

The Umoja Project in Kenya



Strategy Development For Kenyan Smallholder Farmers

Master Thesis Business Administration

Author

Tom Foole

Graduation Committee

S.J. Maathuis MSc.

*Dutch Institute for Knowledge Intensive Entrepreneurship (NIKOS),
School of Management and Governance, University of Twente*

Prof. Dr. Ir. E.J. De Bruijn

*Dutch Institute for Knowledge Intensive Entrepreneurship (NIKOS),
School of Management and Governance, University of Twente*

Company Supervisors

Dr. T. Wolters

President of ISCOM

Dr. P.S. Sahota

Regional Director of ISCOM Kenya

University of Twente, September 2008



EXECUTIVE SUMMARY

The Institute for Sustainable Commodities (ISCOM) is a small not-for-profit organization located in the Netherlands. This foundation wishes to make a substantial contribution to the development of sustainable modes of production in order to accomplish poverty reduction in developing countries. ISCOM believes that the main reason for the continuing cycle of poverty in developing countries is the inability of its inhabitants to participate in (international) trade in a professional way, which to a great degree is caused by a lack of organizational capacity. As their initial program, ISCOM Kenya started a project concerning small-scale farmers based in the highlands of Kenya. The project involves four farmer self-help groups consisting of approximately 240 farmers.

With smallholder projects like the Umoja project, failure is more common than success in sub-Saharan Africa (KIT, 2006). Common strategies to address rural poverty by increasing returns on agricultural production are likely to fail. Projects with smallholders in less-favored area's (LFAs) such as the Kenyan Highlands bring about great risks and challenges. (de Janvry and Sadoulet 2005) Poor market linkages and institutional failures are known to lead to low margins and efficiency and reduce the effectiveness of agricultural development. (Barrett and Carter 2005) It is therefore essential that the Umoja project has a clear strategy on how the farmers involved can participate in international trade in a professional way.

ISCOM uses a stakeholder driven approach for its projects. Stakeholder involvement is essential for the long term success of an organization. (Post, Preston and Sachs, 2002). Considering this the main research problem addressed in this thesis is:

What strategy should ISCOM implement for the Umoja project in order to meet the requirements and expectations of the stakeholders and how should this strategy be implemented?

In this research we have developed a strategy and an implementation plan for the Umoja project, taking into account the requirements and expectations of the different stakeholders involved in the project. All stakeholders involved have been interviewed about their views on the desired strategy for the Umoja project. Furthermore the opinion of experts and theory was assessed.

The main problem of the farmers in the Umoja project is that their production is of poor quality and that they are not connected to markets. They earn very little with their produce and depend on middlemen to sell their products. This problem can be resolved by improving the position of the farmers in the supply chain. The value chain model of KIT (2006) is a suitable framework for strategy development for the Umoja project because it focuses on value chain development around smallholder farmers in sub-Saharan Africa. According to KIT (2006), small-scale farmers can participate in value chains in many different ways. These types of participation can be summarized into two broad dimensions:

- The types of activities farmers undertake in the chain (vertical integration)
- The involvement of farmers in management of the chain (horizontal integration)

The value chain framework acknowledges four different strategic ways to improve the position of small-scale farmers in the value chain, presented in figure A. Currently the farmers in the Umoja project are bad performing chain actors. They are neither involved in management of the chain nor in vertical integration. At this moment the farmers are only concerned with production, but are not able to deliver a marketable product that meets standards required for export. The current position in of the farmers in chain is a bottom left position in figure A.

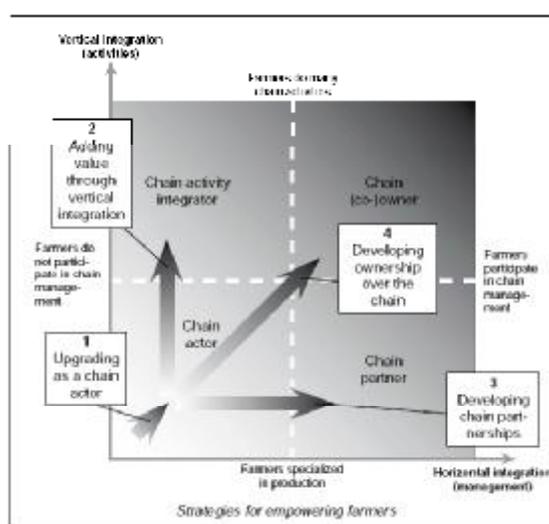


Figure A: Farmer Empowerment Strategies (KIT, 2006)



KIT (2006) recognizes four value chain development strategies:

- 1 Upgrading as a chain actor; farmers become crop specialists with a clear market orientation.
- 2 Adding value through vertical integration; farmers move into joint processing and marketing in order to add value to the product.
- 3 Developing chain partnerships; farmers build long-term alliances with buyers that are centered on shared interests and mutual growth.
- 4 Developing ownership over the chain; farmers try to build direct linkages with the consumers.

Since working with smallholder farmers is very risky because of corruption, lack of control mechanisms and the low levels of market, production and business knowledge, it is critical that risks are reduced as far as possible. Operational management becomes far more complex when a strategy of vertical integration is chosen. Interventions to integrate vertically will require investments in terms of money, people and assets. In the current state of organization with the current knowledge levels, farm management skills and level of ownership of the farmers in the project, vertical integration is would increase risks unnecessary. The farmers in the Umoja project and ISCOM however, prefer a strategy of vertical integration.

In this thesis we argue that by adopting a strategy of developing chain partnerships, the farmers in the Umoja project can become efficient producers that are well connected to the markets without the risks and investments of vertical integration. In fact, we argue that risks are reduced when adopting this strategy because of its focuses on building relationships with other actors in the value chain. By linking themselves to buyer(s), farmers can create a situation of growth and development together with other actors in the chain. This strategy allows gradual development of the business and step-by-step creation of a situation where the Umoja project increases its influence over the chain. The farmer cooperation can work with multiple buyers in multiple countries and diversify to different products to reduce risks imposed by factors that cannot be controlled by the organization itself. Operating in different markets and supplying different products for multiple organizations creates a situation whereby the cooperation is no longer depending on one product, one buyer and one market. A strategy of developing chain partnerships in combination with diversification enables farmers to have influence over the chain and reduce risk at the same time.

Development phases

The strategy of developing chain partnerships will be implemented in two phases. Upgrading as a chain actor is a minimum requirement before any of the other development strategies can be adopted.

Phase 1: Upgrading to chain actor; in this phase the famers have to upgrade to crop specialist being are able to deliver a marketable product.

Phase 2: Upgrading to chain partner; at the end of this phase the farmers are attractive business partners with a clear market orientation and build long-term alliances with buyers, based on shared interests and mutual growth.

For the farmers to become chain partners it is necessary for them to become attractive business partners. This can be achieved by joining the farmers in a cooperative, managed by professional management (figure B).

Role of management

The management will professionalize the work of the farmers. Their knowledge will help connect the groups to the market and assist in increasing productivity. Management is also responsible for development of chain partnerships that are mutually beneficial. In the beginning, ISCOM will be responsible for project management. As the organization develops and grows, ISCOM will gradually employ professionals that are able to take over the cooperative when ISCOM leaves.

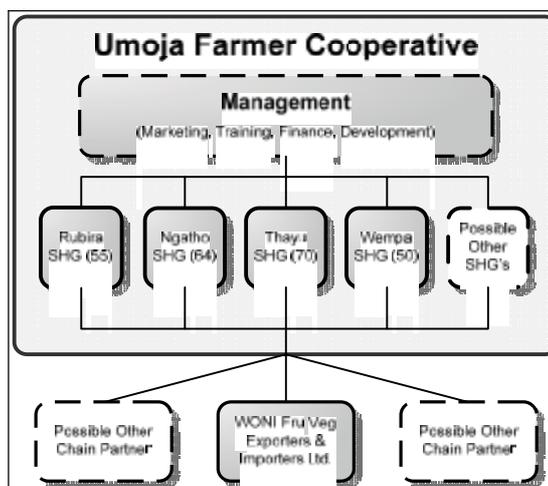


Figure B; The Umoja cooperative



Role of the groups

The role of the groups in the setup of the project is very important. The groups will be responsible for all production issues (including recordkeeping etc.). They will be assisted but also controlled by the management of the cooperative. For continuity reasons, the farmers themselves have to be empowered and therefore need to be given responsibility.

In each of the two development phases there will be a different focus in the organization. In phase one the focus of the organization will be on the development of the farmers and Self-help groups to become professional chain actors. The ultimate goal of phase two is to focus on developing relationships with different chain partners, willing to work together and invest in creation of a value chain instead of a supply chain. The different focus in the two phases is graphically shown in figure C and D.

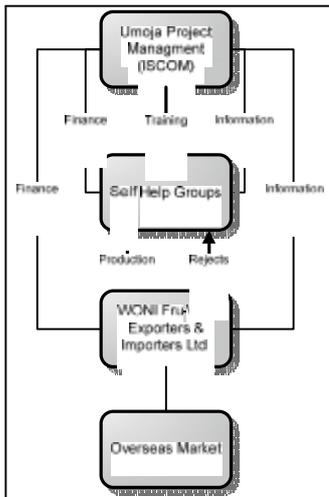


Figure C; In phase 1 the focus will be on upgrading as a chain actor

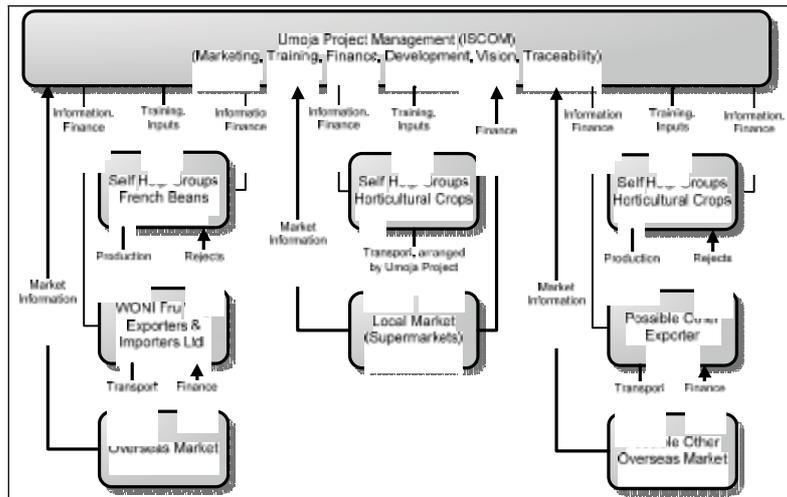


Figure D; In phase 2 the focus will be on development of chain partnerships

The research makes very clear that the different stakeholders in the Umoja project have different views on which of the four strategies should be chosen for the project. We have argued that it should be a strategy of developing chain partnerships. These different views can be caused by lack of knowledge and difference in interests. It is important that the different views are considered in the development of the Umoja project. The farmer groups for example have to learn how a value chain works. This will show them that following a strategy of vertical integration (which they prefer) increases risk, and that a strategy of developing chain partnerships can have similar or better results with less risk and investments. It is essential to keep in mind the differences in views, especially when choosing a strategy of developing chain partnerships where relationships are build on the basis of mutual growth. When choosing this strategy there must be willingness of different actors to invest in the chain and also in the other actors in the chain. This way the chain will transform into a value chain.

Considering the different views on strategic development of the stakeholders and knowing why these views are different makes it possible for the Umoja project to give each stakeholder the appropriate attention for maintenance and improvement of the relationship. This is especially important when stakeholder views are conflicting with the views of the Umoja cooperative management. Developments must be communicated throughout the value chain as early as possible to make sure each element of the value chain can adapt accordingly. In a process of building chain partnerships based on mutual growth and long term cooperation, it is essential to involve stakeholders in the whole process.



PREFACE

“We want to work hard, but it's the hippo's that keep letting us down!” is what a farmer told us when we asked him why it is so difficult for African smallholder farmers to become successful. This was just one of many reasons, and however exotic the explanations may have been, consistency can be found in the fact that always someone or something else is to blame.

We want to stipulate that the farmers in the Umoja project are truly disadvantaged. Many of them struggle to make it through the day with minimum facilities. This is exactly the reason why ISCOM started the Umoja project in the Kenyan highlands, approximately 35 kilometers north-east of Nairobi. Perhaps you can imagine that helping these African smallholders alleviate themselves from poverty requires a somewhat different strategy than starting a business in a first world country. You may wonder what that strategy would be; the answer to that question will be presented to you in this report.

This report is the result of our final assignment completing our master of Business Administration course. The field research for this assignment was conducted in Thika and Nairobi, Kenya. The other work was done in The Netherlands. We were both no strangers to living abroad for a while, but our time spent in Kenya was beyond anything we could have possibly imagined. The richness of the culture, the happiness of the people and the beauty of the landscape have touched our hearts.

Even though we have done the research and have written this thesis together, to meet requirements of the new university's regulations an overview is given of who is responsible for each part of this final thesis. Conclusions were drawn and written together and all parts have been reviewed by the other.

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3.0 Research Methodology	Tom Foole
4.0 Current Situation Of The Umoja Project	Rik Horstman
5.0 Desired Situation Of The Umoja Project	Rik Horstman
6.0 Selecting The Appropriate Strategy	Rik Horstman
7.0 Implications For Further Development	Tom Foole
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We would like to thank ISCOM for giving us the opportunity to do this research and especially Mr. T. Wolters and Dr. P. Sahota for their cooperation and assistance. Furthermore we would like to thank the farmers in the Umoja project for giving us the opportunity to have a look at their way of life and for answering all our questions. We want to thank Mr. J. Thiga, Mr. M. Ndirangu, Mr. J. Wahenia, Mrs J. Gathenya, Mrs. C. Kariuri, Mr. T.K. Mutiso and Mr. B. Kinuthia Mungai for making time for extensive interviews and discussions. We thank our friends and family for their moral support and motivation. This research would not have been completed without the professional guidance of Ir. S.J. Maathuis and Prof. Dr. Ir. E.J. de Bruijn. We thank them for their participation and patience.

Tom Foole

Enschede, September 2008



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1.0 INTRODUCTION

1.1 Background

Over fifty percent of the world's poorest countries are in Africa. Despite their resources and the enormous amounts of aid they have received over the years, most sub-Saharan countries have not developed significantly. One of those countries is Kenya. After the independence from their British governors in 1963, GDP growth rates rose to an average of 6.5 per cent due to the pragmatic and open economic policies of the founding president Jomo Kenyatta in the period 1964-1980 and prospects were bright (World Bank, 2006b). In the following decades growth stalled and growth rates declined to 1.5 percent in the nineties due to declining economic performance, rapid population growth, increased corruption, political expediency and deepening governance, problems undermining sound economic management. Between the 1970s and 2000, the number of Kenyans classified as poor has grown from 29 percent to about 57 percent. Lately growth rates start to improve a little but these cannot disguise the poverty problem in the country. In 2003 the World Bank estimated poverty headcount of over fifty percent and most Kenyans live on less than one dollar per day (Library of congress, 2006; World Bank, 2006a).

The Institute for Sustainable Commodities (ISCOM) is a small not-for-profit organization located in the Netherlands. This foundation wishes to make a substantial contribution to the development of sustainable modes of production in order to accomplish poverty reduction in developing countries. ISCOM believes that the main reason for the continuing cycle of poverty in developing countries is the inability of its inhabitants to participate in (international) trade in a professional way, which to a great degree is caused by a lack of organizational capacity.

In 2005 ISCOM set up a branch in Kenya (ISCOM Kenya). The goal of the organization is to reduce poverty by focusing on agricultural development. This is supported by several studies arguing that agricultural productivity growth is the key to poverty alleviation. (Eswaran, 2002; Nomaan, 2004) The agricultural sector accounts for almost thirty percent of the added value of Kenya's GDP, and employs over 70 percent of the population (Library of congress, 2005; World Bank, 2006c).

As their initial program, ISCOM Kenya started a project concerning small-scale farmers based in the highlands of Kenya, situated in the Kakuzi and Mitumbiri Divisions of the Thika District, approximately 60 km north-east of Nairobi. The focus of the project is to professionalize trade in order to enable the small-scale farmers to export their products to the European market in a sustainable and profitable way. Four groups of small-scale farmers growing mainly horticultural crops have agreed to establish a business venture on the basis of sustainable agricultural chain management. This business venture will be organized under the umbrella name of the Umoja Project. The total acreage of the Umoja Project is 170 hectares. Approximately half of this land will be used for growing and exporting French beans to the European Union, the other half will be used for growing food for own consumption and for sales on local markets. Financing of this project will be arranged for with help from the SNS Waterfund.

To be able to export the French beans to overseas markets an exporter has been selected called WONI Fru-Veg Exporters & Importers Ltd. This company exports a whole range of horticultural crops mainly to UK, France, Belgium, Dubai and other destinations. WONI has been operating for 16 years and is well established and managed. The management is well informed, knowledgeable, experienced and focused and the management style is transparent. The Umoja project has engaged in a two-year contract with WONI Fru-Veg Exporters & Importers Ltd. for export of French beans.



1.2 Research problem and propositions

The Umoja Project is currently in its initial phase. Four groups of farmers, already organized in Self-Help Groups have been selected to join the project. The farmers in these groups grow and sell their crops mostly individual to either middlemen or to the local market.

According to ISCOM's vision, in order to create benefits for the different parties in the supply chain, it is necessary for the farmers to be organized in a professional way and be supported by a network of different stakeholders who can add knowledge and credibility. However, the farmers will remain responsible for how they run their farms.

In order to create such a network, an association called the Umoja Farmers Association with its articles of association and memorandum has been registered under Kenyan laws. This association will be built up as the central body by which the farmers liaise with the project. Individual farmers will continue to exist as members of their own Self-help Groups but their dealings will be subject to decisions made by the Board of the Association, functioning and regulation of which will be determined through one of the project's activities.

Marketing and sales of the products will be done through the association's commercial arm, the Umoja Trading Company Ltd, which - as part of the project activities - will be legally formed and registered under Kenyan Law. The company will be run by professionals with an experience and a background in finance, management and farm business. Preparations for the formation of such a company are being made.

The problem addressed in this thesis is:

What strategy should ISCOM implement for the Umoja project in order to meet the requirements and expectations of the stakeholders and how should this strategy be implemented?

Before an answer can be given to the problem statement above, we first give an answer the following five sub questions. The first three questions will help to create the theoretical framework and provide background information for the rest of the research. The last questions are specifically focused on the development of a strategy for the Umoja project and will help us to answer the main research problem.

1. *What is the Umoja project and who is involved?*
2. *Why have Kenyan smallholders previously been (un)successful in international trade?*
3. *What are the available strategic options for the Umoja project?*
4. *What strategic option best fits the Umoja project?*
5. *What implications does the selected strategy have for further development of the Umoja project?*

We will argue that the Umoja project can adopt one of four different strategies and accordingly suggest which one will be most suitable and how to develop a value chain from there, considering the requirements of the stakeholders involved. We will propose a new strategy for the Umoja project considering the two-fold approach of ISCOM whereby marketing and farming are separated in two different parts of the project as well as considering the available value chain theory on small scale farmers.



1.3 Justification and relevance

Smallholder farming in less-favored areas (LFAs) is constrained by agro-ecological, economic and institutional factors that keep households “trapped” in vicious circles of chronic poverty and resource degradation. The area around Thika can be considered such a region. Common strategies to address rural poverty by increasing returns to agricultural production are likely to fail, since the opportunities for investments in improved resource management regimes are severely limited due to strong input complementarities and high transaction costs. Therefore, poverty reduction can be achieved only through an integrated strategy that focuses on the right mixture and sequence of interventions that systematically address the most limiting factors that constrain access and returns to physical, human, financial and social capital (de Janvry and Sadoulet 2005). This research will review different strategies available from literature and experts, to be able to describe a suitable strategy for the specific situation of the Umoja project.

ISCOM wishes to include as many stakeholders as possible in the project in order to create growth in a sustainable way. From experiences in the past it appears that when essential groups were not involved in the development and execution of aid programmes, chance of failure increases. One example comes from an experience in Kenya whereby an aid organization wanted to help farmers by assisting them in building wells. This organization provided all necessary materials and started the project, the only thing that was needed from the farmers was labour. In return for the work, project management offered food. Unfortunately the farmers believed that one cannot work for food, one works for money. Until this day the wells are not finished. Failures like this stress that stakeholder involvement in all phases of the project is of utmost importance.

Several studies (Hoben et al., 1996; Mutangadura, 2005; KIT, 2006) confirm that stakeholder participation is an integral part of sustainable development and stress the importance of stakeholder involvement in decision making. In this research, the different views of the stakeholders involved in the project will be incorporated in the choice of a strategy. According to the new stakeholder view, the recognition of mutual interests between the firm and its stakeholders is essential for the long term success and survival of a company or organization (Post, Preston & Sacks, 2002). By identifying and including the views of the different 'critical' stakeholders involved in the Umoja project, these interests will be recognized and incorporated in a strategy that acknowledges the role of the stakeholders in the network. This research searches for a strategy that incorporates the views of the critical stakeholders and is suitable for the specific circumstances of the Umoja project.

1.4 Methodology

The research we have performed can be defined as exploratory research. Exploratory research is conducted when a problem has not been clearly defined or needs clarification (Saunders et al., 2003). It is used to help determining the best research design, data collection method and selection of subjects. Exploratory research relies on both primary and secondary data.

In preparation of the field research, we have done a literature study to review the available theory smallholder farming in Africa. We have learnt from this secondary information what have been major causes for African smallholder project failure and what problems we can expect. We have determined the information we needed to obtain during our field research and adjusted our list of topics to be discussed with interviewees during the field trip accordingly. At the same time the available brochures and business plans of ISCOM about the project were studied and discussed with the director of ISCOM.

To determine the current status of the project, a fieldtrip to Kenya has been undertaken. Before the visit to the project in Kenya, a shortlist with possible stakeholders and relevant experts was already created in the Netherlands after a number of conversations with the managing director of ISCOM Netherlands. During the field trip, in-depth interviews with stakeholders, advisors and other experts were performed by using a research method called snowballing, whereby interviewees also provided relevant experts and stakeholders to interview next. The reason for using the snowballing method is to make sure all relevant persons and institutions involved in the project were interviewed. Secondary



data was used to obtain background information on similar organizations, the Kenyan economy, the markets the farmers are selling their produce on and agricultural development.

In the next chapter we will start with a review of relevant literature for our research. A great number of organizations have been set up that involve cooperation of farmers in Africa. Many of these have been successful, many have failed. Theories about how these organizations or projects should be set up and managed are widely available. Valuable lessons can be learned from this secondary data. Theory on different strategies to setup a cooperative can help determine how the Umoja project needs to be setup to meet project goals. Value chain theory will be used determine the strategy on how the value chain should be developed in order to alleviate the farmers from a situation of poverty.

After reviewing the general theory on smallholder cooperation in Africa, we will describe the methodology in more depth. A detailed description of the research methodology is available in chapter 3. In chapter 4 we will describe the current situation of the Umoja project. We will do this using Porter's value chain model. The reasoning behind this is that this model enables us to describe the company according to its activities. We use a value chain model because the main goal of ISCOM is value chain development for smallholders. In the following phase of this thesis we will describe the desired situation. We have chosen to describe the desired situation according to the stakeholders in the Umoja project, because ISCOM has a stakeholder approach for its projects. We will also describe the desired situation according to the available theory and experts on the topic. With this information we will determine the desired situation for the Umoja project. After that we will select the appropriate strategic approach for the project and describe how this needs to be implemented.



1.5 Outline of the report

In order to present a clear overview of the research, below the research structure is presented in as a figure. This research structure also represents the outline of the chapters of the thesis.

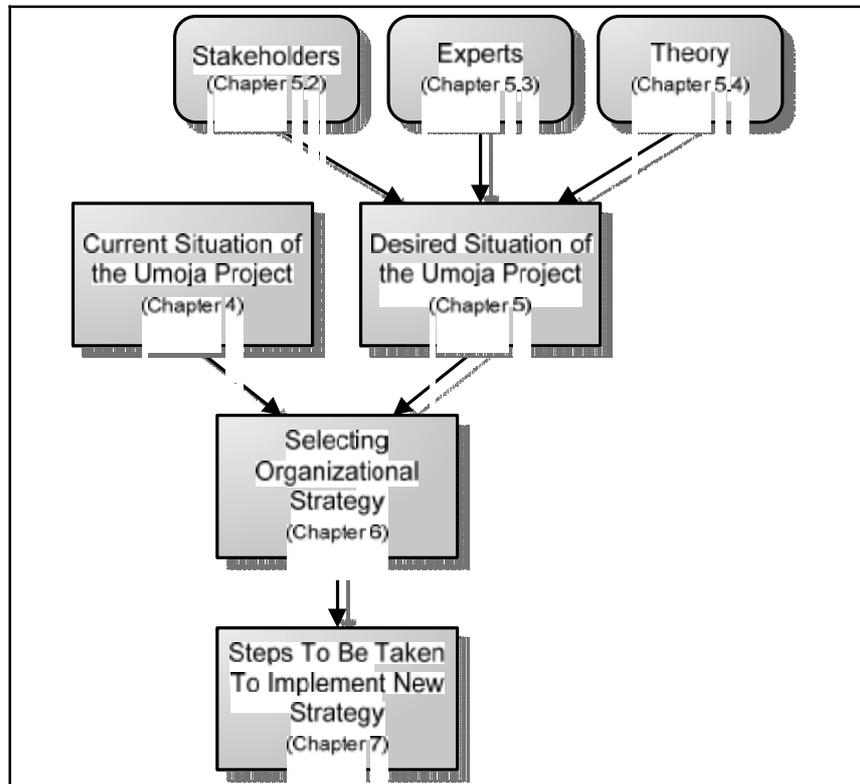


Figure 1.1; Schematic Research Approach

- Chapter 1** This chapter is the introduction to the research. It explains why this research is performed, what the objectives of the research are, what problem statement will be answered and how the thesis will be designed.
- Chapter 2** Chapter 2 outlines the theoretical background on which the research has been based. Parent theories will result in development of the theoretical framework.
- Chapter 3** This chapter describes the major methodology used to collect the data which will be used to answer the research questions.
- Chapter 4** Chapter 4 describes the current situation of the Umoja project and includes a description of all the stakeholders involved in the project.
- Chapter 5** In chapter 5 we address the desired future situation of the Umoja project according to the stakeholders, experts and theory.
- Chapter 6** In this chapter, the best fitting organizational strategy for the Umoja project will be selected.
- Chapter 7** In chapter 7 we explain how the organizational strategy must be implemented and what steps need to be taken.
- Chapter 8** In this chapter we will answer the main research question, give conclusions and recommendations for ISCOM and for further research.



1.6 Delimitations of scope and key assumptions

ISCOM wants to help reduce poverty in developing countries in a sustainable way. The Umoja project was setup as an initial project focused on poverty reduction in Kenya. The unit of analysis in this research is the Umoja project.

The Umoja project focuses on poverty alleviation and wants to link smallholder farmers to markets. ISCOM believes in sustainable chain management. Further research is needed on how the value chain in the Umoja project needs to be developed and what the best strategy is for this project.

At this moment the Umoja project is a collaboration of four farmer groups that have agreed to join the Umoja Association. Furthermore there is a contract with an exporter called WONI for exporting the produced French beans to Europe. ISCOM will manage the project and is planning to create a separate commercial arm called the Umoja trading company.

ISCOM believes that poverty in Africa can only be reduced in the long term when small-scale farmers are connected to markets in a professional and sustainable way. The farmer self-help groups involved in the Umoja project showed a strong motivation to change to new modes of farming that would create a substantial cash flow and reduce their present state of poverty, the land is fertile and suitable to the cultivation of a variety of horticultural and other crops.

The manager of the Umoja project, the founder of ISCOM Kenya knows the area in which the farmers reside. The farmers know and trust this person. The project manager is also familiar with the Kenyan (business) culture because he lived a substantial part of his life in the area where the farmers are located.

The reason for choosing the export of horticultural products and initially French beans is because the farmers have experience in growing horticultural products. Furthermore horticulture has become the third largest source of foreign exchange after tourism and tea, in other words; it is marketable. This research is no market research but a determination on how the value chain of Umoja project should be organized in order to meet the requirements and expectations of the stakeholders. The marketing decisions for that reason, are a given.

This thesis is not a manual on how to organize farmers in Kenya, but rather a careful determination on how the value chain of the Umoja project needs to be developed and what strategy the Umoja project must adopt.

1.7 Summary

In this chapter the foundation for the report has been established. The research problem was introduced as well as the supporting questions that assist in solving the research problem. After that we explained the reason for performing the research as well as the relevance of it. The methodology was briefly described, the outline of the report was given and finally the delimitations and boundaries of the research were explained. Based on this foundation, we will continue the thesis with a detailed description of the theoretical framework for the research.



2.0 THEORETICAL FRAMEWORK

2.1 Introduction

As described in chapter one, in this thesis we will determine the most suitable strategy for the Umoja project. This will be done by interviewing stakeholders but also by reviewing theory. In this chapter we will describe the models and theories used to answer the research questions. We will start with a description of why African smallholders are having difficulties becoming successful in international trade. The risks that should be considered when involved in a project with African smallholders will be described after that. Following this - in section 2.3 - we will continue our literature review with a design of the research framework.

2.2 Theory

We will now have a look at general theory about smallholder farming in developing regions. Smallholder farming in less-favored areas (LFAs) is simultaneously constrained by agro-ecological, economic, and institutional factors that keep households “trapped” in vicious circles of chronic poverty and resource degradation. Common strategies to address rural poverty by increasing returns to agricultural production are likely to fail, since the opportunities for investments in improved resource management regimes are severely limited due to strong input complementarities and high transaction costs. Therefore, poverty reduction in LFAs can be achieved only through an integrated strategy that focuses on the right mixture and sequence of interventions that systematically address the most limiting factors that constrain access and returns to physical, human, financial, and social capital (de Janvry and Sadoulet 2005).

Less-favored areas are usually defined as remote regions with a fragile natural resource base (compared to population density) where poor market linkages and institutional failures lead to low margins and reduce the effectiveness of agricultural development policy. Under such conditions, rural households organize their livelihoods through selective engagement in a wide number of (non)agricultural activities in order to cope with uncertainties and to diversify risk. Consequently, most of the poverty in LFAs can be characterized as “asset poverty” (i.e., low and uncertain returns to resources). This makes households extremely vulnerable to shocks and can easily lead to an irreversible breakdown of their asset base (Barrett and Carter 2005).

Less-favored areas can be defined according to place and space characteristics. Place refers to climate and soil conditions that limit returns to agricultural production and make yields highly uncertain, especially under conditions of high population density. Space refers mainly to distance to markets and services, occasioning high transaction costs. In both settings, barriers to migration—either because moving is costly and risky or because people cannot move due to local patronage systems—could easily lead to spatial poverty traps. Thin land markets and barriers to borrowing further reduce the prospects for escaping from poverty (Barrett and Carter 2005).

Farmer Empowerment

Beardoux et al. (2001) define farmer empowerment as the “development of farmers’ capacities to initiate actions on their own or to influence decisions that affect their economic and social activities”. Sharma (2001) adds to this that farmer empowerment can be defined “an activity that mobilizes and motivates people in the farming community to bring about positive changes within the organizations”.

Co-ordination problems in African smallholder farming

Agricultural intensification involves both technical change and the presence of input, seasonal finance and marketing systems to increase farm production and deliver it to consumers at a competitive price. Intensification involves the development of supply chains around smallholder farmers, with simultaneous and complementary investments in all links in the supply chain. Co-ordination, opportunism and rent-seeking costs and risks can however, pose serious difficulties in the making of such simultaneous investments in poor rural areas (Poulton et al, 2006).



Poor rural areas in Africa are characterized by low total and monetary incomes for most people, with limited consumption and expenditures, a poorly developed monetary economy with a narrow base, and markets (for agricultural inputs, outputs and finance, consumer goods and services, etc.) which are relatively 'thin' (with small volumes traded, although for some items there may be very large numbers of people trading in very small volumes) and prone to large seasonal variability in demand and supply. These conditions normally co-exist with poor roads and telecommunications, poor information (particularly in agriculture, on prices, on new technologies, and on potential contracting partners), difficulties in enforcing impersonal contracts and widespread rent-seeking behavior (Poulton et al, 2006).

Such conditions pose particular problems for the supply-chain development needed for agricultural intensification, and these are exacerbated by the fact that such development may require significant simultaneous and complementary investment by a number of market participants. Such investments carry high risks of transaction failure and hence high transaction costs incurred in obtaining protection against such risk. These transaction risks (and costs) have three main components: co-ordination risks (the risk of an investment failing as a result of the absence of complementary investments by other players in a supply chain); opportunism risks (which arise when another contracting party, with monopsonistic or monopolistic control over a complementary investment or service, removes, or threatens to remove, it from the supply chain after a player has made an investment that depends upon it); and rent-seeking risks (where powerful government, political, criminal or other agents not party to a transaction see associated investments and/or revenue as an opportunity to expropriate, or threaten to expropriate, income or assets from the investor) (Poulton et al, 2006).

Co-ordination, opportunism and rent risks (and the costs of protection against them) are closely related, and where these are high as compared with potential returns to investment, then the investments required for the development of an agricultural intensification supply chain may be too risky to be worthwhile, and thus the supply chain may not develop even if it is otherwise potentially profitable (Poulton et al, 2006).

Traditional export markets

The key challenges in export cash-crop sectors are to maintain or enhance product quality, to maintain remunerative producer prices in the face of low and fluctuating international prices (Shepherd and Farolfi, 1999: 89), to find ways of delivering seasonal finance to producers, and to ensure that high quality research and extension support continual productivity increases. This requires a balance between competition and co-ordination (Poulton et al., 2004), with the appropriate role for the state depending on the evolving structure of the market. In many cases sector performance would be enhanced if public agencies (such as those with a regulatory or co-ordination function and crop research institutions) were more accountable to private stakeholders (notably producer representatives and marketing and processing companies), a first step in this being regular multi-stakeholder meetings. Export cash crop sectors can generally finance their own developmental activities through either commercial investment or levies, providing that credible co-coordinating governance structures are put in place.

Non-traditional export markets

Non-traditional exports (principally fish, horticulture and floriculture) have grown in a small number of countries in recent years and this should be able to continue. However, only large-scale enterprises can meet international commodity chains' increasingly tough demands for quality and traceability (Dolan et al., 1999: 39), although they may sub-contract to small growers. Macroeconomic stability and an environment conducive to private enterprise are key to continued growth and investment in non-traditional export sectors.

The Umoja project is there to provide access to resources, output markets, credit and technology to farmers. Poulton et al (2006) mention that the enhanced provision of pre- and post-harvest services to smallholder agricultural producers is critical to stimulating smallholder agricultural growth and intensification in Africa. Moreover, they say that provision of these services is not enough; the provision must be co-coordinated to prevent failure as a result of other investors failing to make complimentary investments of behaving opportunistically.



In the case of some cash crops, this co-ordination is achieved by vertically integrated produce-buying and processing. A 'critical commodity chain' approach could promote co-coordinated service delivery for food-crop production by qualifying smallholder groups.

The 'critical commodity chain' approach essentially means food price stabilization in Africa by state intervention (Poulton et al, 2006). Although state intervention in food price stabilization is not part of the scope of this research, an important thing Poulton et al (2006) mention is that volatility in food prices could seriously hinder many poor households in climbing out of poverty. Instability in food prices implies high risk and may limit investment capabilities and could increase debts or cash shortages for the poor rural households.

2.3 Theoretical framework

In this chapter we will analyze theory that is directly used in our research. One of ISCOM's main goals with the Umoja project is farmer development and empowerment. Farmers need to be connected to markets and deliver products that comply with market standards. Until today, the farmers in the Umoja project have not been able to improve their livelihoods on their own. ISCOM is wants to assist the farmers in the Umoja project develop and empower themselves. ISCOM believes the farmers in the Umoja project lack organizational capacity and are therefore unable to participate in trade in a professional way, leading to a continuing cycle of poverty and a dependency syndrome (ISCOM, 2006).

ISCOM attempts to bring farmers together and organize them to enable them to participate in international trade successfully. Similar cases and literature about this suggest development of a cooperative around farmers is a suitable way to do this. A cooperative can be generally defined as a user-owned and user-controlled and user-benefited business that distributes benefits on the basis of use (Cook, 1997). In general terms cooperatives are formed with the objective of providing services to agricultural producers (the members), which they as individuals, cannot provide by themselves or at least not so effectively (McBride, 1986).

Cooperatives share the same common objective with Investor Oriented Firms (IOF) of maximising the long term wealth of shareholders/members (Lynch, 1998). A critical difference is that while IOFs have the single objective of maximising value at firm level, cooperatives must maximise value both at cooperative/firm level and at member level (Lynch, 1998).

In chapter 1.3 we have already learnt that (critical) stakeholder involvement is of the utmost importance for sustainable development and decision making. It is even believed that the long-term success of an organization depends on its relationship with critical stakeholders. This allows us to draw the conclusion that chances of failure will be higher when critical stakeholders are not involved in the project. One of the most used definitions for a stakeholder by one of the pioneers of the theory is; 'a stakeholder is someone that affects or is affected by the achievements of an organization' (Freeman, 1984). The empirical reality shows that companies can affect or can be affected by virtually anyone. (Mitchel, 1997).

According Mitchel (1997) this calls for a normative theory that explains to which entities the management should pay attention and why. The normative stakeholder theory is used to interpret the function of the corporation. (This includes the identification of moral or philosophical guidelines for the operation and management of corporations) (Donaldson and Preston, 1995). Donaldson and Preston (1995) further explain that the normative use of stakeholder theory attempts to interpret the function of, and offer guidance about, the investor-owned corporation on the basis of some underlying moral or philosophical principles.



The long term survival and success of a firm is determined by its ability to establish and maintain relationships with its entire network of stakeholders (Post, Preston and Sachs, 2002). Post, Preston and Sachs (2002) furthermore claim that “the capacity of the firm to generate sustainable wealth over time, hence its long-term value, is determined by its relationships with critical stakeholders”. This is also called ‘The new Stakeholder View’. According to this view, the critical challenge for contemporary management is recognition of the mutual interests among the firm and its stakeholders, leading to the development of consistent and supportive policies for dealing with them (Post, Preston & Sacks, 2002).

Not only stakeholder involvement is important for minimizing project failure. Poor market linkages and institutional failures are known to lead to low margins and reduce the effectiveness of agricultural development (Barrett and Carter 2005). Agricultural intensification involves the development of supply chains around smallholder farmers, however, co-ordination, opportunism and rent-seeking costs and risks can pose serious difficulties in poor rural areas. Stability in food prices is needed as well as provision of pre- and post-harvest services as well as co-ordination of these services by developing a ‘critical commodity chain’ approach (Poulton et al, 2006).

ISCOM has a value chain approach for its projects. A value chain can be described as network created amongst different companies producing, handling and/or distributing a specific product (KIT, 2006). KIT (2006) argue that the main difference between a supply chain and a value chain is that each of the actors in the value chain is prepared to invest in the chain, and support the other actors to make sure the chain functions smoothly.

2.3.1 Representation of Value Creation

To be able to analyze the current and desired situation of the Umoja project according to the stakeholders and experts, a model is needed that enables us to make a comparison between the different views of these. They differ in how the organization should perform its activities. For this purpose the value chain model of Porter (1985) will be used. This model divides all value adding activities into primary activities and supporting activities. The model is very useful in this context because it enables to view the organization as a set of activities. One can compare how the different parties think these activities should be organized. Even though the value chain model from Porter is commonly used by large organizations, we find it particularly useful for the determination of how the value chain should be developed for the Umoja project. We want to consider all elements of the value chain in the development of a strategy for the Umoja project.

Another advantage of the value chain model is that it is not bound to a single organizational unit. There are many stakeholders involved that go beyond the individual organization and thus form a value system. Another option would be to use a model that works with organizational processes or structures. The reason for choosing a model that focuses on organizational activities fits better in this context. Breaking down the Umoja project into different processes or structures is not possible because its structures are not yet in place and processes are not running yet.

The value chain analysis framework proposes that competitive advantage is understood by breaking down the value creation process of the firm into discrete activities that contribute to the firm’s relative cost position and create a basis for differentiation. The basic assumption underlying this ‘breaking down’ is that activities are the building blocks by which a firm creates a product that is valuable to its customers. Different activities have different economics and contribute differently to the valuable characteristics of the product.

The value chain configuration is a two-level generic classification of value creation activities (Porter, 1985). Primary activities are directly involved in creating and bringing value to the customer, whereas support activities enable and improve the performance of the primary activities. The ‘support’ label underlines that support activities only affect the value delivered to customers to the extent that they affect the performance of primary activities. Primary value chain activities deal with physical products (Porter, 1985: 38). A graphical representation of this is given below:

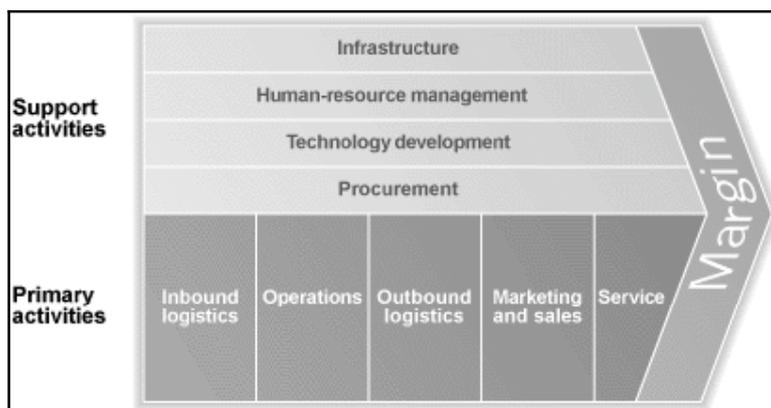


Figure 2.1; Value Chain Model (Porter, 1985)

Primary activities

The five generic primary activity categories of the value chain are (Porter, 1985: 39–40):

- *Inbound logistics* Activities associated with receiving, storing, and distributing inputs to the product.
- *Operations* Activities associated with transforming inputs into the final product form.
- *Outbound logistics* Activities associated with collecting, storing, and physically distributing the product to buyers.
- *Marketing and sales* Activities associated with providing a means by which buyers can purchase the product and inducing them to do so.
- *Service* Activities associated with providing service to enhance or maintain the value of the product.

Support activities

The generic support activity categories of the value chain are:

- *Procurement* Activities performed in the purchasing of inputs used in the value chain.
- *Technology development* Activities that can broadly be grouped into efforts to improve product and process.
- *HRM* Activities of recruiting, hiring, training, developing, and compensating personnel.
- *Firm infrastructure* Activities of general management, planning, finance, accounting, legal, government affairs, and quality management.

2.3.2 Value Chain Model For Small Scale Farmers

According to KIT (2006) there is an important difference between value chains and supply chains. A supply chain can be described as: The network created amongst different companies producing, handling and/or distributing a specific product. KIT (2006) argue that the main difference between a supply chain and a value chain is that each of the actors in the value chain is prepared to invest in the chain, and support the other actors to make sure the chain functions smoothly. Intermediary organizations can work with farmer groups and other actors to convert supply chains into value chains.

KIT (2006) has developed a framework for strategic small-scale farmer participation in the supply chain. Four different basic forms of small-scale farmer participation can be distinguished. According to KIT (2006), small-scale farmers can participate in value chains in many different ways. These types of participation can be summarized into two broad dimensions:

- The types of activities farmers undertake in the chain.
- The involvement of the farmer in the management of the chain.



The types of activities farmers undertake in the chain

Generally, the number of activities that farmers undertake in the chain determines their level of vertical integration; KIT (2006) calls this 'chain activities'. The other dimension, the degree of involvement in chain management is determined by how many aspects of the value chain are managed by the farmers.

The involvement of the farmer in the management of the chain

Farmers may be excluded from any decision making that affect them. Sometimes other parties decide for the farmers what crops to grow and then inform the farmers about it. Sometimes farmers have a high degree of control over management, they may for instance decide how much they sell, to whom and at what price, control terms of payment, definition of grades and standard etc. These aspects determine the level of chain management by farmers.

Combining these two dimensions leads to the following matrix. Farmers can be located anywhere in this matrix:

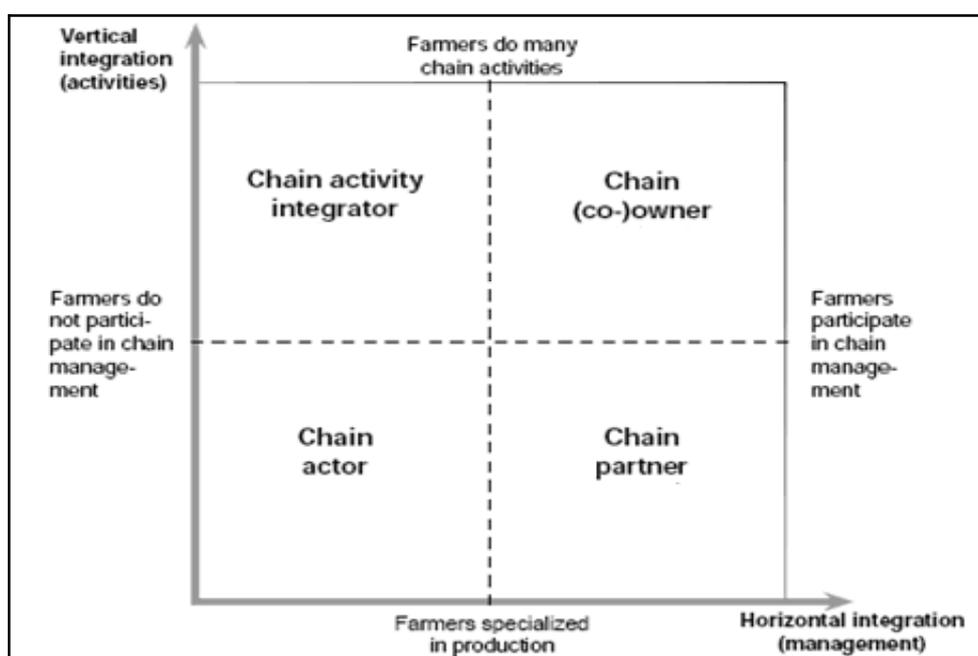


Figure 2.2; Forms Of Chain Participation By Small-Scale Farmers (KIT, 2006)

Chain actor

A chain actor is involved only in farming and has no influence over the management of the chain. Prices are usually determined for the chain actor by traders (middlemen) and the farmer can only accept.

Chain activity integrator

When a farmer moves from farming to other activities in the chain, such as grading, processing or transport without having any managerial control over the chain, we call these farmers chain activity integrators. Chain activity integrators may be organized into groups for buying inputs, processing or logistics. They have no managerial control over the chain because they are not involved in quality management, consumer targeting or innovation.

Chain partner

Chain partners are specialized in farming and do not integrate vertically in the chain. Chain partners can have influence on the management of chain through for instance associations. Chain partners have a long-term relationship with traders, processors or retailers.



Chain (co-)owner

When farmers increase both their activities and their influence, they are called chain co-owners. These farmers integrate vertically by for instance sorting, grading and transporting produce. Chain co-owners are organized in business cooperatives that can reach the end-customers. These business cooperatives may have created their own brands to be able to receive a premium price on a foreign market.

Improving the position in the chain

It can be difficult for farmers to move from one quadrant in the matrix into another. Resistance from other players in the chain can be expected. Traders (middlemen) may see their position threatened if farmers take more control over the chain and its management. It can take a long time for chain actors to become chain co-owners.

It is also possible to move to the left or downward in the matrix. If for example a group of farmers see they can make more money by giving up an inefficient processing operation, they would move downward in the matrix. The ideal position for farmers in the chain is not necessarily chain co-owner. The best position for the farmers depends on the specific situation and this may change over time.

According to KIT (2006), vertical integration is the preferred strategy of farmers. Farmers generally think that by shortening the chain, cutting out traders and other middlemen their profits will be a lot higher. Vertical integration is no guarantee for extra income. Adding activities also implies extra costs and greater risks, but more importantly, it requires a new set of skills and assets. Returns on investment however, may be disappointing when no attention is given to the second dimension of the value chain matrix; involving the farmer in chain management.

2.3.3 Chain Empowerment Strategies

KIT (2006) recognizes four chain empowerment, considering the information above:

- 1 **Upgrading as a chain actor**; farmers become crop specialists with a clear market orientation.
- 2 **Adding value through vertical integration**; farmers move into joint processing and marketing in order to add value to the product.
- 3 **Developing chain partnerships**; farmers build long-term alliances with buyers that are centered on shared interests and mutual growth.
- 4 **Developing ownership over the chain**; farmers try to build direct linkages with the consumers.

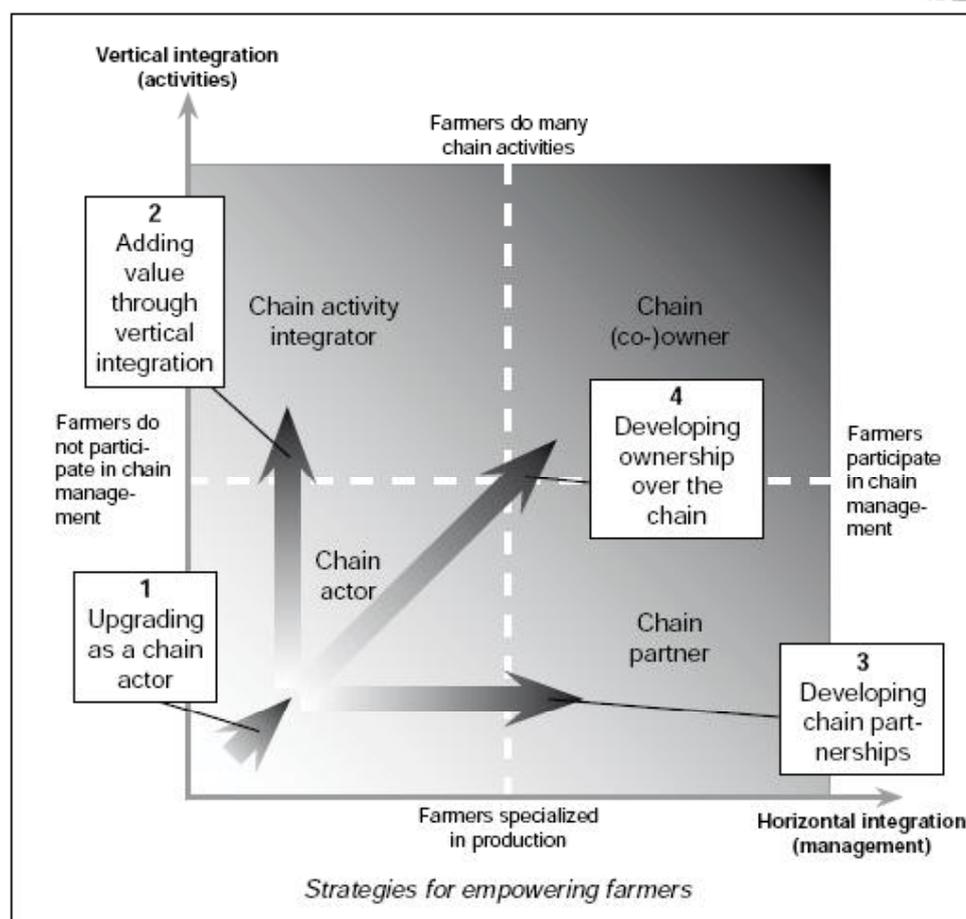


Figure 2.3; Strategies For Empowering Farmers (KIT, 2006)

Ad 1. Upgrading as a chain actor

Upgrading as a chain actor is necessary when farmers are not well connected to markets. They wait on the farm for traders to visit them to buy their produce. Low prices are offered and usually not all output is bought. Farmers are upset about this and blame traders (middlemen) for their problems. Farmers feel exploited by traders offering low prices and selling against a much higher price in the cities. Farmers however do not realize they are part of the problem; their production is not well tailored to market needs. The quality of the production is not uniform; production of all different qualities is put together in the same crate. Traders do not know what quality to expect and therefore offer a low price.

In this situation, becoming a crop specialist is a necessary first step, prior to any other form of chain development. Farmers need to produce a better crop of a higher and more consistent quality, which is better suited to satisfy the buyer. KIT (2006) argues that unless farms are operating well, it makes no sense to invest in processing of crops or to seek chain partnerships.

Ad 2. Adding value through vertical integration

When farmers are already specialized chain actors to some extent, offer a reasonably attractive product, have organized themselves, developed farm management skills, understanding of markets and willingness to innovate, but feel however that they only get few returns from the market, adding value through vertical integration becomes an option.

Farmers ready to vertically integrate must already be crop specialist, it is the basic requirement for moving into other chain activities. In order to integrate vertically, the farmers' organization has to build



assets for warehousing, grading, conditioning, packaging, logistics and quality control equipment and systems. The organization needs to develop the ability to plan and run the new business venture. This includes the development of bankable business plans, obtaining investment capital, identification and implementation of appropriate technologies, operational management of the new business processes, assurance of quality, targeting of buyers, management of client satisfaction, and continuous upgrading of the product and production processes.

Operational management becomes far more complex when integrating vertically. Moving into downstream business activities requires a complete new set of managerial skills. Next to this, technical skills for quality control or upgrading may also be required. Management of collective equipment, infrastructure and decision processes, administrative procedures and information flows become far more complex. Farmers themselves are unlikely to be able to perform these activities. Because of this, the recruitment of professionals for marketing, administration and management positions will be necessary.

Next to professional management, strong group cohesion and organizational discipline are needed. When involved in a joint business venture, members of the farmer organization must be able to trust and rely upon each other. Operational procedures and quality standards must be adhered to on individual member level. Unless there is real ownership by the farmers, the business venture will not be successful, implying that members must invest their own resources in the business venture, and therefore take risks. Dependency upon outside support is a major cause of failure.

Another area in which the farmers' organization needs to develop is development of capacities in public relations. The organization will have to deal with a great number of institutions next to customers and suppliers. Examples of these are; financial institutions, service providers, certification agencies, local authorities etc. The organization must be able to work with and manage this diversity of stakeholders and influence relevant elements of the business environment.

Ad 3. Developing chain partnerships

Before development of chain partnerships can begin, farmers need to be professional chain actors, crop specialists having something good to offer to buyers. Farmers in this situation may feel out of control over their relations with the outside world. They may sell to traders, leaving them unsure whether they can sell their produce, or have contracts with processing companies, giving them a secure market outlet but no bargaining power over prices and other contract conditions.

To create a situation whereby farmers have more influence in the chain, they want to become a more attractive business partner to make sure the buyer is willing to pay better prices, listen to demands and is willing to invest in them. In other words, farmers want to build more stable relationships with the market. A partnership strategy based on shared interest and mutual growth is an option here. By linking themselves with a buyer, farmers can increase business security and gradually improve and expand their businesses.

Ad 4. Developing co-ownership over the chain

Although the goal of this intervention strategy is similar to vertical integration, chain co-ownership goes beyond vertical integration. Chain co-ownership implies that farmers organize themselves in recognized, visible business organizations, capable of penetrating existing markets, developing new products or markets and diversifying their activities. This also means they reach the end-consumers of their products and improve the product based on consumer demand through dialogue. This strategy can result in lucrative prices for produce and taking a fair from the chain as a whole.

Co-ownership requires good coordination skills and capabilities. The most accessible markets for African farmers are local, regional or national. Reaching end-customers in an export chain may be very difficult. In those cases, importers can be considered end-customers since they take over the rest of the chain in the distant country. The skills and assets needed for a chain co-ownership strategy are the same as those needed for a vertical integration strategy. What however distinguishes a co-



ownership strategy from a vertical integration strategy is that co-ownership also encompasses the ability to coordinate the whole chain to be able to satisfy the end-customer.

To develop co-ownership over the chain, farmers have to enter into joint ventures downstream in the chain for development of new consumer product lines. The need to develop and market branded consumer products. The chain model fitting this would be a farmer cooperative gaining chain co-ownership in partnership with processors or retailers, or through direct marketing to consumers.

2.4 Conclusion

Common strategies to address poverty in less-favored area's (LFAs) by increasing returns to agricultural production are likely to fail. An integrated strategy that systematically addresses the most limiting factors is needed. Farmer groups need to upgrade themselves to become attractive business partners to be able to engage in trade in a professional way. Supply chains need to be developed around small scale farmers to increase farm production and deliver that to consumers at a competitive price.

Delivering pre- and post-harvest services is critical to stimulate smallholder agricultural growth. Coordination of these services is needed to prevent failure. Another important thing that could seriously hinder smallholders from climbing out of poverty is price volatility, stability is needed to prevent creation of debts or cash shortages for the poor smallholders.

From the theory can be concluded that not only stakeholder involvement is important for minimizing project failure. Poor market linkages and institutional failures are known to lead to low margins and reduce the effectiveness of agricultural development. Agricultural intensification involves the development of supply chains around smallholder farmers, however, co-ordination, opportunism and rent-seeking costs and risks can, pose serious difficulties in poor rural areas. Stability in food prices is needed as well as provision of pre- and post-harvest services as well as co-ordination of these services. A value chain approach with stakeholder involvement is needed.

To be able to analyze the current and desired situation of the Umoja project according to the stakeholders and experts, we use Porter's value chain model (Porter, 1985) for this because it enables us to compare the primary and secondary activities of project. Even though this model was designed for large companies, it is particularly useful for us because it enables to view the organization as a set of activities. With this model we can analyze all parts of the value chain that will be developed around the Umoja project.

In this thesis we develop a strategy for a project with smallholder farmers in Kenya. ISCOM, the initiator of this project believes that for farmers to be able to participate in trade in a professional way, they need to be organized. Development of a cooperative around farmers is a suitable way to do this according to the literature. ISCOM has a value chain approach for its projects whereby stakeholder involvement is very important.

The value chain model of KIT (2006) is a perfect framework for strategy development for the Umoja project because it is focused on value chain development around smallholder farmers in Africa. According to KIT (2006), there are four possible strategic value chain approaches for African smallholders, these are:

- **Upgrading as a chain actor**
- **Adding value through vertical integration**
- **Developing chain partnerships**
- **Developing ownership over the chain.**

Upgrading as a chain actor is needed before the other 3 options can be considered and is the minimum requirement to take part in the competitive horticultural export market. When the farmers in the Umoja project have upgraded to chain actors, the Umoja project can consider adopting one of the three strategic value chain approaches.



3.0 RESEARCH METHODOLOGY

3.1 Introduction

To be able to answer the research questions, we have reviewed the available secondary information and also gathered primary information. In the previous chapter we have examined relevant theory to understand the risks of working with smallholder farmers in a project and to develop a framework for the second part of the research; a field trip to the Umoja project in Kenya where critical stakeholders and experts have been interviewed. We have chosen to interview farmers, project members and the exporter because they are the people directly responsible for the success or failure of the project. Furthermore we interviewed as many experts on smallholder farming in the Thika region as possible in the time available. Below we will give a detailed description of the research procedures.

3.2 Project assessment

Before the field research started we needed detailed information about the project. To familiarize ourselves with the Umoja project we had several meetings with ISCOM Netherlands director Teun Wolters, the initiator of the project. He explained his views on the project to us and explained the set-up with help from a business plan and a brochure. With this information we went to Kenya to explore the project into more detail. In Kenya we were brought to the self-help groups by the director of ISCOM Kenya who explained the specifics of the project. We also went to several meetings where the director gave presentations about the project developments to the farmers. Another helpful resource was a former member of parliament with which we had extensive meetings; he has been involved in the project from the beginning. With this information we were able to get an idea about the Umoja project enabling us to start our actual research.

3.3 Research procedures

Visiting farmer groups to determine the current situation of the project

Upon arrival in Kenya we were taken to all four self-help groups involved in the Umoja project. Each self-help group has a committee of key-members, and can be seen as the management of the self-help group. The committees of these self-help groups were present at our initial meeting. The local project manager introduced us and explained that we wanted to interview all parties involved in the project, after this a presentation was given by the local project manager about the progress of the project and the new development. An appointment was made whereby we would return to the self-help groups so the local project manager could give a more extensive presentation to all self-help group members and where we would randomly select five members of each self-help group to interview. The reason for interviewing five members is because we expected each interview to last between one and two hours. Five interviews would be the maximum we could do each day. We only had one day available for interviews at each self-help group, meaning we would interview 20 farmers in total, just under 10 percent of the total population.

Determining which stakeholders and experts to interview

The next time we visited the farmer groups almost all group members were available. This gave us the opportunity to randomly select five members of each group. We selected five member of each group because that is the maximum number of interviews we were able to do per day and because the groups are far away from each other. A slight bias may have occurred in group representation because the smallest group has 50 members and the biggest group has 70 members, we decided to interview the group leaders of each group and to randomly select 4 other interviewees.

We chose to do in-depth interviews instead of questionnaires because part of the interviewing process was also a learning process of us researchers. By using qualitative research methods we were able to make sure not to miss relevant information, something that would have occurred when we would have



decided to work with questionnaires, simply because we were not familiar with the situation. Another reason for not choosing long questionnaires is that although many farmers were able to speak English, reading and writing in English or even Swahili was often not one of their skills. Taking the interview by phone could have been an option but we believed farmers would be reluctant to answer personal questions over the phone.

A list of stakeholders, experts and advisers was created together with the project manager. With help from a former member of parliament we were able to make appointments with government officials for interviewing. We planned interviews with the District Agricultural Officer, the District Cooperative Officer and a Provincial Horticultural Crop Officer because they are working with smallholder farmer groups in the Thika region and know the general problems and challenges. We planned an interview with Honeydew consultancy, an agency that is specialized in helping smallholder farmer groups and also an advisor for the Umoja project. An interview was planned with a project manager from KBDS (Kenya Business Development Service), a USAID funded program, helping smallholder avocado farmers alleviate from poverty. After this, appointments were made with the stakeholders in the project, other than the farmers; an interview was planned with the former member of parliament and part-time project advisor because this person knows the farmers and the area very well, the exporter (WONI Fru-Veg Exporters & Importers Ltd.) and the Umoja project manager. We acknowledge that virtually anyone can be a stakeholder in the project (see chapter 2). So we needed to make a selection of the stakeholders that we would involve in the research. We choose to include these three stakeholders because they are that ones that play a major role in the project and have a clear view on how the organization should function in the future.

Making questionnaires and interview questions for the farmers and interviewing them

After visiting the farmers and listening to the presentations of the project manager we made a general list of questions we wanted to ask the farmers in the Umoja project, this list of questions is enclosed as Appendix E. We also wanted to gather some general factual information about the farmer we have interviewed and we therefore started each interview with a short questionnaire to make the interviewee familiar with the situation and comfortable to answer the rest of the questions. This questionnaire is enclosed as Appendix D. After filling out this short questionnaire we started the in-depth interviews that took 1,5 to 2 hours each. One of the interviewees was unable to speak English. For that interview we used an independent translator from outside the project. The amount of English spoken by the other interviewees was sufficient to cover all topics.

A problem that could cause bias was that many interviewed farmers tend to give favorable answers. An example for this was a question asked to all interviewed farmers about whether they keep records of what they are doing and how. Almost all farmers said they were keeping production records, yet after asking if it was possible to see these records, no farmer was able to show them. Many times the farm was too far away to get them or the old records had all been thrown away because they were thought to be no longer necessary because of the start of the Umoja project. This tendency to give favorable answers caused interviews to take longer than expected to make sure that what the farmers were saying was not the answer they thought we wanted to hear, but the reality.

Creating a list of discussion topic for the experts and interviewing them

After interviewing the farmers we used our expanded knowledge about the project to create an updated list of topics that we wanted to cover in our interviews with the experts. A copy of that list is enclosed in Appendix F. We started with interviewing the Thika district representative of the Ministry of Agriculture. The reason for interviewing this person first was because of his experience with working with farmers in Kenya. We wanted to make sure we had gathered all relevant knowledge before interviewing other experts. At this moment we changed our research method into 'snowball sampling' (Babbie, 2006), whereby each interview provided input for the next interview in terms of interview topics and interviewees. We chose this working method to be certain we did not miss key persons and topics in the interviews. In general, the closer involved in the project the interviewees were, the later they were interviewed. The reason for this is that we wanted to start each new interview with more knowledge about the situation than the previous interview.

Fortunately for us, all of the identified respondents were willing to cooperate with the research eliminating 'bias from non-response' that could occur when part of the relevant respondents are left out of the research (Denscombe, 2007).



Making transcriptions of the recordings and summarizing these

After returning to The Netherlands we started with making transcriptions of the recorded interviews. We recorded all interviews except one because the interviewee refused to be recorded. We made notes during and a summary immediately after that interview. We chose to record the interviews because it would save us a lot of time during the field research in Kenya and because we wanted to be sure we were able to give full attention to the interview instead of making notes during the interview. After making the transcriptions we summarized these and continued our literature study.

3.3 Ethical considerations

Privacy of the interviewed farmers is protected at all times and names are not mentioned in the thesis. The anonymity of the interviewees was very important to enable them to speak freely without having to consider consequences of what they say. It is therefore impossible to trace any content of this report back to an individual farmer. Information that could risk exposure of the interviewees has been destroyed.

3.4 Summary

In this chapter we have defined the research procedures. The literature review forms the basis for determining the strategic options for the Umoja project. The stakeholder driven approach of ISCOM stresses the importance of a field-trip to the project to interview stakeholders and experts about the situation in order to determine the most suitable strategy for this specific project. The research methods that were applied during the field-trip to the Umoja project have been described that create the basis of a reliable investigation. In the following chapter we will analyze the collected data. This data, together with the relevant theories will create the basis for the answer to the main research question in chapter eight.



4.0 CURRENT SITUATION OF THE UMOJA PROJECT

4.1 Introduction

In this chapter we will describe the current situation of the Umoja project. To be able to compare the views from the stakeholders and experts, we will describe all activities in the value chain according to Porter's value chain model as explained in chapter 2.3 we will start with describing the primary activities in the value chain, after that the supporting activities will be reviewed.

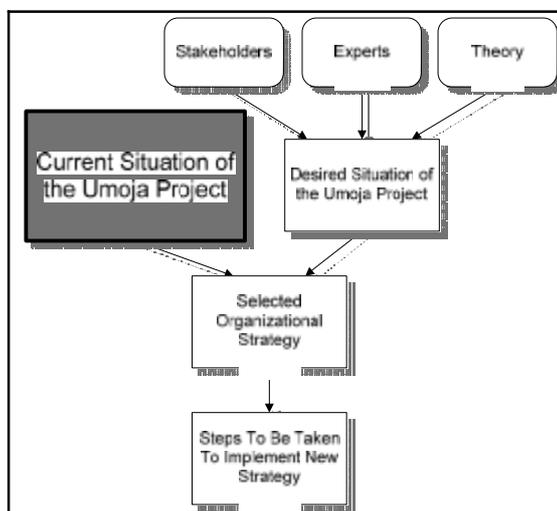


Figure 4.1; Research Approach - Current Situation

4.2 Primary Activities

4.2.1 Inbound Logistics

Inbound logistics are all activities associated with receiving, storing, and distributing inputs to the product. (Porter, 1985) In the situation of the Umoja project, inbound logistics are all activities that are associated with receiving, storing, and distributing seeds, chemicals and fertilizers.

Certified seeds, fertilizers, pesticides and water are needed for production. At the farmer groups these seeds, fertilizers and pesticides have to be stored in special refrigerated storage facilities. Every group has a sorting facility and an office. This is one of the minimum criteria before groups can register as a self-help group the same requirements as well as a hygienic facility is needed to become EurepGAP certified as well as a refrigerated storage facility.

The self-help groups Ngatho and Rubiru already started working with exporter WONI. These groups received their inputs at the right time from WONI. The exporter provides the production schedules and tells the farmers how and which fertilizers and chemicals to apply. The exporter transports the inputs to each farmer group where they are collected by the individual farmer for use on the land. All four groups have a sorting shed with storage facilities for inputs. The other two groups (Wempa and Thayu) are using very little amounts of fertilizer and pesticide. The quality of the seeds they currently use is far below quality standards for producing export.

The level of knowledge on how and when to apply fertilizers and chemicals varies, most farmers lack knowledge about this and are not certified for EurepGAP. EurepGAP training involves Good Agricultural Practices, to be certified the farmer is trained in food safety, the right appliance and storage of inputs and hygiene. EurepGAP is a production standard for farmers developed by European supermarket chains and is currently the most widely implemented farm certification scheme worldwide.

Most of the farmers plots have not been analyzed, so at the moment it is not clear which nutrients the soil contains and which fertilizers are required.

The logistics of water is a large problem for the farmers. Almost all farmers lack sufficient irrigation materials. Most farmers use 'bucket' irrigation. This form of irrigation is very labor-intensive and not suitable for the production of French beans for the export market.



4.2.2 Operations

In general operations are all activities associated with transforming inputs into the final product form. (Porter, 1985) In the Umoja project these operations are currently all performed by the farmers. These activities entail preparing the land, planting the (certified) seeds, irrigation, application of fertilizer and pesticides, weeding and harvesting the French beans. The groups of farmers already working with exporter WONI (Ngatho, Rubiru) use production schedules for all activities, provided for by WONI.

Production for these two groups is not up to standard yet according to the exporter. For each kilogram of planted seeds, a number of kilograms of French beans should be produced. The productivity levels of these farmer groups are at a level of approximately 50% of what they should be. The Umoja farmers have great difficulty keeping to the provided production schedules. They do not plant, irrigate, apply fertilizer and pesticides and harvest at the right time. The result of this is that the output is less than required and the quality is below standard.

The two farmer groups that are not yet working with WONI do not have production schedules. The farmers are not used to working with schedules and decide what to plant on an ad-hoc basis. Most farmers have little knowledge about the production process and thus do not grow their produce efficiently. Furthermore the farmers do not have capital to invest certified seeds, fertilizers and proper irrigation systems to ensure efficient production.

4.2.3 Outbound Logistics

Outbound logistics are activities associated with collecting, storing, and physically distributing the product to buyers (Porter, 1985). In the Umoja project, after the beans have been produced and harvested, the farmer transports these beans to the grading shed.

The groups working with WONI have a grading shed where preliminary grading takes place. After this preliminary grading, the produce is transported from the grading shed by the exporter or middleman. The exporter transports the production to its warehouse where production is graded by the exporter's trained graders. This is to be sure that the quality of the export is according to market standards. The rejected produce is returned to the farmers. After grading the French beans in the warehouse in Nairobi, the beans are transported to the airport and shipped to the United Kingdom or France.

Most other farmers in Kenya deal with brokers. They take care of the logistical process when the produce is picked up at the farmer. These brokers (middlemen) play a major role in the export and local market. They work mostly for exporters and source for various horticultural products on their behalf. Middlemen also set the prices paid to the farmers often pocketing a huge commission from the exporters. They operate as individuals and sometimes the farmers are also the brokers. They deal with the farmers at individual level and not usually at group level. Generally the farmers feel exploited by these middlemen, there is no transparency in this situation so farmers do not know if the prices paid to them are fair or not. Most of the time middlemen do not return rejects.

4.2.4 Marketing And Sales

This part of the value chain deals with all activities associated with providing a means by which buyers can purchase the product and inducing them to do so. (Porter, 1985) The farmers have very little knowledge on marketing and sales. The only marketing aspect they consider is the price. They consider a higher per kilogram price the main key to the solution of their problems. When the farmers were asked what the meaning of marketing is the answer almost every time was: price! Farmers have no knowledge and information on the different sales channels and do not actively seek information on market prices. This creates a great dependency on exporters, middlemen and aid agencies. Currently there are two channels that the farmers use to sell their produce for the export market; the middlemen and the exporter (WONI).



Export market

The farmer groups Rubiru and Ngatho sell their produce to the exporter WONI that again sells it to its clients in Europe. WONI deals with all the marketing and sales activities. The product is picked up at the groups sorting shed and the farmer is paid a fixed price that is the result of the negotiation between by ISCOM and the exporter.

The other two groups (Wempa, Thayu) sell their produce to middlemen. Most farmers feel cheated on by middlemen because these middlemen take their produce to the exporter, and farmers were left waiting for the payment without knowing when exactly they can expect it, farmers feel they have no choice but to sell to these middlemen. Another problem with these middlemen was that they usually do not pay for everything the farmers produced. When products are exported they have to have a certain quality level. A large part of the crops sold to the middlemen does not meet export standards; this part is not accepted for export and is commonly called 'reject'. Middlemen do not pay the farmers for the part of the production that is rejected. According to the farmers reject levels were very high and middlemen did not return the 'rejects' to the farmer. Farmers felt that they had no other choice then to accept whatever percentage was rejected according to the middlemen and had to accept the payment for the accepted crops, even though they thought it was not enough. Middlemen accuse farmers of delivering bad quality and farmers accuse the middlemen rejecting to much.

The farmers in general have very little information on prices and marketing options. The middlemen make use of this information asymmetry. There is a lack of trust between the farmers on the one hand and the middlemen and exporters on the other hand. Exporters accuse farmers of selling their seeds and produce to other parties and not honoring contracts. Because the farmers have had bad experience with exporters and middlemen they prefer the Umoja project not to work with exporters, but the farmers realize that currently there is no alternative.

Local Market

The local market is less transparent than the international market. On the local market volumes are often traded per bag instead of per kilogram. The lack of transparency gives middlemen a reason to exist on local markets, these middlemen are generally the best informed parties but they are eager to keep the lack of transparency in place because they take advantage of it. The information asymmetry on the local market causes great price differences.

There is little formal information on the local market available. Farmers often choose to sell their produce on the local market since the money for the sold products is paid to them immediately, they do not have to wait. The farmers have a constant lack of capital (for inputs, school fee's for children etc.) that enforces them to choose for receiving less "quick money" instead of waiting longer for more money when producing for the export market.

Subsistence farming

A considerable portion of the grown products is not marketed at all, but used for home consumption.

4.2.5 Service

This part of the value chain deals with all activities associated with providing service to enhance or maintain the value of the product. (Porter, 1985) Currently there are no mechanisms in place that are concerned with maintaining the value of the products. The farmers are only concerned with production and how to get the right price. Exporters are dealing with the value of the products to the end-customer.

4.3 Support Activities

4.3.1 Procurement

Procurement entails all the activities performed in the purchasing of inputs used in the value chain. (Porter, 1985) In the Umoja project these are concerned with the purchase of seeds, fertilizers,



etcetera. In other words; all inputs that are needed to grow French beans.

Almost all farmers are unable to pay for the needed labor, fertilizers, irrigation equipment and chemicals to make use of their land optimally. This results in a lot of idle land and unnecessary low productivity per acre. Many farmers need money to pay for their inputs urgently; therefore they are more interested in making money fast (on the local market) than in waiting a few weeks for a higher payment (from exporters).

Most farmers are supplied with seeds by the middlemen they work with. The cost of the seeds is then deducted from the selling price. Farmers do not use the right fertilizers and chemicals, caused by a lack of capital and knowledge. Some of the farmers are supplied (Ngatho and Rubiru) with certified seeds, chemicals and fertilizers by exporter WONI because these groups already started producing for export. In general, the main problems farmers are having with procurement are lack of capital to invest in the right inputs and knowledge on how to apply these inputs.

4.3.2 Technology Development

Technology developments are all activities that can broadly be grouped into efforts to improve product and process. (Porter, 1985) Ngatho and Rubiro are starting to be trained in EurepGAP certification. This training in Good Agricultural Practices deals with the improvement of the product and the process. Once certified the products produced comply with the minimum requirements to be sold in the European Union. This EurepGAP certification program covers the process of the certified product from before the seed is planted until it arrives in Europe and is primarily designed to maintain consumer confidence in food quality and food safety. Other important goals are to minimize environmental impacts of farming operations, optimize the use of inputs and to ensure a responsible approach to worker health and safety. Some farmers have had agricultural training from aid-agencies and exporters, but in general there are very few activities and efforts for the improvement of the products and processes.

4.3.3 Human Resource Management

Human resource management encompasses all activities of recruiting, hiring, training, developing, and compensating personnel. (Porter, 1985). The only workers the farmers hired are the pickers when the French beans are harvested. The majority of these workers are temporary staff. During the harvest period the family members work on the land as well in most cases. These pickers are not trained and work for a very short period. Most farmers are working alone or with family members on their land.

4.3.4 Firm Infrastructure

These are all activities of general management, planning, finance, accounting, legal, government affairs, and quality management. (Porter, 1985)

The levels of control by general management vary across the different Self-help groups:

Thayu

Since this group has been dormant for two years now there are no formal management control mechanisms in place. The members of the groups mentioned that problems and monitoring can be sorted out informally. They argue that the members control each other and that they would report their colleagues to the committee in case of misbehavior with regard to the use of chemicals, unjust sales of seeds etc. The committee does not play an active role in the control of their members.

Wempa

Because the members of Wempa have a lot of different buyers for the produce, they have no common goals and procedures. This absence of similarity in inputs, logistics and buyers results in a lack of control mechanisms. The group is not active in controlling the members when it comes to agricultural procedures, planning, finance etc.



Rubiru

This group has a rotation control scheme for visiting the farms by members of the committee. The purpose is to assess the agricultural practices of the members. A rotation system is in place to prevent bias in the assessment of the farms.

Ngatho

The management of Ngatho is considered very well. WONI, the project manager, and an advisor to the project all said that Ngatho is the best managed group of the four. They have several processes and structures in place that are not all yet present in other groups:

- They have a special spraying team that handles all the chemicals for the farmers. These people are trained to use the right chemicals, and if members use their own chemicals sanctions are very heavy, according to a member of the group.
- A few months ago a fund has been established to finance group expenditures by deducting one shilling per sold kilo.
- All members' activities are monitored. The committee visits all farms and assesses the right use of chemicals, certified seeds and fertilizer. In this process the group is assisted by an official of WONI. If farmers do not comply with the standards, they are expelled from the group after two warnings.

To assess whether the farmers use the certified seeds for the right purposes the committee and WONI assess the output each farmer produce. As a rule of thumb one can tell from the amount of inputs (KGs of certified seeds) what output can be expected (KGs of French beans). This mechanism prevents farmers from selling the inputs on the local market.

General Issues for all four self-help groups

Most farmers argue that the self-help group is the right entity to control procedures, planning, etc. They argue that in their communities members are watched very closely. Most management control mechanisms are informal in nature. There are no clear performance standards, processes and rules for the members of the group. Most rules and standards are unwritten, arbitrary and subjective in nature.

Performance measurement (for example productivity levels) is very difficult since the farmers do not keep records of production (planning, efficiency), and finances. They don't make a financial planning or make accounts. The government does not require the farmers to make accounts. They may be writing down how many inputs they have used or how many cartons of French beans they have sold and how many were returned but the farmers are not used to 'farming as a business'.

Farmers in Kenya are often said to behave opportunistically. Exporters and aid organizations often accuse farmers of switching traders, selling certified seeds instead of planting them and not being loyal to exporters or other organizations. In the past when credit was given to farmers, these farmers generally did not feel a strong obligation to repay the loan. Farmers do not really see the moral obligation of repaying when you have been given credit. There is some lack of these ethics in doing business.

At this moment farmers tend to neglect their contractual obligations if prices offered by other parties are better at that moment. Focus tends to be on the short term. A reason for running away in the past was also because farmers have entered into contracts with persons that were more knowledgeable than they are and afterwards it appears they have been cheated on, or engaged in contracts they could not keep. The solution was to run away.

4.4 Current position in the chain

According to KIT (2006), small-scale farmers can participate in many different ways. The types of participation can be summarized into two broad dimensions:

- Types of activities that farmers undertake in the chain
- Involvement of the farmer in the management of the chain

Types of activities that farmers undertake in the chain

The farmers in the four farmer groups involved with the Umoja project are only concerned with production of the crop; preparing the land, planting the seeds, applying fertilizer, control pests and



weeds and harvesting. There is no involvement in other activities in the chain; all activities after harvesting are done by other parties like middlemen and exporters. This situation fits with the bottom half of the above matrix. Even though most farmers have control over the production activities, production levels are below standard.

Involvement of the farmer in the management of the chain

The farmers in the Umoja project are not involved in the management of the chain besides their own production and they are excluded from any decision making. Production quality of the farmers is currently below required market standards. The farmers are not chain actors yet, their current position in the value chain is displayed in the figure below.

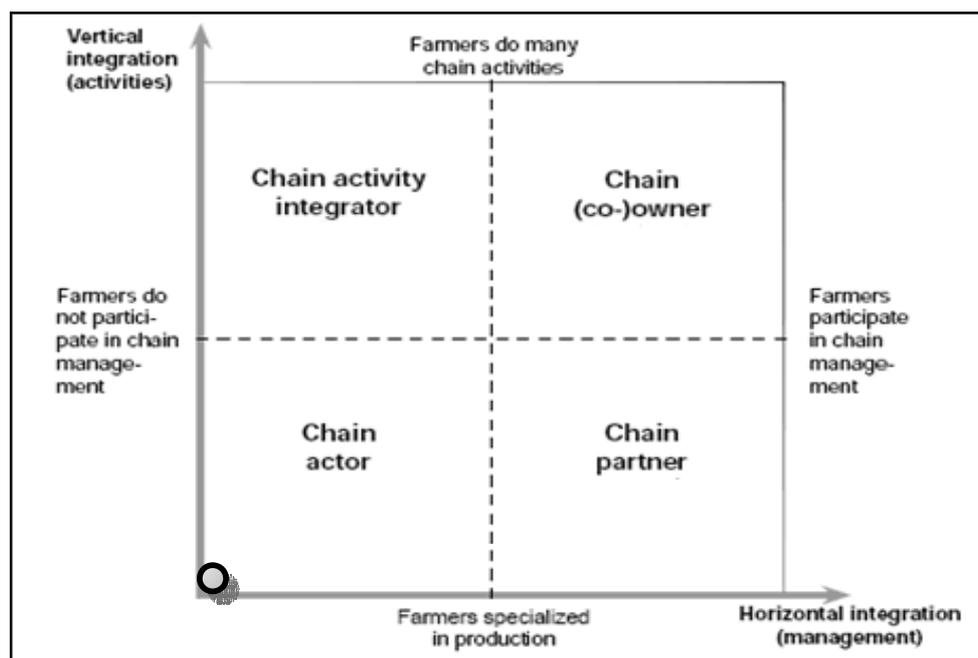


Figure 4.2; Current Value Chain Position (Adapted from KIT, 2006)

4.5 Conclusion

When considering the activities of the value chain in 4.2 one can see that the farmers are currently only concerned with production. The farmers have very little to no knowledge about inbound logistics, outbound logistics, marketing and sales, service and the support activities. Other parties take care of these activities. This is true for most of the farmers although there are some differences between the groups and the individual farmers in the Umoja project.

The farmers have no clear direction as to which strategy they want to follow. Their productivity is very low; they are not very well organized and are not linked to markets. The position in the chain (KIT, 2006) shows that they are bad performing chain actors. This results in low prices for their produce and it also makes them an easier target for middlemen that want to take advantage of their lack of knowledge of the markets. Most farmers seem eager to move forward and want to improve their positions.

When considering the definitions of Kit (2006) the chain the farmers are operating in is a supply chain instead of a value chain. The different actors are currently not willing to invest in the chain and, there is no willingness to invest in each other. There is a lack of trust and no real cooperation.



5.0 DESIRED SITUATION OF THE UMOJA PROJECT

5.1 Introduction

In this chapter we will discuss the desired situation of the Umoja project according to the stakeholders, the experts and the theory. The different activities in the value chain will be described firstly according to the stakeholders, secondly according to experts and finally according to theory.

We will describe the desired set up of the Umoja project (according to stakeholders and experts) by using the value chain model of Porter, previously described in chapter 2.3 The final part of this chapter will include a description of the available options for the future of the Umoja project according to theory.

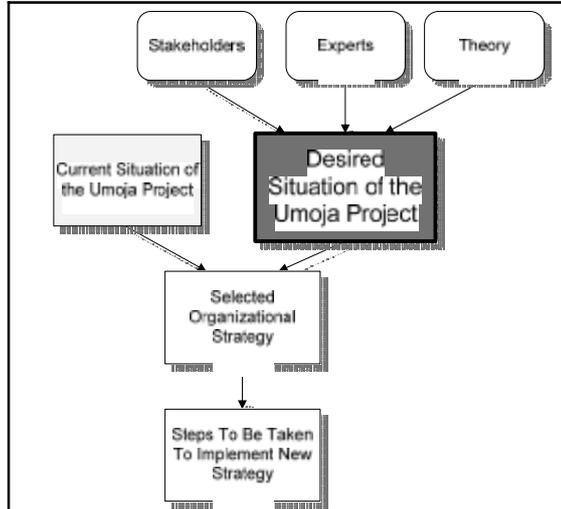


Figure 5.1; Research Approach - Desired Situation

5.2 Stakeholders

The desired future situation of the Umoja project will be described according to the stakeholders involved in the project, these are:

- ISCOM, the initiator of the project and responsible for all project activities that are not related to farming.
- Farmers, the project members that will receive assistance to alleviate themselves from poverty through the Umoja project.
- WONI, the contracted exporter through which the French beans will be exported to overseas markets.

We will start with a description of the desired situation of the Umoja project according to ISCOM.

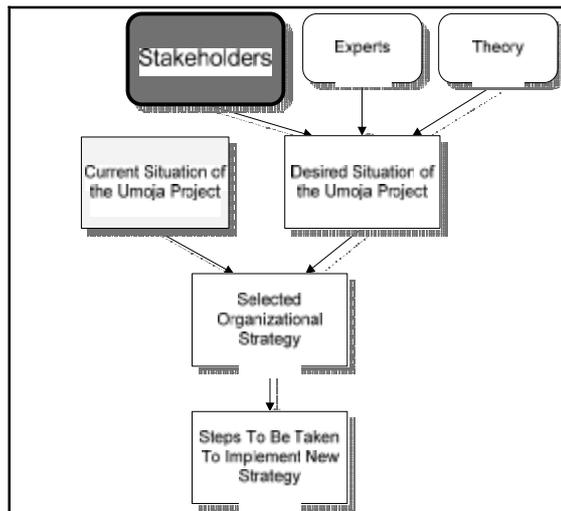


Figure 5.2; Research Approach - Stakeholders

5.2.1 ISCOM

According to ISCOM's vision, in order to create benefits for the different parties in the product chain, it is necessary for the farmers to be organized in a professional way and be supported by a network of different stakeholders who can add knowledge and credibility. The farmers will remain responsible for how they run their farms.

In order to create such a network, an association called the Umoja Farmers Association with its articles of association and memorandum has been registered under Kenyan laws. This association will be built up as the central body by which the farmers liaise with the project. The individual farmers will continue to exist as members of their own self-help groups but their dealings will be subject to decisions made by the board of the association.



Marketing and sales of the products will be done through the association’s commercial arm, the Umoja Trading Company Ltd, which as part of the project activities, will be legally formed and registered under Kenyan law. The company will be run by professionals with an experience and a background in finance, management and farm business. Preparations for the formation of such a company are being made. In the beginning ISCOM wants to work with WONI to export the produce and to take care of the marketing, sales and outbound logistics.

The value chain for the Umoja project will initially be built up as follows:

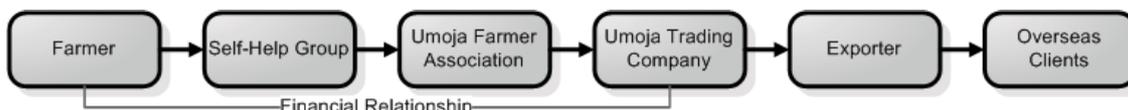


Figure 5.3; Value Chain According To ISCOM (Adapted from ISCOM, 2006)

The Umoja farmer association will function as a discussion forum for the farmers so the Umoja trading company is not involved in their ‘politics’. The farmers in the Umoja project will become shareholders in the Umoja trading company for a maximum of 49%. The Umoja trading company will be run by professionals to prevent project failure. Each farmer has a direct financial relationship with the trading company for loans and payments. The idea is that the Umoja trading company and Umoja farmer association will develop to be able to attract other self-help groups in the future. Eventually the Umoja trading company will take over the functions of the exporter. The long-term setup of the business will be as follows:

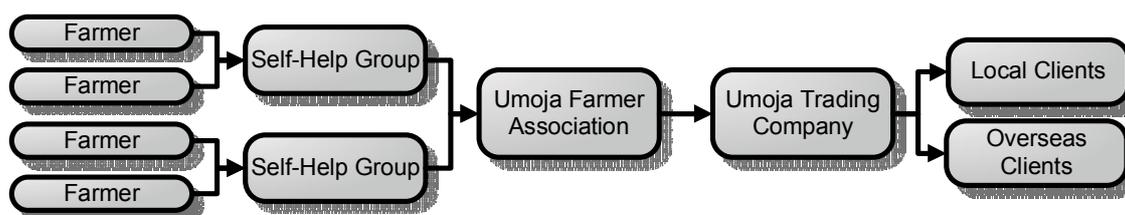


Figure 5.4; Umoja Project Setup According To ISCOM

Multiple self-help groups can become involved in the Umoja project and will become owners of the Umoja Trading Company with a maximum total share of 49%. The other 51% of shares can be owned by ISCOM and other investors.

Primary activities

Inbound Logistics

ISCOM wants the Umoja project to take over this role. Inbound logistics should be arranged ‘in-house’ completely. This also means that the Umoja project needs a central storage depot from which all inputs are distributed to the farmer groups according to production schedules. The reason for this is to decrease dependency of the farmers on the exporter and to create a situation whereby the Umoja project can have influence on choosing suppliers. This can be seen as empowerment of the farmers since they will be the owners of the company in the future.

Operations

ISCOM wants to develop protocols and production schedules for the farmers to increase production levels and the make sure farmers will keep records of what they are doing. With these records it will be easier to identify where problems occur and therefore easier to assist farmers in improvement of production levels.

Outbound Logistics

The ultimate goal of ISCOM is that logistics are arranged for by the Umoja project. It will take a long time before the Umoja project will take care of overseas transportation. ISCOM plans to arrange transportation from the sorting sheds at each group to either a warehouse owned by the Umoja project or until that is finished, the warehouse of the exporter. Vertical integration is important for ISCOM as this increases the value of the Umoja project and increases control over the value chain.



Marketing and sales

Marketing and market development have to be performed by the trading company according to ISCOM. At this moment the exporter is solely responsible for this and the Umoja project is depending on the exporter in terms of marketing and sales and does not have any influence on it.

The Umoja project will export the produced French beans with help of WONI exporters in Nairobi. The main function of WONI is marketing. Also technical assistance to production can be provided for by the exporter. WONI has people for working in the field to provide the assistance and an agronomist in the production office. EurepGAP training can also be provided because WONI has in-house trainers. Furthermore WONI can give assistance on irrigation, crop protection, crop rotation and agronomy. ISCOM sees this as a temporary solution to upgrade the project initially.

Support activities

Procurement

In the vision of ISCOM the purchasing of inputs should be done by the commercial arm of the Umoja project. The Umoja trading company will buy all inputs for the whole project. The advantage of having a commercial company purchasing inputs is that it enables purchasing on credit instead of advance payment. The commercial company will also be responsible for the distribution of the inputs to the farmers. The farmers will have individual accounts with the trading company on which they will receive the needed inputs, the costs of inputs will be deducted from the farmer's profit after produce is sold.

ISCOM will employ professionals (agriculturists, businessmen) who know what inputs are needed, and where these need to be bought. When in time the farmers will be the owners of the company they are less dependent on exporters and middlemen for supplying inputs. In the beginning WONI will provide most inputs until the Umoja trading company is up and running.

Technology development

According to ISCOM, one of the advantages of the Umoja project is that the trading company can employ experts and professionals on marketing, agriculture and product development allowing the farmers to benefit from the technology developments arising from that.

Human resource management

The hiring, training and recruiting of the professional staff in the trading company will be the responsibility of the trading company. The farmers themselves will be responsible for the hiring of for example pickers that assist the farmers in harvesting the crops.

Firm infrastructure

Through the set-up of the Umoja farmer association and the Umoja trading company ISCOM wants to professionalize trading and enable farmers to export their produce to the European Union.

The Umoja farmer Association

The association of farmers is the entity that will take care of the social aspect of the farmers. When farmers want to discuss issues that they want the Umoja project to deal with, this can be done through the association. The separate association that deals with the farmers was invented because the farmers' politics should stay outside the trading company. The association will be set up to give the farmers an opportunity to raise issues and have a platform to discuss their politics. Management association will be elected. The association acts as a forum where issues can be discussed and be made understandable. ISCOM wants to use the association - in which the farmers will be united - as a forum for social, economical and environmental development. The association will be governed by the farmers themselves and they are responsible for it.

The Umoja trading company

ISCOM wants to set up a separate entity that deals with all the marketing issues for the sales of the produce of the farmers. Professionals will put in place binding contracts with buyers. The trading company will serve the farmers that will be organized in an association. As an individual farmer they have little bargaining power and they lack sufficient knowledge about the market to be able to get a reasonable price for production.



The trading company will be a very straightforward company, run on ethics and professionalism. The board of directors will look at issues that concern the farmers and. Eventually the farmers will become shareholders in the Umoja trading company. To avoid politics the farmers will be organized separately from the trading company.

Self-Help Groups

The 4 groups of farmers in the Umoja project must remain in place as long as the project is there. The idea is that the trading company will not be connected to the farmers directly. It will be more effective to keep working with groups because a group can exert control over its members, it is a way to make sure that group members honor whatever has been agreed upon. The groups are a means of management control over the farmers.

5.2.2 WONI Fru-Veg Exporters & Importers Ltd.

WONI Fru-Veg Exporters & Importers Ltd. is a trading company in fresh fruits and vegetables, located in Nairobi Kenya. WONI will be the exporter responsible for exporting the French beans to the European market. At this moment WONI is responsible for grading, packing and shipment of the Umoja beans to Europe and the overseas marketing and sales of the beans.

For the first two years after the implementation of the investment plan all the French beans will be sold by the exporter WONI Fru-Veg Exporters and Importers Ltd, Nairobi. The management of ISCOM conducted a fieldtrip to Kenya to select a suitable exporter to sell the produce produced by the four groups. After the initial collaboration period of two years that has been agreed on in the collaboration agreement, the contract with WONI can be extended.

Primary activities

Inbound Logistics

Inbound Logistics can be arranged simultaneously with the collection of the harvested products.

Operations

Currently the farmers WONI is working with are not able to produce according to schedule. WONI considers this a great challenge and is not sure if the farmers will be able to keep the provided schedules in the future.

Outbound logistics

The exporter plans to employ and train its own graders who can perform grading at each of the groups in the Umoja project. The graders have to be representatives of the exporter because he will not trust anybody else. A benefit of grading at group level is that farmers know immediately what they can expect in terms of profit, they see what part is rejected and why, this has a positive impact on farmer's trust in the exporter, it is also more cost effective when rejects do not have to be returned to the group from the warehouse after grading. When grading is done at group level, the produce can go straight to the airport instead of the exporter's warehouse. After grading at each group the rejected beans are still fresh and can still be sold on the local market.

Marketing and sales

WONI's employees are not fully trusting the Umoja farmers. The director of the company has doubts about the farmers' abilities to produce according to schedule and deliver the right quality and quantity at the right time. WONI in the initial set-up is the only marketer in the project. In the beginning WONI expects to be the only exporter of the project. ISCOM is considering to develop brands for products produced by the Umoja project. When a marketing department is functional and different markets are approached, products can be branded. For instance when products are produced for the local market and sold directly to supermarkets in the right portions and at the right quality levels, development of a brand is considered to be more recognizable. The trading company will in time also start to serve other projects than the Umoja project.



Support activities

Procurement

WONI has the necessary resources to train farmers in using fertilizers and chemicals. The exporter is willing to supply the farmers with certified seeds. The costs for these seeds will be deducted when the produce is sold. Exporters can be very skeptical about the provision of certified seeds to farmers. Farmers are often accused of selling the certified seeds or the harvested crops that grew from them to other parties.

Human resource management

WONI has extensive knowledge about agricultural practices. The company is willing to share this knowledge with the Umoja project by for instance training the farmers in EurepGAP.

Firm infrastructure

The officials of WONI believe that levels of cohesion in the Umoja self-help groups are low. There is a lack of trust between the members of each group. WONI prefers to work with smaller farmer self-help groups because these are easier to handle.

5.2.3 Farmers In The Umoja Project

Primary activities

Inbound Logistics

The farmers acknowledge that their levels of production are not yet up to standard. They need increased amounts of inputs to produce the crops because they do not apply these inputs at the right moment. Currently none of the groups have the mechanisms in place to buy, distribute and apply the right inputs for their production. They acknowledge they need help with this aspect of production.

Operations

The farmers are well aware of the fact that they need training in how to produce more efficiently. Currently the standards of production are not at the right levels, mainly because farmers do not produce according to schedule and do not apply inputs at the right time.

Outbound Logistics

The farmers would like the Umoja project to take care of the outbound logistics. They believe that by cutting out middlemen, transporters or exports, a greater part of the profit will be available for them and the price per kilogram of the crops will rise for them.

Marketing and sales

The farmers do not trust exporters and middlemen. Because of this, they prefer to have control over the supply chain to no longer depend on intermediates. Working together with WONI is a temporary solution. The most important aspect for the farmers is the price per kilogram they will receive from the exporter and the percentage of produce that is rejected. Clear rules and transparency are essential for development of trust between the farmers and the exporter. Most farmers think that the exporter should play no role in the Umoja project. Almost all respondents claimed that in time the trading company should take over all the activities from the exporter. Because the farmers do not understand the role an exporter can have in the project, it will be essential to keep them focused on the advantages - in terms of marketing and sales - of working with an exporter. The exporter can help increase efficiency and productivity and therefore increase production per acre, resulting in a higher profit.



Support activities

Procurement

All procurement has to be arranged for by ISCOM to be least dependent on the exporter.

Human resource management

The farmers acknowledge that they do not have experience with agricultural and marketing, they agree that people need to be employed that can assist them with this by means of training.

Firm infrastructure

The farmers have put their trust in ISCOM. They believe in ISCOM'S concept and their goal to no longer be dependent on middlemen and exporters paying low prices for their crops. The farmers want the Umoja project to do as many chain activities as possible (with the help of ISCOM). ISCOM should arrange export, training and logistics. The farmers believe there should be such a structure that all activities can be performed in-house.

5.3 Experts

As explained in chapter 3 we have interviewed several experts on working with smallholder farmers in the region where the project is located.

We have interviewed the District Agricultural Officer, the District Cooperative Officer, a Provincial Horticultural Crop Officer, Honeydew consultancy, A project manager from KBDS (Kenya Business Development Services) and a former member of parliament and part-time project advisor.

Primary activities

Inbound Logistics

Honeydew

Honeydew believes that real farmer empowerment can only be done by making these farmers actually responsible for all aspects of running a business professionally. This means farmer groups should be responsible for arranging their own inputs. This can be done by creating cost centers or business units within the Umoja project whereby farmer groups purchase inputs from the Umoja trading company.

Operations

Agricultural officer in Thika region

The optimal irrigation system would be drip irrigation to ensure a constant supply of water in the right quantities. The necessary nutrients can also be added to drip irrigation to ensure optimal growth. This system will ask for a substantial financial investment since the plots are very small and scattered.

Honeydew

One of the main things that should be focussed on in the beginning is improvement of soil fertility. Production according to required standards must be focussed on at the start of the project. This includes EurepGAP training, soil analysis and designing a fertilization and spraying program. The current irrigation systems are poor at this moment these need immediate attention. The result of this will be a quick rise in output of French beans per acre.

Outbound Logistics

The experts mention that outbound logistics up to the grading facilities must be arranged for by the Umoja project, the exporter cannot possibly pickup all produce at farmers. All experts except KBDS

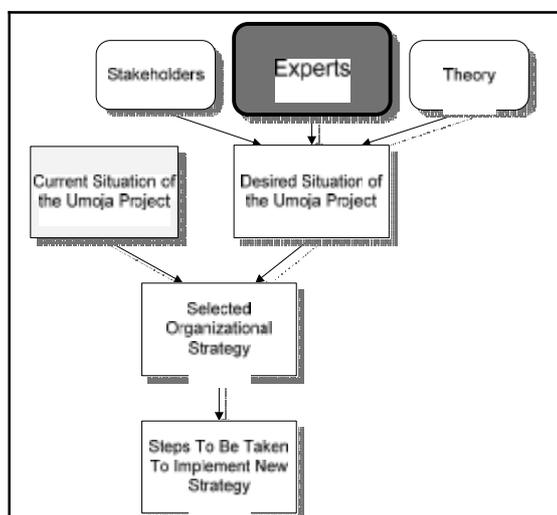


Figure 5.5; Research Approach - Experts



argue that at least the delivery of the produce to the exporter's warehouse must be arranged by the Umoja project.

Marketing and sales

KBDS

Groups must be directly linked to exporters. The exporter is brought to the groups and any questions can be asked. Failure of these projects happened in the past after assisting organizations stepped out of the project. Project failure in those cases happened because leadership was not strong enough. Very strong leaders are needed because members need to be kept motivated, there is pressure from all sides on the farmers. KBDS works with group sizes of 20 to 35 members, KBDS believes bigger groups too difficult to handle.

KBDS uses multiple exporters for single projects in different areas. Prices with these exporters were negotiated and the exporters were forced to pay the highest price offered with the best conditions. This cooperative worked with older people and really struggled in trying to convince them to start farming as a business. The elderly are resistant to change and they prefer cash on delivery at a lower price instead of getting a higher price and wait two weeks for payment. All members in the project have opened bank accounts with Equity bank and the cooperative negotiated with the banks that the farmers sometimes can even apply for credit.

District agricultural officer

The Umoja trading company will be able to make price projections based on market information over a longer period of time; also the possibility of entering the local market can be examined thoroughly. In Kenya, the Horticultural Crop Development Authority (HCDA) keeps track of prices of all horticultural products. The HCDA is a government body that monitors exports. Next to price information they are also able to give quantities of produce that is taken to specific markets throughout the world. In the international market, demands, requirements and prices are reasonably stable. In the local market this is not the case, the demands and prices are not known very well, there is no long-term information making it difficult to make estimations about the market. The export market is far more transparent than the local market.

Support activities

Human resource management

(District agricultural officer) Dependency syndrome

As a result of the dependency syndrome caused by grants and help from western countries, there is no sustainable improvement in African countries. The given aid has not caused sustainable economic growth in Kenya. In fact, a lot of help programs from the western countries has made Kenyans more dependent instead of self-sustainable. There will not be a healthy economic situation if people are relying on foreign help for survival instead of using it to make business more successful. The Umoja project tries to break this cycle and aims to teach Kenyans that in order to be successful, you have to work hard for it and do this together. The use of loaned money instead of gifts makes people aware that all success, profit and maybe loss is a direct result of someone's own performance, something that will lead to pride and confidence if success is achieved.

Next to the dependency syndrome, corruption is also a big de-motivator to make money by working hard in an honest way. It is very frustrating when you are working very hard and you see another person who is not even working make more money. This can be disappointing and makes one lose the heart to persevere.

(Honeydew) Training

In terms of training needs, every group is unique. Some groups might have no problems with for instance the marketing aspect of running a business, but they struggle in other parts. The groups themselves need to identify what their problem areas are. The Umoja project must give the farmer groups goals or a skeleton in which they have to fill in the meat, not a fully worked out plan with every step they should take. It is better to give farmers a timeline, let them come up with a plan, look at it as a teacher and facilitate the farmers. In case of problems the right people need to be found to solve those problems and need to be connected to the self-help group.



Firm infrastructure

(Honeydew) Empowerment

According to Honeydew consultants, empowerment is the key to poverty alleviation. Farmers need to be held responsible and accountable for operations. According to Honeydew, the best way to train farmers is to only give them boundaries. Farmers need to be told when to deliver a certain amount of French beans and should come up with a production plan themselves. They in turn need to receive feedback and guidance in development and execution of this plan. The reason why this approach could seriously slow down operations is the relatively large farmer groups, the ‘politics’ in the groups, the differences in education and comprehension and the high average age of the farmers. Before production levels are up to standard in terms of quantity and quality, focus should be on that instead of giving groups more responsibilities.

In case farmers need a loan from the trading company to invest in things like pumps for irrigation, one thing that works very well for other companies is to let farmers bring in a percentage. For instance if the farmer requests a loan, this farmer has to bring in a small percentage of the loan. The moment the farmer does this, the rest of the loan is granted. Farmers generally do not like this but if they really want to, they will be able to save the required percentage, the company then knows this farmer is serious. Another possibility is communal guarantee, also known as the Grameen model (Jain, 1996), whereby if one of the group members requires a loan, then a number of other group members have to guarantee for that farmer. If that farmer cannot repay the loan, others will repay for that person. Another guarantee in granting a loan would be that many people own their land, or at least a big part of it, this can function as collateral.

(Honeydew) The fourfold approach

Each farmer group should have a fourfold approach according to Honeydew. The fourfold approach consists of production, marketing, socio aspects and education. Every group must have a committee that is responsible for each of these four. For example, one committee must understand what the marketing trends are. Some management skills should be developed so that after five years, a group should at least be able to manage itself in a rough sense and do some form of production and marketing without the help of ISCOM. The marketing part of this fourfold should keep track of marketing trends. The production part should deal with all matters concerning producing the crops. The socio aspect of the fourfold is managing everything concerning the welfare of the group members, the things that affect the production indirectly. If for instance immediate money is needed for a hospital visit, instead of breaking contractual rules to obtain money this part of the fourfold will try to see what the group can do together to solve these kinds of problems. The educational committee should bring issues of HIV and aids, tuberculosis, malaria, malnutrition etc. to the attention of the farmers. With these four aspects, a group should become self-sustaining.

(Honeydew) Group dynamics

The people in the project cannot be helped without being organized as a group. The farmers have to learn to work together, not as an individual. There is a social aspect in groups, until now Umoja farmers do not know how to work as a team and members of groups are not team players. Farmers need to start looking after each other and focus on the common interest.

5.4 Theory

The available strategies for value chain development have been discussed in chapter 2. The theory on value chain has been especially directed at smallholders in Africa. Generally the theory on value chain development around smallholder farmers suggests that four possible strategies are possible for development. The best strategic value chain approach depends on each specific situation and may change over time.

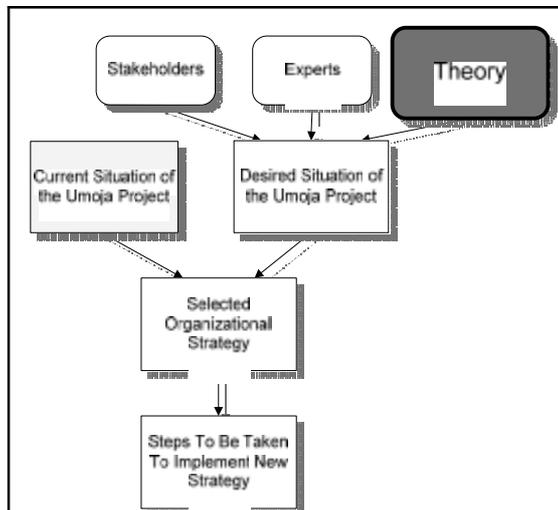


Figure 5.6; Research Approach - Theory



The four possible strategies the Umoja project can adopt are:

- Upgrading as a chain actor
- Adding value through vertical integration
- Developing chain partnerships
- Developing ownership over the chain.

Upgrading as a chain actor is a minimum requirement before any of the other strategies can be adopted. In general African smallholder farmers prefer a strategy of vertical integration. They believe that by cutting out traders and exporters their profits will be higher. Farmers do not realize the risks this strategy encompasses.

5.5 Conclusion

The different stakeholders and experts involved in the in the Umoja project have shown different views as to which strategy should be followed. Considering the available theory a selection can be made from four different value chain development strategies. In the next chapter we will determine which of these four strategies is most suitable for the Umoja project. Below a summary of the views of the stakeholders and experts is given.

Stakeholders

Farmers

The preferred strategy for the farmers is vertical integration. In this way they feel they have more control. Because farmers have had bad experiences with middlemen and aid organization they have grown weary of the involvement of other parties. Most farmers now trust ISCOM and have therefore joined the project. Many farmers however still do not fully trust exporters, including WONI.

ISCOM

The ultimate goal of ISCOM is a situation whereby the Umoja project has ownership over the value chain. In time the Umoja project has to integrate horizontally as well as vertically and will be responsible for all aspects in the value chain. By employing marketing and HRM specialists and agricultural experts in the Umoja trading company, ISCOM wants to create a situation of ownership over the value chain. Vertical integration can be achieved by attracting investors and taking loans. Working with an exporter is a temporarily solution, future plans are to take over the role of the exporter. The value chain development strategy of the ISCOM is for the Umoja project to become a chain owner.

WONI Fru-Veg Exporters & Importers Ltd.

The main concern of WONI is that the farmers have to develop the capability of on-time delivery of products that are qualitatively up-to standard. The exporter does not want the farmers to start either grading or do the marketing themselves. WONI has the ability to train the farmers in Good Agricultural Practices, a minimum requirement for entering the European market. The agricultural experts employed by WONI can train the farmers to production level. WONI prefers the Umoja project to adopt a value chain strategy of upgrading to chain actors (crop specialists).

Experts

Two experts have a clear vision of how the value chain for the Umoja project must be developed. These are the two experts that are working with projects similar to the Umoja project. The views of these two experts are presented below. The other experts are working with smallholder farmers in the Thika region but are specialized in other fields and therefore have a less clear view of the value chain development as a whole.



Honeydew

Farmers must be empowered with responsibilities over more aspects than production only. Using the fourfold approach farmers at group level must gather information about marketing trends and take care of production. This approach should help the farmers become a crop specialist that knows about the market. It was argued that in time the trading company should take over the role of the exporter.

KBDS (benchmark)

KBDS works with small-scale farmers. The role of KBDS is to train farmers and to connect them to exporters. KBDS negotiates good contracts for the groups of farmers. Currently each self-help group works with one exporter only. KBDS prefers a situation in which farmers are chain actors with a marketable product. Through training the farmers become crop specialists. Farmers have no influence in decision making in the value chain and are only concerned with production. The use of more than one exporter can enable the farmers to negotiate better prices.

Strategic Choices Of Stakeholders And Experts

In the figure below the different views of the stakeholders and two of the experts are displayed graphically. The figure clearly shows the difference in strategic choices between the different stakeholders.

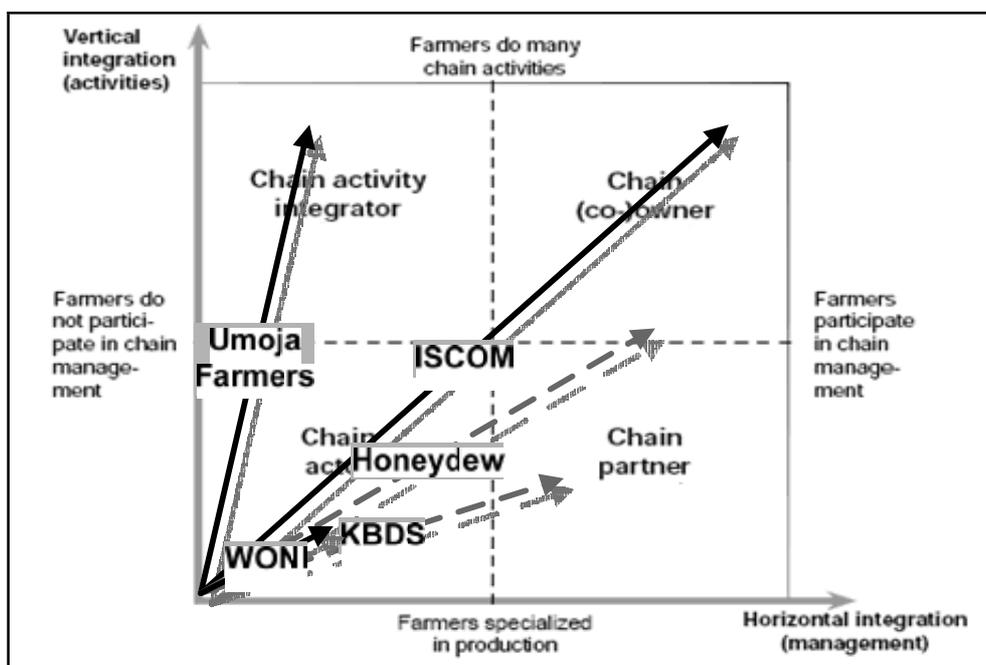


Figure 5.7; Comparing Different Strategic Choices (Adapted from KIT, 2006)

The views of two experts also working with smallholder farmers in a similar setting have also been included in the figure and are indicated with a dotted grey line, the stakeholders are indicated with solid black lines. The different views of the stakeholder and experts have two different reasons. Firstly, the stakeholders have different interests. The main interest of WONI is to have good producers of French beans. From his point of view he will never choose an option where the farmers integrate vertically. The difference in desired futures also originates in lack of understanding about value chains. The farmers for example believe the only option to receive a better price for crops is to cut out middlemen and exporters and sell directly to overseas markets. The farmers do not understand the risks involved when choosing to integrate vertically.

After comparing the views of the different stakeholder and experts we are ready to select the most suitable value chain development strategy. This selection will be made in the next chapter. In chapter seven we will describe the implications of the selected strategy for value chain development.



6.0 SELECTING THE APPROPRIATE STRATEGY

6.1 Introduction

As we have seen in the previous chapter, the stakeholders involved in the Umoja project and the experts have completely different views on how they should develop the value chain.

The farmers of the four farmer groups involved with the Umoja project are only concerned with production of the crop – preparing the land, planting the seeds, applying fertilizer, control pests and weeds and harvest the crop. There is no involvement in other activities in the chain; all activities after harvesting are done by other parties like middlemen and exporters. Farmers are not yet able to deliver a marketable product and are therefore no chain actors yet.

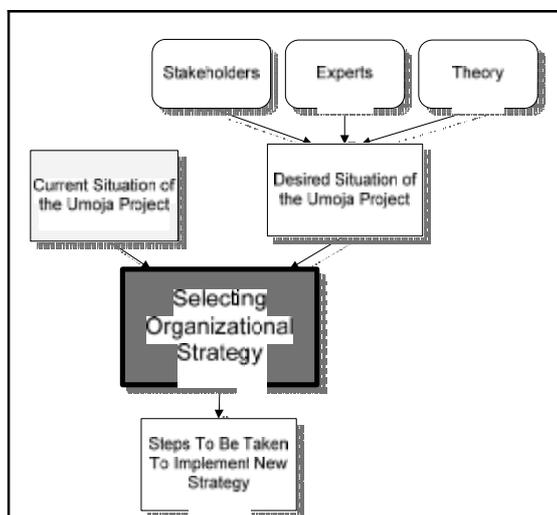


Figure 6.1; Research Approach - Selection

From the four different organizational strategies that can be selected for development, a strategy of upgrading as a chain actor is the minimum requirement before vertical and/or horizontal development can start.

6.2 Developing chain partnerships

Vertical integration

As can be seen in the previous section the preference for the position in the value chain by the main stakeholders (ISCOM and the farmers) is a position of either chain activity integrator or chain (co-) owner. ISCOM and the farmers prefer a strategy where the UMOJA project takes care of logistics, production and marketing. They prefer a separate Umoja trading company responsible for agricultural trainer, exporter and transporter. This means that a set of interventions is needed that is aimed at vertical integration.

As farmers evolve from chain actors into chain owners, they add “economic rent” to their business (they increase their share of benefits), increase their control over the chain, and protect themselves better against competition. This strategy means risks and responsibilities are greater farmers must be able and willing to bear these risks. The costs of integrating vertically may outweigh the benefits. Adding activities also means adding costs and risks. More importantly, it requires a new set of assets and skills, these are (according to KIT, 2006):

- Considerable investments in warehousing, grading, packaging, and transporting are needed.
- Operational management becomes far more complex.
- The recruitment of professionals for marketing, administration and management will be necessary
- Strong group cohesion and organizational discipline is needed.
- Farmers should be professional chain actors
-

When integrating vertically, dependency upon outside support is a major cause of failure and unless there is real ownership by the farmers a common business venture will probably not be successful (KIT, 2006). Although the main stakeholders in the project (ISCOM and the farmers) opt for a strategy of vertical integration, this may not necessarily be the best option.

The general perception of the farmers in the Umoja project is that by cutting out as many parties as possible in the supply chain higher prices will be paid to them, resulting in more profit. They have



heard how much is paid for a kilogram of produce in the supermarkets (in Europe) and how much is paid to them when they sell their produce to middlemen or exporters and see how big the difference is. A logic way of thinking but what is neglected by the farmers is that costs are also higher when integrating vertically. Each element of the supply chain is an expert in their own field and therefore works efficiently. Integrating vertically will bring about a great deal of risk, especially for a cooperation of farmers with no experience whatsoever in doing business upward in the supply chain. Investments are needed as well as skilled personnel, capable of setting up and managing the elements of the chain.

The production of the farmers is below standard. Farmers are not able to deliver the right quality at the right time because they do not produce according to schedule. All experts and stakeholders acknowledge that it will be a great challenge to improve the farmers' production and quality levels. Investments in training, irrigation equipment and certified inputs are needed. One of the experienced stakeholders (the exporter WONI) doubts whether the farmers will reach the right level of production in a reasonable period of time.

The farmer groups that are currently involved in the project are not very stable and disciplined. In appendix C the characteristics of the groups are sketched by a SWOT analysis. Different interviewees (district agricultural officer, a former member of parliament and the exporter) mention levels of group cohesion are low and there is a lot of 'politics' in the groups slowing down processes. One of the groups has been dormant for two years and has no control mechanisms in place (Thayu). One other group (Wempa) has had many internal problems and emerged from another group (Unasi). In general the groups are considered not to be very disciplined and organized. This can cause major problems when integrating vertically for which strong, well disciplined groups are necessary. Increased operational and organizational complexity will cause major problems. The farmer groups are not yet ready to expand their activities, at first their own activities must be improved and control mechanisms must be developed.

Working with smallholder farmers already can be very risky (see also section 2.2). Corruption in all layers of society in Kenya, low levels of group cohesion, lack of control mechanisms and the low levels of knowledge make it critical that risks are reduced as far as possible. Integrating vertically increases risks instead of reducing it and is therefore not the best option.

Becoming a chain partner

By adopting a strategy of development of chain partnerships, risks will be reduced. This strategy focuses on building relationships with other actors in the value chain. By linking themselves to buyer(s), the farmers can create a situation of growth and development together with other actors in the chain. This strategy allows gradual development of the business and step-by-step creation of a situation where the Umoja project has influence over the chain. The farmer cooperation can work with multiple buyers in multiple countries and diversify to different products to reduce risks imposed by factors that cannot be controlled by the organization itself. Operating in different markets and supplying different products for multiple organizations creates a situation whereby the cooperation is no longer depending on one product, one buyer and one market. A strategy of development of chain partnerships in combination with diversification enables farmers to have influence over the chain and reduce risk at the same time.

The current exporter in the chain is willing to invest in the farmers through training and supplying inputs. The relationship with the exporter can be the first of more long-term, intensive co-operations with different parties. Searching for suitable chain partners instead of integrating vertically can accomplish project goals (increased productivity of farmers, being able to deliver marketable product, links to markets) with far less risk. ISCOM can bring farmers together in cooperative and in this way enable them to have influence in the chain. By uniting the farmers and employing agricultural experts and marketers that search for the right chain partners farmers can be improve their incomes in a sustainable way, they will be empowered.

By linking with partners, farmers can increase their business security and gradually improve and expand their businesses. If they focus on making themselves an attractive business partner capable of delivering a marketable product, negotiations with buyers will result in better prices being paid for their crops, listen to farmers' demands, and invest in them.



ISCOM should help the farmers become chain partners, the position of the Umoja project is presented graphically below:

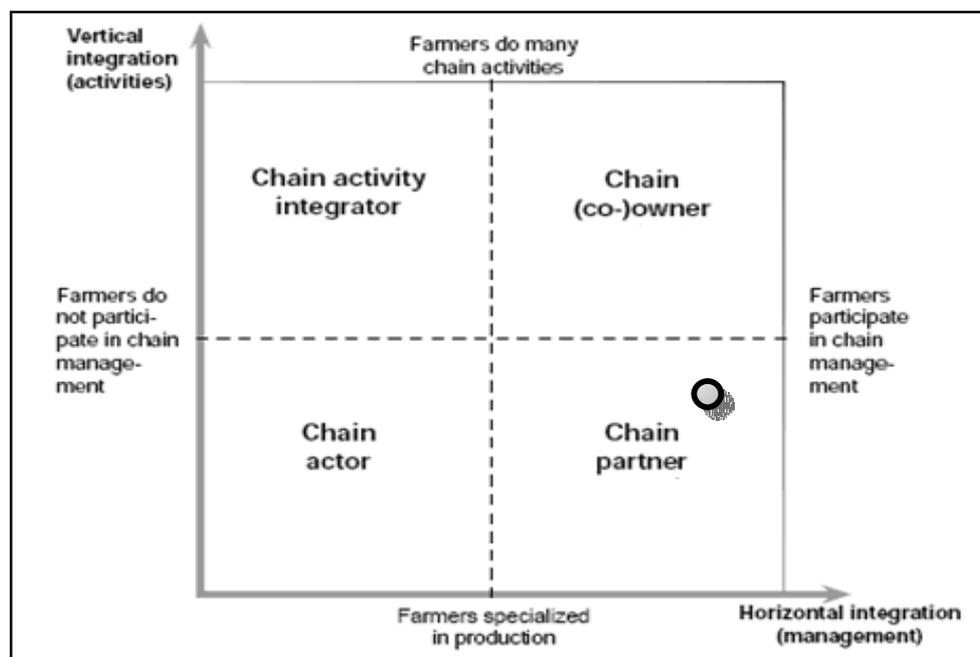


Figure 6.2; Desired Value Chain Position (Adapted from KIT, 2006)

6.3 Value Chain Development Stages

In order to become a chain partner it is essential that farmers first reach the position of a chain actor. The minimum requirement for participation in (international) trade professionally is for the farmers to become crop specialists with the capacity to deliver a marketable product. Farmers have to become chain actors. As can be seen in 4.4 the farmers currently are not chain actor yet. It is therefore essential that the farmers reach this stage before they can start to develop chain partnerships. After that, interventions can start that will help them becoming a chain partner. This can be seen in the following graph:

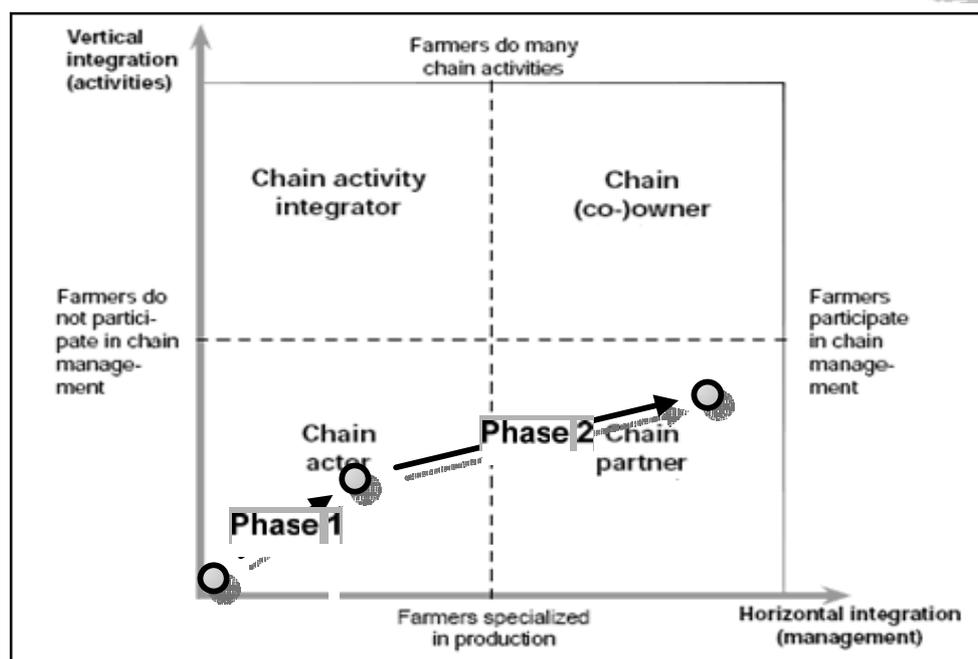


Figure 6.3; Value Chain Development Stages (Adapted from KIT, 2006)

Phase one: Upgrading as a chain actor

In this phase farmers become crop specialists. The farmers need to produce consistent quality that satisfies buyers. Essential in this stage is that farmers need to learn how to farm as a business. They need to be able to plan activities, work with employees and keep records. Essentially they need to learn how to manage their farms and learn to produce acceptable quality according to schedule.

Phase two: Developing chain partnerships

It is essential in this stage that farmers already reached the status of crop specialists. After this the farmer must develop a value chain vision. In this stage, the farmers have to become attractive business partners with the following competencies according to the literature (KIT, 2006):

- Good agricultural practices
- Continuous improvement in farm production
- Farm record-keeping
- Ability to gather independent information on market prices and trends
- Understanding of the supply chain
- Communication and bargaining with a focus on shared interests

6.4 Conclusion

The different stakeholders and experts have different views on what strategy should be adopted for value chain development. Because working with smallholders in Africa already is a risk at itself, we argue that a strategy of developing chain partnerships is most suitable for the Umoja project to reduce risk. Vertical integration is not a suitable option because it requires a whole new set of skills and investments that increase risk of project failure instead of reducing it. When developing chain partnerships with mutually beneficial relationships in the chain, different actors must be willing to invest in the chain and in the other actors to enable the supply to become a value chain. In strategic chain development according to KIT (2006), a necessary first step is for the farmer to become crop specialists. Farmers need to develop themselves to chain actors. This will take place in phase 1 of our strategic development plan. Phase 2 involves the development of the Umoja project into chain partner. In the next chapter we will explain what implications this two-phased strategic development plan has on further development.



7.0 IMPLICATIONS FOR FURTHER DEVELOPMENT

7.1 Introduction

Now that we have determined the appropriate development strategy for the Umoja project we will have a look at the steps that need to be taken in order to make the strategy possible. At this moment the Umoja project is not able to deliver a marketable product.

The first strategic step must therefore be 'upgrading to chain actors'. We will discuss the implications for the Umoja project when upgrading the farmers to crop specialists. After that we will focus implementation of the strategy for developing chain partnerships.

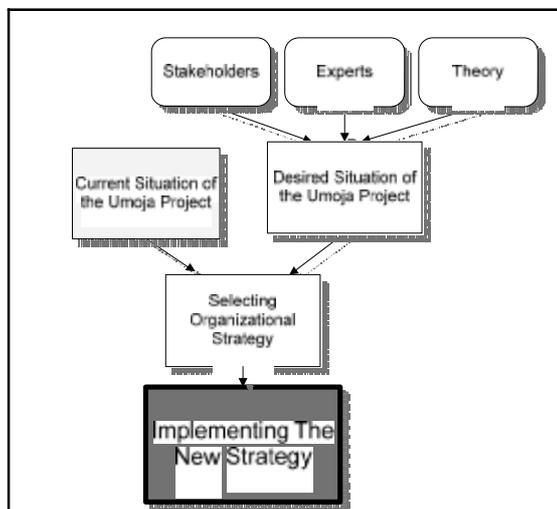


Figure 7.1; Research Approach - Implementation

7.2 Upgrading as a chain actor

We have learnt from theory that upgrading as a chain actor is necessary when farmers are not well connected to markets. The farmers in the Umoja project wait on the farm for traders to visit them to buy their produce. Low prices are offered and usually not all output is bought. Becoming a crop specialist is a necessary first step; farmers need to produce a better crop of a higher and more consistent quality, which is better suited to satisfy the buyer.

To become chain actors farmers need to develop the following basic assets they need to improve their production (KIT, 2006):

- Basic infrastructure
- Planning, record keeping, financial management, organizational skills
- Good agricultural practices
- Understanding of markets, value chains, competition, consumer demands, contracts

The above skills and assets imply that farmers are organized. Farmers being organized or willing to become organized is a minimum requirement before facilitation can begin. Private companies prefer working with organized farmers because it reduces risks and transaction costs. Being organized is the backbone of the whole process of chain development. According to KIT (2006) this cannot be rushed, organizations that are artificially created from above will sooner or later fall apart. The farmers in the Umoja project have organized themselves into groups and are ready to take the next step in terms of development.

Basic infrastructure

The roads leading to the different Self-Help groups are in sufficient condition, essential for trucks to be able to pick up the harvested and graded crops. Most groups have access to water from rivers that can be pumped up by the farmers to irrigate the land. The plots of the group called Rubiru is located further from the river. To irrigate their land a pump house was built and pipes were put into the ground to transport the water to the group, power lines and a transformer have been installed, the only thing that is missing is the pump. This group has to pay immediate attention to installing a pump together with the surrounding communities to enable delivery of water to the fields.



Most farmers have mobile phones to communicate but an information infrastructure still needs to be developed. Information about the project must be transferred to the farmer groups in both the English and Swahili language. Information about the market and about the project must be transferred to the farmers to keep transparency. This information can be printed and displayed at each grading shed, also functioning as a meeting point for farmers. Regular meetings and presentations about the progress and steps to be taken are needed at self-help group level to keep farmers involved and motivated.

Planning, record keeping, financial management, organizational skills

Members of the Umoja project are trained as a group, they deliver production as a group but do not want to be paid as a group because they do not trust each other. Group cohesion is not very strong. The exporter at this moment supplies all inputs; certified seeds, fertilizer, pesticides and deducts the costs for that from what is eventually paid to each farmer individually. Individual loans can be granted to farmers by the Umoja project when farmers for instance need a pump to irrigate their land. One of the experts suggested that when a farmer wants a loan, the best way to make sure that this farmer is serious about the investment is to let the farmer bring in a percentage. For instance, the farmer then pays for 10% of the investment and the remaining 90% can be loaned from the Umoja project.

At this moment there is a contract with exporter WONI who is interested in working together and willing to market the crops of the developing farmers. Becoming a chain actor means that each self-help group has the ability to deliver a marketable product. According to the strategy of the KIT (2006) as well as one of the interviewed experts the Umoja project should be able to notify the farmer group that a certain amount of produce is needed at a certain date. Farmer groups need to work relatively autonomous from there and will be responsible for production planning. Products must be able to be traced back to its producer. Farmers need training in entrepreneurial skills, production planning and record keeping to make this possible. Training must be provided for by trainers from the Umoja project to train members at group level.

Good agricultural practices

To be able to act as a chain actor, farmers have to become crop specialists and have to be able to deliver a marketable product. In the Umoja project whereby horticultural products are exported to the European market, the first step is for farmer groups to become EurepGAP certified, a requirement for exporting to the European market. This basically requires training and some development of facilities. At the time of interviewing two of the groups had members that were EurepGAP certified, the groups were working on storage and hygiene requirements. EurepGAP certification requires investments for each farmer group. These investments must be made by the farmer self-help groups by means of a loan from the Umoja project. Training in EurepGAP can be provided for by the exporter WONI.

Understanding of markets, chains, competition, consumer demands, contracts

Farmers need to understand the market they are operating in, only then will they be able to understand why the previously mentioned basic assets are required. They also need to learn that to be able to engage in trade in a professional way, contracts need to be honored and agreements need to be kept. Farmers have to take responsibility for their actions and become loyal to the project, in good and bad times. Farmers need to be educated to develop an understanding of how markets work and business is done. The Umoja project has to invest in training programs, study groups and study materials for the farmers.

7.3 Developing chain partnership

When farmers have upgraded themselves to crop specialists with a focus on delivering a marketable product they can call themselves chain actors. However, as chain actors the farmers still do not have control over the chain in which they operate. When developing chain partnerships, farmers have to become attractive business partners with a focus on shared interests and mutual growth.



In order to become be able to develop chain partnerships the farmers in the four groups need to improve in the following areas (KIT, 2006):

- Information management
- Quality management
- Innovation management
- Market intelligence

7.3.1 Information management

To improve the position of the farmers in the chain, their management of information has to improve. Farmers often are in a disadvantaged position. They have no information about the market and in many cases, not even about the performance of their own organization, which to a large degree is to blame on themselves.

Elements of information management are (according to KIT, 2006):

Record-keeping; this is necessary to understand the costs involved and to create insight into where improvements should be made.

Traceability; enabling buyers to trace the source of the product and the inputs used.

Market information; knowledge of prices and trends to create a better bargaining position.

Record keeping

Keeping records will be a major challenge. None of the farmers keeps records of the production and of their costs and income. The farmers should be trained in how they keep accounts of their production, training is necessary to teach the farmers how they can keep records.

At group level an administration of the production must be developed. The self-help group management is responsible for creation of information on productivity of the group. Furthermore management needs to make production schedules. Group members must receive training in schedules and how these can be kept. At Umoja project management level an employee should be accountable for group and farmer record keeping, but initially the group is responsible.

Traceability

Traceability is required for export production and therefore a great responsibility for the groups. Groups must oversee that their members keep track of their inputs, and deliver these records to the management (production manager) of the Umoja project through the self-help groups.

Market Information

The association of farmers must with the help of ISCOM employ marketing experts at Umoja project management level. Marketing experts must gather information and create a marketing strategy. This information and strategy must be communicated to the farmers through the self help groups, farmers must be able to access to marketing information. It is essential that farmers are trained in marketing and on how a value chain works. Their current knowledge of market information and marketing this is very poor.

7.3.2 Quality management

Quality management ensures that both product and production processes satisfy the customer; it makes sure the product finds its way to the market. Quality can be a unique selling point, it increases attractiveness of farmers as business partners.

Elements of quality management are (according to KIT, 2006):

Grading; of products into homogeneous quality grades for different market segments.

Quality control systems; should be implemented at critical points in the production system, to make sure the quality is always at the right level.

Quality certification schemes; that are demanded by the market must be implemented, such as GAP (Good Agricultural Practices), Food Safety Certification, EurepGAP (quality management system of EU supermarkets)



Grading

Initial grading takes place at the groups. The committee of the groups is responsible for grading. They can employ people to do it. At project management level there must be someone responsible for production and grading. This person must control committees and assess if they are doing a good job.

WONI offered to do the grading and to send staff to the self-help groups to do it. It is essential that the farmers are able to deliver a marketable product so we think that the farmer groups (Umoja project) should be responsible for grading, and do at least the initial grading themselves. With the help of ISCOM people at group level can be trained in grading, these graders must be employed by the project management instead of by the farmer groups to ensure consistent quality.

Quality control systems

Management plays a critical role in the control of the quality. The association should employ a production manager that implements control mechanisms to ensure and monitor quality delivered by the self-help groups. Employing graders can be one of these mechanisms. The group is initially responsible for quality delivered but the manager must also randomly check the quality at farm level and grading at group level. This production manager must be someone with both agricultural and managerial knowledge and skills.

Quality certification schemes

It is essential that the farmers will be EurepGAP certified producers. Both marketing and production employees in at Umoja project level must consider which schemes the farmers should follow and plan the necessary steps to execute these schemes at farmer group level. This also depends a lot on which chain partners the Umoja project is going to work with in the future.

7.3.3 Innovation Management

New technologies are usually brought down to the farmers by extension officers. Farmers are passive receivers of ready-made technological solutions, innovation is triggered from above. By involving farmers in innovation, practical knowledge from farming can be combined with scientific knowledge, resulting in a boost in innovation in the chain and making farmers more attractive business partners (KIT, 2006).

Chain cooperation; often relations in the chain are based on distrust and mutual suspicion. This is a negative situation for all parties in the chain, chain actors must be brought together and develop an understanding of each other. Cooperation must be stimulated throughout the chain by using the following elements (KIT, 2006):

Chain vision; a good chain has synergy, complementary relations between specialized chain segments. Different parties in the chain must be *shown* what the reality is in other parts of the chain to make them understand why certain measures are there and what the effects of sub-standard performance of one party is on the rest of the chain. This is especially important for the farmers in the project because they are in the beginning of the chain, their mistakes will affect all other actors downward in the chain.

Trust building; once there is recognition of mutual dependency between two chain segments, trust can be built and information can be shared to create shared visions. This can later result in joint action plans to improve the chain.

Joint action plans; chain actors can identify ambitions and develop plans which may be undertaken together or problems they want to solve together.

Negotiation; by negotiating, the different parties can try to change conditions to their own favor.

Chain vision and trust building

The farmers need to be trained in how a value chain works. Currently they have no knowledge about this and it is essential that they know what is happening in other parts of the chain. Our research shows that the farmers do not trust other parties (especially middlemen and exporters). It is management's task to bring all parties together and show them that cooperation is the only way to prevent project failure.



Stakeholder involvement in future plans is essential. This research has shown that the different parties involved have very different views on how the value should work. Stakeholder involvement must be constantly paid attention to.

Joint action plans

Project management is responsible for bringing different parties together; management must intermediate between parties like WONI and the farmers. A relationship must be developed in which both parties can add value.

Negotiation

Project management bringing the four self-help groups together has the ability to negotiate on their behalf. A group of 240 farmer managed by professionals offering a marketable product will be a professional business partner and is able to negotiate favorable contracts for the Umoja organization.

7.3.3 Marketing Intelligence

Marketing intelligence involves making sure that the product finds its way to the market. Production processes must be tailored to meet market demands; therefore knowledge of what customers want is necessary. The marketing manager must be employed who is responsible for the marketing information mentioned earlier and should be constantly searching the market for new interesting markets and possible chain partners.

7.4 Organizational Set-Up

According to ISCOM the chain should be developed as follows:

Farmer → Umoja Association → Umoja Trading Company → Exporter → Overseas Clients

ISCOM plans for the future that the Umoja trading company will take over the activities of the exporter and take care of exporting itself. In the future the trading company will function as an umbrella organization under which numerous projects can be started of which the Umoja project is the first. In the first five years, ISCOM will have a leading role in the Umoja trading company and plans a gradual transfer of ownership of the Umoja trading company to the farmers in the Umoja project and possible external investors. The farmers however will have a maximum share of 49% in the Umoja Trading Company. The Umoja Trading Company will be run by professionals for continuity reasons and to be able to attract external investors.

Previously we have determined that development of the chain with a focus on creation of chain partnerships will be most suitable for the Umoja project. This strategic choice was made to minimize risk. This strategy is somewhat in conflict with ISCOM's ideas on chain development. A trading company investing in vertical integration is a great risk, especially because any attempt to approach a market by developing new export channels overseas requires marketing, branding, transport, warehousing. These channels are however readily available through existing exporters. The exporters are marketing and transporting specialists and are cost efficient through economies of scale. The Umoja trading company would have to attract investors or take a loan and with that enter in a field of expertise with which the company has no previous experience to be able to export products itself, a risky situation that must be avoided.

Spreading Risk Further

By working with more than one exporter instead of integrating vertically, different crops can be exported to more countries, each through their manifested exporting channels. When a market declines, new markets and exporters can be found and a change in horticultural crops will be relatively easy. To get to a situation where it is be easy to adapt to market trends is favorable to reduce risks further.

Ownership & Empowerment

ISCOM plans for the Umoja trading company to be owned by the farmers for a maximum of 49%. We believe there is no need for an extra entity in the form of a trading company. All services described



above can be delivered when the Umoja organization is setup as a cooperative. The farmers in the Umoja project should focus mainly on production. Instead of investing in a trading company, investments in expanding production capabilities will have a more direct result on the farmers' income then becoming a shareholder in the Umoja trading company, a general preference of African smallholder farmers. It can be argued that farmers are empowered by making them shareholders in a trading company, but when farmers have no practical influence in the decision making of this company the level of empowerment is still low. When instead, the value of these shares can be invested in expanding production capabilities or anything else the farmers feel the need to invest in on their own, farmers are truly empowered.

The Umoja Cooperative

Instead of a separate entity for bringing the farmers together (association), and the marketing (trading company) we argue that it is the best option to develop an Umoja Cooperative (see figure 7.1). This organizational structure will enable us to bring together the farmers and organize them, hire professional staff with knowledge in marketing, business and agriculture to manage the cooperative.

Responsibilities of management of the cooperative

The Umoja organization must be responsible for development of chain partnerships, not the farmers. When productivity and turnover of the farmers grows, the Umoja organization will be able to repay its loan and attract market specialists. The Umoja organization has improved capabilities to negotiate prices and engage in contracts for its farmers because of its professional market-oriented employees.

The Umoja organization has to become a financial intermediate, dealing with procurement of inputs and inventory, collecting payments from exporters and payments and loans to farmers. The Umoja organization can receive a percentage of the turnover for its services. By using a percentage instead of a fixed fee per farmer,

farmers only pay when they actually deliver produce to the company, they only pay when they use the services of the Umoja organization. This also motivates the management of the Umoja organization to make sure the members produce as much as possible to increase turnover.

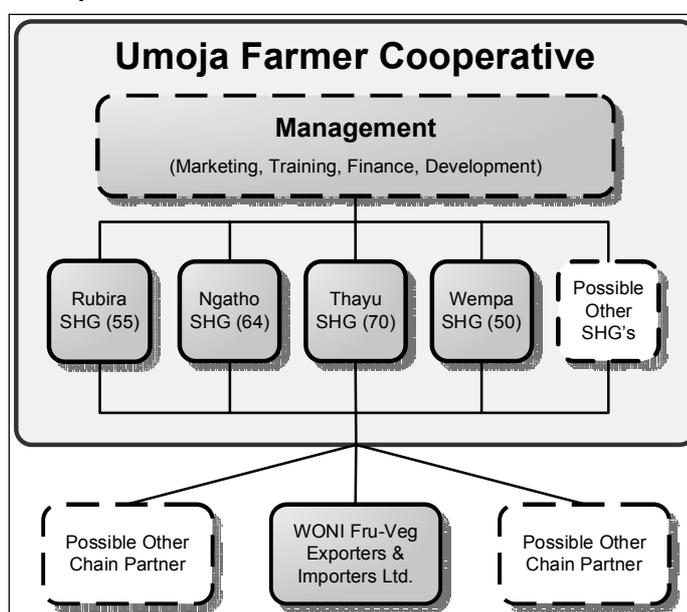


Figure 7.2; The Umoja cooperative

When the farmers in the Umoja project have become crop specialists, they no longer need intensive training, facilities are in place and farmer groups are able to work relatively autonomous. Technology development never stops and should always be focused on but a situation whereby farmers are crop specialist makes it possible for the Umoja project to focus on market and cooperative development. Different farmer groups with different crop specializations can be connected to the Umoja organization and relations with new exporters to new markets can be found. Throughout this report we have stressed the involvement of stakeholders in the project. The management of the Umoja cooperative is responsible for stakeholder relations. All current and future stakeholders must be kept informed and must be kept liaised with the project, an task of utmost importance for the management. Transparency is important for building relationships based on trust.

Responsibilities of farmer group management

Training of the farmers will be at group level. Self-help groups are also responsible for traceability of the production; this means that records have to be kept about production, use of pesticide and fertilizers of each group member. Furthermore, a marketable product must be delivered at group level. This means that quality levels need to be sufficient, delivery times need to be kept and crops needs to



be packed in the correct quantities and packing materials. Grading will happen at group level. Each group needs to hire a grading team lead by a representative from the management of the Umoja cooperative, for instance a trainer.

Responsibilities of individual farmers

Farmer in the Umoja project need to keep developing themselves, make sure they receive up-to-date market information from the farmer groups and are responsible for development of their farms. The farmers need to keep financial and production records to enable them to learn about production planning and financial planning. Furthermore farmers are responsible for making sure the quality of their produce is of the appropriate standard and is delivered on time in the right quantities.

Responsibilities of the exporter(s) and chain partners

Mutual development is key in the strategy of development of chain partnerships. Exporters and other chain partners need to be informed about the project but should also transfer information from the market to the management. Developments in markets must be communicated upward in the value chain to enable all parties to adapt accordingly, next to sales, part of the marketing and transport this is a responsibility of exporters (or chain partner).

Phases

In the two different phases (upgrading as a chain actor and developing chain partnerships), there is a different focus of the organization. In the first stage the focus will be on the development of the farmer (see figure 7.2), whereas the second stage will ultimately lead to a focus of developing chain partnerships (figure 7.3). When the farmers have had training and become chain partners, they should be able to work relatively autonomous and are able to deliver marketable products. The Umoja cooperative management can focus on opportunities for development.

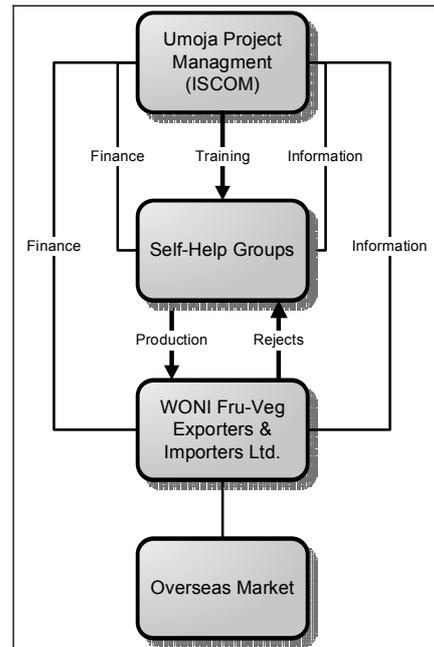


Figure 7.3; Organizational Setup, Phase 1

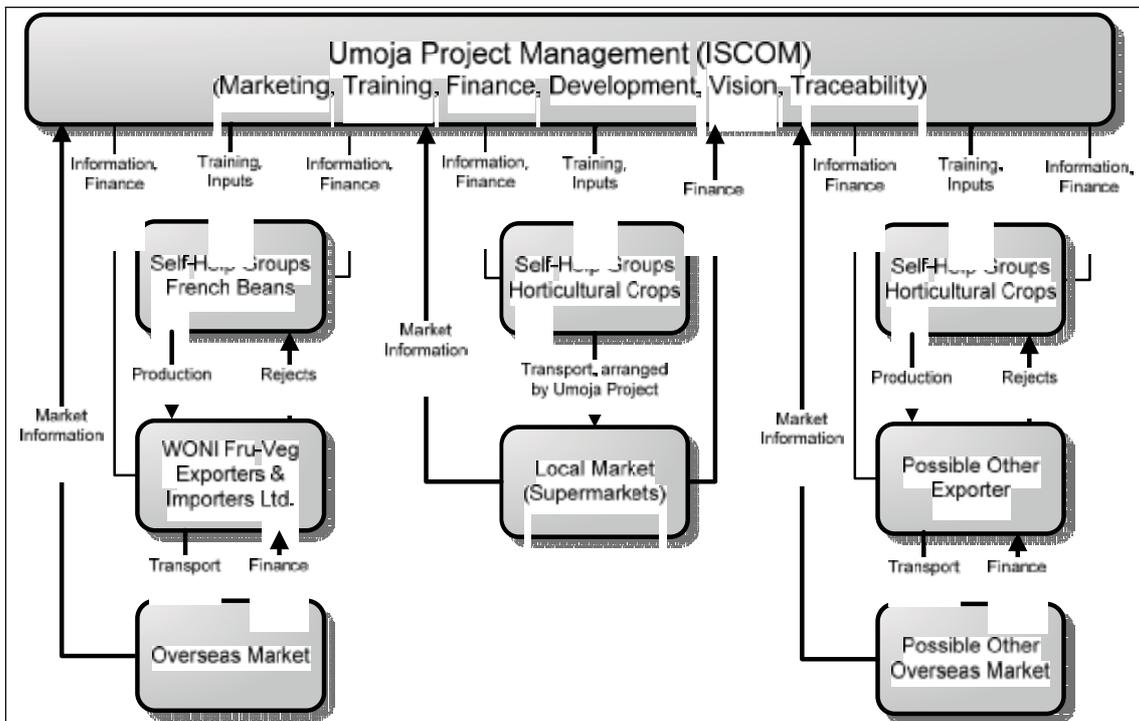


Figure 7.4; Organizational Setup, Phase 2



8.0 CONCLUSIONS AND RECOMMENDATIONS

8.1 Conclusion

Smallholder project failure is more common than success in sub-Saharan Africa. Common strategies to address rural poverty by increasing returns on agricultural production are likely to fail. Projects with smallholders in less-favored areas (LFAs) bring about great risks and challenges (de Janvry and Sadoulet 2005).

ISCOM is developing a project with smallholder farmers to enable these farmers to alleviate themselves from poverty by approaching foreign markets for their products by means of export. To be able to reduce the risk of project failure a stakeholder driven approach has been chosen for this project by ISCOM.

In this research we have developed a strategy and an implementation plan for this strategy, taking into account the requirements and expectations of the different stakeholders involved. Our main research question is:

What strategy should ISCOM implement for the Umoja project in order to meet the requirements and expectations of the stakeholders and how should this strategy be implemented?

The main problem of the farmers in the Umoja project is that their production is of poor quality and that they are not well connected to markets. They earn very little with their produce. This problem can be resolved by improving their position in the value chain. After our research of the theory and the experts we found out that there were four strategies that could be followed when it comes to improving the position in the value chain and those four strategies use either a strategy of vertical or horizontal integration.

In the Umoja project ISCOM wants to improve the position of the farmers. They want to do this through a set of interventions that will lead ultimately to vertical integration. Vertical integration causes great risk exposure and we believe that the farmers are not ready for it. They are not organized, there is no strong group cohesion and farmers do not have enough experience in producing for export. We argue that a strategy of developing chain partnerships should be adopted (horizontal integration). This strategy enables linking to a market and upgrading productivity with less investment, less operational complexity and therefore less risk compared to vertical integration.

We suggest that the Umoja project follows a strategy of horizontal integration. There should be two phases in the implementation.

Phase 1: Upgrading to chain actor (In this phase the farmers should learn how they can deliver a marketable product)

Phase 2: Upgrading to chain partner (at the end of this phase the farmers are attractive business partners and build long-term alliances with buyers that are centered on shared interests and mutual growth.)



Cooperative

For this strategy a farmer cooperative with professional management is needed. In the cooperative more than 240 farmers will be working together. Professional management must guide the farmers through these two phases. The 240 farmers joined together and managed by professionals can become an attractive business partner at the end of phase two.

Role of professional management

Management will professionalize the work of the farmers. Their knowledge will help connect the groups to the market and assist in the growth of their productivity. They also have an important role of searching for the right chain partners that will work in mutual beneficial partnerships in the value chain.

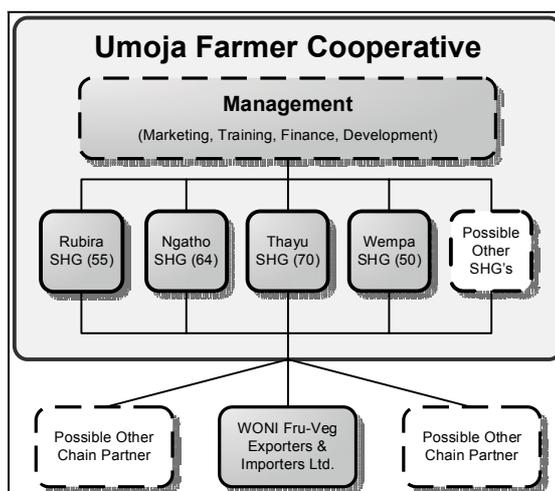


Figure 8.1; Umoja Cooperative

Role of ISCOM

ISCOM should use its knowledge to establish a sound management in the cooperative. For this ISCOM can receive a percentage of the sales for their management of the project.

Role of the groups

The role of the groups in the setup of the project is very important. Groups will be responsible for all production issues (including recordkeeping etc.) and will be assisted but also controlled by management of the cooperative. To ensure continuity of the project, the farmers themselves should be empowered with responsibility and management of their own businesses, the farms.

Stakeholder involvement

We have learnt from theory that stakeholder involvement in a project is essential for its long term success. (Hoben et al., 1996; Mutangadura, 2005; KIT, 2006) The use of stakeholder views enabled us to consider the different views of the parties involved in the project. During our research it became clear that there are great differences in visions as to which strategy should be adopted. We distinguished two different reasons for that: firstly stakeholders have different interests in the project (WONI), secondly farmers do not understand their position in the value chain and lack knowledge of the impacts and risks of a strategy of vertical integration on the project.

These different insights and the reasoning behind it must be considered in development. Farmer groups must be taught how a value chain works. This will show them that following a strategy of vertical integration brings about great risk and that a strategy of developing chain partnerships can have equal or better results with less risk and investments. Considering the conflicting views makes alignment of these views possible during development in the two different phases. It is essential to communicate information very clearly and to be sensitive about issues that might cause groups to disagree. It will be essential to communicate with all stakeholders which direction the project is heading and what strategy is being followed and why. Stakeholder views have to be aligned with the project. Transparency in the project is needed to build relationship on trust. Especially in a process of building chain partnerships where mutual growth and long term cooperation are key elements it is essential to involve stakeholders in the whole process.



8.2 Reflection

Product

The results of this research are based on the Umoja project in the highlands of Kenya and can therefore by no means be generalized for all African smallholder farmers. For this research we have solely focused on development of a strategy for the farmers in the Umoja project for exporting French beans, it could very well be that a focus on production of horticultural products for the local market requires a different strategy than the one suggested in this thesis.

Our research was conducted mid 2006 at the very start of the project. At the time of completion of this report in 2008, project and market development may have caused that we have worked with outdated information; this should be carefully assessed before adopting the suggested two-phased development plan. Furthermore bias could have been developed by a slight misrepresentation the farmers. Self-help groups were represented equally because five farmers of each group have been interviewed, but each self-help group consisted of a different number of farmers whereby the smallest group had 50 members and the biggest group had 70 members. The individual farmers of the smallest group are better represented than the individual farmers of the biggest group.

Research Process

The first purpose of our visit to Kenya and the research was to write protocols and guidelines for the project on how the organization should be managed. When we were in Kenya we decided that it was not possible to do such research because the project was still in a design phase. We did not have the time nor the means write protocols and guidelines because the project was in a premature stage.

After gathering primary data in Kenya, we have modified our research question. When we returned from our fieldtrip to Kenya we were trying to find a way to determine how a smallholder project should be organized according to theory and stakeholders. We wanted to determine the gap between the current and desired situation. ISCOM already had an idea about how the project needed to be organized and managed and we wanted to determine if this was the correct approach. After studying literature about cooperatives, value chains and stakeholders we realized that we needed a model to determine the current and desired situation. Discussions about how to approach our research finally made us realize what we wanted investigate was the most suitable strategy for the Umoja project according to a value chain approach.

Since it took a long time to determine what we actually wanted to research, eventually leading to a changed research question, the project was “on-hold” for a long time after we returned from our field research. This change in research question meant that all we had written so far had to be revised and adjusted. New theories had to be found to assist us in evaluating the project. The interviews we held were to a great extend about project development and therefore very useful in helping us to answer our new research question. Before we continued to work on our thesis, we agreed to write a report for ISCOM about the current situation of the farmer groups in the Umoja project and their strengths and weaknesses. We wrote this report and made a SWOT analysis of the farmer groups. It would have been more efficient if the research question was clear at the beginning of the actual research process. That also would have allowed us to do more specific research in Kenya. The whole process of determining a new research question severely delayed the process.

Theory

In this research we combined stakeholder involvement and finding a suitable value chain improvement strategy (KIT, 2006). The combination of these two theories is very useful, especially when adopting a strategy of developing chain partnerships where growth is dependent of mutual relationships between stakeholders. This thesis demonstrates the importance of this stakeholder involvement. The stakeholders involved in the Umoja project have completely different visions on strategic development and on the future position of the project in the value chain. These visions need to be aligned to make development of relationships based on shared interest and mutual growth successful. Smallholder farmers need to learn to understand the whole value chain and why different actors in the chain are needed to make projects successful instead of looking at intermediates as elements that take away money from the farmers.



The value chain model (KIT, 2006) was very useful in context of this research because the Umoja project deals exactly with the problems that the Value chain model is trying to solve. The value chain model was designed for smallholder farmers in Africa, and this suited very well in this particular situation. Cooperative literature did not give us a direction as to which strategy ISCOM should adopt for this project, we therefore looked into other theories leading us to value chain theory.

8.4 Recommendations for ISCOM

With their knowledge and experience of managing smallholder famers ISCOM can establish professional management in the cooperative. If the farmers want to go through the two different phases of upgrading to chain actor and upgrading to chain partner, farmers need to professionalize and ISCOM must facilitate this process.

Phase 1: Upgrading to chain actor

Setup

In this phase it is essential that the farmers get organized. ISCOM should take care of the setup of the cooperative. It needs to be registered and farmers need to be informed about the structure. They can be informed through their groups. Stakeholders must be kept informed at all times project management (ISCOM) needs to recruited specialist on marketing, training and agricultural practices.

Training

Another responsibility of ISCOM is training of the groups and the development of the training curriculum. We argue that this should be done in three stages.

Stage 1; a training and certification program that needs to be developed for each group to become EurepGAP certified. EurepGAP certification is a minimum requirement for exporting to the European Union. Some groups are almost at the point of being certified, others are far from it. Exporter WONI can offer training in EurepGAP and has expressed willingness to train the farmers. WONI would be a suitable partner to provide training programs because of the interest the exporter has in traceable certified products of good quality.

Stage 2; farmers need to be trained in managing their own farm. They need to receive training in organizational skills. Farmers need to learn how to run their business; they need training in planning, record keeping and financial management.

Stage 3; after stage 2 is completed farmers need to understand the value chain they are becoming a part of. They need to be educated as groups about markets, competition, consumer demands, contracts and need to develop an interest in information that becomes available through the cooperative. Farmers need to develop a business mindset with a focus on improvement. Trust building is key and group cohesion needs to be improved.

Inputs

The inputs for the farmer can be supplied by the exporter WONI. WONI can deliver certified seeds, pesticide and fertilizer in the right quantities on credit. In the development phase of the cooperative the inputs from WONI can be used to allow cooperative management to focus on training the farmers. ISCOM should negotiate with WONI for the right conditions and payments for the inputs.

Irrigation

To be able to increase farm productivity, farmers need to irrigate the land at the right time with the right amounts of water. The farmer plots can all be irrigated by using pumps. Farmers need to invest in pumps themselves. Pumps for watering cannot be bought per group and leant to the farmers. Farmers do not trust each other, it would be a great challenge to make sure farmers take care of pumps properly and are not tempted to sell them to third parties if the pumps are group-owned. Private pumps can be purchased with a loan from the Umoja cooperative that can be repaid with a percentage of each farmer's profit. A good way to make sure farmers have considered the investment of a pump well and believe the investment is really needed is to let them bring a small percentage of the loan. If a farmer can bring that small percentage, the farmer is serious about the investment. The Umoja project can in turn take a loan from ISCOM, who has funds available for this.



Phase 2: Upgrading to chain partner

The main goal in step two of the chosen strategy is to development of the farmer cooperative to attract business partners. ISCOM should now start to recruit professionals for management and marketing related activities of the cooperative. The following aspects must be developed with the help of ISCOM:

Information management

The cooperation must develop an information system that gathers the production data of the different groups. ISCOM as management of the Umoja cooperative is responsible for designing and buying this system.

Quality management

The groups must be held responsible for the quality of the produce, but ISCOM must develop management control systems to make sure quality can be guaranteed for every delivery.

Innovation management / Market intelligence

In phase two (developing chain partnerships) it is essential that the Umoja cooperative employs staff or work with advisors or extension officers with knowledge about management of agricultural innovations. Market opportunities both locally and overseas must be identified. Cooperative management can search the market for chain partners that are willing to develop mutually beneficial relations. Different farmer groups with different crop specializations can be connected to the Umoja organization and relations with new chain partners can be found.

8.5 Recommendations For Further Research

Cooperative management must be responsible for searching for and identification of market opportunities. Both new export markets as well as the local market can be opportunities for the Umoja project that have not been focused on. The local market in Kenya is not transparent and needs investigation to determine possible opportunities. The climate in the Kenyan highlands allows for production of a whole range of horticultural products. Research is needed to determine which other crops can also be of interest to the Umoja project for production for both export as well as local markets.

Our main research question was to determine which strategy should be adopted by the Umoja project. We advised to start a farmer cooperative and have determined an organizational setup for the project. The next step will be to determine to what extend ISCOM will be involved in the management of the Umoja project and what specialists need to be hired to complete phase one of the development plan.

It might also be interesting to further research the possibilities of incorporating stakeholder involvement in the model for development of a value chain strategy. We have seen in this research that the stakeholders have different views on value chain development strategies. The reasons for these differences have been explored briefly. It can be interesting to research more thoroughly how the lack of knowledge of farmers influences their view on strategy and how the varying interests of different parties involved in the project lead to different views on strategy in smallholder projects. It can be interesting to research how differences in knowledge and interests influence smallholder projects in Africa.



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Appendix B: Definitions

Agricultural Extensionists	Intermediaries between research (or any other source providing new information) and farmers.
Asset Poverty	Low and uncertain returns to resources.
EurepGAP	Good Agricultural Practices, a production standard for farmers developed by European supermarket chains, nowadays the most widely implemented farm certification scheme worldwide.
Farmer Empowerment	Development of farmers' capacities to initiate actions on their own or to influence decisions that affect their economic and social activities and an activity that mobilizes and motivates people in the farming community to bring about positive changes within the organizations.
Opportunism	A condition of self-interest, taking advantage of opportunities without regard for the consequences for others.
Rent-seeking	Rent seeking generally implies the extraction of uncompensated value from others without making any contribution to productivity, such as by gaining control of land and other pre-existing natural resources, or by imposing burdensome regulations or other government decisions that may affect consumers or businesses.
Self-Help Group	Nonprofessional organization formed by people with a common problem or situation, for the purpose of pooling resources, gathering information, and offering mutual support, services, or care.
Smallholder	A person who owns or runs a smallholding, in third world countries, smallholdings are usually commercial farms supporting a single family. A smallholding is a farm of small size, often too small to be efficient.
Snowball Sampling	Each interview provides input for the next interview in terms of interview topics.
Stakeholder	An individual or organization that affects or is affected by the achievements of an organization.



Appendix C: Abbreviations

EurepGAP	Good Agricultural Practices Certification Program
GDP	Gross Domestic Product
IOF	Investor Oriented Firms
ISCOM	Institute for Sustainable Commodities
KBDS	Kenya Business Development Service
KIT	Royal Tropical Institute (Koninklijk Instituut voor de Tropen)
LFAs	Less Favored Areas
SHG	Self-Help Group
SWOT	Strengths, Weaknesses, Opportunities, Threats
USAID	United States Agency for International Development



Appendix D: SWOT Analysis Self-Help Groups

Ngatho Outgrowers Self-Help Group

Name: Ngatho Outgrowers SelfHelpGroup
Members: 64
Founded: Registered on 24 July 2002

Specifics

Ngatho Outgrowers SelfHelpGroup is considered the most advanced of the four groups involved. Several parties confirmed that they are the most advanced in training, management, leadership and product knowledge.

Ngatho

Strengths:

- Group has a fund to finance group expenditures
- The group has a spraying team with experts
- Most of the members already have had EurepGAP training
- This group has the youngest average age and the highest average education level
- This group has experience in working the exporter

Weaknesses:

- Most members use bucket irrigation, which is not optimal in growing French beans
- Approximately 10 percent of the members has major health problems, this could jeopardize production output levels

Opportunities:

- When planting schedules are followed more strict, outputs will improve
- The farmers start benefiting from working together as a group, which keeps them motivated
- Relatively low number of members contribute a relatively large number of acres, average acreage is high in this group making economies of scale easier to achieve

Threats:

- Members do not keep records, making it difficult to find out where problem areas are and how to increase performance

Rubiru Self-Help Group

Name: Rubiru
Members: 55
Founded: 2003

Specifics

Next to Ngatho this is a group that already works with the exporter Woni. In the past months the group has not been able to plant, harvest or maintain the plants according to the schedules that were provided by WONI, resulting in production outputs not being at the right level yet.

Different sources claim that the Rubiru area is prone to water logging and when the weather is bad it is impossible to plant the seeds because there is only thin layer of soil on a rock layer. Next to agricultural activities, the group is also involved in community development on a broader scale. The cohesiveness of the group was questioned by different sources.

Strengths:

- The group has an internal monitoring (or control) system with rotating shifts for maximum objectivity



Approximately half of the members of this group has other certification than EurepGAP (mainly in organic production), meaning that many members are familiar with certification procedures

Weaknesses:

Production output per kilogram of certified seeds is far below required productivity level
Group has difficulty following planting schemes, therefore production is not always ready on time and pesticides and fertilizer are many times applied at the wrong moments
Relatively old age of members compared to the other groups, 56 year average. Older people generally less concerned with the future and more resistant to change, next to this, older people generally have a higher chance of suffering from illnesses and diseases.
On average, Rubiru has the lowest education level, this could mean that comprehension of training will be slowest in this group (see table 1)

Opportunities:

Part of a communal irrigation system is already present, only a pump is needed for transporting water to the area to be irrigated, basic irrigation is relatively easy to setup for this group

Threats:

Top layer of soil is very thin in this area, below the top level solid rock is found, when it rains heavily no planting can be done because the water can not sink into the ground and flow away
This group is not very cohesive, if cohesion remains low or gets lower, the group could fall apart

Thayu Self-Help Group

Name: Thayu
Members: 70
Founded: 2002

Specifics

This group has been dormant since the announcement of the Umoja project. There were no activities till the last visit of dr. Sahota to this group approximately 2 years ago, hence there are no control mechanisms in place. There are quite a few members that have big plots of land of which the biggest part is idle. One of the interviewees has a plot of 15 acres, but only grows crops on less than 1 acre because of lack of capital. There is no money for inputs (certified seeds, fertilizer and chemicals) and labourers to prepare, plant, maintain and harvest the land.

Two respondents out of five of the Thayu group complained about damage to the crops by hippos from the Kabuku river. They destroy their crops when grazing on the riverbanks. The farmers feel that there is nothing they can do because hippos are considered a protected species by the ministry of wildlife. We tried to make an appointment with the ministry but did not succeed. We advise to contact this ministry to find a solution for this problem.

Thayu Profile

Strengths:

Strong leadership and committee with great influence, the committee in this group 'gets things done'

Weaknesses:

Group has been dormant for a long time so does not have monitoring systems
No real experience in production for export as a group

Opportunities:

Relatively low number of members contribute a relatively large number of acres, average acreage is high in this group making economies of scale easier to achieve (see chart 3 and 4)

Threats:



Not all members trust the committee, could result in members leaving the project
Hippos destroy the crops, they are a protected species, it will be difficult and expensive to solve this problem

Wempa Self-Help Group

Name: Wempa
Members: 50
Founded: 24 July 2002

Specifics

Wempa is generally considered the most difficult group to work with of the four. An advisor to the group mentioned that group politics could become a problem, there have been disagreements in the group called Unasi that was supposed to join the Umoja project, but this group fell apart because of these disagreements. Wempa was founded by part of the members from the Unasi self-help group.

Some interviewees uttered general scepticism about the Wempa group, some people are biased about this group because of experiences in the past with farmers from that region. It has been said that some of the farmers in that region were provided with certified seeds and chemicals for production but instead of producing, the seeds and chemicals were sold on the local market. Because of these problems in the past with some of the farmers from the Wempa region some people claim that the people from that region generally cannot be trusted or do not have the right attitude and loyalty.

Strengths:

This group has its own dam and lake, supplying water for irrigation will be relatively easy

Weaknesses:

There is a lot of politics going on in this group, this results in slow decision making
Approximately 10 percent of the members has major health problems, this could jeopardize production output levels (see chart 2)
Approximately 24 percent of all members are a member of Wempa, but Wempa only contributes 11 percent of all farmland, this means they have many small pieces of land, resulting a lower turnover per group member because not as many kilograms of produce per farmer can be produced compared to the other groups (see chart 3 and 4)

Threats:

Cohesion in this group is considered lower than average, there is some lack of trust between members in this group, a worst case scenario could be that the group falls apart if its members do not start to work together as a team
Group only exists for a short while, the shorter the group exists, the higher the chance it will collapse

Opportunities:

This is the only group in the Umoja project that has had some successful experiences with exporters. Part of the members have had good experiences with exporters, these could motivate and support the other members in this group in producing for exporters, if at least the group starts working as a team



Appendix E: Questionnaire For Farmers

Name Selfhelpgroup: _____

Age: _____

Gender: Male / Female

Comitteemember: Yes / No,
if yes chairman / treasurer / secretary / ass. secretary

I have been a member if this SelfHelpgroup for ____ years

I have been farming for ____ Years

My family has ____ members

Do you have EurepGAP certification YES / NO

My land is _____ acres

My land is: Owned / Leased

(If leased) the contract is renewed every ____ year

I am currently growing:

French Beans _____acres

Babycorn _____acres

Maize _____acres

Other _____ acres



Appendix F: Interview Questions For Farmers

Explanation about why interviews are taken:

Iscom uses a stakeholder approach in the Umoja project. This means that all parties involved in the project are interviewed about their expectations and requirements of the project. The ultimate goal is to build a good relationship with all parties involved to make sure the project will succeed and all parties involved act in the interest of the Umoja project.

Iscom wants to create a situation of transparency in the Umoja project. This means that all parties involved will be given the information they require. It is necessary to find out which information is needed by which parties.

By answering the question in a honest way the true interests of the farmers will be reflected from these interviews. The answers to the interviews will be anonymous, this means that names and personal information will be destroyed and no personal information will be mentioned in any of the reports that follow after these interviews.

Current situation:

Could you explain your current situation (of life)?

Why are you a farmer?

What motivates you in your work as a farmer?

What part of your day is spent on farming, how many hours?

Do your family members help you on your farm, what do they do?

How does the farming process go from planting to sales to receiving payment?

How are logistics arranged? How do you feel about this?

When can payment be expected? How do you feel about this?

Did you receive any training in anything concerning farming or having a business?

What training did you receive if yes?

Did you receive any help from organisations before? (financial, credit, training)

Was it similar to the Umoja project? (if yes, in what ways?)

Why (not)?

What kind of help or support was given to you or somebody you know?

What is your experience with the help you have received before or how do you feel about the help given to farmers (including you if applicable) before?

Do you feel previous attempts of helping you or your fellow farmers were successful? Why?

Sales of produce:

Is certification necessary for exporting?

Are you certified in any way for export?

Do or did you produce for export, local market or both?

Why export? Why sell on local market? What are the advantages/disadvantages of both?

Have you got experience with exporters?

Which exporters did you use for the sales of your produce?

Why did you use these exporters?

What is your experience with the exporter(s) you used? What goes wrong or right? What are the advantages/disadvantages of selling produce through exporters?

Planning:

Do you make a planning for production, sales, income, future? If so, what is the time span?

How do you plan your production? Do you have a written planning?

How do you know when the produce is ready for harvesting?

Self-help Groups:

How long does your self-help group exist?



What is the purpose of a self-help group?
What are the advantages of being in a self-help group?
What kind of actions does a self-help group take?
Do you think your self-help group is successful? Why?
Is there anything you miss in the self-help group (is something missing/lacking)?

How many times per month/year do you meet?
Do all members in the self-help group agree on structure, conflict handling?
Is there a disagreement between members of the group?

Why are you a member of this self-help group?
Do you benefit from your membership of the self-help group? Why?
Do you know the other self-help groups, which ones, what do you know about them? Do you know the members?
Would you think that being in a self-help group makes you perform better in farming? Why?
Do you feel obligations toward your self-help group? Which, or in what way?
What happens if a member does not comply with the agreements you have made in the group?
How would you make sure all members act as they are supposed to?

Umoja project:

How did you hear about the Umoja project?
What do you think about the Umoja project?
What do you think about the proposed structure of the Umoja project? (governance, elections)
Is there anything that should be changed?
Do you think you would be a suitable member of the board of directors of the Umoja project?
Do you feel that your group will be sufficiently represented in the Umoja project? Why?
Do you feel that you will be sufficiently represented in the Umoja project? Why?
Why do you want to join the Umoja project instead of continuing to work in a self-help group?
How long will it take before the efforts of the Umoja project will be visible?
What activities should the Umoja association and the trading company undertake to make the project successful?
What are the main difficulties/problems in farming (French beans) in Kenya?
How should payment be arranged?
When a member does not act according to the rules/standard set by the board, what should happen?

What information would you like to receive from the Umoja project?
How should the Umoja project report on profits/decisions?
Would it be a problem for some members if the information would be available in English? Why?
What information would you need from the Umoja project?
How would you be motivated to work hard/try your best (for the Umoja project)?
What motivates you in your work hard for something?
How should quality be inspected?
Iscom wants sustainable production (People, planet, profit), what do you think about that? What is the most important one and why?
In your opinion, what is sustainable?

What should be the role of an exporter of your produce?
What would be better, less risk and less profit, or more risk and more profit? Why

Future:

How do you see your future as a farmer?
What is your dream?



Appendix G: Interview Topics For Expert Interviews

- Implementation of the 3 P's, People, Planet, Profit
- What will happen after 5 years and ISCOM leaves, sustainability of the project after that
- Role of ISCOM and project management, now and after 5 years
- Role of the exporter in the project, option to use more exporters
- Relation between the farmers in the project, competition
- Leadership in the project
- Influence of farmers on the trading company as 49% share holders and how
- Involving other self-help groups (development) versus ownership and structure of the trading company
- Empowerment of the farmers or farmer groups
- Information management, transfer and interpretation
- Record keeping, production planning, traceability
- Responsibilities of farmers, project management, farmer association, trading company, exporter
- Handling of rejected beans and grading of produce
- Contract breach and opportunistic behaviour
- Trust building and reasons for lack of trust
- Giving loans or credit to farmers
- Leased land versus owned land
- Influence of the age of the farmers (many are old and retired from working)
- Dependency syndrome
- Training needs and how to give training
- Management control
- Transport of French beans to Europe
- Arrangement of inputs
- Local market
- Middlemen
- Corruption
- Self-Help group liability
- Irrigation of the land
- Transparency of the project
- Ethics
- Group size