

Enhancing Local Sourcing of Fresh Fruit and Vegetables in Uganda's Domestic Market

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Disclaimer

The views in this paper are either the authors' or derived from interviews with key informants and stakeholders and are not necessarily endorsed or shared by the International labour Organisation (ILO) or the British Department For International Development (DFID) as donor.

Foreword

The Business Services Market Development Project Uganda (henceforth BSMD) is addressing the core economic problem of weak business linkages and helping to embed micro and small businesses (MSEs), and smallholder farmers within, rather than be excluded from, markets. To do so, the project is pro-actively developing market-based solutions to key business constraints at the micro and agro sector level.

The overall goal of the project is to increase market access for MSEs and smallholder farmers through the development and strengthening of supply chains that link the rural poor to urban, national and international markets. The purpose of the project is to promote the adoption of improved business practices that address identified business constraints and in particular constraints to supply chain formation in Uganda. It is envisaged that once strong and stable supply chains are established, MSEs and smallholder farmers can gain access to a wide range of business services, thus allowing them to improve their individual as well as the overall chain's competitiveness.

To achieve its goal, BSMD is undertaking action research activities as well as a number of specific studies to identify constraints that prevent the establishment of supply chains in Uganda; developing alternative mechanisms and “tools” to overcome the identified constraints; and promoting and demonstrating the benefits of effective and focused supply chains. The results of these actions will then also contribute to the overall understanding and development of the commercialisation of business services, their delivery mechanism and to the roles and responsibilities of the donors, development agencies and the government in developing the MSEs and the private sector in general, in Uganda.

The focus of BSMD is thus on acquiring and disseminating expertise that addresses fundamental MSE constraints in a systematic manner, rather than undertaking stand-alone project interventions.

In line with the above, BSMD contracted a group of consultants to “gain a better understanding about the purchase practices of supermarkets and agro processors in Uganda, in order to advise how buyers and suppliers of agricultural products can increase local trade, and supporting organizations can stimulate local purchasing.”¹ The research team included two US-based consultants—Marshall Bear, a small business consultant and Dr. Richard Goldman, an agriculture economist. They were joined by InterAfrica Corporate, a Ugandan firm specializing in local and global trade. The field research was conducted from February 14 to March 4, 2005.

¹ See Appendix A for the TOR for the research.

Executive Summary

Fresh fruits and vegetables (FFV) are among the sectors where Uganda can achieve growth in coming years. But extensive press coverage during 2004 suggested that local foreign owned supermarkets were actually importing FFV, rather than purchasing them locally. In some parts of the developing world, in particular Latin America and some parts of Asia, supermarkets now dominate the value chains marketing of agricultural produce. Supermarkets in South Africa are currently emerging as an important player, so this trend, if confirmed, could have serious implications for the future economic growth of Uganda. A study was therefore launched, to investigate the facts behind these reports.

It was concluded that the FFV produced by **smallholder farmers have almost all of the market, even in the recently opened foreign owned supermarkets.** Very small quantities of FFV are imported, mainly to fill seasonal supply gaps or to serve a demand for products not grown in Uganda. But these supermarkets only have a very small share of the total FFV market; while statistics are not available for Uganda, supermarkets in Kenya account for just 4% of FFV sales.

The number of retail kiosks is increasing, but for the moment, most FFV are sold in municipal, open-air markets², which will **continue to dominate the retail FFV market in the future.** Evidence shows that even among the lower income groups, an increase in incomes will lead to rising expenditure in FFV. This connection is stronger for middle and upper income groups.

Farmers who can develop long-term partnerships with brokers and other potential buyers will benefit from increased market efficiency and stability. The consultants have documented the mutual commercial advantage of inter-firm cooperation, which is an important aspect that could make the domestic FFV market work better for small farms.

The report recommends that traders, brokers, farmers, retailers and other buyers should **extend “research” on commercially viable sourcing strategies.** The **exchange of information and experiences** between businesses themselves and with supporting agencies and policy makers would help the development of the FFV sector in pro-poor ways.

The most strategic intervention now is to **support a mechanism for learning** and to promote the exchange of ideas and approaches between key stakeholders in the private and public sectors. Support agencies could further **help in ongoing research** on changes in domestic demand for fresh fruits and vegetables and the market response. This would insure informed future policy choices to enhance opportunities for small farms and firms in the growing fruit and vegetable sector.

² These refer to open air markets operated under license by local municipal governments and sometimes are referred to in the literature as “wet” markets. The number of municipal markets vary by size of the locality.

1 Background and Introduction

The fruits and vegetable sector in Uganda is highly varied, with the large bulk of these commodities both grown and consumed on the same smallholdings. However, an important component, also grown on small farms, is transacted in markets destined for consumption or processing within Uganda or for export within the East Africa region and beyond. This study is aimed at understanding issues relating to the local sourcing of fruit and vegetables in markets serving Ugandan consumers. The volume and value of product moving through this channel is low relative to the size of the agricultural sector, but as a share of cash income for lower income small farm families it is more significant. Moreover purchased fruits and vegetables are increasing objects of consumer expenditure as the urban and peri-urban population grows and diversifies, both in terms of income distribution and ethnicity.

The rise of supermarkets in Uganda and Kenya, where it is a larger component of retail marketing, has called into question the robustness of the more traditional marketing sector and implications for small farm sales into marketing chains for fruits and vegetables. The linear organization and high-tech communication associated with modern retailing structures stands in stark contrast to the horizontal, sometimes referred to as fragmented and seemingly unstable, character of traditional marketing chains. This contrast between more capital and less capital intensive (and more labour intensive) enterprises and marketing chains is often confused with prima facie evidence of relative economic inefficiency in the traditional sector. But in fact, this is often not the case, particularly in a low-income country like Uganda, where a large portion of fruit and vegetable sales takes place via small transactions involving lower and middle income consumers. Existing marketing systems locate, transport, and deliver products at low cost, and they are often quite adaptable to changing economic conditions that may result in demands for greater volumes, greater diversification of products, and changing spatial features.

Uganda's agriculture is largely rain-fed, reflective of the diverse agro-ecological environment, and conditioned by the biological constraints specific to the varieties of crops grown throughout the country. These features result in highly seasonal fruit and vegetable production. This underlying regularity is upset by random change associated with weather conditions from one season and area to another. The principal challenge to market intermediation is to find a product in these unstable conditions and to move it over space and time to consumers (or processors) in such a way that offsets rather than reinforces the unstable conditions of production. The inherent perishability of FFV commodities is aggravated in a hot country like Uganda, creating another challenge for the marketing system to overcome. The competitive conditions in these labour intensive, poorly capitalized markets tend to disadvantage market players who cannot perform these functions while keeping costs relatively low per unit of marketed product.

Another response to the unstable conditions listed above takes place on farms, where the more successful small farms employ effective means for improving water management. Examples of this are gravity irrigation, water conservation techniques, crop rotation, and the environmentally questionable shift to using swampland for growing vegetables. These strategies, each making minimal use of scarce capital and finance, serve to partially offset seasonal constraints. Successful farmers are able to harvest crops when market conditions are tight. This results in a price reward at the farm gate and an

incentive to the better market brokers who search out these farmers and secure relationships with them.

Investment in cold chains—cold storage facilities at strategic parts of the marketing chain—is a technically efficient way to address the perishability of FFV commodities. But this is an example of the distinction between technical and economic efficiency. In a poor country where even middle-income consumers find it difficult to afford increasing amounts of FFV in their diets, only a narrow market is available to reward the investment of scarce capital in such infrastructure. The paucity of such features in the Ugandan marketing chain is not an example of economic inefficiency but a reflection of the low incomes prevalent in consumer markets. As economic development proceeds, conditions will become more conducive to such investments.

Uganda, and particularly the Kampala area, has experienced important demographic and economic change in the past decade. Given the difficult challenges described above, how have fruit and vegetable markets adapted? What lessons from this experience might apply as the markets continue to adapt to future changes? This paper outlines some of these changes and provides evidence to throw light on the process of economic adaptation that has gone on recently and on possible scenarios of future adaptation and implications for small farm fruit and vegetable production.

2 Problem Solving in the Domestic FFV Market

2.1 Key Research Questions

The origins of this exploratory research on local sourcing in domestic fresh fruit and vegetable markets was partly influenced by concerns about what “was not” happening or what “might” happen in Uganda’s food retail markets. Recent articles in local newspapers³ suggested that large supermarkets were importing a significant amount of fresh and processed food and “were not” sourcing from locally available supply. The research found that large supermarkets source the bulk of FFV and spices from local sources with imports filling seasonal gaps in local supply (e.g. mangos from Kenya) and filling customer niches with products not grown in Uganda (e.g. apples from South Africa and elsewhere).

The presence of new large supermarkets in Kampala—two Shoprites and one Uchumi—also raised concerns about the potential dominance of these players in food retail and the threat this “might” pose to small farmers for market share in domestic markets⁴. The research found that large supermarkets in Uganda have a very small share in the overall domestic FFV market, and this is not likely to change in the near term. Even in Kenya where incomes are higher and the scale of urbanization greater, large supermarkets have no more than 4% of the overall domestic FFV market. Currently, large supermarkets present an “opportunity” for local farmers to expand into the higher income markets with a range of fresh product.

This research aims to provide an overview on the status and issues relating to the changing FFV market structure and consequences for the structure of supply into this market. Uganda, and particularly the Kampala area, has experienced important demographic and economic changes in the past decade: the return of the Asian population, the expansion of the foreign aid-related expatriate community, a gradually expanding urban middle class, reduced trade tariffs, more open borders, greater availability of foreign exchange. The research focused on “what is” happening in the domestic FFV market in response to these and other changes and explored a few key questions:

- How are market players adapting to change and experimenting with solutions to the inherent instability of the seasonal and perishable FFV market?
- How might the pattern of economic growth influence the market structure and future demand for FFV?

This section summarizes how different actors—retailers, brokers, farmers—are experimenting with strategies to mediate between demand and supply. The cases are used to summarize findings on the structure and dynamics of the domestic FFV markets and the effects on opportunities for local sourcing by retailers of FFV from local growers.

³ August 10, 2004; New Vision; "MPs want supermarket policy"

⁴ *The Rise of Kenyan Supermarkets and the Evolution of their Horticulture Product Procurement Systems* by David Neven and Thomas Reardon, Development Policy Review, 2004, 22 (6): 669-699

2.2 Inherent instability in the FFV market

FFV markets are inherently unstable due to the seasonality of supply of highly perishable products. Instability is exacerbated in Uganda’s FFV market with its predominant rain-fed agriculture and an under-developed transportation system. Participants in the FFV markets, on both the supply and demand sides, respond to market signals resulting from this underlying instability. Table 1 shows that

	Motivation	Constraints
Retail Demand	<ul style="list-style-type: none"> • Low price • High quality 	<ul style="list-style-type: none"> • Supply instability • Perishability
Farm Supply	<ul style="list-style-type: none"> • High price • Low cost 	<ul style="list-style-type: none"> • Production volumes • Production instability • Perishability

retailers are motivated to buy high quality product at the lowest possible price. They seek a cheap, stable supply of consistent quality product in order to increase their profit and satisfy their customers. On the other hand, farm suppliers are motivated to

supply as much as possible at high prices produced at the lowest possible cost. A market solution to this instability is one that effectively and profitably intermediates between the different motivations and constraints of retail demand and farm supply.

2.3 A general categorization of sourcing strategies

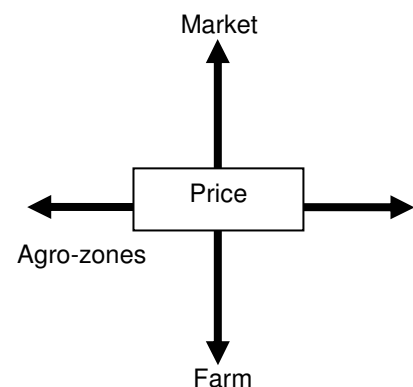
In FFV markets, there are two categories of sourcing strategies to lower costs and offset instability, each with its own technologies and costs, as depicted in Figure 1.

Extensive: One strategy is to source across agro-ecological zones aiming to find abundant and cheap produce where the growing season is prime. This is an *extensive strategy*, employing transportation and long distance communication resources. The rapid diffusion of cell phones, the reduction of tariff barriers and open market policies makes this a more viable strategy as it reduces the search costs in locating supply from more distant sources. The extensive strategy favours a core competence in building horizontal networks across space and in searching more extensively as retail prices rise, reflecting seasonal scarcity.

Intensive: A second strategy is to source within a tightly linked farm to market value chain. This is an *intensive strategy* that is based on developing long term relationships based on good performance and trust. This strategy employs group and interpersonal skills aimed at improving communication of market information and new agronomic practices. In this strategy cooperation among farmers and between farmers, brokers and retailers yields cost reductions and market-determined but mutually shared benefits. The intensive strategy favours a core competence in building long-term business relationships within the value chain.

These general categories of sourcing strategies guided the research teams’ exploration to determine if FFV markets in Uganda were dynamic and problem solving. The research sought to learn from different markets actors—retailers, brokers, agro-processors and farmers—about their individual strategies so it could relate observations

Fig 1: Sourcing Solution Strategies



on individual cases to a broader framework on sourcing solutions in FFV markets. The presence of problem solving behaviour is evidence in support of the view that competition is driving market participants to search for lower cost, and more profitable, methods. This approach to understanding the FFV market helped to confirm or refute the idea that Uganda FFV markets were dynamic and evolving along an efficient path.

2.4 Problem solving in Uganda’s FFV market

Table 2 identifies the composition of solution strategies being undertaken by different market actors interviewed in the course of the research. The underlined type represents the core competencies expected of the different actors; the italic type represents observed experimentation and adoption of *new competencies* in the search of attractive solutions. The research found a pattern of problem solving among market participants that starts with building on core competencies until a threshold of marginal returns is reached which then induces a shift to other solutions, based on secondary competencies, with a promise of better return. One can conclude from this table that there is a lot of experimentation happening in the Uganda FFV market aimed at finding cost-effective solutions to changes in demand for greater quantities of a more diverse mix of high quality FFV.

Market Actor	Core and Non-Core Competencies	
	Intensive	Extensive
Large Supermarkets	<ul style="list-style-type: none"> - <u>Direct contract relationship with fewest number of farmers to meet required quantities</u> - <u>Wider range of products with few suppliers</u> - <u>Establish long-term relationships enabling farmers to capture more value added (e.g. pre-packs)</u> 	<ul style="list-style-type: none"> • <i>Direct contract relationships but with a mix of farmers and brokers to meet quantities required</i> • <i>Narrower range of products with more suppliers</i> • <i>Experimentation with different supply models</i>
Farmers	<ul style="list-style-type: none"> - <u>Stabilize water to grow year round</u> - <u>Increase productivity</u> • <i>Organize other farmers</i> 	<ul style="list-style-type: none"> • <i>Search outside group for product at low prices</i>
Brokers	<ul style="list-style-type: none"> • <i>Manage relationships with farmers</i> • <i>Embed services—information, finance, and technical assistance</i> 	<ul style="list-style-type: none"> - <u>Expand search to many agro-zones</u> - <u>Efficient price discovery for low cost product</u>

Large supermarket led problem solving—the case of Freshmark

Freshmark is a wholly owned subsidiary of the Shoprite Checkers group responsible for procurement of FFV for the exclusive supply to Shoprite stores. Freshmark’s preferred supply model is a direct relationship with farmers with the capacity to supply a consistent quality product throughout the year (e.g. larger irrigated farms). Freshmark enters into a supply contract that specifies the range, quantity and quality required (e.g. visual appearance, temperature on delivery) over a fixed period. The farmer is required to deliver against the contract even if (s)he must source shortfalls from other suppliers. Prices are constant over the contract period with each party trading away margins when prices fluctuate above or below the contracted price. This supply model is expected to induce longer-term relationships where farmers can capture more value through pre-packs and other value adding activities. Larger farms with fixed capital investment (e.g. irrigation) are the natural counterparts to Freshmark, which must insure a constant

supply of product to Shoprite to offset the high degree of fixed investment associated with its business model—a cold chain from delivery to display.

Freshmark's preferred supply model—characterized by its core competency in building intensive long term relationships direct with farmers—is not now working in Uganda. Freshmark is experimenting with a mix of intensive and extensive strategies to identify workable supply models adjusted for the Uganda context of small farm size, different agronomic practices, and the limited irrigated area or cold chain infrastructure from farm to market⁵. The current mix of supply arrangements include:

- Importing more products (e.g. exotics) now than they prefer until they can find reliable local suppliers.
- Working more with brokers (8 of their current 13 suppliers are brokers) as a second best supply option.
- Contracting for a narrower range of products from a larger number of farmers.
- Offering more services—Freshmark's *planting program*—as part of their supply contracts with farmers.

Freshmark's *planting program* adds more service—specifically information on farming techniques and inputs and monthly farm visits by Freshmark staff—as part of its supply contracts with farmers. Farmers eligible for the *planting program* must be a registered company, have a track record in growing crops, have about five acres of available land and have a bank account to receive payment. Freshmark will work with a larger number of individual farmers on a limited range of product with a focus on exotics—asparagus, baby corn and carrots, beetroots, white onions—that can be grown in greater volumes in Uganda instead of importing from Kenya or South Africa. The contractual arrangements set quantity, quality and delivery requirements for a fixed period at constant prices during the contract period. Farmers are required to source product from other farmers in case of shortfalls from their own production.

Large supermarkets are investing to enhance local sourcing of FFV to improve their business performance in an increasingly competitive retail food market in Kampala. FFVs are draw cards (hooks) in their business model, used to attract customers, induce spending elsewhere and promote customer loyalty. The FFV section at the two Shoprite Kampala stores are not yet at acceptable levels of quality and consistency, though they were the best among the supermarkets visited during the research.⁶ Freshmark is experimenting with different supply models to improve the FFV sections. It will be important to track how the different models perform and implications for future sourcing directly from small farms:

- Will farmers successfully deliver the quantities and quality required at an acceptable cost?
- Will farmers successfully integrate new functions and skills in their business model and generate acceptable returns?

⁵ Irrigated farms exist nearby Kampala but they target export markets for flowers and some FFV with higher margins.

⁶ Interview with Freshmark procurement manager.

Farmer led problem solving—the case of Quality Food Suppliers

Four years ago, Grace, with the support of her husband, decided to expand her parents' subsistence farm into an agri-business venture focusing on the production and sale of fresh vegetables—initially, cucumbers and tomatoes. Today, Quality Food Suppliers, supplies supermarkets (Uchumi, Shoprite, Payless) and restaurants with red chillies, cabbages, green peppers grown on her 5 acre farm. She also operates an open-air kiosk outside Metro Cash & Carry, Nakawa. She supplements her production shortfalls by coordinating and purchasing the output from 10 nearby farmers. Grace also imports products from Kenya to offset seasonal gaps for products she could grow (e.g. onions and mangoes) while also supplying customers with products she can't grow (e.g. apples). Grace combines local production and imports to satisfy her buyers' requirement for a steady, consistent supply throughout the year. The case of Quality Food Suppliers is instructive because it illustrates farm-led strategies to offset instability of the FFV market.

Grace has had to intensify her core competence of farm production, organization and management. This required her to incur new costs—she pays cash to growers and provides credit to her buyers (anywhere from 7–14 days)—and new risks of coordinating the output of others to meet supply contracts. She invested in a packing shed, and a cold room to insure quality prior to delivery to supermarkets, restaurants and other Kampala buyers. Grace also has had to integrate the “new” functions of the broker—to search for product in and outside Uganda, to discover prices for existing and new products—in order to supply supermarkets and restaurants in line with their requirements for a consistent supply of quality product. She has had to develop new networks beyond the farm, new skills in price negotiation and incurred new costs (e.g. tariffs and taxes) and risks associated with cross border trade. Quality Food Suppliers has doubled its turnover since 2003, which results from a more complex and demanding business model.

Grace is an example of a farmer who has bypassed traditional brokers and solved own search problems by sourcing from neighbours' farms and importing from her contacts in Kenya. This farmer's competitive advantage in offsetting instability—over a traditional broker—is that she can more easily solve problems of a stable supply of diverse range of quality product because of her own farm output. However, it may be more difficult for the farmer to scale up to meet greater quantities: she can expand vertically by putting more land into production (or by organizing neighbouring farmers) and increasing productivity or investing in more costly water management technology; or she can expand horizontally by expanding the broker function with her own farm business becoming a less important part of her scale up strategy. This would mean mastering the functions and skills of the broker. This may tax the limits of her entrepreneurial skills.

Box 1: Better Butternut Squash by Abdul!

Abdul was a teacher 10 years ago now he grows the best butternut squash sold at Shoprite. Abdul is one of Shoprite's 5 preferred farm/suppliers—he grows spices and about 15 different vegetables. His expansion strategy focuses on product diversification through on-farm research. Shoprite wasn't happy with the quality of imported butternut squash. Abdul got seeds and information from a local seed dealer. He experimented in small plots and found that he could grow a high quality product and get a reasonable return. Abdul dedicates a portion of his 5 acre farm to new crops. Cauliflowers didn't head and the costs of producing a “baby range” exceeded prices. He's now trying malinga (a bean). Abdul has no plans to expand horizontally by supplying product beyond his own production.

Broker-led problem solving—the case of Daily Fresh Products

Stall #550 at Nakasero market has been in the Odede family since 1926. Boniface Odede took over the business from his mother 13 years ago and has expanded it far beyond the retail sales of a limited line of FFV. Daily Fresh Products, the name of Boniface’s enterprise, supplies a broad range of high and low margin FFV to large supermarkets, restaurants and other institutional buyers. Boniface’s core competence is that of a highly skilled broker: he has an extensive network of buyers, all with cell phones, across a broad range of agro-ecological zones (e.g. he sources carrots of different types from Uganda, Kenya and Rwanda—the best quality); he can efficiently procure a range of products at different margins from multiple sources; he can shift product from local to export markets depending on opportunities and price; and more recently, he can respond to opportunities for new FFV products through a flexible network of farm suppliers he has developed.

According to Boniface, the domestic FFV market is highly competitive with an increased number of new entrants placing pressures on margins, the source of profit for brokers. His strategy is to source and supply a broad range of product—both high volume and low margin (e.g. onions, cabbages) and low volume and high margin (e.g. sukumawiki (e.g. collared greens), spring onions, broccoli, etc). The case of Daily Fresh Products is instructive because it illustrates how a broker with core competencies in extensive marketing has integrated an intensive strategy into his business model to offset the instability of supply in order to lower his cost and stabilize his supply to a growing number of institutional buyers.

Boniface has developed a network of outgrowers in order to satisfy clients with a diverse mix of quality product on a consistent basis. His strategy is to identify lead farmers and have them specialize in one specific product such as broccoli, sukumawiki

Box 2: “Stick with your buyer and your buyer will stick with you.”

This mantra was used by a highly autocratic but successful manager of an outgrowers' scheme for export of habanera chillies in western Uganda. He imposed discipline on outgrowers, summarily dismissing them from the scheme if they sold to other buyers. Farm organization can be a very slow and expensive process. Buyers are reluctant to invest in farm organization because of the difficulty of capturing the benefits due to price fluctuations over the course of a contract. The research uncovered examples of where a large agro-processor with a commitment to farm organization ultimately had to invest in their own farm to smooth supply. The choice to offset instability through better farm organization is a serious one fraught with risk; it underscores a set of core competencies in relationship management and building that are central to the viability of this strategy.

and Chinese onions (e.g. spring onions). Specialization by product of lead farmers insures increased quantities and quality over time. Boniface aims to have contracts with up to four farmers per product to spread risks in case of failure by one farmer. He provides a package of services that are embedded in the supply contract: market information on what to grow; seeds; technical know-how (e.g. crop rotation); and cash advance to cover purchased inputs. He will adjust the level of upfront service in relation to farmer risk and in turn expect a better price from the farmer.

Effective brokers will know how to make money even when margins are small. In an increasingly competitive FFV market,

Boniface is an example of a broker who chose to incorporate into his business a strategy of backward integration into farm services, to provide a more stable flow and diverse range of FFV to his clients. He can by-pass the local assembly markets for low volume and high margin product by organizing directly from farmers to whom he supplies farm

services in return for supply agreements. Brokers who are backward linked to the farm have the competitive advantage of quickly responding to changes in customer preferences through their own supply network. The scale limits of the backward linked brokers are limited to their own entrepreneurial capacity to manage and build intensive, long-term relationships with their buyers and customers.

2.5 Domestic FFV market: small and dynamic

Using qualitative methods, the research revealed that local sourcing was expanding in line with changes in demand. This exploratory research did not attempt to quantify current or future trends in FFV demand⁷, but there is ample evidence that the domestic FFV market is growing and it is dynamic:

- More FFV sold today than five years ago.
- The exotic niche serving Asians and foreigners is growing fast.
- Nakasero vendors now offer a broader range of products⁸, from local sources, than 5 or 10 years ago.
- Open-air kiosks can be found at busy intersections and busy shopping areas, and they are growing rapidly.

In the course of the research, key informants pointed to sectoral constraints that could undermine local sourcing and suggested possible solutions:

- Post harvest loss in moving highly perishable products adds costs and undermines the competitiveness of the sector; this constraint could be overcome with more investment in cold chain for storage and distribution.
- Chemical residue left on fresh product, and the un-hygienic conditions at municipal markets, presents health risks and costs; this constraint could be overcome with investments in consumer awareness and education.
- Encroachment of vegetable farms into wetlands presents environmental costs; this constraint could be overcome with incentives to farmers to adopt irrigation technology.

It was beyond the purview of this research to assess the benefits and costs of alternative solutions to offset instability in the domestic FFV market. An assessment of food safety risks and the environmental costs in the FFV sector and the implications on local sourcing might be merited.

Box 3: “My cabbages don’t sell!”

Why can't I—complained a representative for a farmers group distant from the Kampala market—sell my cabbages? The answer is that demand is too small for key market actors—retailers, brokers and farmers—to enter into forward commitments with confidence for more distant cabbages. As demand grows and more market players place a premium on a stable supply of quality product, then forward commitments will expand to more distant sources of supply. The distant cabbage producer might need to shift to a more high value crop to offset increased marketing costs.

⁷ An October 2004 study by Fintrac's Horticulture Development Centre in Kenya quantifies Kenya's domestic market for fruits and vegetables (email hdc@fintrac.com)

⁸ Ronald Byamakah, a Nakasero vendor, reported that of the 64 items on his price list 22 new items have been introduced in the last 5–8 years.

The research focused on understanding whether or not market actors were finding low cost solutions to the problem of instability. The research found that market actors at all levels—retailers, brokers, farmers—were experimenting with different solutions, and these solutions were enhancing local sourcing. The market is effectively performing its function of transmitting information and bringing demand and supply together for FFV.

With this finding, the research team could then ask a number of related questions:

Box 4: Agro-processors and local sourcing.

At present, Uganda's agro-processing sector is not a major buyer of FFV. Processors interviewed cited that the main constraints to profitable growth were the lack of demand for packaged FFV products, and the high costs of electricity, transportation and packaging. Supply of FFV in the volumes required was not cited as a constraint. One industry insider was not optimistic about Uganda's competitiveness in exporting agriculture concentrates because of the high costs of transport to Mombassa port and by the cost of packaging material which is boosted by a tariff erected by the East African Customs Union, aimed at supporting Kenya's packaging industry.

- How might the pattern of economic growth influence the market structure and future demand for FFV?
- What might be the role of local and international support agencies in enhancing local sourcing under different change scenarios?

The next two sections of the report address these questions.

3 Uganda Growth Scenarios

The recent period of economic growth in Uganda has been accompanied by an increase in demand for FFV and an adaptive marketing process that has supplied increasing quantities of traditional FFV as well as increasing variety, most of which is from local, small farm sources. Some of the adaptive behaviour has been discussed in the previous section. Here we discuss some of the larger factors that fostered the increase in demand in the recent period and then discuss alternative scenarios for the future expansion of demand and how those scenarios might impact on the structure of FFV marketing and the interface between the FFV markets and small farm suppliers.

3.1 Macro Factors Supporting the Increase of Demand for FFV

The demand for FFV takes place within a broad economic context. Although the FFV market is relatively small, it has been dynamic in recent years. The demand for FFV is very income sensitive. The past and prospective growth of these markets is easier to understand when placed in the context of broader economic factors. Some of the key macro factors from the past decade or so may diminish as sources of growth going forward. If so, it is important that other factors grow more rapidly if the growth in FFV demand is to be maintained or augmented. Some of the important factors in this regard are summarized in Table 3 below.

Income	Price	Urbanization	Preferences
<ul style="list-style-type: none"> • GDP • Remittances • AID Flows • FDI • Dependency ratio 	<ul style="list-style-type: none"> • Supply & demand balance • Foreign Exchange Rate 	<ul style="list-style-type: none"> • Population density and growth • Income density and growth 	<ul style="list-style-type: none"> • Emulation • Education • Demonstration • Ethnic composition

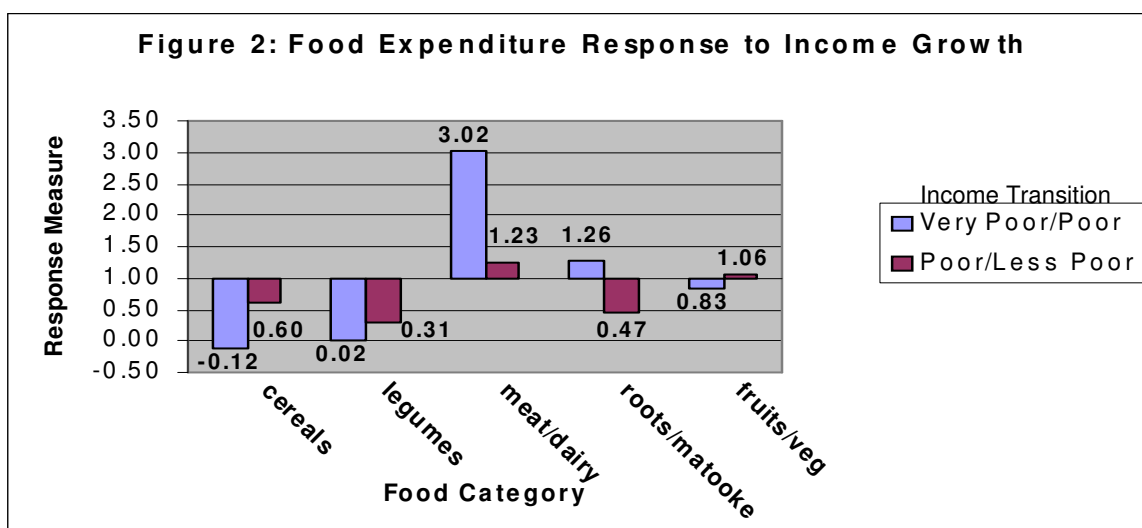
Uganda, in recent years, has experienced moderate economic growth by developing country standards, but the record is a notable achievement measured against the earlier period. Rapid urban population growth is also a recent feature, though at 15% the urban population share⁹ is still small relative to Latin American, many Asian, and some southern African countries. According to the gross domestic product figures, real income per capita has increased at about 7% annually since 1997, with the bulk of the growth coming from the monetized part of the economy¹⁰. Aggregate expenditure has exceeded domestic source income, supported by substantial aid transfers **and** by a remittance flow that exceeds even the foreign exchange value of coffee exports. All of these monetary sources flow through the economy and into the pockets of high and low income recipients ultimately being translated into expenditure on goods and services, including on fresh fruits and vegetables. The activity we observe in the FFV markets including the structural changes is reflective of this consumption behaviour and urbanization. In the case of Uganda FFV markets these forces were supplemented by changing food preferences based on improved health education, the influence of the growing Asian and foreign population, and the proliferation of restaurants and hotels, among other factors.

⁹ Uganda National Bureau of Statistics

¹⁰ Uganda National Bureau of Statistics

Experience from other countries suggests that there is a hierarchy of consumer food preferences that gets expressed as incomes rise. So the demand for food groups grows in absolute terms and relative to each other in accordance with the growth of income and whose income is growing. Very low-income families, for example, although they prefer other foods, will put their energy needs first, consuming the cheap staple foods that are associated with poverty. In Uganda, posho and beans fall into this category. With a small increment of income poor people substitute for these inferior (not necessarily nutritionally inferior) foods with additional amounts of the more preferred staple food—matooke in Uganda—and they begin adding sugar based products and small amounts of protein sources. In Uganda, examples are juices, milk and sugar—the latter two being consumed in tea. At higher levels of income a growing portion of expenditure is aimed at meat protein and fresh fruits and vegetables.

Is Uganda different? There is little research available to answer this question, but casual observation suggests not. In addition, data from a recent study¹¹ can be reorganized to throw light on the process of diet diversification among low income, urban-based Ugandans. The paper reports data from a sample of “poor” and “less poor” Kampala residents, including their total monthly expenditure disaggregated by category including various food groups. The data are recalculated here to represent the expenditure patterns of three groups in the study—the more poor, the poor, and the less poor—in order to show the relationship between increments of total expenditure and increments expended on specific commodity groups. The calculations shown in Figure 2 are proportional relationships between income and expenditure, comparing the poorest group with the mid-group and the mid-group with the less poor group. A value of 1.0 should be interpreted as, “a one percent increase in total expenditure is associated with a one percent increase in expenditure on the associated food group”. Values less than 1.0 indicate a falling portion of expenditure on that group, and values greater than 1.0 indicate a rising proportion. When the proportionate response is less than zero it means that the absolute expenditure fell.



The pattern shown in the chart below supports the hierarchy of foods notion. As poor consumers transition from being very poor to less poor, they first maintain their

¹¹ Sarah Nakabo-Sswanyana, Food Security and Child Nutrition Status Among Urban Poor Households in Uganda: Implications for Poverty Alleviation. Africa Economics Research Consortium (Nairobi) RP130, May 2003

consumption of posho and legumes and then begin substituting in matooke. Early in the income transition, the demand for “meat and milk” becomes robust. The data do not allow us to distinguish which of the two commodities dominates. The final conclusion, and the most important from our perspective, is that the demand for fresh fruits and vegetables is strong even in the early stage of the income transition and the demand strengthens as income grows. Based on studies from other food economies, we can expect this demand for fruits and vegetables to gather strength through the middle and into the high-income groups of the economy. This observation leads to the conclusion that both income growth and the distribution of income will determine the pace and aspects of the structure of FFV demand.

3.2 Private Sector Responds to Changed FFV Consumption

As reported in the earlier sections of this study, the major players in the FFV markets—consumers, retail vendors, market middlemen, and farmers—have all played a dynamic role in the development of these markets over the past decade or so. Consumers have increased and diversified their FFV consumption choices. FFV vendors—the traditional Municipal market vendors, newer large supermarkets, restaurants, and a growing number of kiosks—have been dynamic in their response to this demand expansion. Farmers have learned to cultivate new vegetables, improved water management techniques, and some have organized marketing groups or even taken on the role of market broker, in pursuit of economic gain. Market brokers and other middlemen have innovated along both extensive and intensive paths in response to profitable opportunities to bring traditional and exotic FFV to market. Brokers, particularly, have benefited from the rapidly expanding cell phone technology, the availability of second-hand vehicles, improved domestic security, and easier access to cross-border transactions.

Over the past decade or so, supply and demand has balanced in the FFV markets, at prices that exhibit seasonal instability but no upward trend, adjusted for general inflation (the non-food price index). As always in perishable food markets, there has been seasonal instability, but the price record suggests the absence of sustained shortage. In the face of rising and diversified demand, supplies—mainly from domestic sources—have been forthcoming. Important studies based on the 1992/93 household survey showed that price movements in the retail FFV markets were transmitted efficiently to all other levels of the market¹², an important feature of an economically efficient market structure. At the same time marketing costs were high (measured as a share of the farm level price), reflecting the underlying high cost of marketing. No similar studies have been carried out since that period. But given the improvements in transportation and communication infrastructure it is likely that as marketed FFV volume has increased, per unit margins have fallen (adjusted for general inflation), which is another dimension of economic efficiency.

3.3 The future market for FFV

The future expansion path of FFV marketing depends to an extent on two strategic features: first is the growth rate and distribution of income over the next ten years or so;

¹² Donald Larson and K. Deininger, "Crop Markets and Household Participation" in Ritva Reinikka and Paul Collier, eds, *Uganda's Recovery*, Fountain Publishers (Kampala, 2001)

second is the structure of retail food marketing. Uganda has experienced a successful, sustained period of recovery growth, following on the social, political and economic breakdown that began in the early 1970s and ended in 1987. Considering the future of FFV market growth, some aspects of the economic recovery are probably not sustainable. For example, the return of the Asian community to Uganda as well as the influx of foreign aid workers is now reflected in the structure of Uganda's demography. But that element, which has been an important aspect of FFV demand in Kampala particularly, is not likely to grow. Foreign assistance and remittance transfers were a rapidly growing support for general consumption expenditure, including FFV consumption, in the 1990s. But as a share of national expenditure, these sources may not grow and might even decline. So a continuation or augmentation of the economic growth rate will probably rely on improvements in economic productivity, something that was not a strong feature of the economic growth of the 1990s. The demand for FFV is very income sensitive, so a slow down in growth as well as an enhancement will be reflected in FFV market activity, including the pace of marketing innovation.

Over the past decade or so, there have been important changes in the retail market structure for FFV. In some ways, the most obvious and publicized change has been the rise of large supermarkets. But as mentioned earlier in this report, these stores (there are three) account for a small share of FFV marketing. There has also been a rapid replacement of the traditional dukas with smaller supermarkets. But these stores, for now, sell very little FFV, preferring to use their limited cold storage space for milk and poultry and their limited capital to support other aspects of store improvements. The more dynamic part of the FFV retail market is the proliferation of FFV kiosks. Some of these kiosks are larger, more substantial structures located outside the small supermarkets or at service stations. Some are roadside stands. They source their product from the municipal wholesale markets. The municipal markets have also experienced change, reflecting the rising and diversified demand for FFV, as well as the congestion-driven shift of demand away from the large, central markets toward the community-based council markets.

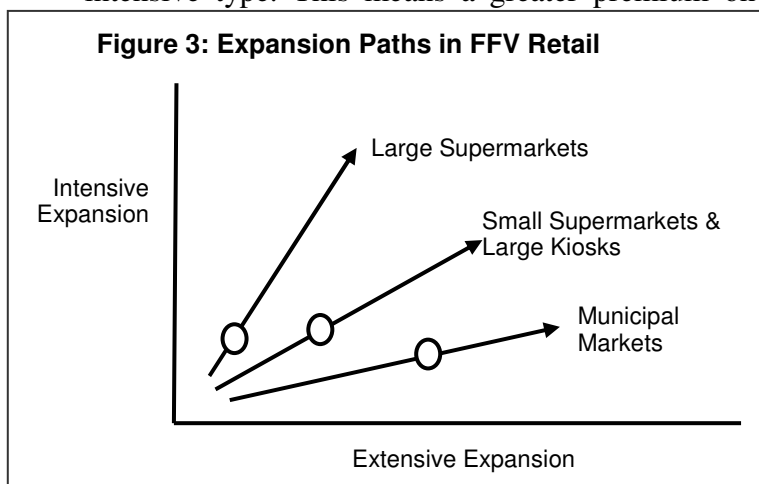
Looking into the future, continued population growth and urbanization will probably support further growth in both kiosk-based shopping for FFV as well as shopping at the council municipal markets. The smaller supermarkets may or may not begin to "bring FFV inside" into a capital (and electricity) intensive cold-storage structure, in a bid to replace the kiosks out front. This shift is more likely to occur in a rapidly growing income environment. The large supermarkets will probably become somewhat more competitive in the marketing of higher value FFV, but if the experience from Kenya is a guide, the market share will remain small. It is unlikely that the number of large supermarkets will grow as rapidly as it has in Kenya¹³.

The concept of extensive and intensive sourcing strategies can be used once again to consider the role of small holders in the future development of FFV markets. Alternative expansion paths for the FFV retail structure are shown in Figure 3 in association with the growth path of extensive and intensive market innovation (the horizontal and vertical axis, respectively). The black circles denote the relative importance of each element now in the market structure. As explained earlier in the

¹³ The Fintrac study on Kenya's domestic FFV market (referenced earlier) found that the fresh kiosk market channel (open air kiosks, green grocers and general shops) has experienced spectacular growth in the past decade and now captures an estimated 45% of total retail sales (page 16).

report, the large supermarkets prefer contract relationships directly with farmers. They place a very high premium on stable and fresh supply, since they view FFV as part of a strategy for convincing shoppers that all their food needs can be satisfied under one, very capital intensive, roof. They view the role of the FFV section, not in terms of direct profits, but in the sections' success in bringing customers into store thus increasing overall sales volumes per square foot and reducing average unit costs. In other words, as large supermarkets expand, there will be a demand for market innovations of the intensive type. This means a greater premium on supply from farmer groups, from

farms with access to cold storage, and from farms with a higher quality of water management. If Uganda had a bigger sector of irrigated large farms as there is for example in Kenya, then large supermarket expansion would probably involve greater sourcing from these types of farms. Such farms, currently producing flowers for export, may in the future reorient to supplying large supermarkets.



At the other extreme are the municipal markets and the brokers who supply them. These markets currently find it cost effective to source FFV from an extensive network of small farmers extending across agro-economic zones and even borders. As discussed earlier in the report, intensive strategies employed by both vendors and brokers for sourcing product in these markets are a dynamic feature but not likely to dominate as the market expands. For the foreseeable future small-holder producers of FFV will be the dominant suppliers to these municipal markets.

In some ways, the most interesting development to watch as the FFV market develops is the role of the kiosks and small supermarkets. Kiosks generally obtain their produce from the municipal markets, but some are supplied directly by brokers. And for the larger kiosks, particularly those located in front of small supermarkets or service stations, direct broker supply may be an increasing trend. Whether or not the small supermarkets will absorb these kiosks is an open question. The capital and operating costs involved are high, involving cold space and perhaps a cold room, plus the competition from high margin packaged goods for floor space is high. If small supermarkets did absorb the kiosks which are currently out front, that would reinforce the trend for being supplied directly by brokers—perhaps brokers with access to wholesale cold-storage. This in turn would probably be incentive for brokers to follow more intensive strategies for developing relationships with a network of farmers.

Box 5: Outsourcing the FFV Section

Metro Cash and Carry, a large South African retailer, has not yet succeeded in integrating FFV as a service section in its business model in its main outlet in Kampala. Past efforts to bring FFV into its main store failed for lack of adequate advance planning especially in its handling of product and its payment policies to suppliers. Management has decided to outsource the FFV section to an existing FFV supplier who will take full responsibility for stocking choices, display and operation. MCC provides space at the store entrance and exits for a monthly rent along with signage and some promotion. The risks and profits would be with the vendor. Success at the main store could offer a model for FFV sales at the 14 Kwiksaves, small supermarkets owned and operated by MCC.

4 Summary Findings, Conclusions and Recommendations

The origin of this research was set in a context of concerns about Uganda's FFV market and opportunities for participation by small farm suppliers. The foreign sourced FFV sold by large supermarkets—Uchumi, Shoprite, Metro Cash & Carry—cast a negative light on their sourcing practices and led to a serious discussion among legislators to require the government to develop a policy to compel large supermarkets to buy locally 30% of their produce especially food stuff.¹⁴ Alternating periods of FFV shortages and gluts raised concerns about the behaviour of market participants—especially traders and brokers—in manipulating the market for their benefit to the exclusion of consumers.

The BSMD project commissioned this overview and independent assessment of local sourcing issues in FFV markets to start a process of replacing casual observations with an analytical understanding on how the FFV market operates and how this influences sourcing practices and opportunities for small farms. This last section of this research report summarizes the main findings on local sourcing practices in the FFV market, draws conclusions from these findings on the rationale for public policy formulation and support interventions and provides a set of recommendations to the private sector, government and support agencies to help make the domestic FFV market work better for consumers, small farm and firms.

4.1 Findings

Large supermarkets source the bulk of FFV from local farmers: The research found that large supermarkets source the bulk of FFV from local sources with imports filling seasonal gaps in local supply (e.g. mangos from Kenya) and filling customer niches with products not grown in Uganda (e.g. apples from South Africa and elsewhere). Large supermarkets and their buying agents (e.g. Freshmark for Shoprite) are experimenting with different strategies to enhance the quantity and quality of FFV product sourced locally.

Problem solving behaviours by market participants are present in Uganda's FFV market: The research observed and documented examples of problem solving behaviours by market players at all levels of the market—farmers, brokers, and retailers—to find low cost and profitable solutions to satisfy changing demand. The presence of experimentation by market participants—especially their investments in building longer term relationships—is evidence in support of a competitive market that is driving market participants to experiment and innovate for commercial advantage.

The FFV market is small and appears to be efficient: Drawing on past research and the research team's interviews and observations, it was found that supply and demand has balanced in the FFV markets, at prices that exhibit seasonal instability but no upward trend. There has been no indication that other market forces—such as collusion by market intermediaries—explain price fluctuations. The price record overall suggests the absence of sustained shortage. Important studies based on the 1992/93 household survey showed that price movements in the retail FFV markets were transmitted efficiently to

¹⁴ Reported in the September 23, 2004 issue of the Monitor; "Garden City sets pace for shopping centres

all other levels of the market¹⁵, an important feature of an economically efficient market structure. In the face of rising and diversified demand, supplies—mainly from domestic sources—have been forthcoming.

Future growth in the FFV market will depend on the pace and distribution of income growth, urbanization and the structure of retail food marketing: The factors that have driven demand so far—the return of the Asian population and the growth in foreign aid workers—are probably unsustainable and will have to be replaced by improvements in economic productivity. FFV demand is very income sensitive and so a slow down in economic growth or its enhancement will be reflected in FFV market growth. The structure of food retail will influence local sourcing in different ways: the growth of supermarkets, large and small, will favour direct supply relationships with farmers and place greater importance on farm organization, cold storage and improved water management; the growth of municipal markets and kiosks will favour indirect supply of FFV through brokers and traders and place greater importance on communication, transportation infrastructure and trade policy.

4.2 Conclusions

Is there a rationale for a public policy remedy and support interventions to enhance local sourcing in Uganda's FFV market? There does not appear to be a “market failure” rationale based on the findings of this exploratory research. Yet, our observations and interviews can only offer a snapshot of the FFV market at a specific point in time. The research findings relied on research studies which while useful have not been updated (Uganda's Recovery) or were not organized (UBOS household survey data) in ways to inform directly the issues of sourcing in local markets. There is no information on market size, product flows and market margins from which one could better understand trends in market costs, an important factor influencing economic efficiency in Uganda's FFV market system. It did not appear that the domestic FFV market was currently on the agenda of local or international support agencies¹⁶ from which a pool of market information and intervention experience could be drawn. Additionally, the research noted a set of issues—such as food safety (e.g. chemical residues on fresh product), environmental (e.g. encroachment into swamplands)—which could retard local sourcing in FFV markets but the analysis of these issues were outside the scope of this research activity.

This research was designed to shed light on concerns voiced by policy makers and government about foreign sourcing in a country with abundant agriculture resources, about the seasonal patterns of shortages and gluts of product that raised questions about the effective functioning of market intermediation. It is hoped that this research on the FFV market and others that follow will shed more light on these questions, but it is likely that these question will continue. This could result in uninformed policy interventions that could damage rather than strengthen the market and enhance opportunities for small farms and firms in the FFV market.

¹⁵ Donald Larson and K. Deininger, "Crop Markets and Household Participation" in Ritva Reinikka and Paul Collier, eds, *Uganda's Recovery*, Fountain Publishers (Kampala, 2001)

¹⁶ USAID's APEP project chose not to continue support to domestic FFV markets because it expects greater development impact by focusing on agriculture export markets.

The findings from this research—given both their insights and limitations—justify an important role of support agencies in helping the FFV market work better for small farms and firms in two areas:

- To encourage, support and publicize the process and results of private sector experimentation as they search for low cost and profitable solutions to offset the instability in the FFV market with the participation of small farms and firms.
- To create and support an analytical context for public policy formulation and support in the FFV market based on current and relevant information on factors driving change in demand and supply.

4.3 Recommendations

Private Public Sector Partnership

In the view of the research team, the most strategic intervention now in support of enhancing local sourcing in the FFV market is to promote learning and exchange between key stakeholders in the private and public sectors. This requires a project like BSMD with a market development mission to facilitate more informed discussion as the basis for potential future interventions to strengthen small farm access to higher value segments in the FFV market. The process of learning and exchange will also have the indirect benefit of building the support services—in market research, network formation, information management—that will be a vital part of a growing and competitive FFV market.

This research has documented the benefits of inter-firm cooperation with a long term view of building relationships for mutual commercial advantage. The relationships become a means for greater market efficiency which in turn will reward those with better margins by lowering costs and increasing stability in a context of lower prices brought about by more competition. Long term thinking and mutually supporting commercial relationships will be rewarded by the market place and therefore encourages the following behaviour by the private sector:

Farmers should develop partnerships with brokers and other potential buyers: Most farmers in Uganda are relatively far away from consumer markets. Access to accurate and relevant market information, specific consumer requirements as well as access to inputs and advice are difficult and costly to obtain. Identifying suitable and trustworthy business partners in brokers and other farmers is a important strategy to bridge gaps in market knowledge and lower costs and risks in entering higher value markets.

Traders, brokers, farmers, retailers and other buyers should continue developing their “research” on commercially viable sourcing strategies: As markets are dynamic, all market players have to continuously seek ways to optimise their operations and take a long term perspective to limit costs and risks in a way that suits best their particular skills and markets. This research study identified the composition of intensive and extensive solution strategies being used now to enhance local sourcing. Some existing solutions may work; some may not work; and new ones may be tried to bring supply and demand together, profitably. A private sector led and public sector encouraged and supported effort could monitor the comparative effectiveness of these strategies for local sourcing to see how they have worked out in practice. The task right now is not to

intervene on the side of any of the strategies or their proponents but rather to learn how the private sector understands and solves market problems. Key questions suggested by this research include:

- Have large supermarkets successfully evolved a direct sourcing strategy with small farms? Are their solutions scaleable in a growing market?
- Have market brokers been able to successfully establish intensive and long term supply relationships with a larger number of farmers across a broad range of products?
- What forms of farm organization have been tried by both private and public sector agencies¹⁷ and which ones succeed in linking farms to the market both profitably and sustainably?

Businesses in the FFV sector should exchange information among themselves and with policy makers: The rationale behind this is that businesses can learn most from each other and thus sharing information and experiences will be beneficial to all to improve their operation. Providing information to supporting agencies and other key policy makers will help them to inform future policy choices affecting the FFV market and develop appropriate support services. Providing information about production and marketing innovations among market actors to meet changing consumer preferences practices and strategies and publicizing these efforts through the media, will help the sector and in particular traders, brokers and the larger buyers to improve their currently poor image.

The research team hosted a roundtable discussion with a small but informed group of market players in the FFV sector. They were very receptive to a forum for learning and exchange. This could be the genesis of a private sector discussion and advocacy group of some type—a loose network or informal association—with the interest and incentives to enhance local sourcing as a strategic goal for the industry. The rapid expansion of food marketing and supply in Africa has been primarily private sector led¹⁸ with regards to setting and enforcing quality standards, gathering and disseminating market information, and providing capacity building services to the industry. There is no such group now but judging by the interest and willingness expressed at the roundtable there could be with some external support for convening, a mechanism for learning and exchange between them and with key public policy makers.

Support agencies could play the role of convener of the private sector group. In this role, they could take a number of short-term but concrete actions:

- *Share this and other research reports with the people who attended the private sector roundtable and other key people and supporting agencies.* It will be important to provide feedback to the individuals and agencies that were consulted in research and test their interest in some form of continuing dialogue.
- *Undertake an exploratory study on the willingness of private companies to form an informal discussion and lobby group on to advance the interests of local sourcing.*

¹⁷ NADDS is the primary public sector vehicle in promoting farmer organization

¹⁸ The Rise of Supermarkets in Africa: Implications for Agri-food Systems and the Rural Poor, Weatherspoon and Reardon, Development Policy Review, 2003

This will be an organization without a direct stake in the FFV market but one which can leverage its organizational credibility as a knowledgeable and honest broker.

- *Identify models and mechanisms in Uganda of private sector led associations and groups to learn how they are organized, function and supported.* The rationale behind a network of market competitors is to find ways to cooperate for competitive advantage. Networks can take on many different forms. It would be useful to learn what forms of private sector networks exist in Uganda, the type of joint activities they have undertaken and their results.

Market Research on Market Structure and Dynamics

Future decisions on policies and support to enhance local sourcing must be based on a common understanding of how the domestic FFV market functions. It will be important for specific stakeholder groups—government, private sector and support agencies—to arrive at a common definition and key indicators of market efficiency and market structure in order to track changes in a cross section of selected markets in and outside of Kampala. Among the key questions to consider include:

- Do market prices for FFV reflect normal patterns of seasonal variation?
- Are market prices being transmitted between Kampala and other markets?
- Do market margins decline as market infrastructure (e.g. communications) improves?
- How does food expenditure respond—across income groups—to changes in income?
- How will the retail market evolve in response to changes in population growth, urbanization and income growth?
- Do food safety concerns and wetlands encroachment by FFV growers pose threats to FFV market development and opportunities for enhanced local sourcing?

A number of specific actions can be taken by supporting organisation in the short term (over the next 4–6 months) to lay the groundwork for a series of studies that establish baselines against which changes in market efficiency and structure could be tracked over time.

- *Identify and convene a group of researchers from different disciplines:* Support agencies with interest and capacity to undertake this research includes IFPRI, the agriculture economics department at Makerere University, the Uganda Bureau of Statistics and individual researchers¹⁹ who have done some research in this area. The group needs access to updated data on prices, inflation and household expenditure.
- *Do a stocktaking of existing studies as the basis for future studies:* Future studies could up-date past studies (Larson and Deininger) and can draw on the data from the Socio-Economic Survey collected by the Uganda Bureau of Statistics. There may be other relevant studies the research team did not unearth.
- *Prepare research proposals:* This study identified relevant research questions against which specific proposals could be developed in a collaborative fashion with support agencies.

¹⁹ Sarah Nakabo-Sswanyana cited in footnote 12 above

- *Align Uganda market research with regional activities:* IIED is the institutional home for a collaborative research project called “Regoverning Markets” that examine market access by primary producers in agriculture value chains.²⁰

²⁰ The research consulted a Uganda study supported by Regoverning Markets entitled “Scoping Study on Dairy Products, Fresh Fruits and Vegetables” by Lucy Aliguma and James Nyoro, November 2004.

Appendix A: Terms of Reference

Objective

The objective of this study is to gain a better understanding about the purchase practices of supermarkets and agro processors in Uganda, in order to advise how buyers and suppliers of agricultural products can increase local trade, and supporting organisations can stimulate local purchasing.

Therefore, this research will:

1. Document the current status and trends in local sourcing by supermarkets and agro-processors in Uganda;
2. Assess the relative attractiveness of sourcing local agricultural products as viable substitutes for imports;
3. Examine the practical constraints to local sourcing from the perspective of supermarkets, agro-processors, and suppliers of agricultural products;
4. Examine the opportunities and threats of enhanced local sourcing specifically on MSEs in Uganda, either as small holder farmers, agro-processors, or retailers;
5. Document comparable or otherwise meaningful international experience on practices and standards, behaviours, organisation, technology and trends of local and international sourcing of agricultural products by supermarkets, wholesalers, and agro-processors;
6. Propose a strategy to enhance opportunities to local sourcing, which takes into account the local business context, the expectations, risks and benefits between buyers and suppliers (supermarkets, agro-processors, buying agents, local traders and small holder farmers);
7. Provide recommendations for the government of Uganda and other supporting agencies, e.g. development agencies and private sector membership organisations, to stimulate local sourcing.

Research Questions

Specific questions to be addressed in this research will include:

- i. What is the relative importance of supermarkets, wholesalers, and agro-processors as drivers of change in domestic (and export) retail grocery markets? Such influence includes effects on consumer purchasing behaviour, effects on the channels to retail grocery markets etc.
- ii. To what extent (relative and absolute) do supermarkets and agro-processors source locally in Uganda?
- iii. Is there a trend or shift in the volumes of sales from smaller local supermarkets to the large ones in Uganda?
- iv. Where are the opportunities, by product group²¹, for local sourcing from the perspective of supermarkets?

²¹ (i) fresh produce: animal products (chicken, meat, milk and eggs), fish and horticulture (fruits and vegetables), (ii) processed agriculture products: cereal, grains and condiments and (iii) dry packaged goods: cereal, grains and condiments

- v. What are the practical problems – organisation, technology, knowledge of standards and practices, business services²² – that must be addressed to enhance local sourcing from the perspective of buyers i.e. supermarkets, agro-processors, and wholesalers?
- vi. How best can those problems be addressed: Who is to address particular problems? Which processes or procedures need to be undertaken? What outcomes could be expected?
- vii. Are there innovative ideas that can be pursued to increase local sourcing? E.g. incentives for supermarkets and agro-processors to source locally.
- viii. Are there Ugandan success stories that can be used to demonstrate good and viable practices to increase local sourcing? If so, are they buyers or suppliers driven?
- ix. Do or can these sourcing companies help MSEs in Uganda (as farmers, processors or retailers) gain access to regional and international markets by stocking their products across their networks?
- x. Are there examples of positive support roles played by government, donors, and private sector membership organisations, in building on local successes and implementing new and innovative local sourcing strategies?

Usefulness and applicability of the research information

These questions seek to gain a better understanding of the retail grocery markets available for agricultural product producers in Uganda. Information generated out of this research will be used to initiate dialogue among specific stakeholder groups with the aim of initiating moves towards government and business policy changes, changes in business practices, and enhanced support for retail market supply chains by development agencies. For this reasons the research questions are rather broad as they address issues about the retail sector, the buyers, the suppliers, consumers, government of Uganda, small enterprise development agencies, and donors.

²² Business services here include those services needed by both suppliers and buyers particularly in a value chain context e.g. training, logistics, financing, price setting mechanisms, legal advice, information etc.

Appendix B Organisations and people met

Enterprise	Contact	Location	Category
	Paul Kiyemba	Shanghai	Former FFV Player
	IAN	Shanghai	Vendor/Broker
APEP	Clive Drew	Lumumba Av.	Donor Contractor
AT Uganda	Rita Ojok Laker		Support Agency
Bank Of Uganda	Michael Atingi Igo	Kampala Rd	Macro Trends
Britannia Allied Industries	Vinay Dawda	Ntinda Industrial Area	Agro processor
BSMD	Peter van Bussel	BSMD Office	Development agency
Consultancy	Lucy Aliguma	Shanghai	Consultant
Daily Fresh Products	Boniface Obede	Shanghai	Vendor/Broker
DFID	Adrian Stone	Nakasero	Overview Of Sector
FFV Consultant	James Ssemwanga	Plot 47b Upper Kololo	FFV Market
Fintrac - Ama	Umran Kaggwa	Kisozi House	Consultant
Fintrac, Tegemeo	Mumbi Kimathi	Nairobi	FFV Kenya Market
Geography Department	Swaib Lwasa	Makerere University	Population Trends
Halfprice Supermarket	Gilbert Ohairwe	Kitintale	Supermarket
IFPRI	Samuel Benin	18 Kar Drive - Kololo	Researcher
Jakana Foods	Dan Jakana	Kawempe	Agro-processor
Kenya Gatsby Trust	Alex Kumasi	Nairobi	Finance In FFV Market
K-REP Bank	Kimanti Matua	Nairobi	Macro Trends
Metro Cash & Carry	Gwillans & Dlong	Lugogo	Wholesale Warehouse
Nakasero Market	Ronald Byamakah	City Centre - Nakasero	Open Air Market
Nakawa Municipal Market	Chairman	Nakawa	Open Air Market
Owino Municipal Market	Herbert Bashasha	Nakivubo	Open Air Market
Payless Supermarket		Bugolobi	Supermarket
Quality Cuts Restaurant		Kabalagala	FFV Consultants
Quality Food Supplies	Ms. Grace	Shell Select Bugolobi	Farmer & Vendor
Reco Industries	Brian Rwabogo	Nkrumah Road	Agro-processor
Rockefeller Foundation	Akin Adesina	Nairobi	Kenya, EA Context
Semuse Mixed Farm	Abdul	Shangrila Hotel	Farmer/Supplier
Shell Select		Bugolobi	Supermarket
Shoprite		Lugogo	Supermarket Retail
Shoprite-Freshmark	Joseph Jele	Shoprite Downtown	Supermarket Retail
The Greenery		Kabalagala-Quality Mall	FFV Grocery
Tropic Exporters Limited	Apollo Kasozi	Shell Select Bugolobi	Exporter
Uchumi		Garden City	Hypermarket
Uchumi	Simon ?	Shanghai	FFV Supervisor

