

# Developing and Promoting Trading Principles for the Ugandan Agro Business Sector

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## Executive Summary

The Business Services Market Development Project Uganda (henceforth BSMD) is a DFID financed project which has been working in Uganda for several years. Its main aim is to increase the competitiveness of micro and small enterprises and smallholder farmers. BSMD pilot projects have been facilitating the development of supply chains which effectively enable small businesses to participate in market. Projects of this type have been supplemented by several research initiatives looking at enhancing local sourcing of fresh fruit and vegetables by supermarkets and agro-processors, and documenting successful supply chains.

This piece of research is complementary to these supply chain efforts and is concerned with looking at **responsible business practices and how lasting business relationships can be developed and maintained in the agro business sector** in Uganda. It includes an overview of international debates on responsible business, looking mainly at the development and implementation of codes of conduct as examples of how industries have found ways to regulate their behaviour and change practices across their sector. The research then looks at current practices in the agro business sector in Uganda and their impacts and then provides recommendations towards the development and promotion of **trading principles** for the agro business sector that will provide a more supportive business environment in which stable and profitable relationships can thrive.

This information was gathered from seminars and interviews with a range of businesses, business associations, commodity development authorities, NGOs and service providers who work within agro industries. Interviews were conducted with players in a range of sub-sectors including coffee, cotton, dairy, fish, floriculture, grains and oilseeds, horticulture and tea. This research summarises their concerns about current trading practices, as well as their advice and recommendations regarding how trading principles could be constructed, promoted and implemented by the business community. Research was conducted by a team made up of one international consultant and local consultants from InterAfrica Law Associates, Value Consult Ltd and Ssemwanga Group, based in Uganda.

**Key findings** from this study include the following:

- There is a growing consensus within the agro industry that the business culture and current trading practices are unsustainable, very damaging, and costly for all players within agro industries.
- There is widespread interest in creating a set of **business to business ‘trading principles’** which look at general trading practices in the sector. This means looking at how agro businesses deal with each other in their day to day operations and proposing a set of guiding principles which could help businesses better collaborate and trade with each other in order to increase profits.
- This does not mean creating a sub-sectoral or sector wide code of conduct which is not felt to be an appropriate measure. A code of conduct will generally look at issues directly related to a business’ operations, such as workplace conditions, labour standards, technical production issues, quality standards, environmental degradation or health and safety issues. In this case Ugandan agro industry is more interested in seeking to combat the **poor trading practices between**

**businesses** which together have created the difficult and risky environment in which Ugandan businesses operate today.

- Trading principles should address issues of loyalty, trust, fair practices and honesty and should aim to promote a more fair and ethical business environment.

A complement to this research, therefore, is a **framework of agro trading principles** by which businesses can, and should, operate to create a stable and profitable working environment. These principles have been developed together with the research report, through various seminars with a range of actors in agro business supply chains. They are available with a **manual** which contains suggestions on how they can be used by companies or business associations. Copies are available from the BSMD office in Kampala.

Finally this research report also provides recommendations on how these principles can be widely promoted and supported by the private, public and non governmental sectors. Improved working practices in the agro business sector can only be achieved if everyone in business commits to a change and if the private sector is supported widely in its efforts to make these changes a reality.

# 1 Responsible Business and Codes of Conduct

## 1.1 Introduction to responsible business

Debates around **responsible business** have increased significantly in the last two decades. This is partly in response to the growing power and wealth of multinationals and a recognition of their potential to impact positively or negatively on whole industries and economies. It is also due to increasing global debates on how businesses can contribute more effectively to sustainable development. While all businesses have primarily commercial objectives, it is now common to encounter businesses which are concerned about their 'triple bottom line' – that is their economic, social and environmental impact. Every business has an impact on society and the responsible business will think about how it employs and develops its staff, how it purchases its inputs, how it sells its product, how it affects the environment and how its acts within the business and wider community.

The **business case** for responsible practice is increasingly being discussed, as clearly businesses will not adopt new practices unless they contribute directly or indirectly to increased efficiency and profit. The business case for responsible practice has many elements to it and will apply differently to different sizes and types of businesses. However, generally key **business benefits** that can flow from more responsible practices include the following:

- more efficient production,
- increased shareholder value (through reduced risk of exposure and enhanced credibility and reputation),
- improved staff recruitment and retention,
- increased worker productivity
- improved marketing and sales,
- an enhanced local reputation (leading, for example, to more successful bids for local tenders)
- improved brand reputation
- reduced costs of doing business<sup>1</sup>

Looking at the wider environment, it is also clear that businesses have an interest in paying suppliers and workers fairly. This is especially true in developing country economies where workers, small businesses and farmers are likely to fall into low-income groups. They are also consumers, however, and it is not in the long-term interest of the private sector to impoverish their target customers. In general, businesses are stronger and more successful when they have the support and respect of all their relevant stakeholders – staff, customers, suppliers, competitors and the communities they function within. It is also relevant from the perspective of developing economies that a responsible private sector can be an extremely important actor in the development of the country.

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<sup>1</sup> See 'Essentials of Corporate Responsibility' Traidcraft Market Access Centre (2003) for an expanded analysis of the business case for more responsible practices.

## ***1.2 Introduction to codes of conduct***

The promotion of responsible business has taken on many forms. A key approach has been the development and implementation of codes of conduct in an attempt to regulate corporate behaviour. Codes of conduct have grown in popularity as multinationals have expanded their operations to the developing world and NGOs have begun investigating their labour practices. This led to increased media coverage, campaigns and consumer boycotts, and consumers in the West have been alerted to the fact that many everyday consumer goods are produced in exploitative conditions. As a result many international companies have become more concerned with understanding and managing the ethics of their supply chains and codes have been created to ensure certain acceptable standards are being met.

However, codes have generally been applied to international supply chains and to suppliers in developing countries who work within the export trade. This means they affect only a small percentage of suppliers and workers in any developing country. There is a growing awareness that it is relevant to look at all business practices within developing countries, looking at the situation of workers and smallholders linked to the domestic market and looking at general trading practices and business ethics.

## ***1.3 Overview of existing codes of conduct***

The International Labour Organisation (ILO) is responsible for international labour standards and, as such, is considered the definitive source of information regarding workers' rights and labour standards. Most codes of conduct are, therefore, developed around the ILO conventions, particularly the 8 fundamental conventions which relate to freedom of association and the right to collective bargaining; the abolition of forced labour; discrimination and equal remuneration, and the elimination of child labour.

A key internationally recognised code of conduct is the Ethical Trading Initiative (ETI) Base Code. Based in the UK, the ETI is an alliance of companies, non-governmental organisations and trade union organisations which exists to promote and improve the implementation of corporate codes of practice. Their goal is to ensure that the working conditions of workers producing for the UK market meet or exceed international labour standards. As such, the ETI Base Code is focused solely on employment. It has 9 sections which expand on the following principles:

- Employment is freely chosen
- Freedom of association and the right to collective bargaining are respected
- Working conditions are safe and hygienic
- Child labour shall not be used
- Living wages are paid
- Working hours are not excessive
- No discrimination is practised
- Regular employment is provided
- No harsh or inhumane treatment is allowed

Another similar internationally recognised code is the **SA8000** (Social Accountability 8000) which is an independent standard that can be used by any private sector company. It was developed with business and civil society stakeholders and is an internationally

recognised standard that companies can be audited against. There are a number of professional auditing companies which are accredited to audit companies against this code, based in the US, UK, Switzerland, Thailand and Norway. SA8000 provides formal certification, surveillance audits and promotes continuous monitoring in the workplace by workers and an accessible complaints and appeals system.

Both of these international codes are '**multi-stakeholder codes**'. These have been developed by bringing together companies, NGOs and trade unions. Multi-stakeholder initiatives are notable in that they bring together companies and members of civil society who are generally critical of labour practices and proactive in challenging corporate behaviour.

There are many other types of codes in existence. These are generally **industry codes** or **company codes**. Industry codes include the Fair Labour Agreement developed by the US Apparel Industry and the Code of Business Practice developed by the International Council of Toy Industries. These were developed through industry associations and apply to all companies working in that industry. There are also many examples of company codes, such as those maintained by many of the multinational garment companies and many supermarkets. With both industry and company codes there is generally a huge variety in the standard elements included. Some codes will be extremely vague and others will be detailed and comprehensive. Some may also exclude certain key elements, such as freedom of association. This diversity is not surprising when so many company codes are in existence - in 1999 it was reported that there were 233 company codes developed and being implemented.<sup>2</sup>

In all cases, codes of conduct are voluntary initiatives which cannot be legally enforced in court. To be a useful tool, the code, and companies which have signed up to the code, have to have a clear commitment to monitoring and verification. The code should allow for independent verification to take place to ensure standards are being met and all actors involved must be prepared to take steps to change and improve their practice. Workers should also have a confidential means to report failures and breaches and need to be protected when they do. Of course, codes are not a substitute for strong national legislation regarding employment practices, nor for suitable national development policies, all of which are key to protecting the interests of poor workers and smallholders.

#### ***1.4 Summary of key issues surrounding codes***

There are increasing debates about the existence of **international standards** and the creation of **local codes of conduct**. Some commentators are concerned that local codes will include exceptions from international standards which might be unhelpful in eroding the progress made internationally on what constitutes minimum labour rights for workers. However, research has shown that producers are likely to prefer local industry codes which they feel are more sensitive to their needs<sup>3</sup> and that building up

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<sup>2</sup> See id21 Insights, 'Richer or Poorer: Achievements and challenges of ethical trade' Insights Issue 36, March 2001

<sup>3</sup> See 'Ethical Trade in African Horticulture: Gender, rights and participation', IDS Working Paper 223, S. Smith, D. Auret, S. Barrientos, C. Dolan, K. Kleinbooi, C. Njobvu, M. Opondo, A. Tallontire, (2004)

local ownership and engagement around codes has the potential for a large impact on workers and smallholders.

It is also a matter for concern that **workers' participation** in the development and implementation of codes has been limited. A multi-stakeholder approach goes some way to ensuring wide participation but it is not straightforward to ensure that the most marginalised and vulnerable workers are included in the dialogue. Many workers have been found to be unaware of the initiatives and codes in existence and it is essential to conduct awareness raising and sensitization on a large scale.<sup>4</sup>

**Wages** are a particularly difficult area and are rarely covered in codes. There is an argument that freedom of association and collective bargaining are the most effective mechanisms to have in place to bring about fair wages, so many codes will refrain from tackling the issue of wages at all. Other codes often defer to the minimum wage in national labour legislation. However, in many countries this is often widely recognised as not sufficient to cover a family's basic needs, therefore not reaching the level of what is considered a 'living wage'. It is still very unclear how far a code can go in enforcing a living wage.

Another growing area of recognition is that **buyers' purchasing practices** are often part of the problem and are not specifically addressed by many of the codes of conduct in existence, which deal purely with suppliers' responsibilities. For example, short lead times imposed by buyers can contribute to enforced overtime and the prices paid by buyers will obviously impact on the supplier's ability to provide decent working conditions, pay and employee benefits. This, however, is a relatively new debate which was highlighted thoroughly for the first time in the recent Oxfam report (Oxfam 2004).<sup>5</sup> This report, for the first time, shifted the debate to buyers' practices and spotlighted this issue with regard to the garment and horticulture industries. There is now a consensus that it is not helpful if a code is just an additional buyer requirement and the entire onus is placed on suppliers to change.

**Who pays** for the implementation of the code is also a difficult issue. For many suppliers it is very expensive to comply fully with codes and taking corrective action will often cost money to pay for improvements. Often there is no guarantee they will continue to be preferential suppliers of a particular buyer. This can, therefore, entail a risk and suppliers are often expected to bear the full cost. There is now a growing consensus that cost and risk sharing concepts should be included in the development of codes.

Finally an area where there are a variety of unresolved issues is when it comes to **monitoring and verification**. In many cases periodic audits are the main method of monitoring. But it is unclear how much spot checks of these kinds can discover regarding workplace conditions and abuses. Workers need to be prepared to be open with auditors and if, as is usually the case, management is organising the audit, then it's not clear if workers will have much confidence in the process. The auditing of multi-

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<sup>4</sup> This lack of awareness was documented in research by the IDS: 'Ethical Trade in African Horticulture: Gender, rights and participation', IDS Working Paper 223, S. Smith, D. Auret, S. Barrientos, C. Dolan, K. Kleinbooi, C. Njobvu, M. Opondo, A. Tallontire, (2004)

<sup>5</sup> 'Trading Away our Rights: Women working in global supply chains', Oxfam 2004

stakeholder codes generally involves local NGOs and/or trade unions, to address this issue of worker confidence. However, in general developing local systems of monitoring and verification which will ensure problems are identified and reported remains a challenge.

### ***1.5 Lessons learned regarding the development and implementation of codes***

In terms of the international debates about codes there is no consensus on best practice regarding how to develop, monitor and implement a code of practice. While local multi-stakeholder initiatives are inspiring significant hope and interest, they still have a long way to go to be consolidated and to have their impact assessed. In the meantime the following summarise some of the key lessons learned nationally and internationally regarding codes of conduct:

- The need for partnership is key and principles and criteria should be developed from an **industry wide perspective** involving as many stakeholders as possible. It is key to create **consensus** and a real **‘culture of change’**. The development of a code has the potential to successfully bring together many interested players and engage them in useful debate, establishing a new level of dialogue within a particular industry.
- Given different stakeholder groups have different power levels, there is no straightforward way to manage the process to ensure all voices are heard and a healthy consensus is established. It can be difficult to get past the initial feelings of distrust between the actors involved but working through this is an important part of the process to establish a meaningful dialogue. Southern based processes of dialogue have good potential to build **local ownership and engagement** in the development and implementation of codes.
- It is necessary to have a real commitment from buyers and suppliers to the code. This means assigning clear management responsibility and integrating the code into **core business practice**, as well as committing resources to it and taking corrective action when required. Ensuring this commitment generally means it is necessary to have senior company representatives present during the process
- Buyers at the table need to recognise that their practices do determine, to some extent, pay, working conditions and other business practices of suppliers. They need to be open to **sharing responsibility for business practices** throughout the chain.
- The development of the code is only the start of a long **process**. There has to be real commitment and follow up to ensure implementation. Resources should be assigned for awareness raising, monitoring, making improvements and changing practices.

Many of these lessons are important to take into account when developing and promoting general agro trading principles in Uganda. Industry dialogue and consensus building is key, as witnessed directly by the research team. The process of change will take time but bringing key industry players and a range of stakeholders together in discussion is a useful place to start. It is the most effective way to promote a ‘culture of change’ and the sharing of responsibility around the way business dealings are conducted in the country.

## 2 The Agro Business Sector and Responsible Business

### 1.1 Introduction

ILO conventions, which form an important part of the basis of most codes of conduct, were never intended to be applied to smallholder farmers. To date codes of conduct in agriculture have mainly been developed in relation to the horticulture sector.<sup>6</sup> A lot of research has been carried out into horticulture commodity chains, particularly from the perspective of UK supermarkets which are increasingly sourcing products in Africa. In this respect responsible business initiatives have largely been focusing on ethical sourcing with regard to fresh fruit, vegetables and flowers and have involved the larger export oriented commercial farms, as traditionally smallholders are not involved in much horticultural export.

Export horticulture has increasingly become a very positive growth area for African countries particularly for Kenya, Zimbabwe and South Africa. Horticultural exports from Zambia and Egypt are growing at a fast pace and the sector is also increasingly important in Tanzania, Uganda and Ghana. As horticultural exports have grown, larger firms have benefited more than the smallholder farmers and the market share of smallholders in the horticulture export trade has declined. This has been documented in the lead exporting countries of Kenya and Zimbabwe where taken together the top 5 exporters control 75% of all fresh vegetable exports.<sup>7</sup> Not surprisingly this is thought to be due to the sophisticated requirements regarding quality control, logistics, storage facilities, product variety and packaging which go hand in hand with the export of fresh horticultural produce.<sup>8</sup> Further, these firms have had the capacity to apply the codes of conduct that have been developed for them and thus the codes have been found to fit more easily here than with smallholders. There are however still some large horticulture export companies which manage to source from smallholders though these have become the exception in the present situation.

Smallholders are extremely important to African agriculture. They make up the majority of producers on the continent and are responsible for the bulk of Africa's agricultural production. It is also an extremely important sector as it provides an income opportunity for the majority of the people, especially for the rural and less advanced.

The issue of application of the currently existing codes of conduct to smallholders is fraught with difficulty and there has been very little work done in this area.<sup>9</sup> What little that has been done is mainly an attempt to find ways to apply the standards in the codes

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<sup>6</sup> This is specifically with reference to the non-organic horticulture sector. The organic sector is generally governed by its own set of specific codes with a large environmental focus.

<sup>7</sup> See 'Horticultural Commodity Chains: The impact of the UK market on the African fresh vegetable industry' IDS Working Paper 96, C. Dolan, J. Humphrey and C. Harris-Pascal, (1999)

<sup>8</sup> It is interesting to note that the organic horticulture market has not evolved to the same level of concentration and supermarkets are still sourcing from a diverse range of small suppliers. There are still potentially many opportunities for smallholders and small export companies within the organic horticulture market.

<sup>9</sup> NRI did look at codes of conduct in Africa in 1998 and included a focus on smallholders. See 'Ethical Trade and Agricultural Standards: Getting people to talk', M. Blowfield and K. Jones, NRI (1999), available at [www.nri.org](http://www.nri.org). ETI also did some pilot initiatives involving smallholders in Africa. Also SA8000 is currently testing its code usability in the agriculture sector. See id21 Insights, 'Changing Standards? A field test for SA8000' Insights Issue 36, March 2001.

to workers employed by smallholders. This, of course, has raised questions. While it is valid to strive for improved worker welfare, there is a debate as to whether this should be done at the expense of the smallholder farmers. It is known that smallholders would find it difficult to comply with codes for a number of reasons including the pay levels their workers, the lack of written contracts, and the poor facilities provided for their workers (which facilities of course are of the same standard as those of their own families). A lack of resources, low levels of education, problems with literacy and organization would all make it extremely difficult. The ramifications are serious. Any smallholders who are too poor to meet the minimum standards of any international buyer's code of conduct could potentially be excluded from export agriculture.

## 2.1 Existing codes in the African agriculture sector

There have been **three local multi-stakeholder code initiatives** in African horticulture. The first one took place in **Zimbabwe** and gave rise to the Agricultural Ethics Association of Zimbabwe. This was set up following the ETI pilot project in the country. The association brings together around 300 members. It has a tripartite structure and is governed by companies, trade unions and NGOs. Its objectives are to promote the adoption of and adherence to a code of practice related to responsible and ethical practices among producers, processors and packers of agricultural products, particularly those intended for export. Recently its work has been affected by the political situation in Zimbabwe so it is difficult to assess the progress that has been made.

There is a second and similar initiative in **South Africa** in relation to the wine industry. The Wine Industry Ethical Trade Association (WIETA) was set up in 2002. It brings together companies, trade unions, NGOs and government representatives.

The third initiative is in **Kenya** where the Kenya Flower Council has a Code of Practice which deals with farm management, general worker welfare (wages, labour conditions, child labour, outgrowers, health and safety risk prevention), agrochemicals, protection of the environment and post harvesting issues (worker conditions, packaging, waste disposal)<sup>10</sup>. However, even with this in existence a large multi-stakeholder initiative, the Horticultural Ethical Business Initiative (HEBI), was set up following a spate of bad press focused on the conditions of workers on flower farms. The industry reaction was to bring together a range of stakeholders—NGOs, government, trade associations and employers—to try to improve conditions and solve the problem together with a multi-stakeholder approach.

The **Zambian** agriculture sector has also done some work around code development, although not through the organization of a multi-stakeholder initiative. Companies working in agriculture in the country are subject to the ZEGA code. This could form the basis for a more participatory code of business practice for the industry in the future.

A very recent development is the development of **draft guidelines** by the **ETI** on how to apply, implement and monitor the ETI base code with smallholders. It looks at the

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<sup>10</sup> Kenya Flower Council, 'Code of Practice – 5<sup>th</sup> Edition' Amended 1<sup>st</sup> August 2002 – see [www.kenyaflowers.co.ke](http://www.kenyaflowers.co.ke)

rights and responsibilities of smallholders and their workers and makes recommendations for the role of retailers, trade unions and NGOs on how to improve smallholders' and their workers' working conditions.

## **2.2 Key achievements**

The horticultural export sector has certainly benefited from the development and implementation of codes, mainly from the perspective of increased and sustained market access for the industry. Long-term relationships have been set up and African suppliers have had access to technical and marketing information and have managed to shape product ranges, increased variety and adapted packaging techniques.<sup>11</sup> This has come as a result of long-term business relations, which have also benefited UK supermarkets in developing supply bases which are reliable and consistently providing good quality products which meet all their requirements.

Key benefits have also emerged for employees, which have been documented by the research into the sector.<sup>12</sup> These benefits include:

- Better health and safety – improved storage and disposal of chemicals; improved use of protective equipment when handling chemicals; improved sanitation facilities and provision of potable water; improved access to medical care and health education for employees
- Formalisation of employment relations – written contracts with detailed terms and conditions being provided; the introduction of pro rata benefits for seasonal and temporary workers and a move away from long-term casual labour.
- Upgraded accommodation and provision of childcare and schooling facilities
- Enhanced opportunities for women to obtain junior management positions

There are certainly some interesting achievements in the agriculture sector in Africa with regard to improving business practices and implementing codes of conduct. However, overall the experience is limited to a few export driven industries and the employment practices of suppliers. There has been no significant work within a particular industry that caters for smallholder farmers and other agro businesses, and which tries to look at the management of whole supply chains and overall practices and conduct between businesses.

## **3 Uganda and Responsible Business in the Agro Business Sector**

### **3.1 Introduction**

Agriculture is the "backbone" of Uganda's economy. The agro sector greatly provides income for the micro and small enterprises in rural areas by supplying agro produce to the urban areas. On the whole, agriculture contributes 40% of Uganda's total GDP and

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<sup>11</sup> See 'Horticulture Commodity Chains: The impact of the UK market on the African fresh vegetable industry' IDS Working Paper 96, C. Dolan, J. Humphrey and C. Harris-Pascal, (1999)

<sup>12</sup> This list is taken directly from 'Ethical Trade in African Horticulture: Gender, rights and participation', IDS Working Paper 223, S. Smith, D. Auret, S. Barrientos, C. Dolan, K. Kleinbooi, C. Njobvu, M. Opondo, A. Tallontire, (2004)

about 75% of total exports<sup>13</sup>. Leading agricultural exports are coffee, fish, cotton, tobacco, tea, flower and maize.

The dominant mode of agriculture is smallholder farming with a few cases of commercial plantation agriculture. Smallholder farmers own an average of three acres of land and use traditional technologies. While Uganda has a huge wealth of natural resources, there is widespread recognition of huge problems affecting the agriculture sector. Quality, productivity and levels of production have suffered heavily in the last two decades since liberalisation. Product sectors such as coffee have seen quality standards plummet and production of key commodities like cotton has dropped significantly. Farmer cooperatives, which faced many problems pre-liberalisation, are now mainly not functioning and most farmers operate individually. There are few collective arrangements and markets have become fragmented. There is considerable scope to increase quality, production levels and productivity.

Major problems faced by farmers include access to markets, credit, market information, storage and processing and support services. The government of Uganda, under the Poverty Eradication Action Plan (PEAP), is currently modernizing Uganda's agriculture through the Plan for Modernization of Agriculture (PMA). Farming as a business is being heavily promoted, and developing more business like, entrepreneurial farmers, has become one of the key concerns frequently being mentioned by senior officials. There are a significant amount of donors financing efforts to raise the competitiveness of the agro business sector.

### ***3.2 Overview of current business practices in the Ugandan agro business sector***

Poor trading practices can be observed in the Ugandan agro business sector in many forms. There is a lot of mistrust and accusation of misbehaviour and malpractices within the sector. Most trade is done in one-off deals, especially at the farmer and trader level, and cheating and exploitation are common occurrences in an environment where making as much profit as possible from a spot transaction takes precedence over honesty, loyalty and reliability in doing business. The latter are, of course, critical aspects of long term business relations that bring many benefits, and many businesses are becoming frustrated with the continued high costs and risks of doing business in the country. While it may be clearly in the interests of many companies and smallholder farmers to link up with other businesses, establish partnerships and develop strong, stable supply chains, this is generally not the norm of what is occurring in the country. Instead the current environment makes business dealings uncertain, risky, inefficient and consequently costly.

The following is an overview of the main areas where **poor business practices** are a concern, as highlighted by interviewees during the research:

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<sup>13</sup> Figures retrieved from State of Environment Report for Uganda 200/2001, Background to Budget Financial Year 2003/04 and UBOS: Statistical Abstract 2000 and 2003.

### **Lack of loyalty, commitment and reliability**

There is no long term view in agriculture and the focus is mainly on quick wins at the farmer and trader level. In this respect the influence of pervasive poverty in Uganda is high and it results in a very short term approach to doing business. As a result it is extremely important in Uganda to make the economic argument for dealing with committed suppliers rather than pursuing intermittent relationships with many producers or traders. There is a need to show that loyalty in business can make both trading partners more competitive not less. It can certainly make sense for processors to deal with a small number of traders who can take on the key tasks of bulking and quality control, rather than maintaining casual relationships with a high number of scattered farmers—who may or may not deliver. While it is true by dealing continually with a more stable group the producers are likely to collectively have more leverage to ensure better prices, but overall the stability, quality control and savings on transport costs should lead to reduced costs and higher prices for everyone in the chain. In many cases the problem is not the lack of market, as many businesses interviewed noted that the markets are there, but the problem highlighted was the lack of a consistent, reliable supply. This finding is echoed by the research conducted by BSMD on successful supply chains<sup>14</sup> which found that key ingredients of successful supply chains are long term relationships, where buyers are investing consistently with committed suppliers to improve quality control and traceability.

### **Compromising on quality**

Adulteration of the product is a common business practice in the Uganda agro business sector. It is seen regularly in the dairy industry where milk is watered down and is also cited as exceedingly common in the grains industry, where grain is sold wet and milled wet leading to fungal infections and high levels of aflatoxins. It is increasingly being recognised that the observance of quality standards is an ethical issue if basic consumer health and safety requirements are being regularly ignored. It is also of course a fraudulent practice if adulteration takes place to cheat the buyer into paying for a heavier (or diluted) product.

### **Not rewarding quality**

Buyers in Uganda rarely give farmers incentives to produce better quality products. In the coffee industry, few buyers are differentiating between types of drying and quality of the product so farmers are not rewarded for extra efforts. Similarly where maize is sold too wet and not clean enough, buyers do not differentiate prices based on wet or dry maize. There are even examples of outgrowers of flowers being enticed to sell immature plants to buyers when demand is high.

This is an extremely difficult issue, as on the whole Uganda is a highly price conscious society. Many consumers have very little cash available and therefore would rather buy

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<sup>14</sup> See 'Successful Supply Chains in Uganda: A study of three successful chains in the coffee, dried fruit and fresh vegetables sector', G. Ribbink, P. Nyabuntu, S. Kumar, (2005), BSMD

for example cheap milk even when it seems obvious that it is watered down milk. And once again pervasive poverty is a key factor. This is a difficult situation to confront though at the same time there have been some quality scandals that have shaken consumer confidence and affected the sales of particular products (e.g. bottled water).

However, continuing poor quality production means continuing low prices for products and the Uganda agro business sector will remain forever locked into a low quality, low income vicious cycle. The resolution of this problem is closely linked in to the issue of business loyalty and commitment. There is a need to develop more loyalty between trading partners to allow them to jointly invest in quality and jointly reap the benefits.

### **Fraudulent practices**

Cheating between trading partners was highlighted as an everyday occurrence in Uganda and one which can take a variety of forms. Cheating on weighing was mentioned repeatedly in interviews. For example, sprinkling water on grain so its heavier before weighing is a common practice of farmers and as most traders don't have equipment to measure moisture they can't detect poor quality of this kind. In spot transactions where the interest is generally in weight, practices such as these are common. Of course this kind of cheating also affects quality and is a form of quality adulteration as well.

There are also cases of dishonesty on weighing on the buyers' side too and in general a lack of trust regarding payments. There are many cases of non-payment or very late payment of suppliers. Often this occurs with larger buyers, such as supermarkets, and processors, who pay small traders or farmers very late, basically withholding payments as a way to finance their own business operations. Given their market power it is difficult for the smaller players to challenge them on this practice. There are also stories of corruption in the trade, with some hotels and restaurants giving traders deals to supply based on the kickbacks they offer. All in all, the general tendency is for businesses to not keep their word and to exploit everyone as much as possible, a tendency that is continually reinforced by the fact that 'everyone is doing it'.

### **Unfair competition**

Finding suitably qualified employees is an issue in Uganda and labour poaching from firm to firm can be a problem. New entrants to the market do not necessarily invest in their own training, but simply poach from other businesses. If such poaching of employees becomes a widespread practice, it may become an unfortunate disincentive to businesses providing training to their workforce.

There are also many cases of poaching of suppliers. A buyer might invest with a particular group of farmers, providing inputs for free and making a commitment to buy. However if a trader appears and offers a slightly higher price, farmers will break their commitment to their previous buyer and side sell. Problems of this kind were cited in a range of industries including tobacco, cotton and horticulture. This creates a disincentive for buyers to invest in their suppliers and makes it difficult to create stable working relationships which could provide important future benefits. Of course it is particularly very difficult for poor smallholders, because even if they are supported by a

particular buyer, they can be easily tempted to sell to non-investor buyers due to their high poverty levels.

### **Farmer exploitation**

Due to poverty and desperation many farmers will take whatever price is offered to them by traders. Lack of market knowledge puts them in a weak position, and a lack of storage facilities means they have little control over when they can sell and therefore cannot wait to sell. Often speculative traders will visit farmers on a seasonal basis depending on price fluctuations and farmers are in a very weak position to demand a fairer price.

### **Brand infringement**

Certain cases were also raised where businesses will copy well known brands quite closely using imitations of their recipes and/or packaging. This is another example of an unfair business practice which is not well regulated in Uganda and which is not easily confronted.

## ***3.3 Overview of contributing factors to poor business practices***

There are of course many obvious reasons for the prevalence of such practices. The high levels of poverty in Uganda have a large impact on the business environment, where a short term outlook is common.

It is also the case that a lot of the industries function in extremely informal ways. This can mean that there are little or no standards, or if there are some standards there is little or no culture of enforcement. For example, in the dairy industry, only a very small percentage of the milk on the market goes through formal processing and meets any suitable quality standards. Many industries still lack the basic technical standards and regulations necessary regarding the production of safe, hygienic, good quality products which meet basic health and safety standards and are therefore suitable for public consumption. This is particularly a problem in industries such as dairy and grain, but also a problem in sub-sectors such as fish where the produce sold on the domestic market often fails to fulfil the quality standards which are more regularly enforced on the export market. It is also the case that the lack of national competition law makes it difficult to regulate unfair practices between businesses.

There are many actors involved in perpetuating a cycle of poor business practices. Traders often get a bad reputation and are blamed for the woes of many industries. They are often branded as unfair middlemen causing a lot of the problems. But they are of course a very diverse group and practices are very different from individual to individual. It would be impossible to isolate the problems to one particular group and all players, including farmers, traders, processors and large buyers play their part. Improving the business environment and practices is a challenge for all industry players and something that needs to be jointly tackled.

Possibly another factor is the government's own procurement practices which are regularly referred to as very poor. Common government procurement practices include not paying suppliers and acceptance of bribes on procurement contracts. The economic

impact of such practices is a problem, but on top of this are the attitudes and behaviour which become accepted on a large scale and which are extremely negative. The government is a poor role model in this respect.

What is clear at this point are the range of negative impacts of such poor business practices. Poor quality prevails as a general agro industry standard, leaving farmers, traders, processors and all other actors in the chain condemned to lower prices for their goods. In terms of Uganda's place on the export market, it is easy to get (and keep) a reputation for exporting poor quality agricultural produce (certainly this has already occurred in the grain trade, where Uganda is missing out on huge export opportunities in Kenya and in the Great Lakes regions which are food insecure). In the case of Uganda, ethical business practices can translate into improved quality and higher prices, as well as increasing access to markets and the sustainability of the industry as a whole.

### ***3.4 Codes of conduct and responsible business practices in Ugandan agro business***

While poor practices are extremely common there are some efforts to impose standards and change behaviour within the agro business sector. Most efforts to date have looked at addressing quality and technical concerns. However, there are other examples of industries which have tried to address issues of business ethics.

#### **Overview of technical codes**

The Uganda National Bureau of Standards has developed a number of codes of practice, which are specific to standards and quality. They include for example, a code of practice for hygiene in the food and drink manufacturing industry and a code of practice for handling, processing, storage and placing on the market of fish and fishery products. The codes provide technical standards as well as detailing the approvals required and how assessment for independent certification will be carried out.

Within the agro business sector it is the floriculture industry which has the most experience with codes of conduct. This is mainly because it is an export-oriented industry and there was a clear need to develop and implement codes to maintain international market access. It also puts Uganda in line with other countries in Africa which are exporting flowers to European markets and, as such, the Uganda floriculture industry participated in the development of a regional harmonised code of practice with Kenya, Tanzania, Zimbabwe and Zambia. Uganda then used this as a minimum standard to develop their own version a little later - the 'Uganda Code of Practice for the Horticultural Sector' Fourth Draft August 2002'.<sup>15</sup> The code includes principles to address the following:

- Welfare of workers and outgrowers
- Workers' occupational health and safety
- Consumer health
- Environmental degradation and general conservation of the environment

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<sup>15</sup> This was produced with the support of the USAID funded IDEAs project.

Since the development of the code the floriculture industry has organised pre-audit checks done by the Uganda Flower Exporters Association and through this process deficiencies have been pointed out and corrective actions taken to improve. All the farms have invested over a period of time to meet the standards. Now they have a Dutch audit company (MPS) which does third party inspections of farms. This is a good example of a functioning, industry regulated code in Uganda.<sup>16</sup>

It is notable that the Uganda Floricultural Association, which caters for small, mainly domestic market-driven growers, doesn't apply this code. In line with much of the international experience, it is in the export driven supply chains where codes are prevalent.

Another technical code which exists in Uganda is the Code of Good Manufacturing Practice for the Handling and Processing of Fish and Fishery Products which was launched in December 2000. This code looks at processing, storage, handling and consumer health and safety. Again the code is market-driven and influenced by the export market. Even though this code is in place, the Uganda Fish Processors and Exporters Association is interested in complementing the existing quality and technical standards with more general principles related to trading practices and business ethics.

The USAID funded IDEAs project also worked on codes of practice for the vanilla and cocoa industries. These are still in draft form and are not being fully implemented, mainly due to weak associations and lack of industry engagement. Both draft codes are technical, focusing on quality standards in the sub-sector. USAID continues its interest in developing codes through SCOPE, a new USAID funded project which provides technical assistance to 8 agro business sub-sectors. It aims to raise the competitiveness of the industries and help them to develop industry wide strategic plans. Part of this work will include the development of codes for each industry sub-sector. Codes would cover technical quality related issues as well as fair purchasing practices and labour related issues and potentially could also bring in a set of ethical trading principles.

### **Overview of codes with ethical components and responsible business initiatives**

Currently there are few codes in existence which explicitly address ethical issues and look at general industry practices. However, there are certainly industries which are interested in this and which have dabbled in this area. The coffee industry tried to do this some years ago and was particularly interested in addressing certain unethical practices which have become prevalent since trade liberalisation when 'anyone and everyone' got into coffee. However, this code was not successfully implemented by the industry.

Currently in the cotton industry the Cotton Development Organisation is working on resolutions with the Uganda Ginners and Cotton Exporters Association (UGCEA).<sup>17</sup>

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<sup>16</sup> This code has now been overtaken by EUREPGAP standards and would technically be out of date. However, the industry is in the fortunate position of having already implemented a code of conduct and has found it easier to adapt to the new EUREPGAP standards. MPS has now started audits against the new standard.

<sup>17</sup> See CDO/UGCEA resolution 'Policing and Monitoring of Cotton Production and Marketing Activities for the Season 2004/2005'

These resolutions are voluntary but generally the ginnerers have been observing and adhering to them. The resolution is an effort to improve productivity and production of cotton and looks to organise the sub-sector, by putting in place a zoning system which will improve trading practices and cooperation between ginnerers and farmers. The members have resolved to: cooperate, commit to buying from certain areas, invest in these areas, refrain from buying from areas they have not invested in and cease all mobile buying. If successfully implemented this would lead to a reduction in the problem of poaching suppliers and would lead to greater commitment and trust between farmers and ginnerers. This would allow for greater investment, improved quality of production, higher prices, and potentially more long term, mutually beneficial trading relationships. Since first implementation in the 2002–2003 season, production of cotton has steadily gone up, ginnerers have purchased tractors to support production, demonstration plots have been set up, a private sector funded extension system has been established and collective marketing by farmers has helped them receive better prices. UGCEA has also been able to finance the collection, treatment and distribution of cotton seed to farmers.

Another interesting recent effort is that of the Uganda National Agro-Inputs Dealers' Association (UNADA) which was formed three years ago with primarily rural retailers and now includes larger suppliers, distributors and importers. The sector operates very informally, with many dealers operating outside the legal framework. The code that was developed simplifies the laws regulating the sub-sector and restates them, as well as including more general issues related to ethical conduct. It includes technical and quality standards and also clauses related to trading practices, such as keeping records and receipts, not engaging in unethical conduct, not asking for or accepting bribes, being credit worthy, not forging documents, ensuring effective communication and transparency and exposing fake input dealers. The concept of UNADA and its code is very closely related to branding. The dealers who joined the association want the code to show they stand behind some clear principles and to show that they are a better source of supply and will provide quality and reliability. Given it is a small association with members working closely together in their branches they have found enforcement is possible. Members are able to observe each others' practices quite closely and they have clear penalties for breaching the code.

There are also potentially many company codes being implemented in the Ugandan agro business sector which have ethical business elements. There is at least one example provided by Bo Weevil, a Dutch cotton company which has its own production and trading criteria.<sup>18</sup> These include commitments to paying a fair price, guaranteeing buying, providing assistance to farmers and establishing long term relationships. Ugandan suppliers who are exporting to fair trade markets will also be abiding by minimum ethical standards laid down by the international Fairtrade Labelling Organisation.<sup>19</sup> This is the case for a small number of Ugandan tea and coffee suppliers who are fair trade registered.

In the dairy sector, the Dairy Development Authority is working with industry players to look at developing standards and improving practices. Traders in the dairy sector are about to begin drafting guidelines for themselves on how they should interact. These are

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<sup>18</sup> See [www.boweevil.nl](http://www.boweevil.nl)

<sup>19</sup> See [www.fairtrade.net](http://www.fairtrade.net)

likely to include ethical propositions. There is also an initiative among traders in Nakasero market – mainly those involved in the fruit and vegetable trade - to develop their own code of practice. Both of these initiatives could potentially benefit from adopting the ethical principles developed in parallel to this research report.

There are also companies instituting responsible practices within their own supply chains. In some cases lead firms can be found who are making consistent efforts towards controlling quality, providing extension services to farmers, providing pre-financing and inputs, and establishing long term relationships. These are often in high value export markets where Ugandan companies have managed to establish and support more committed suppliers. Three companies involved in these kinds of responsible trading relationships were documented by the BSMD successful supply chains research.<sup>20</sup> These were Mairye Estates dealing in fresh vegetables, Fruits of the Nile, dealing in dried fruit and Gumutindo Coffee Cooperative Enterprise.

As this overview shows, there have been some attempts in Uganda to look at business practice and standards within certain agro industries. However, these are generally technical and most often are export-driven. They have been most successful in industries which have fewer players – for example, a small number of large buyers. However, other industries such as coffee and cotton which have huge numbers of smallholder farmers are both interested – and in need of – an initiative to improve general business practices and reform unethical behaviour. Certain industries are already moving to look at more ethical issues within their industry and there is certainly a lot of openness and interest in continuing to do this in a more consistent and sustained way.

## **4 Improving business practices in the Ugandan agro business sector**

### **4.1 General recommendations**

Throughout the research process it became very clear that there was a consensus around the need for improved business practices in the agro business sector. Many industry players recognised the need to create some **general business principles** and expressed a high degree of openness to finding ways to promote these and work towards a new, improved more ethical business culture. All players also recognised that it was necessary to apply these general principles to the **whole supply chain** and all its actors. This means not trying to exclude traders, or any other actor, but instead to work to help them improve their practices. It is important to formalise the trade and give all players incentives to formalise and improve their practices.

It was also clearly recognised that business ethics are a private sector issue and for this reason the private sector must lead in resolving it. It is up to the private sector to create a suitable business environment, not the task of the government which is working to create an enabling environment for business through different policy initiatives. There was a clear consensus that this needs to be an initiative **led by the private sector**, for

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<sup>20</sup> 'Successful Supply Chains in Uganda: A study of three successful chains in the coffee, dried fruit and fresh vegetables sector', G. Ribbink, P. Nyabuntu, S. Kumar, (2005), BSMD

the private sector, not imposed on them or led by an external force. Without real industry engagement and ownership it will be impossible to implement change. To ensure engagement it is necessary to highlight the win-win situation that can come from new attitudes and business behaviour and prove that money can be made from good business practices.

Any initiative to create a new way of doing business in the sector could improve the **image** of Ugandan agro businesses. Ethical principles could be a foundation for efforts to **brand** the Ugandan agro business sector and an important **marketing tool** in this respect. Given the widespread nature of the issue there is, besides of the support of the private sector itself, also a lot of support for and interest in this initiative from both donors and government.

**Advice** which came from industry players on how to create and implement principles for agro traders included the following:

- Develop a **general framework** which has some key business principles that industries and companies can sign up to.
- Promote this **'framework for doing business'** in the form of a uniform template, alongside a **manual** which shows industries how to apply the principles and explains the benefits to their business and the industry as a whole.
- Promote this framework in such a way that **each industry sub-sector can adopt it** if they choose. Allow industries to **adapt** it and make it suitable to their particular context and problems. This way the framework can be a starting point for either a whole industry or one particular company which wants to endorse the principles.
- Promote the framework with **farmers** in a way which will build their buy in to the effort as well. Find ways to encourage dialogue with farmers and take into account their ideas to adapt the principles. (This is likely to mean the framework and manual will have to be translated into local languages).
- Promote adoption and adaptation of the new principles in those industry sub-sectors which are most **'ready'** or which most need it. This could be in cotton, coffee, fish, horticulture, dairy or grain. The dairy sub-sector is currently looking at developing best practices and technical standards, however, the business associations are new and many are still struggling for membership. It might be possible to look at issues related to more ethical business practices and trading relationships at the same time, or it might be more effective for the industry to take a sequential approach, dealing with technical needs first and then moving to discussions on business practices. This is of course a decision for the industry players who will need to **choose** to take part in this process of principle adoption and adaptation.
- In any process, find the **key players** who will champion the cause. Then try to be as **inclusive** as possible. Do not exclude the small, informal players but find ways to help them improve their practices.
- Ask **business associations** to adopt the principles and make signing up to them part of association membership.
- Encourage industry **self-regulation** to ensure that the principles are being implemented. Encourage also bodies involved in industry arbitration processes (for example, sub-sector development authorities like the Dairy Development Authority) to use the principles in their discussions.

## ***4.2 Promoting the Principles: Recommendations for the private sector***

A key role in promoting the principles should be played by **agro business associations**, preferably those who are the best organised and most credible within their industries. The **Private Sector Foundation (PSFU)** should also take on a role to promote general acceptance across the sector and with government. As their role is mainly in representing the interests of the private sector to government, they would not be effective in any practical promotion downwards. However they could endorse it publicly, give it more credibility and advocate to government around what the public sector can do to promote and support it. The **National Chamber of Commerce** could also take on some responsibility for promotion, given their large geographic network. They would be a practical supporter in terms of their ability to do wide promotion directly to business people.

Within a particular industry, **lead firms** could also publicly sign up to the set of principles and use them in their supply chain management. They can look to organize farmers groups, work closely with their suppliers, establish a relationship with them, foster commitments, sign contracts and provide pre financing. By abiding by the principles and working towards long term stable supply relationships they will also influence others in their supply chain and their competitors.

Certain private sector bodies can also take on responsibility for promoting the principles with farmers. This would be possible through existing **farmers' associations**, as well as through the **National Council of Uganda Small Scale Business Organisations (NCUSBO)**, a business membership organisation which brings together many small farmers and which could generate discussion on the principles at grassroots level and at sub-county and district level where they have organised councils with farmer representation.

## ***4.3 Promoting the Principles: Recommendations for the public sector***

There is a large role for the public sector in being supportive of any initiative to improve business practices in Uganda. Agencies like the **Uganda Investment Authority** and **Export Promotion Board** should have an immediate interest in principles for businesses and could provide credibility to the initiative by publicly endorsing them and promoting them with the industry players they come into contact with. **Commodity development authorities** also have a key role in endorsing and promoting the principles. They can also use them directly in arbitration procedures. Promotion could also be supported by the **Uganda National Bureau of Standards** which could complement its existing technical standards with a framework of more generic ethical business principles.

The Government of Uganda's **Medium Term Competitive Strategy (MTCS)** is currently writing a new strategy to improve private sector competitiveness in 2005-2010. This strategy will focus on the issue of clusters and cluster strategies. There is no reason why these strategies could not include specific principles of business ethics to complement their other areas of focus. MTCS could promote the endorsement and adaptation of the principles in this respect in particular industries. MTCS is also involved in a World Bank funded project – the Private Sector Competitiveness Project – which includes funds to develop brands for certain sub-sectors. These sub-sectors have

not been identified yet but part of the branding concept could be to use the principles as part of the foundation of any branding exercise. A framework of ethical principles has enormous potential to fit well with any **industry branding efforts** if taken seriously by industry players.

There is also of course a role for public sector support programmes in agriculture, such as the **National Agricultural Advisory Service (NAADS)** which has a direct connection to the grassroots. Through NAADS capacity building work with farmers, broader sensitization and promotion of the principles could take place.

In general the role of government cannot be underestimated. The government of Uganda is also a role model for the private sector and should also be striving to improve standards in its own practices. Public procurement practices should also be improved and the role for more ethical purchasing practices there should be considered.

#### ***4.4 Promoting the Principles: Recommendations for the non governmental sector***

Broad promotion and sensitization work with **farmers** at the grassroots is key to promoting more ethical practices in the agro business sector. It is also an initiative which could contribute a lot to the efforts to promote the professionalization of farming and entrepreneurship of smallholders. In promotion work of this kind, the NGO community could be an important ally. Many are working directly with small farmer groups and have a significant presence in Uganda. NGOs are already concerned with improving trading practices, in a way that will benefit farmers. Building trust, loyalty, commitment, and more professional, ethical conduct in the agro trade is of course an issue of importance to their work. It is extremely feasible that NGOs work with farmers groups in a way to get them to ascribe to a set of principles. NGOs certainly have a significant comparative advantage in this area due to their networks and grassroots presence.

NGOs of relevance here include Appropriate Technology, Care, World Vision, SNV, Vedco, Satnet, ActionAid, as well as NGOs working specifically on organic agriculture. Other NGOs which could play a role include microfinance institutions which provide education and training related to business, in which business ethics and principles could be explained and promoted.

NGOs can also play other roles: They can for example promote dialogue on and acceptance of the framework of principles. NGOs can also use it as the basis for any process they support to develop sub sector codes of practice with industry. The principles can be used to complement quality and technical standards and any standards related to employment practices and working conditions. They could also use the principles as criteria to select the companies and business associations they work with, by giving preference to working with businesses who demonstrate adherence to the principles as part of their grant making activity. This would provide further incentives for responsible business practices. Many NGOs are probably already taking issues of business ethics into account in their decision making processes, but by formally applying the principles they would lend further credibility to it.

## **4.5 Conclusion**

The private sector is the key actor to take forward any initiative related to improving business practices and ethics in the agro business sector. There is no reason for this to be a donor-driven effort or for industry players to need donor finance to take it forward. If businesses want to apply new ethical principles and see benefits in that, then they will strive, individually and collectively to promote change.

However, it is also true that creating a shift in business attitudes, culture and behaviour is an extremely difficult task and one which requires support from a variety of actors. New, improved business ethics and principles can be promoted through a range of complementary promotional strategies with both the public sector and non governmental sector having important supportive roles to play. Changing the business culture in the Ugandan agro business sector is possible with sustained efforts over the long term. The benefits which could potentially flow from such efforts in terms of improving quality, productivity and competitiveness should not be under estimated.

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## Interviewees

This research depended heavily on contributions from industry, business associations, public sector agencies and non-governmental organisations who agreed to be interviewed. The research team would like to thank the following for sharing their information and experiences, their recommendations and support:

Clive Drew.....	Agricultural Productivity Enhancement Programme (APEP)
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Ronald Byamakah .....	Nakasero FFV Trader
Samuel Niiwo .....	National Council of Uganda Small Scale Business Organisations
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