cassava factory in the area and the multi-stakeholder association platform (for cassava). The meeting started with a pray which showed his appreciation of researchers visit:

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'*Father, we just want to say thank you. We thank you for your sustaining help. We want to thank you for the machines and making it possible for my brothers and sisters to be here. Allow as we speak to pray for your protection, guidance, leadership and all the relevant. We bless you brother, we bless you holy man, in Jesus name.*'.

It all started in 2010 when Opio Oceng was given 2 bags of cassava stems (NASE 14). At this time he was producing a mix of products: mango, corn, bananas and beans. In 2010 he started to plant a 1⁄4 acre of cassava which subsequently grew to 1⁄2 acre, 5 acres, 20 acres, and then 50 acres. Recently he founded a factory to produce cassava flour, which is successfully tested but not in use yet. Opio Oceng contracted 250 farmers, who he taught the 'right' planting practices. His trucks will pick up fresh cassava from the farmers and bring it to the factory. The employees at the factory will do the peeling and after that the machines will wash, squeeze dry and finally grind the cassava. After grinding the product is ready, '*clean one!'.* The flour produced by the factory will be sold to the Ugandan brewery to produce the Nile beer.

Opio Oceng confirmed the low degree of standards in the cassava industry and emphasized the difficulty in dealing with farmers. He also emphasized that his factory ensures 'clean' cassava. He employed two supervisors to inspect the fields and keep records of the contracted farmers to make sure he only gets cassava that is between 12 and 18 months old. Stephen, who is one of the contracted farmers, expressed how he is helping cassava farmers in the region: '*He is always training and encouraging and in case I have market, I will slot you in, so you take care of your cassava, do A, B, C, D, do the need for, he is always giving us output so that we can profit.*'.

Analysis

The first thing that became clear is that the opening of the factory is positively affecting the demand in this area: it is creating a serious market for cassava. Oyam is always known for the large amount of cassava production but never had a serious market. Most farmers were growing cassava for their own consumption. The factory expands farmers opportunities for commercial farming and guarantees a flow of orders for the contracted farmers. The capabilities of farmers are improved by providing trainings which learned them the right planting practices. Stephen (who is one of the contracted farmers) stated that he and other farmers see Opio Oceng as a role model they can imitate him.

Not too long ago Opio Oceng was drying cassava on carpets as well, and before that he was even drying it on the ground. Opio Oceng is someone who understands the needs that farmers have and gives them the skills and facilities they need. The needs of farmers have to be managed by a bottom-up approach. Opio Oceng gives farms the agricultural input, trains them, is a role model and monitors the process closely. Changing the behavior of farmers is a process that will take time and will need everyone in the value chain.

He reduces the need of capital investment for farmers by supplying his contracted farmers with seeds by himself, this also ensures that the quality of the seed is not affecting the quality of the product. Opio Oceng admits that farmers can still mix the seeds after he supplied them: '*Oh, but that*

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one I cannot control (all laughing).'. In case he is delivering to one of the districts, the trucks with the seeds are escorted by agricultural officers to ensure that the seeds are from Opio Ocieng and are sometimes even escorted by the police. Another important instrument in controlling suppliers' behavior are the field inspections by the supervisors who also keep records to ensure that farmers will only bring cassava that is harvested between 12 and 18 months, where 14 months is preferred. The factory itself is also an important control mechanism because it enables Opio Oceng to perform most of the activities by himself.

This case shows that contract farming can expand farmers' business opportunities, improve their firms' capabilities, gives them a guaranteed flow of orders, share critical market information and reduce the need for capital investments, and thereby confirmed the study of Nichter & Goldmark (2009). Contract farming enhances the action and (in this case) belief component in the relationship (Donaldson and O'Tolle, 2000). It increases the degree of collaboration, monitoring and focus on future business. It has a positive effect on the degree of ethical behavior because it helps smallholder farmers to overcome the problems that they encounter and decreases the existence of the drivers for unethical behavior: high competing self-interests, ease to avoid sanctions and short-term focus in fulfilling self-interests (Van Lindert, 2017). Contract farming seems a good instrument to reduce unethical behavior in the local agricultural value chain of a developing country (if buyers monitor the farmers closely).

Policy Recommendations

This paper shed light on the different types of inter-firm cooperation in the local agricultural value chain of developing countries and described and analyzed how it can help farmers to overcome the problems they encounter and thereby improve the degree of ethical behavior by smallholder farmers. The cases haven given insights into three different forms of inter-firm cooperation. This chapter will start with the interpretation of the findings in the cases and subsequently present some recommendations for governmental departments, development organizations and firms involved in the local agricultural value chain.

The first case implied that clusters in which farmers sell individually do not improve farmers' bargaining power and is insufficient to facilitate farmers in accessing high quality services, production facilities and market information. The clusters facilitates knowledge sharing and enables farmers to follow trainings from development organizations. However this form of inter- firm cooperation seems insufficient to improve farmers' bargaining power and access to market information, services, production facilities and better markets and is thereby barely reducing the existence of the drivers of unethical behavior and the degree of unethical practices in the local agricultural value chain.

The second case discussed a cluster in which members were selling collectively. This seemed to facilitate the learning process and improve farmers access to market information, services and production facilities and increase their bargaining power. The cluster assists the members in overcoming the disadvantages of being small as described by Nichter and Goldmark (2009) and Tambunan (2005). This more intensified

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type of horizontal inter-firm cooperation increases the degree of collaboration and monitoring and focus on future (potential) business which has a positive effect on the degree of ethical behavior by decreasing the existence of the drivers for unethical behavior: high competing self-interest, ease to avoid sanctions and short-term focus in fulfilling self-interests. The horizontal inter-firm cooperation between farmers who sell collectively seems an appropriate instrument to overcome the problems that smallholder farmers experience and to reduce the degree of unethical practices.

The third case pointed out that contract farming can expand farmers' business opportunities, improve their firms' capabilities, gives them a guaranteed flow of orders and reduce the need for capital investments, which confirms the findings of Nichter & Goldmark (2009). This descriptive case pointed out that contract farming, which is equal to vertical inter-firm cooperation, can increase the degree of collaboration and monitoring and focus on future business. Increasing the vertical inter-firm cooperation has a positive effect on the degree of ethical behavior because it helps farmers to overcome the problems that smallholder farmers encounter and is decreasing the existence of the drivers for unethical behavior: high competing self-interest, ease to avoid sanctions and short-term focus in fulfilling self-interests. Contract farming in which the buyer monitors farmers closely seems a good instrument in order to help smallholder farmers overcome the problems they encounter and reduces unethical behavior in the local agricultural value chain.

This descriptive study showed the big difference between a cluster group that sells individually and a cluster group that sells collectively. The cluster group that sells collectively is way more effective in overcoming the problems that smallholder farmers encounter and in improving the degree of ethical behavior in the local agricultural value chain. However, only 19% of the formed clusters by the IFDC are doing collective marketing at the end of the Catalist project, which was a bit higher in the eastern region (Bugiri, rice value chain) with 31% (IFDC, 2015). Development organizations form clusters and come back to train the group several times. This study points out how important it is to move up to the last phase: collective selling. Farmers need to be properly integrated into the value chain to overcome the challenges and increase the degree of ethical behavior.

Farmers need to be extensively trained and guided from the planting to the selling process to completely fulfill the potential of horizontal inter-firm cooperation. The programs of governments and development organizations should be designed to make sure that cluster achieve the last step 'collective selling'. The development programs can better focus on a smaller group of farmers that achieves the last step 'collective selling' than to train a bigger group of farmers that do not manage to attain the last step 'collective selling' because of insufficient trainings and support to change this behavior.

The third case pointed out that both buyer and supplier can gain a competitive advantage from how they configure the value chain, or the set of activities involved in creating, producing, selling, delivering, and supporting its products or services (Kramer & Porter, 2011). The figure down here shows the metrics tons per hectare a region could produce in the period of 1960

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– 2014. Figure 2 shows that every region except the Sub-Saharan has tripled their agricultural productivity. The low growth rate in the Sub-Saharan is mainly the result of the problems discussed in this report. One Acre Fund saw the potential of overcoming this problems started to offer a bundle of services: financing farm inputs, distributing seeds and fertilizers, training on agricultural techniques and market facilitation to maximize profits from harvest sales. This helps farmers to become an serious player in the value.

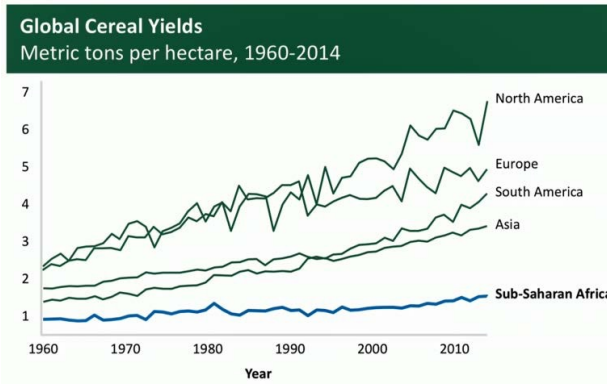

Figure 2: Productivity per acre

Development organizations have their constraints. Working with lead firms that contract farmers could be a very efficient method to overcome this constraint because it is creating an advantage for the buyers as

well. It is therefore necessary to promote trust among buyers and suppliers and remove the reluctance of both buyers and supplier to commit themselves to contracts. Development organizations should support structures which remove the fear to get exploited.

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