IMPLEMENTATION GRANT PROGRAM
BDS LEARNING NETWORK
CASE STUDY #2

Struggling to Facilitate "Win-Win" Relationships in Uganda's Agro-Input Distribution Sector

Rita Laker-Ojok
AT Uganda, Ltd.

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IGP-BDS Learning Network

The United States Agency for Development's (USAID) Microenterprise Development Division has been funding programs in microfinance and business development services (BDS) through the Implementation Grant Program (IGP) since 1995. As of 30th September 2004, over 90 grants have been approved for a total life-of-project funding greater than 100 million dollars. The current IGP-BDS grantees are an impressive group of organizations and projects that: cover almost every geographic region, consist of numerous value chains, use various approaches, and contain enormous potential to make a positive impact. These programs present an important learning opportunity on how to improve the design, implementation, and impact of BDS programs.

The USAID Microenterprise Development Division, in an effort to establish a participatory learning process, initiated a learning network for the IGP-BDS grantees. The SEEP Network, a non-profit organization in Washington, DC, is the secretariat for the IGP-BDS Learning Network. The SEEP Network provides resources for the IGP-BDS grantees to conduct technical exchanges, hold virtual discussions, organize an annual meeting, and learn about different approaches and tools that are being used in the various IGP-BDS grant programs. In addition, The SEEP Network generates opportunities for: peer exchanges, collaborative case studies, and conference participation for IGP-BDS Learning Network participants.

The goal of the IGP-BDS Learning Network is to be an excellent technical resource for the participants of the IGP-BDS Learning Network, furthering their program and organization objectives. Through the IGP-BDS Learning Network, lessons on sound practices will be captured and disseminated to the wider microenterprise development industry.

The IGP-BDS Learning Network was officially launched during a meeting organized by The SEEP Network and held in New Delhi, India in December 2003. This Learning Network identified the following three learning themes, which frame the common challenges of the IGP-BDS Learning Network participants, and are aligned with the market development goals of the IGP-BDS grants.

1. How to effectively manage the market facilitation role and tasks across a range of market settings and market problems.
2. How to build win/win business relationships between MSEs and other key market players.
3. How to effectively stimulate demand for business services.

Each IGP-BDS grant operates on a performance basis, tracking progress against targets established at the outset of the grant. The semi annual reports also provide qualitative narratives that link programmatic performance to the overarching IGP-BDS Learning Network's agenda. The agenda aims to understand how to harness the power of increased MSE participation in growing markets to achieve positive and lasting development outcomes.

Six IGP-BDS Learning Network case studies have resulted from the first two learning themes. These cases were written against a set of guidelines adopted by the IGP-BDS Learning Network. These six case studies have initiated a process of learning linked to useful and practical outcomes. In the near future, the IGP-BDS Learning Network plans to: develop diagnostic tools that manage and track performance, document learning against current and future learning themes, and distill lessons on the links between better practice and performance.

- Marshall Bear, IGP-BDS Learning Network Facilitator
- Jimmy Harris, Deputy Director, The SEEP Network
- Jennifer Hansel, Program Associate, The SEEP Network

AT Uganda

Since 1996, local NGO AT Uganda (affiliated with U.S. PVO EnterpriseWorks Worldwide) has implemented an initiative to increase smallholder participation in commercial agricultural markets by providing access to a diverse mix of affordable and appropriate agri-inputs, equipment, and services. Initially providing training, wholesale inputs, and credit directly to identified retailers in Northern and Eastern Uganda, AT Uganda is presently shifting responsibility for supply and credit functions to the private sector and engaging only in facilitating and linkage services – a strategy more in line with current BDS best practices. AT Uganda's IGP is a market development project that integrates poor agro-input retailers into mainstream markets.

Program Context

While the agricultural potential of Uganda is significant, use of purchased inputs in Ugandan farming is among the lowest in the world. Less than 10 percent of Ugandan farmers use fertilizer (among small-scale farmers, less than 2 percent). Overall, average fertilizer use is less than one kilogram per hectare (1 kg/ha) per farm family per year, compared to 15 kg/ha per farm family per year reported by other sub-Saharan African countries. Thus even by African standards, the use of fertilizer in Uganda is extremely low.[1] According to a national household survey conducted in 2001,[2] only 8 percent of poor farmers in eastern Uganda used improved seeds. Reliance upon traditional subsistence production methods is a major cause of poor crop yields. For this reason, modernization of the agricultural sector is one of the key pillars of Uganda's poverty eradication strategy.

In 1998, the Investment in Developing Export Agriculture (IDEA) project supported by the U.S. Agency for International Development (USAID) launched the Agribusiness Training and Input Network (ATAIN). ATAIN encouraged improved access to agricultural inputs in higher-potential areas of Uganda (Mbale, Kapchorwa, Masindi, Rakai, and Masaka) by means of training and credit guarantees. Training was provided directly to agro-input retailers (known as "stockists" and, at the Training of Trainers level, to organizations and distributors. An excellent complement to the training materials was also prepared that covered critical introductory topics for agricultural input retailers, including record keeping, credit management, inventory control, product handling and storage, safe chemical use, and marketing and promotion techniques. The training has been greatly appreciated by all stakeholders in the sector.

Credit guarantees were established to encourage existing urban–based, private-sector wholesale distributors to extend credit to rural stockists, thus improving village-level access to agricultural inputs. The system was particularly effective in encouraging regional distributors to establish links with new stockists. The ATAIN program is one component of IDEA's large-scale effort to create demand through demonstration, publicity, and farmer training. These efforts have been limited, however, to selected areas with a high potential to produce exportable quantities of maize and beans. Less commercialized areas were ignored.

To address the "chicken and the egg" problem of areas with low input demand and lack of access to supply–areas not served by ATAIN–AT Uganda became involved in the direct wholesale provision of seeds and agro-processing equipment to small, private-sector agro-input stockists in northern Uganda. In 2000, with support from the U.K. Department for International Development (DFID), this network was extended to underserved areas in eastern Uganda. The AT Uganda program ran successfully for over three years, during which a network of 115 private rural stockists was established.

As a result of a two-pronged approach that combined substantial demand promotion (e.g., demonstrations, training, and publicity) with assured rural access to improved seed varieties, demand grew substantially. AT Uganda input sales increased from US$86,000 in 1998 to US$351,233 in 2000. Due to capital limitations, the organization only engaged in wholesale supply of seeds and agro-processing equipment, encouraging stockists to purchase agro-chemicals, tools, and fertilizers directly from other sources.

From the outset, AT Uganda's idea was to eventually turn the distribution effort into a private-sector enterprise (a "for-profit wing" of the NGO), with revenues rolled back into the network to finance service expansion. For this reason, the inputs distributed through the network were not subsidized. The only subsidies offered were free training and zero-interest credit–essentially comparable to the free training and interest-free supplier credit offered by the IDEA project.

In 2000, when AT Uganda applied to USAID for funds to capitalize the privatization of its distribution network, the proposal was rejected because it was perceived to compete unfairly with the six private-sector distributors that IDEA had helped establish (in regions that had higher potential for agricultural exports). Although AT Uganda promised to limit the distribution network to areas without distributors, the idea was rejected and AT Uganda was pressured to disband it. As a result, in 2002 most retailers that had been getting supplies through AT Uganda stopped selling agricultural inputs because they

[1]FAO, Food and Agriculture Organization, 1999.

[2]Uganda Bureau of Statistics (UBOS), (Kampala, Uganda: UBOS, 2001).

could not access credit. This situation left several districts in northern and eastern Uganda without alternative sources of improved inputs.

Out of concern for the plight of farmers in that region, AT Uganda reformulated its approach and reapplied for funding from the USAID Office of Microenterprise Development in Washington, DC. The revised approach sought to shift responsibility for supply and credit functions entirely to the private sector and entice private actors to offer better services in more marginal areas of the country. In October 2002, AT Uganda was awarded a USAID grant and began implementing a three-year project to facilitate the development of a private-sector agricultural input distribution system. It sought to achieve this goal by providing linkage services to private-sector providers of business development services (BDS), in line with current BDS best practices. Planned interventions included:

- enhancing the management capacity of rural retailers through training linkages with commercial training providers
- increasing demand for agricultural inputs in the project area through information linkages (i.e., encouraging suppliers to offer demonstrations, informational materials, and advice to farmers through trained retailers)
- enhancing the access of rural retailers to credit by providing credit guarantees to suppliers
- improving farmer access to market information by linking retailers to sources of market information
- reducing donor distortions in the input market through advocacy efforts targeted at donors and relief programs.

Retailer-Wholesaler Relationship prior to AT Uganda Project

Regional distributors played a major supply role in areas where they existed. In areas without a regional distributor, however, retailers faced very high transaction costs in securing inputs directly from importers and urban wholesalers (who did not know them), especially given their limited financial resources. As a result, the availability of improved agricultural inputs was limited and their cost was high.

Impact of Project Interventions

The project facilitated the formation of the Uganda National Agro-Input Dealers' Association (UNADA) by rural input retailers. The association was initially formed in 15 districts in northern and eastern Uganda, where AT Uganda had previously led input supply interventions. By mid-2004, the association had about 170 members organized into 15 branches (each branch has a minimum of 5 members). The branches act as solidarity groups for purposes of providing members credit guarantees for supplier credit.

The opportunity to participate in the credit guarantee scheme was offered to all crop input suppliers (e.g., suppliers of seeds, fertilizers and agro-chemicals), including regional distributors. The regional distributors, however, were highly suspicious and refused to participate. As a result, the UNADA branches ended up securing inputs directly from suppliers, bypassing regional distributors. (The latter continue to supply stockists with whom they have dealt for a number of years, who generally are not UNADA members.)

Unhappy that UNADA members were able to go over their heads and obtain inputs on 60-day credit direct from suppliers, existing distributors tried to use their former position as "sole agents" for certain seed varieties to increase the wholesale price for UNADA members. However, the volumes ordered by UNADA , together with credit guarantees, allowed the rural retailers to negotiate a parity price for UNADA.

By refusing to participate in the credit guarantee scheme, the distributors in effect forced UNADA to become the competitor they had initially feared. Staff of the former IDEA project (now evolved into the Agricultural Productivity Enhancement Project, or APEP, the latest large-scale USAID initiative in Ugandan agriculture) were also unhappy that UNADA had become direct competition to the distributors, whose capacity they had worked so hard to build. Even UNADA members were not entirely satisfied with the stalemate.

Bulk procurement under the credit guarantee allowed retailers to obtain the hybrid seed that forms the majority of their sales turnover but proved unwieldy for purchase of the wide range of incidental inputs needed by farmers. Transaction costs of procurement from Kampala-based suppliers were high, especially since additional purchase orders could only be approved under the credit guarantee after all members of a branch had paid off their loans. Fences needed to be mended with regional distributors to facilitate local procurement.

The issue of building bridges with regional distributors was identified as a major concern during a strategic planning exercise undertaken by the UNADA board of directors in April 2004. The board decided to set up a Management Technical Working Group (MTWG) to make recommendations on how to handle the problem. The MTWG subsequently recommended that UNADA create different classes of membership, each with their own rights and responsibilities, in order to promote collaboration with regional distributors. It also encouraged the formation of new distributors in locations where none existed. The MTWG began negotiating with APEP to finance a national agro-dealer census that would form the basis for a major membership drive and establish the association as a truly national body.

Other initiatives that came out of the strategic planning process included:

- A UNADA "image survey" was undertaken to better understand the public's current impression of the association and pave the way for a major public relations drive.
- A constitutional amendment was passed to create a regional structure for the organization. In this way, as UNADA expanded to achieve national coverage, branches in each region of the country were given representation on the national board of directors and empowered to solve specific regional problems.
- A consultant was hired to prepare a policy that would lay the foundation for an association policy platform and major advocacy campaign, for which a funding proposal was submitted to DFID.
- The association also began to negotiate with the Ministry of Agriculture, Animal Industries, and Fisheries, as well as Makerere University, to enable UNADA members to become licensed chemical dealers. This process required decentralization of training on the safe use and handling of chemicals, as well as the registration process.
- A stakeholder credit guarantee review workshop was held to assess the project's performance in the preceding planting season and revise procedures for the next round.
- Discussions were initiated with the APEP project of USAID about expanding the credit guarantee fund and developing individual credit guarantees for more established retailers with clean credit ratings.

These new activities were undertaken by UNADA to strengthen member services and achieve long-term sustainability as an organization. AT Uganda's role has been to simply facilitate the process–trying to encourage viable "win-win" relationships between stakeholders in the sector.

As of September 2004, APEP was drawing up a contract for the consulting firm that would undertake the national census of agro-dealers. At the same time, AT Uganda was assisting UNADA to draft promotional materials that would be handed out to potential new members during the census. These promotional materials will specifically encourage established retailers, potential distributors, established regional distributors, and suppliers to join UNADA. (See annex 1 for a summary of the criteria and incentives for the various membership classes.)

Program Status

Why is the retailer-wholesaler relationship important to the program?

In order for the input sector to function smoothly, rural agricultural retailers need a source of supply that is both convenient and affordable. Regional distributors can offer a full range of inputs at wholesale prices that can enable retailers to meet customer demands in a timely and cost-effective manner.

What characterizes the current relationship between retailers and regional distributors?

The current relationship is characterized by suspicion and intense competition. Everyone is juggling for short-term advantage without seeing the long-term potential of collaboration.

What is AT Uganda's vision of the future relationship?

AT Uganda's vision is a sustainable business association that encompasses both larger distributors and smaller rural retailers in a mutually advantageous business relationship. Through collaboration, distributors can expand their turnover volume and encourage greater sales by increasing farmers' access to retail outlets. Rural retailers, in turn, gain access to an expanded range of conveniently packaged products at a reduced transaction cost, helping them to increase business turnover as well.

What is AT Uganda doing to address/improve the relationship?

Distributors are being approached for a second time about the possibility of joining the credit guarantee scheme. Ongoing negotiations with distributors will resume once the national agro-dealer census is completed. They will be encouraged to join UNADA, whose viability will be more secure as a result of expanded membership. UNADA branches will in turn be assisted to carefully evaluate the costs and benefits of direct procurement from suppliers, compared to purchasing from the closest distributors, so they can make an informed business decision.

What is working and why? What is not working and why?

AT Uganda does not honestly know whether the plan for expanding UNADA membership will work. All it can do is demonstrate the potential for enhanced profitability of both parties that would result from working together, as well as create a forum for ongoing dialogue. It is very important that distributors understand the reduced risks of dealing with UNADA as an organization, rather than bearing the high transaction costs and risks of dealing with a large number of individual retailers.

By enhancing the position of retailers through joint action, the project has increased their bargaining power and given them more options. Regional distributors must recognize that they are no longer the only source of supply and must deal fairly with the retailers (i.e., allow them sufficient margins to cover costs) to capture this market.

What lessons on relationship building can AT Uganda offer to network members and the field?

History and timing matter. The regional distributors rejected the initial offer to participate in the credit guarantee scheme, based primarily on their own fear of competition, preferring to stonewall rather than believe the potential for collaboration. Due to the timing of the agricultural season, there was no time to patch up the relationship before planting time. This year, the project will start the process of negotiation and enticement as early as possible in hopes of breaking through the past suspicion and uncertainty of the distributors.

Box 1. A Parable

A foolish canary escaped his cozy cage in the dead of winter and found himself cold and alone at the edge of a pasture. The canary lay senseless at the edge of the path, nearly frozen. A passing farmhand noticed the bird and took a moment to pop him into a freshly steaming pile of cow dung before going on about his business. Revived and resuscitated by the warmth of the dung, the canary begins to sing. Hearing the unexpected song, the farm cat came to investigate, extracted the canary, and swallowed it in a single gulp. The lessons of the parable are:

- The one who gets you into *&%! isn't necessarily your enemy.
- The one who pulls you out isn't necessarily your friend.
- When you are in *&%! up to your neck, it's no time to sing!

Two of these lessons seem to apply to the AT Uganda program. The forces that caused AT Uganda to abandon its role of direct input supplier have started an exciting process that has interesting possibilities for sustainable commercial development. These forces have since become close partners in the process, clearly disqualifying them from the category of enemies. The final warning is also apt: it is far too early for AT Uganda to be "singing" of progress. A cautious perspective in needed, one that recognizes the challenges ahead and continues to strive to create those elusive "win-win" relationships.

Annex 1:

Proposed UNADA Membership Categories

Class	Type	Requirements*	Rights	Benefits	Fees
BRONZE	**New business**	• Business premises • Completion of at least Level I training • Bank account • Clean credit record • Above 18 years of age • Fully paid membership • 50% down payment for inputs	• Become a branch member • Voting rights within branch • Voting rights within regional assembly • Eligible for local office • Right to display UNADA signpost	• Member training programs • Brochures/newsletters • Competition for demo prizes • Support for demo kits and extension support • Market information (through branch) • Publicity • Introductions to distributors/ suppliers • Access to group credit guarantee	• One-time membership fee of 10,000 USH • Annual subscription fee of 50,000 USH, payable as follows: 15,000 to National Assoc. 5,000 to Regional Assoc. 30,000 to Branch • Professional course fees • Other course fees
SILVER	**Established Business**	• Fully paid silver membership • Must attend Level III training or show comparable certificates • In business for > 2 years • Bank account	• Become a branch member • Voting rights within branch • Voting rights within regional assembly • Eligible for local office • Can be appointed to committees • Eligible for regional office • Eligible for any board (national, regional, branch)	Same as above, plus: • Exchange visits • Higher credit limit • Signposts • Larger demo kits • Silver member certificates	• One-time membership fee of 10,000 USH • Subscription fee of 80,000 USH, payable as follows: 20,000 to National Assoc. 20,000 to Regional Assoc. 40,000 to Branch
GOLD	**Potential Distributor**	Same as above, plus: • Two or more employees • Business plan • Assets valued at > 5 million USH • May have more than one shop	Same as above	• Can apply for individual credit guarantee • Free training for each shop • Demo for each shop • Exchange visits • Information sent directly to each shop	• One-time membership fee of 10,000 USH • Subscription fee of 100,000 USH, payable as follows: 25,000 to National Assoc. 25,000 to Regional Assoc. 50,000 to Branch

Class	Type	Requirements*	Rights	Benefits	Fees
IVORY	**Associations and Groups**	• Registered membership organization, at least at the district level • More than 25 members engaged in agriculture • Regular meetings > 2 years • Actively involved in input sales to members • Branch membership subject to clean credit record	• Attend regional assemblies and all branch meetings • Can run for branch leadership • Can run for regional office • Cannot run for board of directors or attend annual general meeting (AGM)	• Attend UNADA trainings (1 per group) • Receive demonstration support (1 per group) • Credit guarantee (per group) if established business • Publicity and promotion • Market linkages • Representation to other organizations, e.g., PSF and Agricultural Council • Advocacy for members • Information • Networking with other stakeholders	• One-time membership of 10,000 USH • Annual subscription of 50,000 USH per group payable as follows: 15,000 to National Assoc. 5,000 to Regional Assoc. 30,000 to Branch
PLATINUM	**Distributor**	• Currently extending supplier credit to at least 5 shops or agents • Physical premises • Asset value > 10 million USH • Registered business and offices • Paid platinum membership fee	• Attend and vote at AGM • May be appointed to committees at any level (national, regional, branch) • Eligible for seat on UNADA advisory board, but not board of directors	• Agents: demonstrations, publicity, training, and 10,000 USH discount on annual subscription • Distributors get 100% credit guarantee for agents • Right to any credit facilities approved by UNADA	• One-time membership of 50,000 USH • Annual subscription of USH 200,000 payable in full to National Association
DIAMOND	**Supplier**	• Nationally registered business involved in production or importation of inputs • Offer supplier credit and market information to UNADA	• Eligible for seat on UNADA advisory board, but not on board of directors • Attend and vote at AGM	• 100% credit guarantee • Right to distribute price information to members • Free advertising in UNADA newsletter	• One-time membership fee of 50,000 USH • Subscription fee of 300,000 USH, payable in full to National Assoc.

Annex 2:

Characteristics of Relationships between Rural Input Retailers and Regional Wholesale Distributors

Characteristic	Current Picture	Future Picture
common vs. rare	Relationship varies by location. Some parts of the country have no regional distributors and small retailers have no option other than to procure from centrally located suppliers, which incurs high transactions costs.	Would like to see regional distributors cover all parts of the country.
social vs. commercial	Relationship is purely commercial. There are no extenuating social ties binding retailers and wholesalers.	Should continue to be commercial, but based on a more realistic understanding of the potential mutual benefits gained through collaboration.
one-time vs. continuing	In the past, certain retailers were agents for the distributor, on whom they were entirely dependent for product. These agents considered the arrangement a long-term relationship. Others have a more periodic relationship, bypassing the distributor at times. On the other hand, when sales and margins are tight, distributors often try to squeeze retailers out of the picture, seeing them as competitors rather than an organized distribution network that enables distributors to increase sales volumes.	Need to create a “win-win” relationship in which (i) larger wholesalers see retailers as an efficient distribution mechanism for moving product to final consumers, and (ii) both parties have a vested interest in the long-term success of the relationship.
one-way vs. two way	Distributors have the product and the capital. They earn bigger short-term margins by squeezing out rural retailers and forcing everyone to come to the big towns to purchase inputs. With the creation of UNADA, retailers now have an alternative, direct source of supply. Distributors understandably feel very threatened by this development.	Need to move beyond animosity to the realization that strengthening distribution networks is of business value to both parties. Distributors are closer geographically to small retailers and potentially more flexible and accessible. Building retailer businesses should increase volume and throughput of the distributors.
transparent vs. manipulative	Distributors try to manipulate transactions to their short-term benefit, hiking prices to squeeze retailers out. They also manipulate delivery time, increasing the risk to retailers of being late for the season and stuck with product.	Mutual planning and transparency to improve communication and increase business turnover for both sides.
favorable vs. negative perception	Distributors are very suspicious of AT Uganda and UNADA, believing that they want to take over their business. They have therefore been unwilling to engage in discussions because they assume that there is an underlying, hidden agenda.	Bring distributors into the association as full partners so that they can understand the potential benefits of collaboration and help shape the future agenda of UNADA.
voluntary vs. mandated/ legislated	No mandatory relationship, the only motivation is commercial.	The formation of the association has changed market dynamics because retailers now have an alternative if distributors refuse to collaborate: they can buy directly from central suppliers, although such purchases incur higher transaction costs (communication, transportation, etc.).
Scale of operation	One big problem is the low level of throughput. The volume of retail business is still very low in rural Uganda, therefore the incentive for bigger suppliers to deal with retailers is minimal. This is one reason why it makes more sense to incorporate distributors into UNADA rather than bypassing them and going directly to agro-input suppliers.	