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Social entrepreneurship – A chance for the agricultural industry in Uganda?

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Executive Summary

Next to the discussion about social responsible acting companies, a new concept started to get enormous attention in the last decade: Social entrepreneurship. Social entrepreneurship can present a crucial driver in addressing rural development in developing countries, as it can be seen on the examples of Coffee Circle, Plan Puebla and Proximity Myanmar. For this paper, an on-site study on the agricultural value chain in Uganda was conducted. It presents a conclusive analysis about the opportunities social entrepreneurship can present specifically for the agricultural industry in Uganda.

Introduction

In east and southern Africa, approximately 35 percent of the children between 0-5 years are stunted (Unicef, 2017). According to the World Bank in Uganda 12.3 million people live under the poverty line and have therefore less than \$1.90 a day (World Bank, 2017). Traditionally, non-profit organisations have played a significant role in alleviating poverty in developing countries. However, in this context the approach to support development initiatives in Africa has shifted from donations to investments. In Germany, for example, the year 2017 was pronounced as the “Africa-year”. The German newspaper Taz writes: *“The time of classical development projects is over – now it is time for direct and private investments to promote development”*. However, critics argue, that those

initiatives primarily focus on the economic interest of the western states. They argue, that investments can only be successful, if they are combined with strict sustainability and human rights criteria (Taz, 2017). Therefore, it especially needs to be focused on rural areas, as still three out of four people live in those areas.

In this context, social entrepreneurships present a big chance for driving societal change in developing countries. Social entrepreneurship can play a crucial role in actively addressing the three Ps: People, Planet and Profit (Elkington, 1997).

The following work aims to consider social entrepreneurship in the research context of Agri-quest Uganda. Agri-quest is an internationally funded research project, which is following the leading question: *How can we have a better business climate that fosters a permanent and positive gradual change in practices, attitudes in agribusiness towards ethical behaviour, quality standards in food security and agri-business initiatives?* The following work aims to supplement this policy brief series by adding a further perspective of social entrepreneurship.

Hence, the following work analyses, which role social entrepreneurship can play in the agricultural industry in Uganda and how it can contribute to a better business climate. Thereby it is led by the underlying research question: *“How can social entrepreneurship enhance the business climate in the agricultural industry in Uganda?”*

Therefore, the work processes as follows. Firstly, the definition and concept of social entrepreneurship is stated. This is followed by giving an overview about the agricultural sector in Uganda.

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Furthermore, the used research approach is shortly introduced. Afterwards, three different examples of agricultural social enterprises are given: Coffee Circle, Plan Puebla and Proximity. Furthermore, an analysis of these social business models by using the results of the on-site study in the agricultural industry in Uganda is presented. On this basis, those social business models are discussed in the Ugandan context. The work ends by stating a conclusion and a recommendation section.

Social Entrepreneurship – Definition and concept

Social entrepreneurship is a concept that in the past years reached an enormous amount of attention in both research and praxis. Often the private and the social sector are strongly distinguished: in this understanding, the private sector focuses on making money, while the social sector is about serving the society. However, the social entrepreneurship concept offers an approach, that combines both aspects. It represents a business, that does not only aim for profit generation but also has its own and sustainable income (Dees & Emerson, 2002). For this work, the following definition for social entrepreneurship is used:

“A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.” (Borzaga & Defourny, 2004: 6)

For this work it is especially important to distinguish social entrepreneurship from corporate social responsibility. In the case

of social entrepreneurship, the profit generating activity is based on the societal change, whereas corporate social responsibility focuses primarily on profit, followed by the consideration of socially responsible behaviour. Sustainability is an important dimension for social entrepreneurs for surviving and developing in the long term. In the example of non-profit organizations, it was regularly recognized, that target groups were highly dependent on charities and donations. Consequently, after an organization left a specific region it went back to the old poverty status. In contrast, social enterprises aim to deliver sustainable support that maintains in a long term (Hu et al., 2011).

The agricultural sector in Uganda

In Uganda about 85 percent of the people live in rural areas, while agriculture only contributes 22 percent of Uganda’s overall domestic production. Uganda’s rural areas are characterized through poverty, as 95 percent of those people, who live under the poverty line, are located in rural areas (GIZ, 2017). Agriculture can be considered as the core sector of Uganda’s economy as about 60 percent of their population is engaged in it. The agricultural sector can be divided in (1) traditional crops, which include coffee, cotton, tea, cocoa, tobacco and sugarcane and (2) non-traditional crops, which include maize, rice, beans, soya beans, palms horticultural produce (Government of Uganda, 2017). The agricultural value chain mostly consists of small holder farmer specialized in different crops in different regions.

Considering the rapidly growing population in Uganda, the agricultural sector and their food production is crucial. From 2004-

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2006 to 2014-2016 the number of undernourished people increased from 6.3 to 10.3 million (Food and Agriculture Organization of the United Nations, 2017).

Research approach

In April 2017 five students from the Vrije Universiteit Amsterdam conducted research in the rural areas of Uganda, specifically in the rice district of Bugiri and in the cassava district of Oyam. During the site visits, a wide range of different stakeholders in the agricultural value chain was interviewed, including local government representatives, farmers and cooperatives, commercial farmer, trader and extensional officers. These interviews were conducted in cooperation with the research project Agri-quest, which aims on strengthening the business climate and ethical behaviour in the agricultural value chain.

For analysing how social entrepreneurship business models can enhance the business climate in the agricultural value chain in Uganda, three different existing social entrepreneurs, operating in the agricultural industry in developing countries are presented. For that purpose, the following section provides a brief introduction of Coffee Circle, Plan Puebla and Proximity, followed by an extensive analysis of their concepts with respect to the conducted on-site study in Uganda. Thereby, it is to identify, if there are any aspects of the concepts of the three social enterprises that could be transferred to Uganda's agricultural industry in order to enhance the business climate.

Case Studies

Case I – Coffee Circle

Coffee Circle is a coffee trading company, which can be understood as a social business, that strongly focuses on enabling and supporting value chain sustainability and organic production of coffee. The business model can be explained along the following steps. Firstly, coffee is traceable. That means, that they exactly know where the coffee beans come from and are harvested. Therefore, they buy their coffee directly at the cooperatives for example in Ethiopia or Columbia. Secondly, they acquire high quality coffee beans. That is ensured by way of example through the measurement of a score according to the Specialty Coffee Association of America. Thirdly, Coffee Circle ensures fair prices, that are above the average for the farmer and independent of the fluctuations of the world trade's prices. In 2015, that was 71 percent above the calculated fair trade price. Lastly, Coffee Circle shares its profits and invest them in projects, such as building of schools for providing basic education. One euro per sold kilogram is invested in local development projects. This is understood as part of the payment. Therefore, it can be distinguished from charity. By way of example, Coffee Circle just kicked-off a large project to provide clean water and hygiene for the people in the community they receive their coffee beans from (Coffee Circle, 2017).

Case II – Plan Puebla

Plan Puebla was already initiated in 1966 for offering support to rural farmers in Mexico. The initiative aimed to improve maize production techniques and transfer those technologies to small rural farmers.

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On the one hand, the technologies should improve the food production and simultaneously decrease the food shortage. On the other hand, it should enhance farmers' income. Plan Puebla defined five requirements before choosing a site to address: 1) a large number of small farmers; 2) maize needed to play an important role in the cropping pattern; 3) where the probability of loss due to drought, frost, or hail was small; 4) where government

infrastructure in the form of credit agencies, market roads, and crop insurance was available; and 5) where farmers had ready access to markets with stable prices (Winkelman, 1976). This initiative was furthermore implemented in Peru, Honduras and Columbia. In Mexico, it could enhance the maize production of 47 thousand Mexican farmers in the Plan Puebla region by 62 percent through the education of small-holder farmers and facilitated a 252 percent increase in family's income (Alvord et al., 2002).

Case III – Proximity Myanmar

The concept of Proximity based in Myanmar aims to reduce poverty of rural families. They design products such as irrigation pumps, water storage tanks or solar lighting that aims to help farmers in increasing farming capabilities and thus their income. Furthermore, it offers a quality regulation service to test farmer's seeds in order to ensure that they are healthy. Regarding the poor financial situation of rural farmers, Proximity further offers a microfinance service. Lastly, it offers advisory services by providing technical assistance (Knowledge 4 food; Martin & Osberg, 2015). Until 2017 Proximity helped more than 100 thousand rural households to increase their income

and their advisory services could promote low cost farming techniques that increased yields by an average of 10 to 15 percent (Proximity, 2017).

Findings

Analysis – Coffee Circle

The business model of Coffee Circle offers principally a very interesting concept for the Ugandan agricultural industry. This model provides the opportunity to address the economic, social and environmental dimension simultaneously.

Firstly, the buyer has a direct relationship to the farmer or the cooperative. Therefore, middle men are excluded. In the Ugandan agricultural value chain, it appeared, that unethical behaviour is especially driven by those traders. This can be emphasized by the following quotes:

“There is something very interesting when she said... when we talk about ethics, basically about the middle men purchaser. They weight the price, then the gentleman tells you: No I am not going to buy your rice, because it has got stones. Then after saying it has got stones, the gentleman again says: but you see when your kilos are not enough. So, you see that kind of contradiction.” (I3, p. 29)

“The ladies basically complain more about prices, you know, low prices by the middle men.” (I3, p. 29)

“They are saying, that usually this unrespectful behaviour of buyers is the result of my colleagues here are not being aware of the market prices” (I3, p. 29).

These quotes show, that strong inequalities between the farmers and their

buyers exist. Buyers put pressure on farmers, while taking advantage of their lack of market knowledge. When cooperating directly with the farmers or cooperatives without middle men activities, farmers can be protected from unethical behaviour and be fairly treated.

Secondly, Coffee Circle ensures, that those farmers and cooperatives are paid fairly. Thus, the problem which is represented through the traders is actively addressed. According to Coffee Circle, in 2015 they paid a “free on board” price to their cooperatives, which was 71 percent above the fair-trade minimum price of \$1.60/lb (Coffee Circle, 2017). The fair pricing presents a significant problem in the agricultural industry in Uganda. During the on-site study, a significant amount of unethical practices were encountered, that could be related to the economic situation of farmers. Thus, those unethical practices were primarily conducted in order to achieve higher incomes. Table 1 (see appendix) presents examples of those unethical practices, that could be minimized by ensuring a fair pricing scheme for farmers and cooperatives.

The examples underline which high relation between conducted unethical practices and the objective to earn a higher income exist. However, due to Coffee Circles business model, such higher income is only achievable, if high quality products are ensured. This is further elaborated in the next argument.

Thirdly, Coffee Circle only processes high quality products. While getting a higher price for the product, it offers high incentives for the farmer to produce high quality products. As the prior argumentation shows, farmers are mainly driven by maximizing their possible

income. However, at the moment no monetary incentives are available that are connected to high quality products, which can be demonstrated by the following quote:

“But now when you process it, I see you get around 1300. But when you look at the cost of peeling, it is not much. But my idea on the quality, you know, what they are buying at the moment for 700-800 that one is just peeled, fully washed, they peel, chop and wash, you dry and you sell. But the other one which can go for 1200 you need to peel, wash, slice it properly, you dry it not on the ground, but you have to dry it on a tarpaulin. So, it is not mixed up with sand, and you sell it for 1200. And you see there is a big cost in time, in terms of resources you need to put in for you to add more 400 schillings. I think that margin from 800 to 1200 is not much. I think there should be a much higher price for high standard quality, more than 1200. Because it is not attractive for farmers.” (18, p. 70)

This clearly shows, that farmers have no monetary incentives to produce high quality products as the costs are not worth the expected income. Instead of maximizing their profit through high quality products, farmers see the highest opportunity in conducting unethical practices for achieving the highest possible income. Therefore, the business model of Coffee Circle can present an incentive for farmers to neglect the usage of unethical practices in the agricultural value chain und to aim for producing high quality products.

However, such concept includes two major challenges, that seems difficult to overcome. Firstly, the model appears to be hardly transferable to the products of rice

and cassava in Uganda. Those products are associated to lower price regions and in contrast to coffee they cannot be considered as “life-style” products, for which people are usually willing to pay a higher price. Secondly, Uganda is a land-locked country. A land-locked country is characterized through difficulties in trade, because great distance are done by land transportation. By competing in global markets those high transportation costs present a distinct disadvantage (Faye et al., 2004).

Furthermore, “community jealousy” could present another problem in the implementation of such business model. The research of Frynas (2005), considered oil companies, which conducted CSR practices in close relationship to the community, that was located closest to their oil factories. He reports an example, where one “host-community” was burned down by another community, which was the second closest community to the oil factory and aimed to become the new “host-community”. In the case of Coffee Circle’s business model, the concept is characterized through a very close relationship to the farmer or cooperative. Therefore, especially in regards to the conducted social projects, it needs to be ensured that not only the specific community benefits but also a macro-perspective has to be taken into account for preventing “community jealousy”.

Analysis – Plan Puebla

The concept of Plan Puebla can be evaluated as follows. The main objective is knowledge- based, and primarily aims to enhance harvesting techniques and farming practices. In Uganda, the majority in agriculture is presented through small holder farmers. Those small holder

farmers mostly need to cope with simple farming techniques and equipment. Therefore, the main objective followed by a business model as Plan Puebla addresses a crucial challenge, especially in the rice and cassava value chain in Uganda. This can be emphasized by the following quotes:

“Though the techniques are still a little bit low but we are utilizing our techniques of coffee to put them on board.” (15, p. 38)

“But there is a tendency for poor land preparation. Why? Because of the tools, that farmers normally use.” (18, p. 63)

“Then also the other problem is, the drying methods that these farmers are using, the poor drying methods.” (11, p. 13)

Plan Puebla defined five requirements that need to be fulfilled, which were explained above. Firstly, Uganda’s agricultural sector mainly exists of small holder farmers, in total around 80 percent. Hence, the first condition is complied. Secondly, the addressed crop needs to be the focus in the agricultural area. In Bugiri, this is valuable for rice and in Oyam it is accurate for cassava. Furthermore, the basic infrastructure is in place. Fourthly, the land in the studied areas is very fertile and the likelihood of loss due to environmental reasons is very small. This can be shown by the following quote:

“First of all, the land here is very fertile. We don’t have a lot of problems like our brothers and sisters of Igesi in Western Uganda. Here, you just have to plant and it comes.” (17, p. 50)

The main problem can be seen in the last defined condition: access to market with stable prices.

“The most problem affecting the cassava farmers, they don’t have proper market. There is no proper market. Whatever we should pass, there is no market. Is there is no market for them, they will not change.” (18, p. 69)

“There is always a problem the way he is explaining [...]. If the demand is not taking care of the quality, you produce the way they want, because you want profit maximization.” (19, p. 82)

This makes clear, that only helping farmers to improve their farming and harvesting techniques is not sufficient to make a change in their income.

Analysis – Proximity Myanmar

The approach by Proximity Myanmar contains parts of the concept of Plan Puebla. However, it is supplemented by financial and advisory services.

The offer of microfinance service could present a highly important contribution for rural farmers in Uganda. According to the GIZ only 16 percent of rural people have access to formal financial products. This can be pointed out by showing an example encountered during the on-site study in the rural areas in Uganda. One visited farmer group explained their missing opportunities to get financial services. As they were saving money in order to buy tarpaulins for increasing their product quality, they were using a book which showed they earnings. This book showed, that in a period of a month a farmer cooperation could save in total twelve thousand Schilling, which is approximately three Euros. This underlines the significance of micro financial services in the rural areas of Uganda.

The second important supplement is the

advisory service. As prior explained, farmers lack in important market knowledge. Therefore, not only enhancing the technical knowledge is valuable but also the business knowledge. In this context, advisory service can be highly relevant for farmers to gain bargaining power and to become an equal trading partner. At the moment, traders come to the farmer groups and dictate the price as farmers do not have any knowledge about the recent market prices and are not able to compare such (10, p. 103). Furthermore, farmer cooperatives narrated, that they have no knowledge about where their products are traded to and processed.

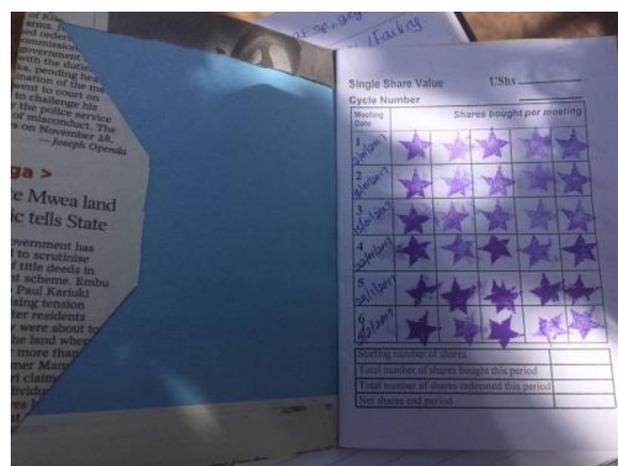


Figure 1: Savings book farmer group in Oyam, Uganda.

Policy Recommendations

Social entrepreneurship offers a very interesting approach especially for developing countries and therefore also for the agricultural industry in Uganda. It could be shown, that it can strongly help to diminish several issues, that can enhance the business climate. However, this paper could show, that there is no “one-size-fits-all” model. There are several different

concepts about how a social business can be implemented. Hence, it needs to be analysed and evaluated, which model is suitable for a specific context. Thus, the prior analysis has shown that models of social entrepreneurs address highly relevant issues that are present in the agricultural industry in Uganda.

On the one hand, social entrepreneurship can be a useful tool, that helps to protect the developing country interest during the implementation of western initiatives. On the other hand, the prior analysis also showed, that especially due to the land-locked characteristic of Uganda, those western led social business approaches can also be difficult to implement. A key factor here is, that those initiatives are also initiated and driven domestically. Hence, those mentioned investments in the introduction, need to promote those concepts among the youth in Uganda. The developing countries need to be enabled to start social entrepreneurship and thus start the change domestically. According to the UN Population Fund, Uganda has the world's largest percentage of people under 30, which is about 78 percent. Those young people need to be addressed and encouraged in order to promote social business ideas. One approach to develop social entrepreneurship skills could be through education and university wide approaches. By way of example, universities in Europe are teaching social entrepreneurship courses with real life cases in order to enhance students' entrepreneurial mind-set. This needs to be transferred also in the developing country context for enhancing social entrepreneurial thinking also in for example Uganda (Babu & Pinstrup-Andersen, 2007). However, education appears to be crucial for promoting social entrepreneurship as a

concept but does not seem sufficient. Therefore, the implementation of so-called incubators could present a valuable concept. Here, the unemployed youth could be actively supported and not only educated. Moreover, they could be provided through an intensively mentoring program and guidance through experienced social entrepreneurs. In this context, western investments could support through providing financial and knowledge-based know-how in terms of creating social entrepreneurship incubators.

A great example of how a domestically emerged social business can look like is Tree Adoption Uganda. Tree Adoption Uganda addresses the issues of youth unemployment and climate change. In the past years', trees were radically removed in Uganda to create agricultural areas. On the one hand the project aims on giving unemployed youths the chance to plant trees. For example, through the planting of fruits, they can generate their own income. This should enable them to obtain starting capital for their own agri-business ideas in rural communities. On the other hand, those planted trees aim to improve the situation in communities. By way of example, implanted trees can serve as windbreakers to protect farmers' crops. Those stories need to be taken as a guiding principle to continuously encourage and empower the youth in developing countries. It is crucial to develop innovative approaches that actively address rural areas in Uganda.

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Appendix

Unethical practice	Exemplary quote
Selling fake seeds	<i>“Of course, some of the unethical issues that I have already told you are the fake seeds with which you want to get more income.”</i>
Adding white stones to increase weight of produce (e.g., rice)	<i>“You mix it with stones to increase the weight.”</i>
Not drying produce properly to increase weight	<i>“And then they don’t dry it so much because then it weighs more kilos when they are selling it.”</i>
Increasing weight by other means	<i>“Because for them, all they are looking at, when you asked him or her, all they are doing, they want to get their weights, to increase the weights of their produced [...].“</i>

Table 1: Cases of unethical practices.

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