Introduction

Collective action remains the only effective means deployed by smallholder farmers in Uganda to have access to markets and reduce transaction costs. These have varied from cooperative societies to various forms of farmer groups in an effort to have access to farm inputs, markets and processes.

However, weak institutions, political interference and internal inefficiencies weakened the cooperative movement and it was left highly stigmatised among the potential farmer co- operators. The liberalisation of marketing of the produce left the cooperative societies in complete disarray due to lack of competitiveness. This left the farmers vulnerable and experiencing continued problems of individually contracting with entrepreneurs.

The way was opened for the mushrooming of numerous farmer groups of different typologies in different models of production and contract farming. Some have exhibited successes and others have remained a source of conflict between the farmers and the entrepreneurs. Nevertheless, farmers in Uganda have gradually learnt that government patronage in procuring farm inputs, organising crop finance, fixing prices, processing and arranging for export of produce through various government marketing boards is long gone. Grouping themselves under contract farming is seen as a mechanism for promoting commercial agricultural production. It is also seen as a catalyst for enhancing production, competitiveness and incomes. Grouping provides smallholder farmers with access to farm inputs, technical services, rural finance and market opportunities. This however, needs strong supporting institutions and market intelligences for the smallholder farmers to benefit.

A close examination of the characteristics and performance of emerging farmer groups , and the modes of contract farming being practised in Uganda, reveal that a number of fundamental issues need to be addressed to make contract farming contribute to poverty reduction. This would be for the mutual benefit of all stakeholders participating in these new relations leading to greater market efficiency and value addition. The emerging FOs still experience both internal and external problems. They need mechanisms that may bring about internal cohesion, efficiency, transparency, accountability, enhanced linkages, partnerships and networks with the private sector, government, and NGOs.

A number of measures need to be addressed that attract more entrepreneurs to undertake

sustainable investment in commercialisation and industrialisation of agriculture through contract farming. These measures may include a regular review of the taxation policies, improvement of rural infrastructure, investment in agricultural research and elimination of market distortions.

All these would need government support to create a business atmosphere with appropriate policies and institutions. The absence of effective public dispute resolution mechanisms in cases of breach of contract limits the expansion of trade financial investment and market development. The presence of a developed well functioning legal system tends to encourage firms to undertake riskier activities (Collier and Gunning 1999, Bigsten, et al, 2000). On the contrary the poor bear the greatest burden of institutional failure in case of corruption and a highly regressive tax system. Demands for bribes and unofficial fees for services hit poor people hardest (World Bank 2000d). These should be designed to lead to competitiveness and viable contractual arrangements with effective enforcement mechanisms and processes that expeditiously settle disputes.

The government needs to supplement private sector efforts in capacity strengthening among the farmers through building public -private - farmer–partnerships (PPFP), to meet market standards, to improve infrastructure and enhance political stability and to ensure that disease and quality control measures are in place. To promote farmers’ capacity to maximise their benefits from a liberalised marketing economy under contract farming it would need government to take initiatives and promote viable market intelligences supported with availability, accessibility and affordability of information and communication technology networks.

Drawing from a literature review and personal field observations, this paper examines the problems faced by farmers in Uganda, the typology of the emerging FOs, the various types of contract farming, and the effectiveness and benefits of FOs in contract farming. Furthermore, the paper discusses the factors that may be constraining contract farming and those facilitating its expansion in context of institutions and farmer empowerment in Uganda. In the final section, some conclusions and specific policy implications are drawn by pointing out necessary areas of intervention that should be addressed to increase efficiency, to promote business initiative, and to increase management capacity and linkage to national, regional and global markets.

PROBLEMS FACED BY FARMERS IN UGANDA

Farmers in Uganda have experienced difficulties in meeting the required standards in sorting, grading, processing, packaging and marketing. They have limited access to credit and financial services and they have low purchasing power. They face high transaction costs in accessing inputs and the majority is trapped in subsistence farming. They are also dealing with intermittent buyers and suppliers who are unable to benefit from economies of scale. They are not directly linked with many formal markets. They are also experiencing institutional constraints in enforcing contracts; these factors lead to difficulties in efficiently fulfilling contractual agreements. They also pose particular problems for the supply chain development needed for agricultural industrialisation. This is aggravated by poor rural roads and storage; poor access to information, particularly about markets and prices, lack of access to new technologies, and asymmetrical power relationships between farmers and agribusiness firms. They are highly constrained in meeting quality and standards required in the supply chain, particularly in the dairy, vegetable and fruit industries. The growing supermarket chains in Uganda do not essentially support the smallholder farmers to market their produces.

Figure 1 & 2 and Table 1 show the circumstances in which Ugandan smallholder farmers are trapped in the agri-chain systems.

As shown in Fig 2, the growing ICT in Uganda has not been guided to benefit the primary income generating activities in agriculture. It is essentially used for social contacts and office work.

As shown in Table 1, Uganda is among the countries with the least paved roads per person. The decentralisation of local authority to over 80 districts in Uganda has not yet made much impact on the creation and maintenance of feeder and community roads. Therefore, poor rural infrastructure and weak institutions lead to high transaction costs. The main benefits are skewed towards the traders, leaving minimal profit margins to the farmers.

TYPOLOGY OF FARMERS ORGANISATIONS IN UGANDA

Farmers in Uganda have been accustomed historically to the cooperative movement, which has been the dominant form of FO, particularly in the area of marketing. However, new developments such as privatisation, liberalisation and democratisation have prompted collective action and the formation of a different typology of farmer organisations (Table 2). In some cases these FOs are competing for the same constituency of farmers. Others do not ave grass roots memberships. Some were created to serve a short term purpose like negotiating for rescheduling of loans. Others are formed to tap the various government/donor-funded micro-credit programmes. A strong grass- root organisation is yet to be seen in Uganda.

THE CONCEPT OF CONTRACT FARMING

Contract farming has been in existence for many years as a means of organising commercial agricultural production of both large-scale and smallholder farmers. It has been promoted over the past 30 years as an institutional innovation to improve agricultural performance in less developed countries, occasionally as a key element of rural development and/or settlement projects. It is observed that interest in it continues to expand, particularly in countries that previously followed a central planning policy and in those countries, like Uganda, that have liberalised marketing through the closing down of marketing boards. The development of supermarket chains in many countries, and the continued expansion of world trade in fresh and processed products, have also provided the impetus for further development of this mode of production (Ghee and Dorall 1992, Watts 1994, Warning and Hoo 2000, FAO 2001).

This system is used as one of the promising institutional frameworks for the delivery of price incentives, technology, and other agricultural inputs among smallholder farmers by local governments, private firms, multinational companies and international aid and lending agencies (Glover 1984 & 1992 & 1994, Ramaswami et al. 2005).

The available literature confirms that smallholder farmers do not typically have access to efficient information about financial resources or access to credit facilities. They also lack collateral where there is a need to mortgage. Contract farming is a mechanism that can deal with many of these constraints in an integrated manner (Doye et al. 1992, Moore 1994, Rehber 1998). Government intervention and subsidisation policy could be seen as an alternative to contract farming but this has in the past proven unsustainable in developing countries. Target subsidies are generally high-jacked by those who are affluent. It is difficult to manage it where everyone is in need of the resources being subsidised. Ineffective extension and training policies of public agencies could be improved through contract farming. Sustainable credit policies in agriculture also could be realised by contractual arrangements. Contract farming helps farmers by providing new technology, ready markets, secured inputs and prices, and increased cash incomes.

Contract farming can be structured in a variety of ways depending on the farm enterprises involved, the objectives and resources of the entrepreneur and the experience of the farmers.

Certain products favour specific app- roaches. The common contract farm- ing framework is shown in Figure 3.

Contracting out production is a commercial decision for any crop or livestock product and can be done theoretically using any of the models. According to FAO (2001), decisions by sponsors on the type of model to follow should be made on the basis of market demand, production and processing requirements and the economic and social viability of plantation versus smallholder production and also their characteristics and constraints.

Contract farming arrangements fall into one of the following five models such as (1)- The centralised model, (2)- The nucleus estate model, (3)-The multipartite model, (4)- The informal model, (5)-The intermediary model.

EFFECTIVENESS OF FARMERS ORGANIZATION IN CONTRACT FARMING

The different models suit different production circumstances. It is difficult in Uganda to determine which model is operating. The influence of the apex and umbrella farmers' organisations in evolving contracts remains very hazy. This influence becomes clear in light of a diversity of emerging farmers' organisations, many of them being active mainly at national level. Some entrepreneurs prefer to deal directly with individual farmers or a cluster of farmers found at the lowest level in the rural areas. In many cases these clusters are not business entities.

In Uganda, constraints against the scaling up of contract farming stem from the type of model applied, the type of farm enterprise involved and the characteristics of the farmers involved as shown in Table 3. What is common among all models is the contractual fluidity made with farmers especially where the FOs lack internal coherence and capacity to negotiate with the potential sponsors. This is also a disadvantage to the sponsors when there is no mechanism for the cluster of farmers to stop its members from free-riding, defaulting or undermining fellow members.

As Table 3 shows, in a centralised model the farmers are exploited where they are not well organised and where extra-contractual sales are involved, there is tendency for disputes. This is the case in the sugar cane and the organic cotton growing industries of Uganda. As regards to a nucleus estate model experience shows that the farmers may not have had access to the services expected. For an informal model, which is simple, there might be financial constraints.

The informal model does not provide extension services and indeed these farmers may be exploited and experiences a high risk of default. With regard to an intermediary model, the farmers may lose contact with the original sponsor and be exploited. The only model which has safeguards against farmer exploitation is the multipartite model which involves many stakeholders in the management but overheads may eat into the benefit to the farmers.

To sum up, strong organised and efficient FOs are critical to the services of any contract farming scheme. The up-scaling of contract farming in Uganda must therefore go hand in hand with the strengthening of FOs.

Table 3 illustrates the economic importance of contractual arrangements for both farmers and the nation as whole. It indicates also the importance of the selected commodities in terms of household income, employment, value addition an export potential. The private sector has played a significant role in backward and forward linkages to identify market opportunities, link with farmers to ensure that they raise their productivity and are able to sustain supply volumes. The private sector

also assures farmers of the prices and markets for their products. Invariably, this has stimulated production. The selected sectors can be matched with existing private sector actors that make a significant contribution to increased production, value addition and market access.

CONCLUSIONS AND POLICY IMPLICATIONS

In Uganda, FOs have moved from informal labour exchange groups to cooperatives and then to producer and commodity specific associations, culminating in a diversity of national umbrella organisations, including a Cooperative Alliance. The main driving factor has been the need to address common problems. The introduction of liberalisation and democratisation policies together with the need to provide services for the farmers encouraged them to work collectively and overcome some of the constraints.

Various modules of production to face a variety of challenges accompanied this collective work. What is common among them, however, is the establishment of sustainable production modules resulting in farmer ownership with direct linkages to reliable markets with organised market chain services that lead to value addition and increased benefit to farmers..

Ugandan agriculture currently employs different models.

Contract farming is seen as an effective mechanism to bring the farmers, entrepreneurs and the government to work closely in commercialising and industrialising agriculture in Uganda. The challenge is to ensure that the farmers benefit through these undertakings so that they graduate from subsistence to business oriented farming that reduces poverty and ensures food and nutrition security.

This calls for a business atmosphere that attracts various entrepreneurs to invest in the agricultural sector in partnership with the farmers. The up- scaling of contract farming in Uganda would need government and international community support to build up the required capacity. This is particularly crucial in areas of building strong supporting institutions for a reliable functioning system.

Ideally, once markets are assured and the prices are right, producers can be eager to move beyond subsistence and make a better living for themselves. Through contractual arrangement farmers in Uganda are engaged in intensive and commodity focus farming systems by shifting from extensive, low input and traditional farming systems to systems that satisfy the market and consumers through their contractors. What they need is to reinforce the current policies, institutions and services that create opportunities for them to produce with a business orientation. In spite of assured prices and markets for specified commodities, production and productivity are still low, and producers are not able to meet the requirements of the installed processing capacity. This indicates that there are high opportunities for the Ugandan farmers to earn more from contractual farming activities, if productivity is increased and production of specialised commodities is up-scaled. On the contrary, experience has shown that in Uganda while farmers spend their time fulfilling contracts, they are also essentially dealing with many other crops and livestock enterprises on their respective farms. A farmer is caught up in this cobweb of several enterprises on a decreasing farm size. This limits the smallholder farmers to maximise earnings from the value chain of the specific contractual commodities.

For contract farming to contribute to poverty reduction the smallholder farmers should be encouraged to participate in alternative economic activities, to benefit from a value web approach.

The private sector players need to reinforce further in partnership with organised farmers to ensure that the raw materials required for the industries are supplied in the right volumes and quality. This approach is yielding good results, but it is still far from making substantial coverage of over 3.5 millions of smallholder farmers in the country.

In isolated cases the quality and standard of the supplied products to sustain Uganda's competitiveness in the global market is emerging where skilled companies are working with the smallholder farmers. In some cases the emerging contract system has transformed the village economy by introducing cottage industries that generate household incomes and also improve on nutrition as is the case in the essential oil seeds project area. In other remote areas alternative employment has been introduced in the palm oil growing, such as in Kalangala district. In the cotton industry contract farming remains a source of conflict particularly in respect of pricing of organic cotton..

The existing government programmes and institutions to contribute to further development of the sector need to be integrated to support the rural economy. It calls for a long term vision backed with appropriate systematic policies closely monitored to create an enabling atmosphere for mutual benefit. In spite of the existing contribution, many constraints still exist. There is need for support of agricultural commercialisation in a holistic, dynamic, interactive undertaking. What is lacking is more collaboration among farmers and networking to improve synergies and understand the contribution of other players in order to improve the situation of all stakeholders along the value-chain. The farmers need to have access to affordable information and communication technology tailored on promoting farmers awareness through market intelligence. The public sector is needed to ensure conducive overall macro- and micro-economic policies, security and supporting infrastructure, such as rural roads. Through other existing programmes and efforts, the public sector also provides some support to the private sector players to strengthen capacity for sustainable access to the markets for the benefit of smallholder farmers.

The main areas that may need support are as follows:

1) Empowering farmers through well- organised FOs to own the process and means of production and marketing

that lead to value added production possibilities. Building on the existing business oriented groups of farmers may pay dividends.

2) Building managerial capacity at all levels to promote internal efficiency among Fos.

3) Promoting farmers awareness through market intelligence by availability, accessibility and affordability of information and communication technology facilities.

4) Building up a human capital base in the agricultural sector through business training to undertake business initiatives. Farmer groups should aim beyond primary production to processing and marketing, maximising benefits along the value chain.

5) For poverty reduction smallholder farmers may have to participate in emerging non-farm economic enterprises in their respective areas to supplement their income from contract farming.

The main players in contract farming, besides the consumer (market) are the government or its agencies, the farmers, the different forms of the private sector entrepreneur or sponsor. For contract farming to succeed and be up-scaled there is need to ensure that each party plays its part for mutual benefit of all. This would need a viable partnership between government, private sectors and farmers, Public-Private- Farmer- Partnership.

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Figures

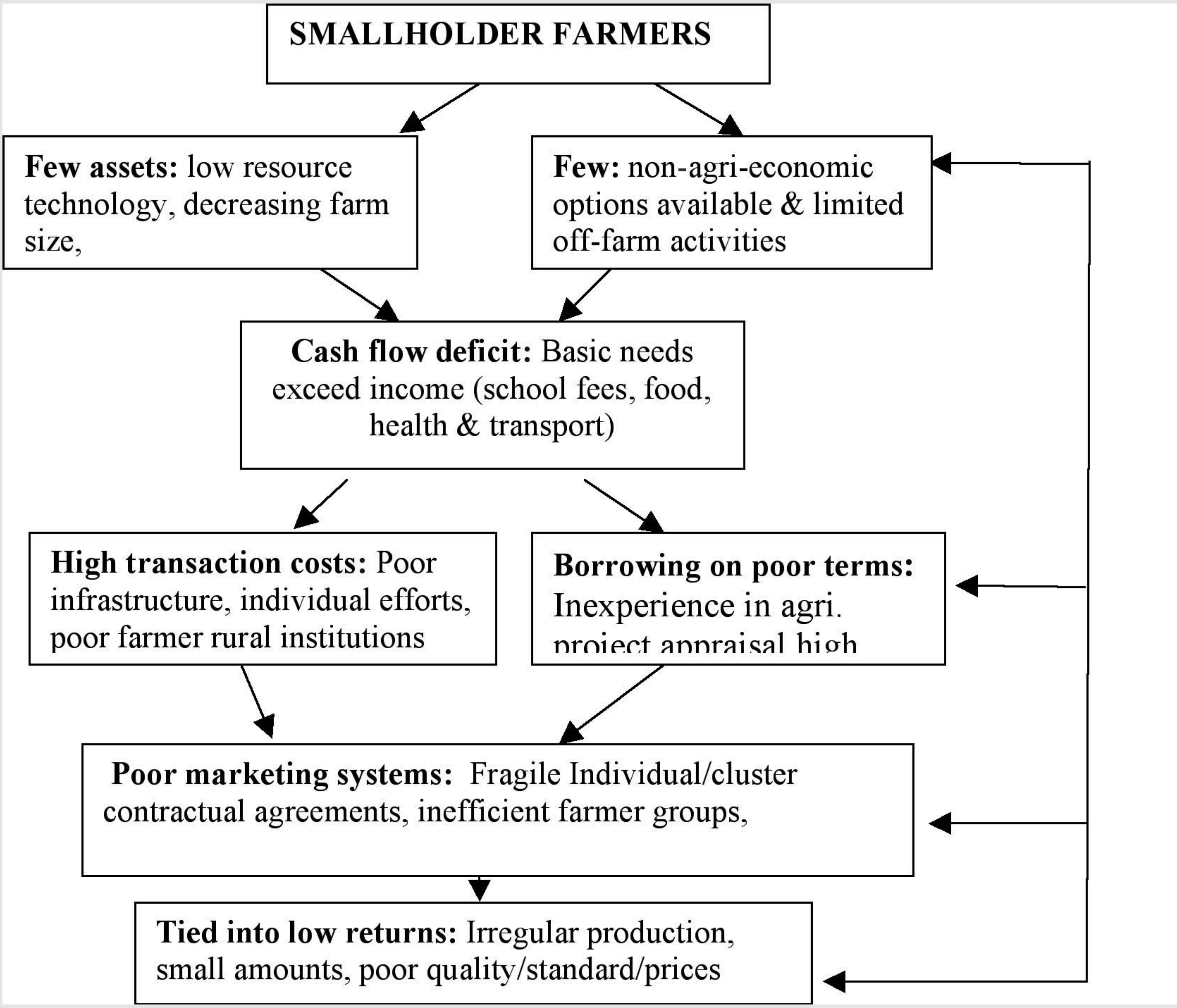

Figure 1.

Figure 1: Smallholder Farmers Trapped in interlocking Agri-chain Systems in Uganda Source: Personal field observation and analysis from Uganda – Kisamba-Mugerwa, W. 2001-2004)

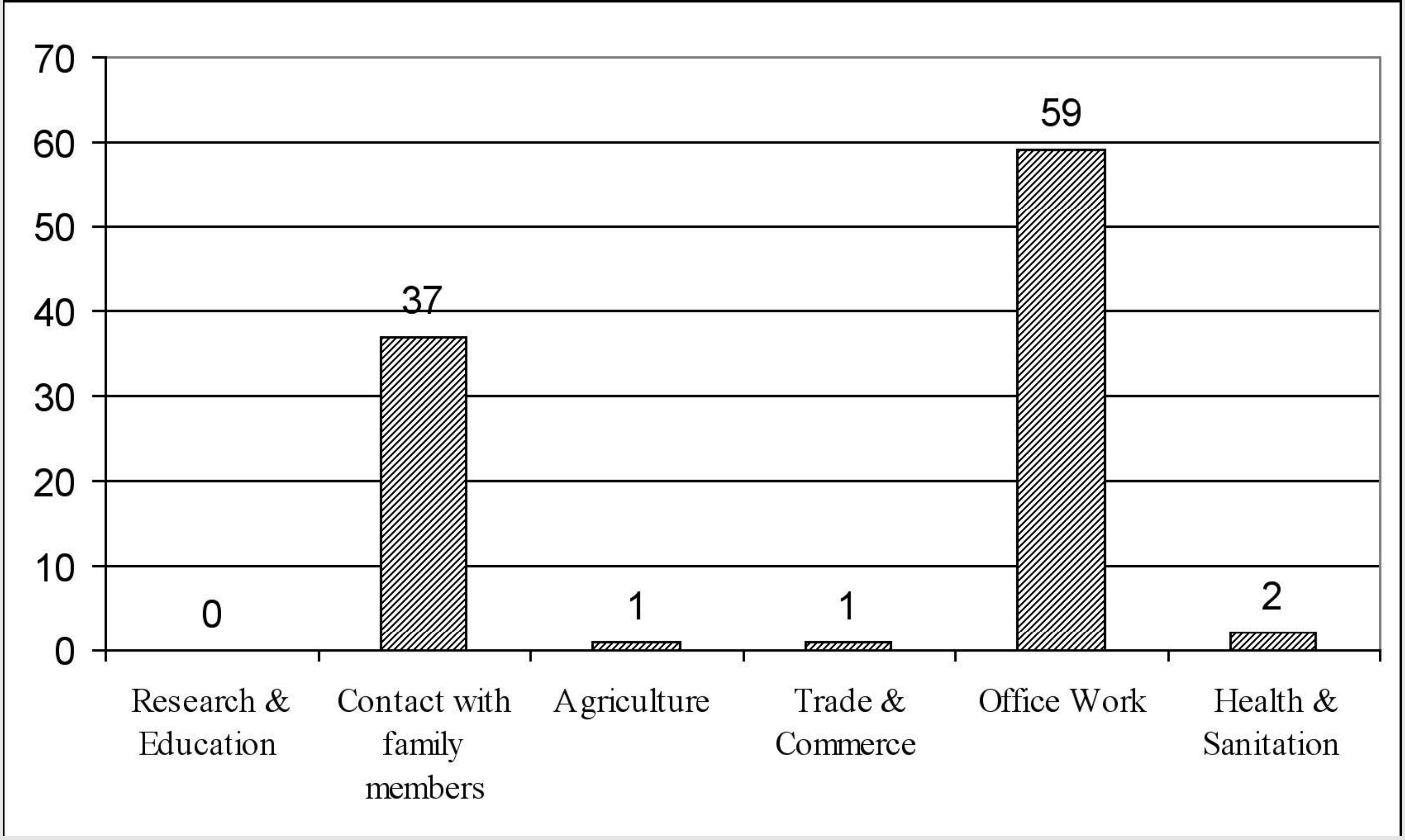

Figure 2.

Figure 2: Information and Communication Technology users (%) Source: Etta et al., 'Inquires and questionnaires, ICTs and Community Development Study, Uganda, November 2000, (2001).

Country	km	Country	km
USA	20987	Guinea	637
France	12673	Ghana	494
Japan	6,584	Nigeria	230
Zimbabwe	1586	Mozambique	141
South Africa	1402	Tanzania	114
Brazil	1064	Uganda	94
India	1004	Ethiopia	66
China	803		

Figure 3.

Table 1: Paved roads (km) per million population in selected countries comparing Uganda's position in the development arena Source: Encyclopaedia Britannica Book of the Year 2000

Features	Purpose
Cooperatives: Uganda Cooperative Alliance as an apex of the Movement	Formation of the cooperatives was a result of groups of producers agitating for direct involvement in the marketing of their produce. The membership includes primary cooperative societies, area cooperative enterprises and unions with the Uganda Cooperative Alliance as an apex body.
Producer Associations	These were formed mainly to address producer constraints such as acquisition of inputs and accessibility to technical advice, lobbying and advocacy. Several of them do not have any grassroots constituencies.
Out-grower Companies	These companies were established to support production of the nucleus industries or companies involved in plantation/estate production. They were formed to have a collective bargaining power and to facilitate easy service delivery by the nucleus company.
Commodity Specific Farmers Associations	These were formed to address those commodity specific bottlenecks that could not be effectively handled by the general purpose farmers associations.
National Agricultural Advisory Services (NAADS) Farmer Empowerment	This was designed to empower farmers' access to improved knowledge, technologies and information and to improve their linkages with markets.
Uganda National (Umbrella) Farmers Organisations/Associations (UNFA) (local NGO)	These are general purpose umbrella farmer organisations. Membership is mainly constituted by districts and commodity-based farmers organisations. Membership essentially offers extension services and capacity strengthening services on demand.
Uganda Agricultural Council	This is also an apex farmer organisation drawing its membership mainly from the national commodity-based farmer organisations.
Savings and Credit Cooperatives Organisations (SACCOs)	Mainly established under the Rural Finance Strategy (RFS) at sub-county level to deliver microfinance to the population.

Figure 4.

Table 2: Development of farmers' organisation in chronological order

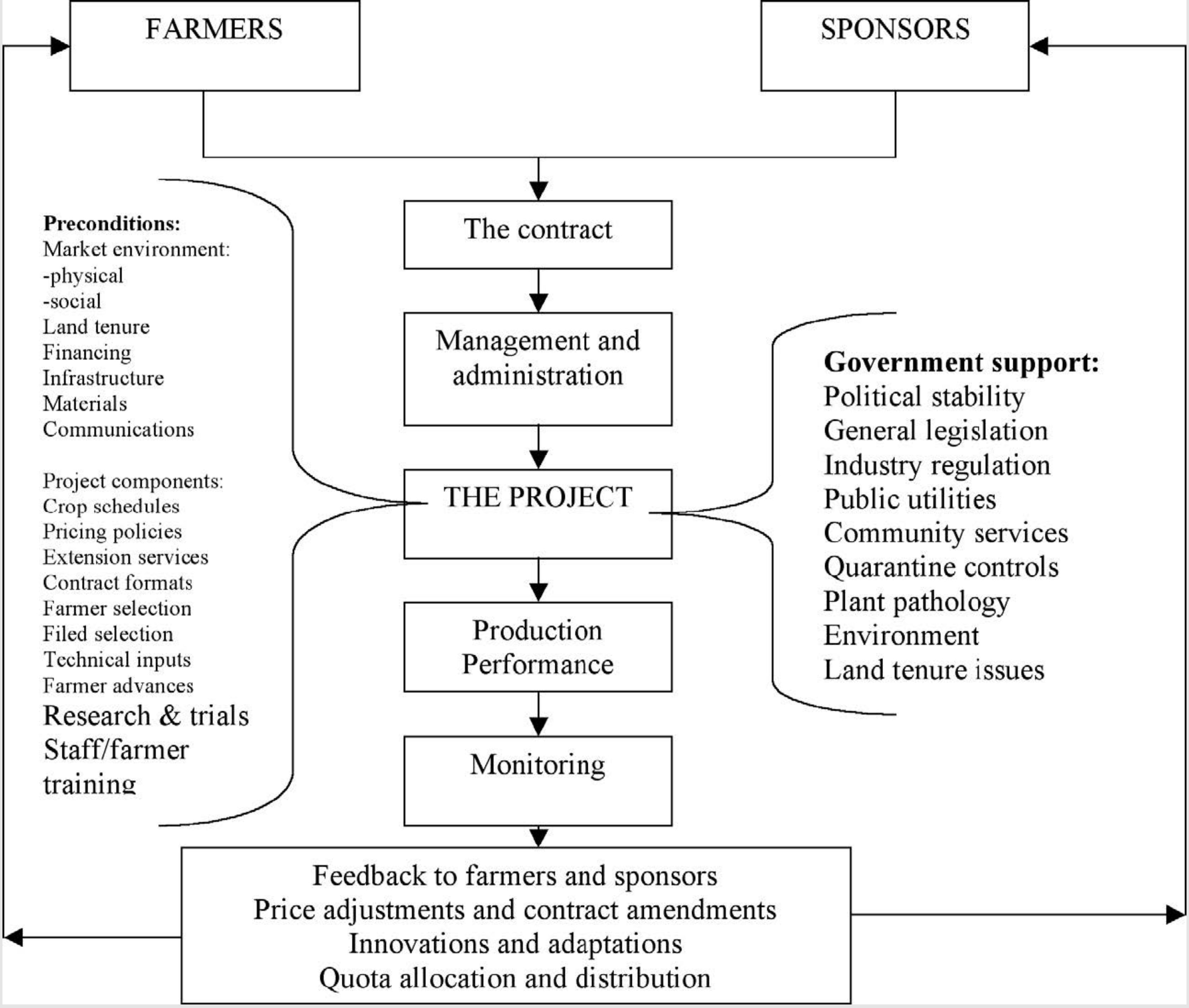

Figure 5.

Figure 3: A contract farming framework

Establish	Commodities	Company involved	Service provided to farmers	Type of contractual arrangements	Farmers involved and expected output
1913-1929		Cooperative movement emerged	Mainly collective marketing	None	None
a)1932 and 1936 **b)2000 to-date**	Cotton	Cotton trade Introduced Cotton industry revived under contract farming	None Supply of farm inputs and marketing	None centralised	None Hundreds of farmers under clusters, but stagnant cotton production
1961		Uganda cooperative movement alliance, an apex of cooperative movement was formed	None	None	None
1965	Tobacco	British American Tobacco Uganda (BATU)	Interest free loans. Free extension services. Products bought through agents who are chosen by farmers	Centralised	-60,000 farmers out grower schemes, -annual capacity 34,600 tonnes, -Price offered to farmers = 1200-1320 shillings per kg,
1970s	Dairy	Dairy Corporation	Purchase milk through collection centres No effort towards farmers organisation	Centralised	-annual capacity = 10.95^6 litres of milk, -current = 2.38^6 litres, -shortage = 8.57^6 litres, -price offered to farmers = 350 shillings per litre,
1991	Sorghum (Epuripur)	Nile Breweries	Training in agronomy and post-harvest. Company contracted a consultant Afro-Kai to organise farmers and grow. Products are bought through consultants	Centralised	-5,000 out-grower farmers, -annual capacity = 5,000 tonnes-currently = 900 tonnes, -shortage = 4,100 tonnes, -price offered to farmers = 300

					shillings per kg
1992	Broilers	Ugachick Poultry Breeders Limited	Free extension services. Inputs received at lower prices. Products are bulked and transported through agents to the plant	Centralised	-50 out-grower farmers, -annual capacity = 16.6 tonnes, -current = 1.664 tonnes, -shortage = 14.97 tonnes, -price offered to farmers = 1950 shillings per kg
1993	Fish	Uganda Fish Packers (UFP)		Centralised	-annual capacity = 6000 tonnes, -currently = 3600 tonnes, -shortage 2400 tonnes, -price offered to farmers = 1500 shillings per kg,
1997	Rice	Tilda Uganda Limited	Extension (new variety – NERICA) Inputs: seeds, fertilisers, herbicides. Not dealing with farmers to purchase but encourage them to be in groups	Centralised	-1500 out-grower farmers, -annual capacity = 40000 tonnes, -current = 8500 tonnes, -shortage = 31500 tonnes, -price offered to farmers = high,
2001	Coffee	Kaweri Coffee Plantation	Coffee Production, and hulling	Nucleus	-20000 out-grower farmers, -price offered to farmers = 350-550 shillings per kg,
2001	High Value Organic Products	NOGAMU	Field training; free farmer exchange visits, demos, discussion, cost of inspection reduced by over 65% Facilitated with value-addition to access to solar dryers. Purchase through agents	Informal	-300 out-grower farmers, -annual capacity = 350 tonnes, -price offered to farmers = high,
2001	Maize	NASECO	Training, a loan scheme, Inputs like seeds	Informal	-2000 out-grower farmers, -annual target = 7500 tonnes, -currently = 1500 tonnes, -shortage = 6000 tonnes, -price offered to farmers = 350-400 shillings per kg,
2001	Chillies	Mairye Estates	Provision of inputs on credit Free extension services Farmers bulk products which are collected	Centralised	-120 out-grower farmers, -annual target = 312 tonnes, -currently = 280 tonnes, -shortage = 32 tonnes, -price offered to farmers = 500 shillings per kg,
2002	Maize	Uganda Grain Traders (UGT)	Training in standardisation and quality assurance, products are bought from their headquarters	Centralised	-100 suppliers of farmers & traders -annual capacity = 30000 tonnes, -currently = 10000 tonnes, -shortage = 20000 tonnes, -price offered to farmers = 275 shillings per kilogram,
2003	Sunflower	Mukwano Group of companies	Crop inputs e.g. seeds, tractor service Interest free loans (average is 20% of crop value). Free extension. Supports farmers organised in clusters. Membership is 10000 farmers	Informal	-10 000 out-grower farmers, - employment = 7650 people, - price offered to farmers = 180-250 shillings per litre,
2004	Palm oil	BIDCO - Uganda	Farm inputs, infrastructure & market. Nucleus		- Initially 200 out-grower farmers,

Figure 6.

Table 3: Historical developed commercialising Agriculture in Uganda by commodities and type of contract farming (Prices,Uganda shillings-UShs

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Dr Wilberforce Kisamba-Mugerwa,

Terefe Ademetegn Lemma

4th January 2011

farming, tivities, to, supplement, their, incomes, key, words:, contract, collective, action, transaction, costs, institutions, market, intelligences

Comments