Reconstructing Post-War Local Economies

Institutional Dynamics and Smallholder Value Chain Interventions in Northern Uganda

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RECONSTRUCTING POST-WAR LOCAL ECONOMIES

Institutional Dynamics and Smallholder Value Chain Interventions in Northern Uganda

NAOORLOGSE WEDEROPBOUW VAN LOKALE ECONOMIEËN

Institutionele dynamiek en interventies gericht op waardeketens voor kleinschalige landbouw in Noord-Oeganda

Thesis

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Dedicated to my wife and children
and
In memory of my mother and grandmother

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Acronyms

AFSRT	Agency for Sustainable Rural Transformation
AFTA	African Farmers Trade Association
AGM	Annual General Meeting
CDO	Cotton Development Organization
DANIDA	Danish International Development Agency
DFID	Department for International Development
ESL	Equator Seeds Limited
FFT	Farmers Fair Trade
FGD	Focus Group Discussion
GADC	Gulu Agricultural Development Company
IDP	Internally Displaced Persons
IFAD	International Fund for Agricultural Development
IRC	International Rescue Committee
KFT	Key Farmer Trainer
LGU	Lango Cooperative Union
LMB	Lint Marketing Board
LRA/M	Lord's Resistance Army/Movement
MoFPED	Ministry of Finance, Planning and Economic Development
MSP	Multi-Stakeholder Platform
NGO	Non-Government Organization
NRA/M	National Resistance Army/Movement
NUSAF	Northern Uganda Social Action Fund
OSSUP	Oilseeds Sub-sector Platform
PRDP	Peace, Recovery and Development Plan

R&D	Research and Development
SIDA	Swedish International Development Cooperation Agency
SNV	Netherlands Development Organization
UAC	Uganda Amnesty Commission
UBoS	Uganda Bureau of Statistics
UNFFE	Uganda National Farmers' Federation
UNHRC	United Nations High Commissioner for Refugees
UNLF	Uganda National Liberation Army
UNWFP	United Nations World Food Programme
UOSPA	Uganda Oilseeds Producers' and Processors' Association
UPDA	Uganda People's Democratic Army
USADF	United States Africa development Fund
USAID	United State Agency for International Development
VCD	Value Chain Development

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Abstract

The thesis analyses changes in institutional environment and arrangements arising from legacies of civil wars and examines the scope and limitations of value chain development interventions in designing and enforcing institutions for economic transaction. It, therefore, analyses institutional factors that lead to market imperfection in post-war local economies and how value chain development interventions (can) address such imperfections. Value chain development interventions are aimed at attracting private sector investments in sectors in which large numbers of poor producers participate. It entails creation of institutional arrangements and/or developing capacity of economic agents to use existing institutional arrangements to promote participation of poor producers in economic activity.

Using cotton and oilseed value chains in northern Uganda as cases studies, the thesis investigates: (i) the nature and changes in institutional environment and institutional arrangements arising from the two-decade civil war in northern Uganda; (ii) the effects of these changes on performance of smallholder markets and (iii) the role of strategic coordination in addressing institutional gaps for developing smallholder markets. Data were collected through field observations, focus group discussion with farmers and semi-structured individual interviews with (local) government staff, input traders, financial institutions, relevant NGO staff and other value chain actors.

The findings of the study reveal that: (i) the devastating impacts of civil wars on institutional environments last beyond the end of the war; (ii) due the weak institutional environment, the different forms of strategic coordination have not succeeded in designing and enforcing clear institutional arrangements for cotton and oilseed smallholder markets; (iii) contrary to theories of institutional change, which argue that informal institutions take centuries or millennia to change, the northern Uganda case shows that protracted civil-wars disrupt the normal processes of building trust and reproducing and transferring social norms, beliefs and conventions in a few decades; and (iv) multi-stakeholder platforms and collective action by smallholder in the oilseed subsector are filling the gaps of weak institutional environment and uncertain institutional arrangements.

The policy implication of the findings are that, where institutional environment is weak to support institutional arrangements, interventions have to go beyond facilitating the creation and enforcement of institutional arrangements to strengthening institutional environments.

Key words: systemic market failures, transactions, strategic coordination

Samenvatting

Dit proefschrift gaat over veranderingen in de institutionele omgeving en regelingen die ontstaan als erfenis van burgeroorlogen en beschrijft onderzoek naar de reikwijdte en beperkingen van interventies gericht op de ontwikkeling van waardeketens bij het ontwerpen en opleggen van institutionele regelingen voor economisch handelen. Het onderzoek is gericht op institutionele factoren die leiden tot onvolkomenheid van de markten in naoorlogse lokale economieën en op de vraag hoe interventies gericht op de ontwikkeling van waardeketens dergelijke onvolkomenheden (kunnen) aanpakken. Deze interventies hebben tot doel om partijen uit de private sector te laten investeren in sectoren waarin grote aantallen arme producenten participeren. Daartoe moeten nieuwe institutionele regelingen ontwikkeld worden en/of moeten marktpartijen in staat gesteld worden om bestaande institutionele regelingen te gebruiken om de deelname van arme producenten aan het economisch verkeer te stimuleren.

In dit proefschrift fungeren de waardeketens van katoen en oliezaden in Noord-Oeganda als casestudy en wordt het volgende onderzocht: (i) de aard van en veranderingen in de institutionele omgeving en institutionele regelingen die het gevolg zijn van de twintigjarige burgeroorlog in Noord-Oeganda; (ii) de effecten van deze veranderingen op het functioneren van markten voor kleinschalige landbouw en (iii) de rol van strategische coördinatie bij het opvullen van institutionele leemten met het oog op de ontwikkeling van markten voor kleinschalige landbouw. De data zijn verzameld door middel van observatie in het veld, focusgroepdiscussies met boeren en semigestructureerde individuele interviews met (lokaal) overheidspersoneel, handelaren, financiële instellingen, relevante medewerkers van ngo's en andere actoren in de waardeketen.

De resultaten van het onderzoek laten het volgende zien: (i) de vernietigende invloed van burgeroorlogen op de institutionele omgeving duurt voort

tot na het einde van de oorlog; (ii) vanwege de zwakke institutionele omgeving zijn de verschillende vormen van strategische coördinatie niet afdoende om duidelijke institutionele regelingen voor kleinschalige katoen- en oliezadenmarkten te ontwerpen en te gebruiken; (iii) in tegenstelling tot theorieën over institutionele verandering die stellen dat informele instituties er eeuwen of zelfs millennia over doen om te veranderen, blijkt uit het geval van Noord-Oeganda dat aanhoudende burgeroorlogen binnen enkele tientallen jaren de normale processen om vertrouwen te kweken en sociale normen, overtuigingen en gebruiken te reproduceren en door te geven verstoren; en (iv) platforms van verschillende belanghebbenden en collectieve actie door kleine boeren in de oliezadensubsector vullen de leemten op die zijn ontstaan door een zwakke institutionele omgeving en onzekere institutionele regelingen.

De resultaten hebben een duidelijke beleidsimplicatie. Als de institutionele omgeving te zwak is om institutionele regelingen te ondersteunen, moeten interventies niet alleen het ontwerpen en gebruiken van institutionele regelingen faciliteren, maar ook de institutionele omgeving versterken.

Trefwoorden: systemisch marktfalen, transacties, strategische coördinatie

Preface

The journey that finally brought me to the Netherlands to undertake a PhD in development studies started unconsciously about a decade ago when I attended a workshop organized by United Nations High Commissioner for Refugees to integrate refugee programmes in the local development process. Then, as a District Economist of Arua in Uganda, I was among those assigned to support the refugee integration programme. A topic on Local Economic Development (LED) by an International Labour Organization staff appealed to me as an applicable poverty and unemployment reduction strategy for my rural district.

My curiosity for more knowledge on LED and a web-search on how I could equip myself with more skill to promote it in my district brought me to ISS where I pursued MA in development studies and focussed my re-search on LED. Having returned to my district to apply my newly acquired knowledge on LED, I soon encountered a dilemma; realized that the strategy could not work as conceived due to the legacies of various civil wars in the region that had ended over ten years ago.

This inspired me to return to ISS to pursue this PhD focussing on post-war local economic reconstruction as contained in this thesis. Coming from government and practice to academics, the four years spent on this academic study have been intellectually and socially challenging, nevertheless rewarding because my development knowledge-base has tremendously widened.

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1 Setting the Stage

> A relief programme without a vigorous programme of economic rehabilitation, starting at the same instant and pushed with the same emergency would be like trying to bailout a leaking boat without plugging the leak (Staley 1943)

This thesis analyses the processes of smallholder value chain development in a post-war environment as a strategy for market development, employment creation and poverty reduction. It examines the persistent failures in smallholder markets due to legacies of civil war and the scope of value chain development interventions to address the failures. Here markets are viewed as embedded in a complex web of social structure and relations of economic agents (Mavedzenge et al. 2008). Theoretically, the thesis is underpinned by institutional theory while empirically taking the perspectives of smallholder producers. They are, thus, the object of the study.

This introductory chapter situates markets and market imperfections in the centre stage of weak economies and persistent poverty that characterize the post-war localities. It highlights the importance of value chain development interventions in rebuilding basic institutions and institutions of embeddedness to stimulate market and private sector activities in war-affected setting[1]. This is followed by justification of the study, the geographical and socio-economic setting of the research context, objectives and scope of the study. The research questions and methods are then elaborated. The last section outlines the structure of the thesis.

1.1 Raising the Issues

In early phases of post-war recovery, returnees face multiple difficulties in accessing product markets and complementary markets for inputs, credit and extension services. In wartime economy normal operations of the (local) economy are curtailed and, in extreme cases, economic activities are wiped out (Coyne 2005a). Due to security threat, destruction of economic, social, environmental and political infrastructure and institutions, economic activities are reduced and capacity of actors to maintain infrastructures and enforce institutions is weakened. In a context of prolonged civil war, the structures of the market economy are completely destroyed (Cowen and Coyne 2005).

Sub-Saharan Africa constitutes over a third of the communities that are grappling with post-war economic reconstruction. Traditional reconstruction approach with distinct phases of resettlement; recovery and development have largely not yielded any positive and sustainable impact in terms of employment creation and poverty reduction (United Nations 2009). Despite struggles by affected communities and support from donor agencies to rebuild their local economies, unemployment rates and high rural poverty levels continue to characterize most post-war regions in sub-Saharan Africa (World Bank 2009b). Apart from South Africa and Mozambique which have made some positive steps to economic recovery, the rest of Sub-Saharan Africa has no glaring success, not even at the horizon (Andreano 1966, Collier 1999, Gasser et al. 2004).

Since 2008, a new approach to post-war reconstruction that emphasises simultaneous investments in relief, local economic recovery and long-term employment creation and decent work has been promoted by aid agencies to accelerate transition from relief to long-term development (United Nations 2009). The comprehensive and complementary strategies in the new approach aim to integrate recovery and development activities in programming and operations of relief activities. Local economic recovery and creation of long-term employment and decent work focus more on private sector development. Whereas traditional reconstruction approach did not recognise the role of private sector and prioritise their development, the new approach emphasises the important role private sector plays in economic reconstruction and development. For example, the Donor Committee on Enterprise Development (2011) observes that private sector contributes 65-75% of gross national product in developing countries and that 90% of the people in developing countries earn their income from private sector (IFAD 2011). Here private sector activities encompass all production and marketing without direct involvement of the public sector.

However, institutional environment that enhances the performance of private sector are destroyed during prolonged civil war and it takes time to restore them in post-war period. In such situation, the development and use of institutional mechanisms that facilitate coordinated exchanges along a value chain and facilitate the inclusion of poor producers in the chains becomes a remedy to address systemic challenges they face.

The study is draws its impetus from Dorward's et al. (2003) argument that increasing access of small producers to markets is central not only for poverty reduction but also diversification of their livelihoods. Markets and market relations are important to identify and act on livelihood opportunities and constraints arising from economic processes and institutional challenges that prevent pro-poor market development (ibid). In many historical and on-going poverty reduction processes, the role of private sector growth augmented by actions of the state and civil society through market development support has been recognized as vital for economic transformation (ibid). The poor themselves can and often do identify problems they face with either the absence of markets or effects of markets and marketing on their livelihoods (Dorward and Kydd 2005).

As agriculture continues to play central role in employing the poor in most Sub-Saharan Africa (IFAD 2011), most external interventions target integration of small producers in agro-value chains (Emerging Markets Group 2008, Parker 2008, Grygie 2007, Marlelova et al. 2008, Spilsbury and Byrne 2007, Kula et al. 2006). The rationale to focus on smallholders is that, targeting growth in a sector like agriculture where the majority of the poor participate will create capacity to generate (self) employment for a large number of them. Agricultural value chain development offers opportunities for small producers to access market information, input and output markets, increasing access to production enhancing institutions and credit facilities (Kula et al. 2006).

However, dependence on agriculture faces current challenges of demand-supply chain systems such as limited capacity to adhere to private standards, weak local institutions, high systemic risks and inadequate access to complementary markets which increases transaction costs and drives the economy into systemic failures (Dorward and Kydd 2005). This precarious investment climate characterises war affected areas more than politically stable economies. In some cases low rate of economic recovery in the post-war era has led to re-ignition of the conflict (Collier 2009).

Since mid-2000s, smallholder Value Chain Development (VCD) has become an attractive strategy for local private sector development in post-war environment (Gündüz and Klein 2008). Its promotion is being spearheaded by aid agencies such as United State Agency for International Development (USAID), Swedish International Development Cooperation Agency (SIDA) and Department for International Development (DFID) of United Kingdom (Meyer-Stamer and Wältring 2007). It is aimed at accelerating economic recovery and development (Parker 2008). VCD interventions go beyond the traditional neoliberal recovery agenda of focusing on improving business development environment and allowing private sector and markets to evolve spontaneously as a response. Pro-poor value chain development is a deliberate intervention in marketing systems development to assess and resolve systemic impediments to market access for poor producers.

Smallholder VCD interventions aim to address poverty through four pathways (Kula et al. 2006, Meyer-Stamer and Wältring 2007): (i) increasing earnings from farm products, which directly increases the incomes of the poor majority of who reside in rural areas; (ii) increased use of household labour, as agriculture is argued to employed more labour per unit output than manufacturing; (iii) increasing the size of non-farm rural sector economy through consumptions and production linkages that can reduce food prices, thus making it affordable for the poor people who may not be in position to produce their own food; (iv) Removing obstacles to productivity growth and increasing access to markets through establishment of backward and forward linkages. It has been observed that a 10% increase in farm productivity results to a 7% decrease in poverty (Wiggins et al. 2010).

However, evidence from practice (Spilsbury and Byrne 2007) show mixed performance of VCD interventions in conflict-affected environments in terms of incomes, long-term employment creation, private sector development and externalities on non-farm sectors. Examples of relatively successful cases include:

- In Rwanda, the tourism value chain development after the genocide resulted to a general increased receipts from zero to $33 million/year within a five-year period while coffee value chain interventions resulted in increased annual coffee exports from zero to 940 tons in five years.
- In Kosovo dairy value chains, dairy sales increased by €36 million within 5 years with 624 jobs created.

- Shea butter value chain in South Sudan succeeded in identifying and integrating women who were cut off in remote parts of the country during the war in the cosmetics value chain.
- Cotton producers in IDPs in camps in northern Uganda were connected to a private buyer which encouraged some to continue producing cotton on hired land around the camps during the war.
- Groundnuts value chains development in Guinea was also reported as partly successful.

What is common about these examples is that, all the value chain development interventions targeted pre-war activities for which there were already local skills sets, knowledge, market systems and productive assets. They focused on end-markets, rebuilding of trust, support service that integrate them in the value chain (Parker 2008). However, the studies in Rwanda, Kosovo, South Sudan and Uganda also cast doubt on whether the positive results that were being generated would be sustained beyond the end of the programmes. This doubt is in line with the argument that a number of pre-requisite conditions for successful value chain development are often absent in war-affected environment. The complexities of the post-war context and value chain development processes impact on the effectiveness of value chain development intervention to develop markets and integrating small producers into the value chain (ibid).

Conversely, VCD intervention in other areas failed to achieve the expected outcomes. This was attributed to either high risk of insecurity or too short project lives that characterise external relief and development agency interventions (Kula et al. 2006). Some of the unsuccessful VCD interventions reported by Parker (2008) include the following. (a) Grape value chains in Afghanistan which collapsed after one year of end of project before renewal. This was reported to be due to lack of individual incentive to maintain momentum of the projects. (b)Poultry value chain in Afghanistan targeting women entrepreneurs could not continue due to loss of key institutions for accessing of inputs before the women could upgrade to provide their own inputs. (c) Whereas in Guinea groundnuts value chain had to halt due to renewed conflict (Parker 2008).

A common weakness of value chain development is failure of small producers to meet entry requirements due to incapacitation related to transaction logistics, unfamiliar supply procedures, complex trade relations, poor transport systems and lack of adequate market (price) information. This compounded by stringent market condition that include product differentiation, quality, and time of delivery (Parhizkar et al. 2009). This demands changes in technologies and production practices which can prove too costly for the small producers to undertake. In the end, only capable and comparatively richer segments of the population benefit from value chain development interventions.

However, conscious, deliberate and purposeful cooperation realized through value chain strategic coordination can empower smallholders to meet chain entry requirements. This may include coining collaborations between various individuals, firms and organizations; facilitating strategies that encourage smallholders to participate in economic activities, and if necessary, to provide markets for poor producers, especially in early phases of post-war recovery, where intermediaries and lead firm are relatively rare due to insecurity and precarious market conditions.

This thesis analyses the complex interactions between the value chain actors in deplorable post-war institutional environments and the support government, NGOs and business associations (can) offer for chain development to succeed in realising sustainable local economic recovery. The cardinal aim is to identify and analyse conditions for success or failure.

1.2 Justification of the Study

Whereas VCD interventions are gaining prominence in post-war development agenda as a strategy for accelerating process of transition from early recovery to long-term development, value chain research in conflict and post-war environments have so far attracted little academic interest. Available literature has been generated by and/or with support of donor agencies (Grygie 2007, Maconachie and Binns 2007, Spilsbury and Byrne 2007) and is more geared towards value chain development project evaluation and accountability. Studies of value chain promotions as a poverty reduction strategy have mainly been undertaken in poor but politically stable economies (Tilman et al. 2006, Meyer-Stamer and Wältring 2007, Devaux et al. 2009, Buxton and Vorley 2011).

Value chain promotions in fragile environments is a recent practice in post-war economic reconstruction agenda, and therefore, has had limited academic scrutiny. Consequently, there is scanty literature on the conditions under which VCD interventions can or have succeeded or failed to succeed in addressing market imperfections for small producers in post-war institutional environments. There is also doubt cast on the capacity of Africa's private sector to comply with the complex institutional arrangements of the value chain (Rettberg 2010).

In this vein, this study examines the processes and actors in VCD and the associated processes of institutional changes from the perspectives of smallholder producers. It looks at (i) composition of chain actors, the primary support activities, support agencies and characteristic of the products; (ii) performance of the different institutional arrangements within given institutional environments, coordinating capacities and mechanisms; (iii) impacts of these processes on access to and performance of smallholder markets.

Cotton and oilseeds value chain development interventions in northern Uganda are used as case studies for the research. Since 2006, northern Uganda has been grappling with rebuilding its economy after two decades of civil war. Cotton value chain promotion undertaken in northern Uganda during the civil war was reported by Spilsbury and Byrne (2007) in a study commissioned by USAID, to be one of the successful cases of value chain interventions in fragile environments. In this regard, revisiting the cotton value chain development in addition to oilseed value chain in Northern Uganda provides interesting case studies for this thesis, because cotton and sunflower-grains are both major cash crops in the region involvement a large number of smallholders in their production and marketing systems as a path for employment creation and poverty reduction.

1.3 The Context: Northern Uganda

Northern Uganda is one of the four regions of Uganda bordering South Sudan in the north, Democratic republic of Congo in north-west and Kenya in north east. Northern Uganda comprises four sub-regions of West Nile, Acholi, Lango and Karamoja. It has a total of 30 districts with over 10 different tribes and languages making it one of the most heterogeneous regions in Uganda. According to the National Population and Housing Census of 2014, northern Uganda is home to 7 million people, 20% of the national population, who occupy 35% of the total land surface (Uganda Bureau of Statistics 2010a). Gulu town, as the regional capital, is the economic hub of northern Uganda. However, during the war most of the economic activities shifted to the neighbouring Lango town of Lira which, as a result, grew more rapidly during the war, as it was relatively peaceful and home to huge number of internally displaced persons.

The civil war in northern Uganda was fought between the Lord's Resistance Army (LRA) rebels and the government of Uganda. It was one of the longest wars sub-Saharan Africa has experienced in the post-independence era, lasting for two decade (Doom and Vlassenroot 1999). The insurgents have only been driven out of Uganda into the great Central African Republic (CAR), and thus in principle, the war is far from over. The LRA rebels caused atrocities such as mutilating civilians, abducting children and rapping women and girls.

A war which started and for long concentrated in the Acholi-land was considered an Acholi war; it only became a national concern after it extended over to Lango and Teso sub-regions, devastating livelihoods of over 6 million people across the greater northern Uganda. What is perplexing is that violent conflicts in Africa, DRC, Nigeria, Angola and Sierra Leone have primarily erupted over control and sharing of natural resources. But northern region has few known natural resources to fight over. So, what really have been the causes of the LRA rebellion? Doom and Vlassenroot (1999) observe that, long-term unresolved political and economic issues explain the causes of the war in northern Uganda, as no other options are available.

A Brief Genesis of the LRA Insurgency

In interviews with local population and from previous researches (Doom and Vlassenroot 1999, Amone-P'olak et al. 2014, Dolan 2011) the LRA war is linked to the historical development gap between the north and south, exacerbated by militarization of politics in Uganda. The roots of the development gaps are traced back to the colonial periods when northern region was viewed and used as source of labour in cash crop plantations established in the south and mid-east, the production zone for cotton, coffee, rubber plantations and cocoa (Doom and Vlassenroot 1999, Dolan 2011). Because of their decentralized governance systems and liberal social structure, the colonial government found it easy to rule over the Acholi and to recruit them into the army to quell resistance to colonial rule in the south. The southerners were found formidably organized and able to negotiate to be employed in the civil service and decent jobs. This conditioned the Acholi into military culture (Doom and Vlassenroot 1999).

Milton Obote (a *Langi* from northern Uganda) became the first president of Uganda after independence. He, therefore, inherited a national army full of Acholi whose vocation and identity had become the military service. The Obote government was overthrown in 1971 in a coup led by his military chief, General Idi Amin and a number of high ranking Acholi army officers fled to the neighbouring Tanzania. Amin purged the Acholi and Langi from the Army and was accused of eliminating his real or perceived enemies. In 1979, Amin was removed by a combined force of Ugandan exiles under Uganda National Liberation Front and Tanzanian forces. This was followed by Obote returning to the presidency for a second time, famously knows as Obote II in 1980 through a disputed general election. The return of Obote returned the control of the military back to the Acholi who constituted the bulk of the Ugandan exiles.

The second overthrow of Obote II government in 1985 by his own army gave rise to General Okello Lutwa as president and Lt. General Bazilio Okello as army chief; both Acholi in the two principle positions for the first time. The overthrow of Obote II took place at a time when the National Resistance Army/Movement (NRA/M) rebel group led by the current President Yoweri Kaguta Museveni was fighting to overthrow the same Obote II government. The Lutwa government initiated protracted peace talks with Museveni to form a joint government. A peace agreement which was signed on 17th December 1985 was immediately breached by Museveni who eventually fought his way to the Presidency on 26th January 1986 until today.

After Museveni's take-over, the Acholi militia retreated to the north. Museveni's army was dominated by southerners and for the first time the Acholi had lost their dominance in the national army (Doom and Vlassenroot 1999). Fearing reprisals from the NRA, the defeated Acholi militants fled to the current South Sudan (Dolan 2011).

Humiliated by loss of their historical position in the military and loss of the only known source of their livelihoods; the militants immediately regrouped and formed Uganda People's Democratic Army (UPDA). In 1986, UPDA which now had included factions of former Idi Amin militia and other dissidents launched an armed attack on NRA positions in northern Uganda with the view of recapturing power from the NRA. The UPDA was defeated in their first attack on 22nd August 1986 when the NRA responded by sporadic killings in which many civilians died (Doom and Vlassenroot 1999). The brutality with which the government crashed the UPDA helped to galvanize resistance against Museveni government in Northern Uganda. This gave rise to Alice Lakwena, the infamous woman who claimed she had spiritual powers that would protect the rebels against the government army. She regrouped the defeated UPDA; those mainly from Acholi under her newly formed Holy Spirit Movement (HSM), and started to attack NRA positions. However, the movement was defeated in 1987 and Lakwena fled to Kenya where she died in 2007.

The Rise of Joseph Kony and LRA

The LRA under Kony started in the late 1987. Kony was a school drop-out and served as an altar boy. He had joined the UPDA black battalion in 1986. No one seems to know exactly why and how Kony decided unilaterally to declare war without involvement of the traditional elders who culturally are mandated to bless a war before the Acholi participate. An elderly farmer recalls that Kony tried to lobby local communities to support him in fighting government but no one was willing to engage in another war in the region. War fatigue had cropped in after the UPDA and HSM wars and the region was just beginning to settle down. "We had lost a lot already" (Elder, Interview, 2012). Although Kony had some sympathizers in the communities, he neither received organized support nor resistance from the local community. Initially both the government and the local community did not take LRA very seriously but Kony considered himself above reproach. He had absolute power; reported and got authority from no one except himself and kept on abducting children to increase his army which was gaining ground.

Things became worse in 1991 when government launched an offensive against LRA, code named, 'Operation North'. This operation was considered one of the most brutal offensives by government with several civilian deaths and tortures of the people. The Acholi were torn in between the rebel abductions and the government torture. The LRA became much more brutal in their abductions of children. The children were made to identify and witness the butchering of their parents in a bid to instil fear and revenge in the children and yet government was seen doing little to prevent these attacks.

This prompted the elders and religious leaders to initiate contacts with Kony for peaceful resolution of the conflict but government kept on with military offensive until 1994 when it relented to the peace initiative (Doom and Vlassenroot 1999). Betty Bigombe, then minister in charge of northern Uganda, herself an Acholi made physical contacts with Kony in the bush in 1994. That year a ceasefire agreement was reached. It is reported that when a peace agreement was about to be reached, Kony requested for more time before he could start peace negotiations, which government rejected. Instead government gave ultimatum for the rebels to disarm within a week or face attacks. This was considered by Kony as betrayal. This is the point when Kony started widespread massacres, abductions of boys and girls and civilian mutilations.

The abducted children were commanded to torture and kill own relatives and fellow children who were weak to walk or expected to harbour feeling of running away from captivity. The continued brutal attacks by Kony and governments reprisals undermined the legitimacy of government in northern Uganda. The year 1994 was also when Uganda government provided military support to the Rwandan Patriotic Front in Rwanda and to Kabila in Democratic Republic of Congo and at the same time complained of lack of resources to fight LRA. Government was seen as deliberately ignoring the suffering of the people (Doom and Vlassenroot 1999).

By the year 1999, it became apparent that Kony was not relenting on butchering his own people although religious leaders and elders still thought peace should be given a chance not least because the government was now facing gun fire from the very children it was meant to rescue from captivity. To prevent further abduction by LRA and repeat of previous sporadic attacks by government, civilians were forced to vacate their homes to go to designated camps within the region where their protection would be guaranteed. Despite the relocation, the LRA continued to attach the camps and the death toll became higher than when the civilians protected themselves in the neighbourhoods. What in 1999 was envisaged to be a temporary evacuation, the camps ended up becoming home for the Acholi population for over a decade. Meanwhile pressure for peaceful end of hostilities continued particularly from religious leaders, cultural leaders and civil society organizations.

The government finally gave peace negotiation another chance in 2005. Like in previous attempts, Kony did not trust the elders because he suspected that they were being funded by government and, therefore, not neutral[2]. The peace process ended prematurely in 2006 with the signing of secession of hostilities as Kony decided to relocate to Central African Republic where he continues to abduct children and massacre civilians there. Since 2006, the population has been returning and resettling in their original villages with the support of a host of international, national and local organizations (Gulu District Plan 2010, Olaa 2001). On return, daily patterns of people's lives have been "disrupted, economic foundations of the communities have been shattered, and some of the social and cultural relationships that sustained the communities [and would be safety nets] have been undermined" (Olaa 2001: 112-113). The effect of the war is evident in a number of ways as further explained below.

Broad Impacts of the LRA Insurgency on Northern Uganda

The war displaced over 85% of the greater northern Uganda population into the infamous Internally Displaced People's (IDP) camps within the region. Agricultural production came to a near halt and the population depended entirely on external agencies for food, health, water and sanitation. The Acholi lost all the cattle which were vital disposable assets for the poor. This left the region desperately requesting the government for restocking program after the war (OPM 2007). In the Acholi practice, bulls were also a source of farm traction for tilling the land. The productive ability of the farmers was grossly reduced due to the cattle losses.

The war destroyed the culture and social fabric of the Acholi society (Otunnu 2002). It left a large number of orphans and widows. It created a feeling of marginalization and rejection by government (Dolan 2011). The Acholi people were made to believe that government was punishing them for the war in Luwero. Other impacts include; uneven development, weak and understaffed public institutions such as local government, judiciary, police leading to lawlessness and people committing crimes with impunity.

Opportunities for trade within and outside the region were also lost due to insecurity. The economic cost of the LRA war has been estimate at \$1.6 billion in 16 years (MoFPED 2012). These factors have made the regions the poorest with the lowest decline in poverty rates over the years. The Table 1.1 below shows that between 1992 and 2009, poverty levels have reduce only by 27 % point in the war affected region compared with 31% point change in Western region which was less or not affected by war. It also reveals a spectacular improvement in poverty levels of 14% point experienced in just the last 3 years after the war between 2006 and

2009 and yet in the same period, there were no significant changes in national poverty levels.

Table 1.1
Absolute Poverty Trends in Uganda by Region

Regions	1992	1999	2002	2006	2009	% point change
Central	45.6	19.8	22.3	16.4	10.7	-34.9
Eastern	58.8	34.9	46.9	35.9	24.3	-34.5
Northern	73.5	63.7	63.0	60.0	46.2	-27.3
Western	52.7	26.2	32.9	20.5	21.8	-30.9
National	**57.7**	**36.2**	**41.3**	**33.2**	**25.8**	**-31.9**

Source: MoFPED (2012)

According to the recent census of agriculture by Uganda Bureau of Statistics (Uganda Bureau of Statistics 2010a), only 44.2% of the land in northern Uganda has individual property rights demarcated or issued compared to the national average of 70%. This makes access and control of land in northern Uganda restrictive for many of the economically and politically powerless. It also reveals that 26.3% of the population in northern Uganda has never been to school compared to only 16.9% national average. This puts literacy rate in northern Uganda at 59.4% for males and 40.6% for females. In terms of economic activities, 84% of the households are employed in crop production with 86% of women compared to 79% of men engaged in farming. This demonstrates the need for agricultural policy to target women needs of productions.

The post-war period has attracted a large number of external relief, humanitarian and development organization many of who have since closed office while other, like World Food Programme (WFP), continue to support local communities to grow and supply food to WPF. Northern Uganda Social Action Fund (NUSAF), is a special World Bank programme for northern Uganda reconstruction whose phase one commenced in 2005, a year before the end of the war, and closed in 2009. The final programme evaluation report of the phase did not show impressive performance of NUSAF. Nevertheless, a second phase of NUSAF was implemented to supplement the Uganda government Marshall Plan for reconstruction known as 'Peace, Recovery and Development Plan' (PRDP) for Northern Uganda (Cardno 2010). The PRDP is meant to be an overarching comprehensive framework for all (government and civil society) investments in Northern Uganda. The major objective of the plan is to consolidate all funding in strategic recovery areas in a coordinated manner.

1.4 Objectives and General Propositions of the study

The study examines the scope and limitations of value chain development interventions in resolving market failure to accelerate post-war recovery. It provides explanation for the underlying factors that hinder or foster successful VCD in war-affected environment. Specifically, the research aims to:

(a) Analyse the impacts of civil-wars on institutional environment for value chain development in post-war environment.

(b) Expound the nature and sources of market and coordination failures in post-war environment and its impacts on post-war economic development.

(c) Elucidate the nature of different forms of strategic coordination mechanisms and their abilities to sustainably resolve systemic market failures in smallholder markets.

(d) Explore collaboration between aid assistance and local initiatives geared towards joint action to compensate for weaknesses in institutional environment and arrangements.

Depending on different context, VCD can foster increased smallholder access to input, credit and output markets and, thereby, reduce poverty in war affected areas. But experiences prove that successes stop with the end of interventions (Grygie 2007, Spilsbury and Byrne 2007). This thesis, therefore, provides insights into factors that underlie investment decisions of smallholders and their inter-firm relations in fragile post-war environment and how value chain development interventions influence these decisions. It elucidates the extent to which external agencies engage with local institutions, local knowledge and local resources to foster sustainability of development impacts value chain investments beyond development aid interventions.

Whereas each empirical chapters of the thesis has specific propositions that it sets to investigate, the following are broad propositions that support the research. (i) Economic transactions and institutional arrangement are embedded in institutional environments that comprise of formal legal systems and informal social relations, norms, shared beliefs and trust. (ii) Institutional environment, economic activities and institutional arrangements are negatively affected by violence conflict, leading to high risks of investment and coordination failures, high transaction failures and costs. (iii) Value chain development interventions entail strategic coordination activities and address institutional weaknesses that drive markets to systemic failure.

However, the thesis also contends that, working at the level of appropriate institutional arrangements, that is, at the level of governance of the chains is not enough since the institutional environment in which these arrangements are embedded is severely damaged. Therefore, interventions are also needed to 'restore' or build appropriate institutional environment for governance of value chain in war affected areas.

1.4 Scope of the Study

Time Frame

This study focuses on institutional changes in the cotton and oilseed value chain as a result of the LRA war in northern Uganda. In this case, chronological analysis of the institutions and activities that support cotton and oilseed value chains in the periods before, during and after the LRA insurgency has been undertaken. Chronological analysis is a type of time series analysis frequently used in case studies involving events which span over a period of time (Yin 2009). It is an important way of identifying cause-effect relations in qualitative study. It is not limited to a few variables. Some events must occur before others, if X then Y or vice versa. The analytical goal is to compare the empirical analysis with arguments in the explanatory theory of institutional changes and value chains development.

In understanding the institutional and economic changes that took place in the smallholder cotton and oilseed markets during and after the war, it was paramount to start from ten years before the LRA insurgency. The LRA insurgency in northern Uganda is believed to have started in 1987 and ended in 2006. The 2006 is seen as the beginning of the post-war period because the communities and government believe that LRA rebellion will not return to the region. This positive expectation provides an impetus for local communities to value and embrace long-term recovery and development strategies such as value chain approach. So the study focuses on investigating and analysing the cotton and sunflower value chains in the period from 1975 to 1985, 1986 to 2006 and 2006 to 2013. Alongside the war was the liberalization of the cotton sector which changed the economic conditions for smallholder cotton producers.

Unit of Analysis

Value chain analysis entails analysing the relationship within primary activities of value chains and between primary activities and support activities that bring a product from design to final consumer. It looks at organization of the value chain and the relations of individual, firms and organization involved in value chain. However, due to limitation of time and resources, the scope of this study is limited to the interactions between smallholders and the processors, who are the buyers of cotton and sunflower grains and complementary markets for input and credits. The primary focus of the study is to analyse the scope and effects of VCD interventions on organization, coordination and inclusion of smallholders in value chains. These interventions build capacity and foster the integration of smallholders in agri-value chains, linking them to complementary markets for inputs and credit. The analysis takes the perspective of the smallholder producers who are the object of the study and they have been directly affected by the war. This includes the primary actors in the value chain development, regardless of whether they are directly targeted or not.

The analysis of the VCD interventions focuses on changes that have taken place in smallholder transactions with processor-buyers over time. It focuses on the market relation between smallholder and the processor-buyers, in this case the ginners and seed oil milling firms. This part of the analysis will also focus on power relations and distribution of benefits of value chain development along the value chain. Another aspect is smallholder access to input, technology, credit and extension markets. Lastly, it investigated smallholder interaction with support institutions and (dis)enabling environment. An important examination that runs through the analysis is the changes in the institutional environment and institutional arrangement as a result of civil war and its impact on smallholder development.

1.5 The Research Questions

The key research question is: How do value chain development interventions resolve market and coordination failures for smallholders in post-war local economies?

This question has been broken into five different streams of sub-questions relating to context, market performance and strategic coordination.

a. How has the LRA war affected the institutional environment and the relevant institutional arrangements in which economic reconstruction is taking place?
b. What are the forms and underlying causes of market failures experienced by smallholders in northern Uganda?
c. What specific reforms are taking place in the post-war institutional environment as pre-requisite for market development?
d. Under what conditions have chain actors and non-chain actors intervened to develop institutional arrangements that provide coordination in the selected value chains and with what effects?
e. What kind of market failures can be addressed by strategic coordination by chain actors and non-chain actors?

1.6 The Research Approach and Methods

1.6.1 The Approach

The research employed qualitative research method. According to Sandelowski, what makes a *qualitative research* work is the

> […] demonstrable effort to produce richly and relevantly detailed descriptions and particularized interpretations of people and the social, linguistic, material and other practices and events that shape and are shaped by them (Sandelowski 2004).

One of the characteristics of a qualitative research is its aim for disciplined subjectivity of interpretation and partiality of the researcher inherent in all social inquiry.

The researcher has tried to exercise his value judgments to think and act strategically, independently, flexibly and creatively while in the field to capture any emerging phenomena that were not envisaged in the design stages, which are relevant for and within the scope of the study. This has cautiously been done to take care of any cultural, philosophical, technical and ethical concerns that often emerge during data collection and analysis processes.

1.6.2 Case Study Method

The research employs case study approach and selected cotton and oilseed value chains in Northern Uganda as specific cases for an in-depth study. A case study has close association with experimentation as both are strategies of problem solving that can be useful for testing and/or generating theories. This study tests the use of value chain development interventions in fragile setting and in the process it has contributed substantially to more understanding of institutional changes and economic performance in fragile environments. Therefore, the study uses both a deductive and inductive approach of analysis.

A case study is defined as "empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundary between the phenomenon and context are not clearly evident and in which multiple sources of evidence are used" (Halinen and Tornroos 2005). "The researcher who embarks on case study research is usually interested in a specific phenomenon and wishes to understand it completely, not by controlling variables but rather by observing all of the variables and their interacting relationships" (Dooley 2002). In the case of business network study, a case study can be defined as:

> Intensive study of one or a small number of business networks, where multiple sources of evidence are used to develop a holistic description of the network and where the network refers to a set of contemporary (and possibly other organization) connected to each other for the purpose of doing business (Halinen and Tornroos 2005:1286).

The advantages of choosing case studies for examining value chains interventions are that (a) they have the potentials to capture the dynamics of the value chain in a single setting of post-conflict. A case study is most suitable for the study of contemporary phenomenon, its changes and the dynamics of its setting. The underpinnings are the multisided views case studies generate on a network in its real context. (b) Case studies offer in-depth and comprehensive insights into a phenomenon. They provide opportunity for the researcher to be close to the studied objects (in this case, chain and non-chain actors) which enables inductive and rich descriptions.

(c) A case study has ability to embrace multiple cases, both quantitative and qualitative data, and multiple research paradigms.

However, Halinen and Tornroos (2005) also identify challenges network researchers are confronted with when using case study as a strategy. (a) The design and identification of cases and the data collection exercises are complicated by the complexity of the network and institutional frameworks. (b) The legality of the network relations poses challenges of understanding compliances to agreements as the relations are very much dependent on trust and reciprocity but not legally binding rules. (c) Value chain networks are dynamic relations that are bound to change with corresponding changes in the institutional and business environment. Changes are inherent part of networks systems. (d) Networks are embedded in the social institutions and the spatial locations making each network unique and complex.

Nevertheless, a set of case studies provide insightful knowledge that can be used to proof or generate theory. Case study approach is being applied to questions grounded in existing theory that has minimally been conceptualized and operationalized (Dooley 2002). An important outcome of this application phase is to enable theorists to use the experience and learning from the real-world application of the theory to further inform, develop, and refine the theory (Lynham in Dooley 2002:349).

1.6.3 Data Collection Methods

Northern Uganda is comprised of four sub-regions and a total of 30 districts. However, since the LRA war concentrated mainly in Acholi and Lango sub-regions with spill-overs to eastern region. Gulu district in Acholi and Lira district in Lango were perfect representatives of the region because both are parent districts in the respective sub-regions.

The fieldwork focussed on the perspectives of the small producers and associated actors. It is a form of empirical inquiry that entails some form of purposive sampling for information rich cases in which in-depth interviews, focus group discussions, participants/field observations; and techniques for analysis and interpretation of data that move beyond data generated and their surface appearance (ibid). The fieldwork was divided into two phases.

Phase 1: In the first phase (January-May 2012) industry-wide secondary and primary data was collected. It was meant to cast the net wider in order to better understand the entire value chain and its complementary institutions to identify they key actors, activities and institutions that drive the performance of the chain. Interviews were held with a wide category of respondents selected through snowballing method as it was difficult to have prior knowledge of the individual, firms and organizations that were active in the two value chain. Snowballing proved to be robust method as actors with the required information and data were being spontaneously identified.

The information collected from the first phase was used to construct value chain maps presented in the annexes 1 and 2 for cotton and sunflower respectively. The maps provided insights into the structure of the value chains; various actors, institutions, possible linkages and complementary services. A market analysis was undertaken to identify imperfections in the cotton and sunflower grain market systems. The value chain maps were also used for selecting key informants for in-depth semi-structured interviews conducted in the second phase.

Phase 2: The second phase (September 2012-March 2013) concentrated on in-depth interviews with small producers, a return to 5 of the individuals interviewed in the first phase and 9 Focus Group Discussions (FGDs) with participating smallholders. The FGDs centred on smallholder experiences with cotton and oilseed production, before, during and after the civil war in relation to the opportunities and constraints for smallholder market development, organization and coordination with (potential) market players and the role external agents play(ed).

In both phases, a total of fifty one unstructured and semi-structured individual interviews were held with different categories of respondents. These included chairpersons of primary cooperative societies, secretary managers of cooperative unions, NGO project officers, local government staff, intermediary buyers, central government staff, loan officers in financial organizations, ginning firms, oil millers, wholesaler and retailers for edible oil, a corporate manager for a textile firm, cotton and oilseeds producers.

The third data collection technique which was very effective was field observations. A total of 10 cotton and oilseeds gardens were visited and the corresponding producers interviewed on their farms; visits were also made to 4 buying stores, 6 ginneries and 2 seed oil processing factories.

A set of pictures and audio recordings were done during some of the FGDs and later transcribed into texts. The setback with audio recording was that, it was not consistent since from time to time the recorder was out of use for lack of electricity for recharging. The field notes were the major tool for field reporting. Cotton Development Organization (CDO) a key government organization charged with coordination of the cotton sub-sector did not allow their field officers to be interviewed and yet the field officers were better placed to provide frontline information. However, the extension workers, who are the lowest cadres in the field, recruited by CDO and local government leaders were able to fill the gaps. The extension workers live in the communities they work for and are the primary source of CDO reports.

The data from semi-structured interviews, FGDs and secondary sources were sorted out according to the different levels of value chain development process, which include input supply, production, distribution and marketing of cotton and oilseeds. Within these broad levels was the collection of detailed information related to local capacity to drive the expected changes, quality control/enforcement, access to inputs, access to extension and technology development services, market information, availability and cost of transport, post-harvesting handling, negotiations and gains from value chains. These concerns relate directly to relevance of the value chain development interventions and provide answers the research questions and propositions.

1.6.4 Beyond Focus Group Discussions

It was difficult to have group meetings without providing refreshments. This seems to be a practice introduced during the camp phases where people were given free hand outs. Because of the expectation of getting '*something small*' as they called it, meetings are well attended. Even the people not invited will force themselves in to attend. This only helps to describe the dependency syndrome discussed later in the findings in this thesis. This was more evident in Dino farmer group in Odek sub-county where the FGD started with less than then pre-selected people but ended with 28 participants. Interestingly some of the so-called 'intruders' acted as auditors of the information provided by the targeted participant. This kind of attitude has been decried by the elders as detrimental to recovery as instead of spending the time in the farms, young men are busy looking for opportunities for workshops and meetings for which they are not necessarily relevant.

Another expectation of communities difficult to manage was the question of what follows after the data is collected even when the aim of the interview is thoroughly explained right from the beginning. A lot of issues discussed are similar to what development aid organizations discuss when conducting needs assessment for an upcoming community project that targets them.

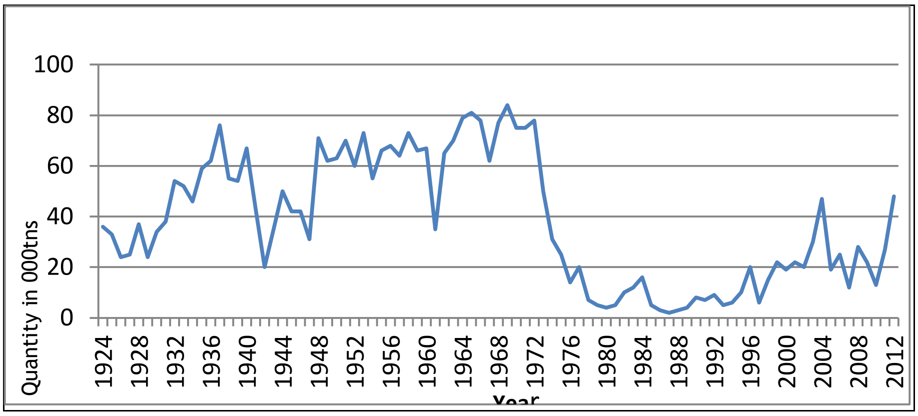
1.7 Introduction to the Cases

This section provides an overview of the cotton and oilseed value chain details of which are discussed in the relevant chapters. Whereas oilseeds seed value chain is a recent introduction in the Uganda's economy, is fast growing and remains strongly a domestic value chain, cotton is an old cash crop that has been on a shrinking but being revived by government and donor agencies. It is a global value chain and thus much influenced by changes in world markets. It has attracted both domestic and foreign direct investments. Each of the two cases has its unique characteristics it brings in the analysis.

1.7.1 The Cotton Value Chain Promotion

Cotton was introduced to Uganda by the colonial administration in 1903 to kit-start a cash economy and provide raw material for textile industries in England (Walusimbi 2002). It was first introduced in the central region of Uganda and later replaced perennial crops such as coffee and tea which were perennial crops. Cotton production then moved to northern and eastern Uganda where the soils are more suitable. Cotton was the major export of Uganda until the 1950s when it was overtaken by coffee. The financing, marketing and processing of cotton and later coffee became important sources of profit and employment which created an intermediate economic class.

Figure 1.1
Uganda Cotton Lint Export Trend 1924-2004 ('000'tons)



Data obtained from Baffes 2009 (1924-2008); CDO Annual reports (2009-2012)

The trend of cotton exports from 1924 to 2012 is as depicted in the figure 1.1 above. The graph shows that after two decades of introduction, cotton export rose beyond 30,000 tons when contemporary world production was 6,000,000 tons, by the half of 1930's, production had exceeded 60,000 tons. Having fallen in 1962 due to the independence agitations, production bounced back and reached an all high of 84,000 tons. This is the period when cotton contributed up to 40% of total agricultural exports. This figure dropped drastically from 1972 to 2,000 tons in 1988, the lowest ever recorded in the history of Uganda's cotton sector due to the political unrest and the eviction of the Ugandans of Asian origin who had dominated the cotton trade in Uganda (Cotton Development Organization 1995a, Baffes 2009, Walusimbi 2002). Ultimately, Africa's third largest producer of cotton in 1970 was hardly exporting cotton in 1988 (Baffes 2009). To this end, a number of policy initiatives were taken and the monopoly of the co-operatives in seed cotton marketing and ginning support was removed.

Cotton production in Uganda is primarily undertaken by smallholders with an average of 2 acres. In other parts of the country, due to population pressure, cotton competes with food crops for land. However, in majority of the northern Uganda, the small-scale production is entirely a result of poor technology to open large fields and challenges of labour for maintenance. The majority of the farmers are in their late 50 years of age, implying that, only those who benefited from the past cotton production were the ones who have embraced the enterprise. The younger generation is not keen to get involved in cotton farming. Currently each cotton farmer undertakes individual efforts to ensure good agronomic practices are adopted for quality production and increased productivity of both the land and labour.

The monopsony of lint market board to buy cotton lint and export was removed with the commencement of liberalization in 1994 and the private sector took over the ginning and export of the lint. The different reforms and the increasing cotton prices of the mid-1990s led to increased cotton production to 110,700 bales (20,480 tons) of lint in 1996. By 2000, total number of cotton producers was between 300,000 and 400,000. However, although some improvements in reviving of production and restoration of foreign exchange earnings have been registered, the gains have remained much below the expected potential of 1960s.

In terms of exports, Uganda exports large proportion of its cotton to East Asia and Europe. Uganda's total production of 100,000 bales in 2000/2001 accounted for only 0.001% of world production. Experts have estimated Uganda's potential total potential of at 1million bales of lint per annum and over 30% of it could come from northern Uganda if all the constraints to its development can be removed.

Cotton Production and Marketing in Northern Uganda

The two-decade long civil war displaced cotton producers away from their farmlands to camps where they depended on relief and humanitarian assistance. Besides, with the liberalization of the cotton market in 1994, no private sector was interested in taking over the ginneries in war ravaged sub-region due to insecurity and negligible production volumes. Therefore, the ginneries in Gulu and Kitgum lay non-functional until 2008. The cotton lint production statistics for northern Uganda between 2000 and 2006 where data was accessed is shown below in table 2 in comparison with Acholi sub-region and the total national production.

Despite the reforms in 1994 and the end of the war in 2006, Acholi sub-region in 2007/2008 season produced only 5.7% of the national production. The current potential for northern Uganda is estimated at 20,000 tons which is even lower than 22,000 tons produced in 1969/1970 cotton season. The seed-cotton market is characterized by small volumes and few transactions.

Majority of the sellers are small-scale producers with only one or two transactions per season, mainly from October to April. FGDs and in-depth interviews with producers reveals a number of production constraints ranging from poor access to key farm inputs; poor farming technology dependent on the hand-hoe; limited access to seasonal finance; inefficient extension services; low and volatile producer prices; land fragmentation (Cotton Development Organization 2002); and low cotton profitability in comparison to other crops like beans, sesame, cassava, rice and soybeans (Walusimbi 2002). Uganda has one of the lowest cotton productivity in the world (ICAC in Baffes, 2009). The low productivity is associated with (a) low utilization of fertilizers, pesticides and improved seeds due to high costs of inputs; (b) inadequate technical knowledge and skills on cotton production, post-harvest handling, marketing and business management.

1.7.2 The Oilseeds Value Chain

Before the breakdown of cotton industry in Uganda in the 1970s, Uganda was self-sufficient in edible oils, substantially from cottonseeds. Uganda was capable of exporting edible oil to Kenya and Tanzania. Laker-Ajok (1992) notes that, in the late 1980s, the production declined to negligible levels with Uganda becoming a net edible oil importer due to: - (a) Collapse of the cotton sector which supplied cottonseed as raw materials for crushing. (b) The 1972 expulsion of the Asians who controlled the largest proportion of the cottonseed crushing capacity. (c) Lack of operating capital for the new firms who acquired the milling factories abandoned by departing Asians. (d) Low prices. (e) Gross mismanagement of the edible oil sector by government

As alternative to cottonseed oil, a number of private firms, producer associations and religious organizations have been promoting sunflower oil production. Sunflower is said to have been introduced to Uganda by the Italian Missionaries in 1950s as ornamental. Later it was promoted by private sector as source of vegetable oil locally processes, with little attention from government (Laker-Ajok 1992); the crop has gained popularity as a non-traditional cash crop. The crop was originally grown as an ornamental plant and later for oil production using manual extraction technologies. The type that was popular was the white seeded variety acquired from Kenya. Its 30% oil content is very low compared to the hybrid variety has up to 50% oil content.

The advantage of sunflower production over other crops like maize or cotton is that it has relatively low labor demands. But farmers are reluctant to grow due to its low prices, restricted use and narrow market channels. In northern Uganda, sunflower competes with sesame, cotton and soybeans for the product market.

Currently, local vegetable oil production can only meet 60% of Uganda total demand. The total demand stands at 120,00tns while only 40,000tns were produced in 2009 with 10,000tns exported to neighbouring countries and over 70% of its consumption met from imports from mainly Malaysia, Indonesia, Kenya and Tanzania. The biggest contributors to Uganda edible oil sector are Mukwano Industries (Uganda) Ltd which in short form is simply as Mukwano and Bidco Uganda Ltd, simply referred to here as Bidco. Whereas Bidco produces palm oil, Mukwano specializes in seed-oil from cottonseeds, soybeans, sesame, groundnuts and sunflowers.

Of the oilseeds, sunflower has proved to be the best for commercial oil production due to its high oil content (30-50%) composed of less fat and high vitamin B. Experts in the ministry of agriculture, estimate that, sunflower production can fulfil the growing edible oil demand of Uganda. It is a source of cash income for the large number of smallholders involved in its production. Sunflower can satisfy 25% of Uganda's edible oil needs. It is mainly grown in northern and eastern Uganda, regions where cotton production was dominant due to their suitable ecological characteristics. Introduced by missionaries in the early 1950s and

Commercial production was promoted by Mukwano in early 2000 in their question for sunflower seeds as raw material for vegetable oil that they had started to produce in Uganda. Mukwano industries Ltd is a private company that established oil milling factory in 1990s in Lira industrial area. The entire factory has been upgrade recently to handle all Mukwano sunflower oil production in Uganda. Some of the machines that were operated in Kampala have been moved to Lira to effect this change. Mukwano started by growing its own sunflower seed but later moved to outgrowers scheme with farmers where it provided all the inputs on credit to be deducted from the sale and the required extension and bought all the produce from the farmers.

During the LRA, the production declined but did not stop because in Lango region some of the villages where the crop is grown were not attacked and the Mukwano did not close the Lira factory, albeit, at significantly reduced operational capacities. Since the end of the unrest in northern in 2006, sunflower production has more than doubled and more millers Guru Ananak and Mt. Meru who have established processing firms in Lira are fast penetrating the market eating into the share of Mukwano. This led to an increase in the number of producers from 5,000 in 2005 to 54,000 in 2009 (Beyssac et al. 2012).

1.8 Structure of the Thesis

The thesis is divided into seven chapters. The current chapter is the general introductions to the thesis. Chapter 2 presents the key concepts that are used throughout the thesis. The definitions and forms of markets and what market development entails are discussed. The other concept is value chain development as a strategy for market development. Interventions in VCD are geared towards development and operationalization of hybrid forms of economic transactions for successful VCD development. Institutional, organizational and technological changes are introduced. The details of these changes and their impacts on economic exchanges are discussed in the subsequent chapters.

Chapter 3 discusses the analytical framework and its elements. Key elements are the institutional environment especially the institutions of embeddedness of economic activities and their processes of change; institutional arrangement for economic interactions between different value chain actors; and strategic coordination as process of designing and enforcing institutional arrangement. The different interventions in strategic coordination of the value chain or its absence address the main research question.

Chapter 4 is devoted to understanding the post-war institutional environment in which smallholder operate. It identifies the relevant local institutions that are vital for the smallholder to access input, credit and output markets critical for successful market development. The second important issue the chapter address is the impacts of civil on local formal and informal institutions and what this means for market development and private sector development.

Chapter 5 analyses systemic market failures from institutional perspective of weak institutional environment and unclear institutional arrangement, as well as, weak enforcement capacities. In the light of the theoretical perspectives, systemic failures in cotton and oil-seeds market in northern Uganda are examined and discussed.

Chapter 6 continues a discussion from chapter three on ways in which external agencies attempt to facilitate restoration of local and informal institutions, socio-cultural norms of behaviour and trust to support the performance of strategic coordination. The chapter provides an analysis of the process of local institutional reforms in post-war environment by government and external agencies. It recognizes that it takes time to realize the results of local institutional reforms. Short project interventions are not enough to address deep-rooted changes in culture and social conventions and trust.

Chapter 7 is on strategic coordination which is the core of the study and brings in the discussions that examine value chain interventions. The gist of VCD interventions is to provide external coordination support to value chain which due to the weak institutional environment is not able to coordinate itself without external interventions. It analyses the different forms of economic ordering ranging from lead firm, NGO, state and civic ordering aimed at resolving market and coordination failures in smallholder markets

Chapter 8 presents experiences of local institutional development and its implication for smallholder market development through collective action. The chapter discusses cases of three producer organization in the oilseeds sub-sector. Two cases are deemed successful and one not successful is examined. The chapter centres on the conditions under which successful institutional development was achieved and the role, timing of entry and exit of external interventions are explored and lesson are drawn from the three practical cases.

Chapter 9 contains the summary of the key findings of the research. It also presents a discussion of how the findings support or differ from the theoretical arguments. The general contributions of the research are highlighted. Finally, some concluding remarks that point to the need for future research are made.

2 Conceptual Threads of the Research

The chapter provides the main conceptual strands for the study. It defines the key concepts and themes that run across the various chapters of the thesis. It highlights the relevance of these concepts to our understanding of post-war economic reconstruction and development. The focus is on the theoretical linkage between value chain interventions and market development, that is, resolving market imperfections, in a post-war situation. It argues that due to legacies of civil war, economic development approaches that may be easily applicable in politically and social stable but poor areas do not work in post-war environment. The preconditions for approaches such as making markets work better for the poor (Elliot et al. 2008, Springfield Centre 2008) and value chain development approaches (Neilson 2014, Henriksen et al. 2010) do not work because the preconditions for their success are non-existent. These pre-conditions include but are not limited to functional institutional arrangement, laws and government policies, community cohesion and adherence to cultural norms of good behavior. The key argument of the thesis is that, value chain interventions do not work as embeddedness of economic transactions has been disrupted/destroyed, requiring interventions beyond creating and enforcing institutional arrangements for economic organization and governance. Details of the concepts and their empirical application are in the chapters that follow.

2.1 A bird's eye view of Markets in Post-war Environments

Post-war environment is typically fragile (Collier 2009). Civil wars have detrimental impacts on the local economy through destruction of formal and informal institutions. Post-war areas are characterized by limited public services accessible to the poor and so the poor continue to depend on non-government organizations and private service providers for delivery of socio-economic services (Forero-Pineda et al. 2014). World Bank (2009) observes that, on-going security concerns and negative perceptions from outside the post-war territory, lowers incentives for potential investors to start, upgrade or expand businesses due to high risk of investment failures associate with fragile territories.

Markets in areas with weak network of social relations and cultural norms and convention do not work properly to the benefit of the poor because they mainly participate in the informal sectors of the economy where such institutions play important role in facilitating exchange. Markets do not benefit the poor because networks and cultural norms and conventions do not exist in the area. The ideal markets do not work in favour of the poor who have weak bargaining power. Kydd and Dorward (2004) note that, the 'ideal free-market' mechanism requires 'ideal' economic environment such as perfect information, perfect institutions like private property rights and well-functioning public sector service delivery, independent production process and actors and thick markets.

Violence plays important role in configuring of rural property rights and organization of production, which include centralization of land property in the hands of few powerful individual or organizations (Aron 2003). This is notable to countries like Colombia where war is an instrument to appropriate illegally land from IDPs (Forero-Pineda et al. 2014). One of the outcomes of reconfiguration of rural property rights is fragmentation of production as a result of asymmetric information and incentive problems.

There are various factors that contribute to market imperfections in post-war economies, details of which are dealt with in chapter 4. However, they are summarised as below:

(a) Civil war disrupts and destroys pre-existing markets local markets. The competitiveness of the industry and place is lost, while regaining previous dominance of the market may not be possible. Wars also lead to reduction in demand for products as purchasing power of the population reduces due to reduction in economic activities that renders the population in constant need of humanitarian assistance, while their priorities shift to subsistence. United Nations (2009) observes that, war-affected consumers tend to be more concerned about prices than quality, which reduces the imperative to grade or product differentiation to maintain standards and quality. This weakens systems to access high-value markets. Price negotiation is determined by appearance which requires physical inspection and thus high transaction costs and presenting opportunities for opportunistic behaviour.

(b) Post-war economies are characterized by weak or missing government institutions, which lead to lack of effective policy support in business development and enforcement of institutions. In most post-conflict environments, there is largely weakened capacity of public to create or enforce functional institutional arrangement, as skilled civil servants may flee the area and in extreme cases government offices completely cease to operate. Due to increased government budget spending on strengthening the military, social and economic service delivery is affected as budget priorities swift from services to military spending. Coyne observes that "a shared ideology and ethics of individual and private property rights and rule of law are fundamental" (Coyne 2005:326) for economic activities to operate. Property right and rule of law are undermined in war affected areas due to "lack of a functioning judicial system" (Mac Sweeney 2007:18). Ineffective enforcement and corruption kill investor confidence and thus limit private capital infusion that is essential for post-war reconstruction and development. The lack of or poor enforcement of laws and regulations raises the cost of transaction.

(c) Civil wars alter the structure of the economy. Formal private sector activities may be curtailed. Small scale trade, agriculture production and commerce may shift to informal sector. Where formal private and public rules of the game fail to operate, informal institutions and/or illegal economic activities may emerge. This is typical of wartime economies where smuggling business, looting and plunder of the natural resources characterize the economy (Mac Sweeney 2007).

(d) Destruction of social structure and community ties. Social capital is essential for the economy to function successfully (Cowen and Coyne 2005). Trust and cooperation between firms and within networks strengthens the capacity of firms to respond to market stimuli. Market linkages are critical sources of capital to enhance capacity of firms. These cultural norms, human rights and values bind people together and provide safety for the population. Conflicts lead to breakdown or erosion of social structure including informal market systems, community groups and traditional government structures. Weak fabrics of kinships and community relations undermines inter-group and within group cohesion. Mac Sweeney (2007) equally observes that conflicts lead to "fractured families and communities. Social networks can be disintegrated as result of the demise or flight of a key "change agents" (Coyne 2005b) of the network, which can impede the capacity of the household to produce (Aron 2003, Tobias and Boudreaux 2009). The social embedding of economic relations fragments and disappears.

(e) Loss of productive assets and infrastructure critical for investment. Civil wars have devastating effect on physical infrastructure such as roads, bridges, buildings, electricity, irrigation and telecommunications facilities (World Bank 2009, Mac Sweeney 2007, Frederico et al. 2007). Bad roads and unreliable electricity network increase the cost of transformation and transaction which increase the overall production cost (World Bank 2007, Frederico et al. 2007). Lack of farm inputs and supportive farm infrastructure including storage and transport (Frederico et al. 2007) and lack of electricity compounds the problem of small scale agro-processing which offers markets for micro-producers (World Bank 2009). Uncertainty in investment as a result of poor infrastructure translate to high search and transaction costs due to illegal payments and own provision of public facilities (World Bank 2009).

(f) Value chain coordination is expected to be weak in emerging industries, transitional economies and hostile business environments; all of which are exhibited in war-affected environments. These factors therefore, reconfigure the forms of economic organization and governance. However, the extent and mechanism through which violence, social and political insecurity have reshaped organizational forms of agricultural production and distribution have remained less studied. Ohiorhenuan and Stewart (2008) identify a number factor that characterise markets in disadvantaged economies like in war affected areas. But an important one is thin market. A thin market is where transaction volumes are small due to high per unit marketing costs and low supplier capabilities. It is characterised by high uncertainty of price (which is negotiated at each exchange); Sales are made to many small different buyers (implying moral-hazard problems and poor access to reliable market information, finance and other support from buyers); Poorly specified quality grades and standards and lack of means of quality control (implying moral-hazard problems and low rewards for quality); Lack of traceability, which is a precondition for certification to standards; and poor transmission of complex product information, which may constrain value addition and certification to standards (Ohiorhenuan and Stewart 2008).

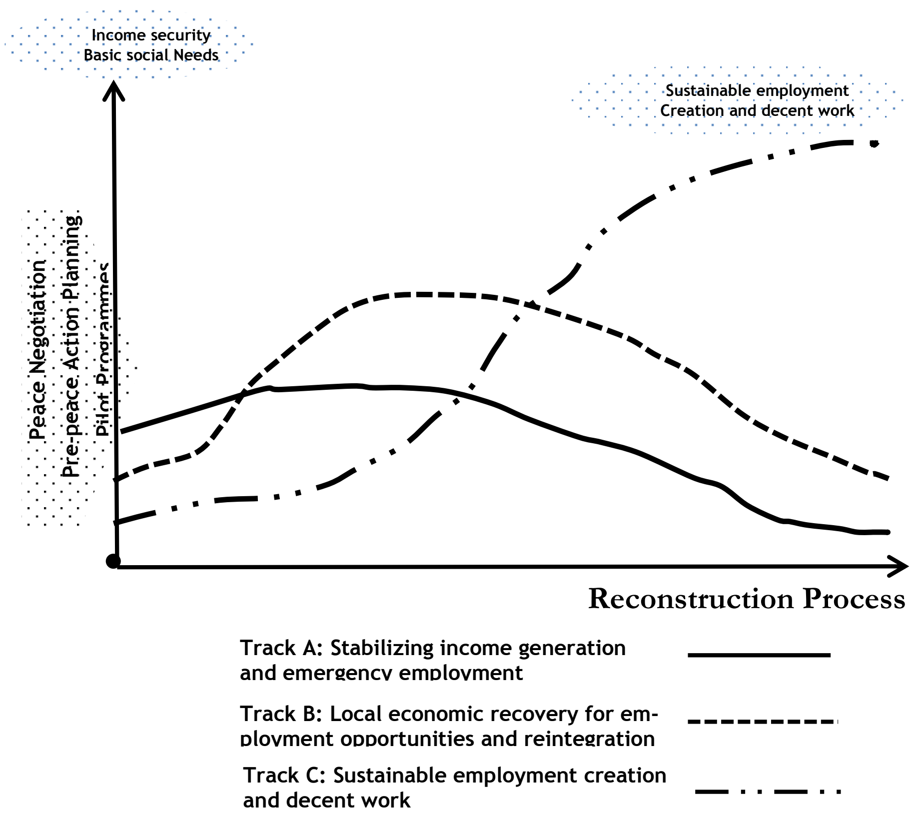
Complexities of the institutional environment include multiple levels of weakness of government agencies that are unable to ensure complicity in their approaches and mandates (Forero-Pineda et al. 2014). The political risks for the large incumbent companies to continue growing is high, therefore, constraining their re-establishment during post-war periods. Hybrid forms of organization may be functional and stable in the context of violence (ibid). Forero-Pineda et al. (2014) observe that, the greater the price uncertainty the larger the incentive to pool resources in a hybrid organization to gain bargaining power- trust becomes a proxy of social capital which is associated with community driven development. In situations of high uncertainty, there is greater propensity for forging collaborative institutional arrangements. In the sections that follow, details of the rationale, characteristics of the strategies and their relevance to post-war environments are discussed.

2.2 Understanding Post-war Reconstruction Process

Since the end of World War II, the quest for post-war economic reconstruction led to the establishment of Bank for Reconstruction and Development (World Bank) in 1947 to spearhead recovery and development in Europe, America and Japan (World Bank 2009). In addition, post-war recovery and development programming was based on a linear process comprising of 'distinct' phases of *resettlement* which is a phase immediately after signing of peace accord. It was devoted to disarmament, de-mobilization and resettlement of displaced persons and refugees. This was followed by the phase of *recovery with* distinct focus on livelihoods and reducing vulnerability arising from armed-conflict. The third phase was that of *development* with both short and long time perspective. One phase followed another with distinct strategies, programs and actors (Saperstein and Campbell 2007, World Bank 2009).

The state and humanitarian agencies such as United Nations were the major players with less involvement of the private sector and less attention to market development. But the end of the Cold War in the 1990s witnessed a shift towards a more neoliberal approach to post-war economic reconstruction and development (Flore & Nooruddin 2008). The World Bank and its cohorts began to mobilize and increase participation of international corporate bodies to invest in post-war/crisis recovery as corporate social responsibility or purely philanthropy mainly through foreign direct investment (Walden 2006, Elbadawi 2008). Although their contributions to development of local economic recovery and development have been recognized, rarely was need for local private sector prioritized to be addressed in post-war investments (Curtis 2010). However, these approaches have been lacking in impact and sustainability of program outcomes (United Nations 2009). The literature indicates that post-war development was been elusive or took too long to proceed beyond relief and rehabilitation phases (Saperstein and Campbell 2007, World Bank 2009, Parker 2008).

Figure 2.1
Three Concurrent Tracks
(Curves measure the intensity of programmes)



Source: United Nations (2009)

In 2008 United Nations (UN) reviewed its policy to address the lack of impact on employment and poverty reduction beyond project activities (United Nations 2009). The revised policy has defined three different but complementary tracks through which post-war reconstruction can be planned and financed. Tracks which start at the same time immediately after peace accord is signed and run in parallel to each as opposed to varying phases that follow another.

Unlike the previous phase by phase process of reconstruction, the new policy formulate modules based on three tracks, namely, *stabilizing income generation and emergency employment, local economic recovery* and *sustainable employment creation and decent work,* which overlap and feed into each other (United Nations 2009). The approaches have explicit market-based approaches and commercially viable solutions as alternative strategies. The aim is to strengthen firm and industry competitiveness, good impact and scale of interventions and avoid distorting private sector markets (Lusby and Panlibuton 2007). These tracks embody comprehensive and coherent strategies for post-war. Whereas the three tracks commence at the same time during pre-peace planning, their emphasis are different: stabilization, reintegration and long-term employment creation and intensity peak at different times (United Nations 2009). It also emphasises that pre-peace planning should address employment and other socio-economic challenges even before full peace accord is reached.

The key observation from these tracks is that, while Track A aims to resettle displaced population and stabilise security and rule of law, Track B focuses on restoration of institutions of embeddedness. These are geared towards setting the foundation for long-term employment creation in Track C.

Track A: Stabilizing Income Generation and Emergency Employment

This track aims at stabilising income-generation and emergency employment immediately after peace agreement is reached (Specht 2009). It works under the same principles with the early recovery phase identified by United Nations Development Programme (UNDP), where;

> Early recovery is a multi-dimensional process of recovery that begins in a humanitarian setting. It is guided by development principles that seek to build on humanitarian programmes and catalyse sustainable development opportunities. It aims to generate self-sustaining, nationally owned, resilient

> processes for post crisis recovery. It encompasses the restoration of basic services, livelihoods, shelter, governance, security and rule of law, environment and social dimensions, including the reintegration of displaced populations (United Nations Development Programme 2008:6)

The period covers major activities from repatriation to a time where food aid is withdrawn and returnees are able to provide their own food and basics services. It is also a period where there are broad needs to re-integrate and replenish household assets and mitigate vulnerabilities caused by war (United Nations 2009). The track aims to consolidate security and socio-political stability by creating opportunities for short-term employment for target groups such as ex-combatants, high risk youths and returnees (ibid). The programmes include emergency temporary jobs and livelihoods and self-employment. It is a period where the local community (civilians and ex-combatants) start a new life in their native villages.

There is realization that economic rehabilitation requires to be integrated in relief and livelihood activities linked to participatory approaches to involve the poor people to analyse and propose action, focus on sustainable livelihoods, decentralization, democracy and addressing diversity of needs (Bagwitz et al. 2008).

Transport, communication, food, nutrition, school fees, healthcare, jobs and security of life and property, among others are the major issues the local population deals with on daily basis in this phase. The initial activities in this period can be summed as humanitarian and relief services (Reigner et al. 2008). Thus, it can be described as a *Relief and Subsistence Economy*. Promotion of principles of self-help in the repair and reconstruction of housing, provision of local materials through strategies like cash for work have been introduced (ibid). Aid organizations often equip the communities with agricultural tools and implements, seeds, kits of kitchenware, temporary accommodation, cooking and eating utensils, in order to restart basics of life, in their indigenous village (United Nations 2009).

Other drivers of the survival economy in this period are petty trade, transport and the construction sectors. In this phase the livelihood recovery is purely economics of survival (Reigner et al 2008). "In many rural areas re-establishing agriculture can present one of the best opportunities for absorbing target groups, for strengthening household incomes and food security and for stimulating economic growth in post-conflict areas" (United Nations 2009:27). Employment that comes with construction and reconstruction of infrastructure provides a short term benefit for local communities. The local people can be employed in labour based infrastructure work of major roads, bridges, institutional buildings and water facilities.

Meeting the livelihoods needs of the communities have been the target of the early recovery phases of the new UN policy. In early phases, targeting of groups should avoid re-enforcement of the structure and actions that caused the conflict (Bagwitz et al 2008. The human needs approach emphasizes the central position held by both conflict resolution theorists and sustainable development theorists as "people cantered" approaches (Uphoft 1996) is critical in post-conflict interventions. Therefore, in this phase, there is need to develop "enterprises with a human face" (Chikwanha 2009:50).

However, the experience has been that, it takes too long for Track A and B to succeed in order to enhance the performance of Track C where long-term employment and poverty reduction programming is undertaken. Without the institutions of embeddedness regenerated or restored, private sector development activities such as value chains are less successful.

Track B: Local Economic Recovery for Employment Opportunities and Reintegration

This is a phase of transition from relief to long-term employment creation in which acute vulnerability begins to decline, leading to a reduction in international life-saving assistance and an increase in recovery activities (United Nations Development Programme 2008). It is directed to Local Economic Recovery (LER) whose ultimate goal is creation of employment opportunities and reintegration for the population (ibid). It is a track that creates opportunities for local economic recovery- for employment opportunities and reintegration.

During the post-war transition process, there is a shift of emphasis from short-term, life-saving measures to restoring livelihoods. The goal is to create employment opportunities at the local level where reintegration takes place. This provides opportunities to address root causes of the war and facilitate long-term development.

The restoration of the rule of law and mechanisms for peaceful conflict resolution are thus imperative to protect land, livelihood and equitable access

> to resources. By empowering traditional leaders, law enforcement agencies, lawyers and prosecutors, local conflict resolution mechanisms are enabled to resolve disputes over land, enhance employment for poor and vulnerable groups, and prevent discriminatory policies (United Nation 2009:36).

Local Economic Recovery (LER) entails private sector development and direct employment creation such as financial development and micro finance programmes. LER and stability in post-conflict is a recent concept, and so, not much has been written on it. International Labour Organization (2010) defines local economic recovery as "an area-based approach to revive affected economic activities, which in turn leads to increased employment". LER can be achieved by putting in place deliberate efforts and resources that generate positive spontaneous initiative by building market systems up and running (ibid). The strategy aims at removing obstacles that make markets to fail. The usefulness of the strategy is in promoting activities that encourage the local producers to move from the margins of the economy to enhance participation of the poor in the mainstream economy. The approach is not aimed at the vulnerable and poorest of the poor who are not economically active (ibid). Assisting local population to start micro-enterprises to restore or upgrade production of basic commodities and petty services to secure livelihood and well- being is a new thinking being introduced in post-conflict literature (Regnier et al 2008, Parker 2008).

Track C: Sustainable Employment Creation and Decent Work

This track aims at long-term employment creation and decent work (United Nations 2009). Concentrates on institutional capacity at the national level and create of employment and rule of the game to facilitate long-term development that creates productive capacity, employment and decent work. The key programmes in this track are support to employment opportunities, private sector and market development and rules of the game.

> "While most interventions in this track continue to have a role as the country's recovery progresses, it is important that work in this field starts immediately after the crisis, balancing the need for quick action with the importance of sustainable impact" (United Nations 2009:11).

In this track, private sector development takes centre stage as it presents opportunities to create jobs. However, private sector development requires complex set of interventions in addition to policy for enabling environment, to rebuild new local and export markets for small enterprises and producers. It also requires capacity to create and enforce institutional arrangements that reduce transaction costs and market failures. The successes of private sector investment are hinged on institutions of embeddedness which inform the creation and enforcement of institutional arrangements. In addition are programmes that support the development of local supply systems through value chain development. Market development as a component of private sector development can be undertaken through expansion of trade opportunities and access to key inputs and credits. Value chain analysis becomes an integral component to support private sector to recover by identifying market opportunities and missing inputs.

A value chain "describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and inputs of various producer services), delivery to final consumer and final disposal after use" (Kaplinsky & Morris 2001:4). It describes a particular way in which firms, region or countries are linked to global economy (ibid).

Weaknesses of the Comprehensive United Nations Policy

As a comprehensive strategy for recovery, the assumption of the tracks was to build consensus amongst aid agencies and their partners. However, in track A, coordination of activities of different agencies addressing varieties of needs cannot easily be achieved in integrated matter due to a range of constraints-security, resettlement, and livelihoods. The situation following peace agreement is unstable and thus unpredictable for proper recovery planning. The assumption if pre-peace planning cannot be precise. Pre-peace planning has always not been systematically undertaken due to uncertainties in war-affected areas and unpredictability of the direct peace negotiations can take.

Capacity of local actors to embrace the policy and to participate in recovery activities in order to achieve the intended outcomes of each track is inadequate. The policy therefore, cannot be actualized.

The success of Track B is dependent on performance of Track A while the outcomes of Track A and B becomes pre-conditions for the success of Track C. Experience has shown that the intended outcomes of Track

A and B, namely, stable security, community cohesion, the respect for rule of law and well development property rights; are not easily achievable in short term. In many cases they cannot even be achieved, thus making the community relapse in civil war again.

2.3 Value Chain Approach to Post-War Reconstruction

2.3.1 The Concept of Value Chains

The concept of value chain was first used to describe the sequence of activities starting from inbound, operations, outbound, marketing and after sale activities, vertically integrated within a firm (Porter 1990). Firms break production processes into discrete segments that can be performed by different branches either under one roof or in different geographical locations depending on the cost advantages of the location (ibid).

> A firm's value chain is an interdependent system or network of activities, connected by *linkages*. Linkages occur when the way in which one activity is performed affects the cost or effectiveness of other activities. Linkages often create trade-offs in performing different activities that must be optimized (Porter 1990:41)

This was more related to industrial production, but is increasingly being adopted in agricultural production networks as well. The literature on value chains has evolved over the last two decades since the work of Gereffi et al. (1994) on global commodity chains. Value chain is based on the argument of Porter and principle of international division of labour, industry competitive advantages. A value chain is defined as a "sequence of activities required to make a product or provide a service" from design stage through to the final consumer (Schmitz and McCormick 2005). It describes particular ways in which firms, regions or countries are linked to the global economy (Gereffi et al. 1994). Production of a single commodity spans many locations and nations, each performing different tasks in which it has cost advantages (Coe et al. 2008).

Value chain describes a form of economic organization where production, marketing and distribution of a commodity are systemically integrated to build industry-wide and/or location competitive advantages (Gereffi et al. 1994). Therefore, it is a network of different actors who are situationally specific, socially constructed and locally integrated, underscoring the social embeddedness of economic organization. A network in this case is defined as “a set of units (or nodes) and relations of specific types that occur among them” (Gereffi et al. 1994) relating to the length of chain and density of interaction in particular segments of the chains.

Each firm in a network is independent and involves acquisition and/or organization of input- raw materials or semi-finished, labour, transport, distribution and consumption (Porter 1985). This raises the complexity of chain relations and strategic coordination. Here coordination is defined as making decisions that can align and inform different participating firm objectives and activities of each other so as to optimize systems performance.

2.3.2 Value Chain Promotion as Development Approach

Since 2000, development aid organizations introduced value chain promotion as instrument for sustainable economic development (Saperstein and Campbell 2007). Value Chain Development (VCD) literature describes and analyses the role of external agents in organizing and creating institutions that support the inclusion of the poor in value chains as employment creation and income generating strategy (Meyer-Stamer and Wältring 2007). VCD emphases participation of poor producers or entrepreneurs in mainstream economy and provides framework for them to link to complementary institutions and markets through non-market institutional arrangements and coordination.

Evolving from the sub-sector approach, VCD has been driven mainly by development practitioners to connect producers to viable input, season finance and output markets but not in a post war context (Meyer-Stamer and Wältring 2007). Value chain development advocates for a holistic approach where systems are integrated with their elements within a given environment in determining the respective functions. This means context matters for value chain development (Coe et al. 2008).

Value chain promotions by development agencies have received positive responses as a model for private sector development in developing countries due to the opportunities they have on agricultural and rural development thanks to the improvement in communication that have stimulated the connections between producers of remote locations to the national and global markets (Meyer-Stamer and Wältring 2007).

It was first promoted in industrial development with the focus on promotion of Small and Medium Enterprises (SME); premised on the potentials of SME supply network with multinational companies to influence technological and behavioural changes that increase competitiveness (Neilson 2014). This was followed by independent research and evaluation publications through supported by donor organizations such as Kula et al. (2006) by USAID (2009) and World Bank (2007) are in the forefront of value chain promotion as development approach. The publications focused mainly on the applicability of the value chain to provide answers that help us to understand and analyse the underlying constraints to industrial competitive development (Neilson 2014).

Throughout these publications, the core values of neoliberal agenda have been maintained with respect to policy interventions with less involvement of the state in chain management (ibid). Therefore, the VCD theory has evolved over the years from a social science perspective through to action framework for development intervention with emphasis of the participation of the poor in global value chains was seen as a key to economic growth. Process, product, functional, chain upgrading became the strategy to overcome the growing competition in global markets to growth.

Its strength of value chain interventions lies in the opportunity value chain analysis presents to identify full range of factors that affect the performance of an industry, social structure and relations that characterise the industry (Lusby and Panlibuton 2007). The aim of value chain development is to create incentives for chain actors to effectively invest, learn and innovate through strategic collaborations (ibid). Value chain promotion entails tracing the process of flow of value adding transactions, its governance structures and enabling environment.

In practical terms VCD interventions link small producers to large-scale agro-processors, either directly with the support of state or non-state agencies or through intermediaries or public private partnerships (Kula et al. 2006). In lead firm development approach there is fear of over subsidizing foreign private sector at the detriment of local firms who are crowded out as a result by foreign firms. Value chain development entails strategic coordination aimed at overcoming obstacles of the poor to participate in the market and mobilizes knowledge and resources of lead firms in value chain. Value chain interventions are often associated with international trade but can also be tailored to domestic markets through identifying niche markets or increasing value added of products (Neilson 20014). In entering global markets often many local producers must meet higher standards and more complex demand requirement.

2.3.3 Value Chain Promotion in Post-war Reconstruction

Value chain development lays emphasis on meso-level, sectorial and actor oriented approach to market development. The value chain development approach provides multi-scalar option to link global and local level production processes and analysis (Gereffi et al. 2005). VCD is a deliberate strategy aimed at ameliorating coordination failures in the product, inputs and credit markets. Value chain development interventions are strategic coordination functions to resolve coordination failures by facilitating gathering and flow of information, brokering market linkages, sharing of critical resources, activities that build trust among value chain actors. This study, therefore, is based on the premise that a value chain system is a form of economic organization for exchange of goods and services with vertical and horizontal linkages in forms of networks, where economic actors cooperate to enhance their joint competitive advantages.

Therefore, in post-war economies, value chains development interventions have potential to address market and economic coordination failures prevalent in post-war areas as it has potential to forge vertical and horizontal linkages between economic actors. Vertical linkages downstream to lead firms who have knowledge and access to external markets, can enable small producers to access secure markets outside their locality at better terms (Challies and Murray 2011, Bitzer et al. 2011). These results demonstrate that, as an actor orientated process, value chains can stimulates establishment of trust and peaceful coexistence among actors, which is healthy for sustainable peace building. The high level of participation required by value chain enables a wider participation of community members either as individuals or as association (Kula et al. 2006).

Through participation, market scope can be broadened to enable the poor benefit from external economies of scale to offset the cost of adherence to standards (Reardon et al. 2004). Here participation embodies economic empowerment for chain players and collective action in itself has a humanizing and rewarding experience for the local population; if successful, it builds their self-esteem. Communities will start to depend on their own production and incomes.

The long-term benefit of integrating small producers into value chain is moving them from predominantly subsistence to higher-return activities. Pro-poor value chains, fundamentally, focus on inclusion of the local producers and processors to compete in a more profitable market. Linking local producers to bigger private sector actors who have knowledge and access to these markets, can enable the producers to reach these markets through the chain (Parker 2008). Adopting network markets can provide an opportunity for small producers' access markets outside their locality (Reardon et al. 2004). Within intense global competition, the process standards that have been set higher than before can drive efficiency of the producers and raise profitability (ibid). Overall, these changes result in increased volumes, product diversity and value addition. The suppliers can upgrade from local market to domestic, regional and global markets.

Investments in value chain development can rebuild market systems in the post-war economy as it links the rural economy to the urban and local to the national and global production economic systems. Nowhere is the need for integration of local producers into a value chain greater than in post-war situation where poverty endemic as the value chain connects them to prospering markets Value chain development can be an appropriate framework to demonstrate how products and markets grow if "appropriate contractual arrangement to overcome market failure and 'inequality' (vertical and horizontal integration), targeting for asset building (infrastructure, education, health, information, land distribution)" are implemented (Dorward 2001) The approach offers opportunities for micro-producers to improve productivity and increase production as a result of sharing of risks, knowledge and technology transfer, innovation and upgrading (Saliola and Zanfei 2009).

However, Neilson (2014) notes that little research has been conducted on how these policies have been implemented in practice and whether they have been effective on the ground. Two recent publications are of interest to this thesis. (i) Henriksen et al. (2010) analyses six value chains in Asia. The findings point to institutional path dependence shaping interventions, general lack of concern for broader development goals, danger of relying on a single lead firm for delivering development. (ii) Humphry and Nava-Alem's (2010) researched 30 donor VCD interventions. This study reveals disparities between poverty reductions focus and lead firm projects.

2.3.4 Challenges of Value Chain Promotion in Post-war Environment

The core claim of the thesis is that, in post-war situations, value chain promotions may not be successful since the pre-conditions for their success are non-existent (Aron 2003). Shared ethics of private property rights, social norms of moral behavior, network of interpersonal relations and community ties and cohesion, which are crucial in facilitating adherence of economic agents to formal rules, guideline and quality standards (Granovetter 1985). In post-war environment, not only do production and transaction costs become very high due to the breakdown of infrastructure and complementary economic activity (finance, logistics and extension services) but also the very social embedding of economic relations collapses.

The thesis, therefore, argues for eclectic approach to market recovery and development to mitigate the detrimental impacts of legacies of civil war on economic change. The challenge of this then is how much eclecticism can be used in such a case. It investigates formal and informal institutions which have collapsed and need to be reconstructed through strategic interventions in the market to empower and/or link poor producers these markets. To address this dilemma, the thesis employs Hodgson (2006) and North (1990) arguments of emphasizing the importance roles both formal and informal institutions in economic progress and restoring social embeddedness.

It questions the extent to which value chain interventions can restore destroyed institutions and disrupted social relations to enable markets to rebound. It argues for strategic coordination to facilitate the creation and strengthening of institutional arrangement for economic transaction to take place (Dorward et al. 2005). However, in addition to value chain institutional arrangements, reforms in broader political programs to restore the institutional environment as pre-conditions for successful value chain development. .

Through facilitating reforms in institutional arrangement, value chain interventions can restore access of small producers to complementary market for extension, financial services, input supplies and logistics. Clear institutional arrangements also reduce uncertainty in economic transaction and reduce transaction costs. Similarly, through programs designed for early recovery and transition, the governments with support of donor agencies, political and social institutions of embeddedness are restored.

The programmes in this track include building the capacity of economic actors and institutions as central elements of recovery; capacity development of local government and other actors including customary institutions, business development services. Community driven development programmes that increase investments in participatory local economic development is a key component of this track, which includes "identifying and fostering an enabling institutional system with clear roles and responsibilities that facilitates the integration of recovery in the development process" (United Nations Development Programme 2008:10).

2.4 Understanding Institutions

2.4.1 What are Institutions?

The institution various definition and connotation for depending on the theoretical tradition from which one is looking at it. But the common definition cited by many scholars is the one developed by North. According to North (1990:3) institutions are "the rules of the game in society or more formally, are the humanly devised constraints that shape human interaction". He considers the rules of the game and organization are the players (ibid), distinguishing organization from institutions. For Hodgson (2006) the fact that organizations have boundaries (that distinguishes between members and non-members), and rules that guide their formation and operations, makes them a type of institutions. Hodgson also agrees with North (1990) in the sense that organizations can be treated as social actors when interacting with each other or non-members, in which case an organizations functions as a unitary-player within a broader institutional rule system (Hodgson 2007).

2.4.2 Structure of Institutions

Institutions are structured into formal rules such as laws, rules, and constitutions, government organization or informal constraints; for instance norms of behaviour, conventions, and self-imposed codes of conduct (North 1990). Whereas formal rules are enforced by courts of law, informal norms are enforced by peers or those who impose costs on deviations it (Hodgson 2006). Encompassing all spheres of formal and informal institutions, Hodgson (2006:13) defines institutions as "durable systems of established and embedded social rules that structure social interaction". Institutions become durable if they can create a stable expectation of the behaviour of others. This means institutions including social cultural norms do not only constrain behaviour (North 1990) but they also enable human interaction (Hodgson 2006).

Institutions can be classified into a hierarchy of four levels according their durability and spread of influence under different technologies (Williamson 2000).

- On top of the hierarchy are informal institutions, cultures and norms which may take centuries or millennia to change.
- Higher level formal institutions, which include formal rules, constitutions, laws and property rights. They may take decades or centauries to change and take precedence over the rest.
- Institutions of governance or operational rules (Ostrom 2005), guide the day to day inter-firm relations geared toward transaction cost reduction. They take a year or so to change.
- Prices and quantities of goods and services exchanged which change frequently and continuously according to the nature of transaction.

Scale looks at the functional and spatial spread of application of the institutions (Brousseau and Raynaud 2011). In terms of functional scale, institutions can apply to a large number of businesses or for a specific transaction between two or a limited number of actors; what North (1990) and Williamson (2000) refer to as institutional environment and institutional arrangement respectively. In terms of spatial scale, institutions can be national and applied across regions or limited to a locality. Brousseau and Raynaud (2011) observe that this hierarchy is not static. Because economic agents are heterogamous, not all will accept the same institutional order, thereby giving rise to competing institutional arrangements. And as time goes, institutions that have been adopted by majority of actors may eventually become the acceptable order for all transaction and climb the institutional hierarch (ibid).

2.4.3 Role of Institutions in Market Development

The role of institutions is to structure interactions between economic actors (North 1990) aimed at reducing uncertainty and transaction costs (Williamson 1985) through creating regularity in behaviour of economic actors (Menard 2000). Institutions and their enforcement “define the incentive structure of […] economies” and combined with technology, determine the transformation and transaction cost (North 1994: 360).

> By structuring, constraining, and enabling individual behaviours, institutions have the power to mould the capacities and behaviours of [economic] agents in fundamental ways: they have capacity to change aspirations instead of merely enabling or constraining them (Hodgson 2006:7).

Structural perspectives posit that institutions are more than the individual actors. In that, institutions shape but do reflect the needs and possibilities of those they are believed to influence (Greif 2006:41). This is in line with North's (1990) assertion that institutions structure human interaction, shape behaviour and construct social cultural environment in which individual interact. Hence rules, beliefs, norms and organization form part of the structure in which individual transact business at all levels of economic interaction.

Institutions become durable if they can create a stable expectation of behaviours of others and thereby reduce uncertainty and information costs. This means institutions do not only constrain behaviour (North 1990) but they also enable and orient human interaction (Hodgson 2006). Therefore, in the literature as noted above, institutions are also structured in hierarchies according to level of durability and scale of influence on other institutions (Kingston and Caballero 2009).

A core argument of this thesis is that, formal institutions are not sufficient to make markets function (Plattaeu 1994a). They need to be supported by social and cultural norms such as morality (Plattaeu 1994b). The roles of norms of moral behaviour are to: reduce search and contract enforcement costs; make possible changes to attain a good equilibrium, that is, determine a desired state of affairs; and guide society towards the desired state of equilibrium (ibid). Therefore, the thesis aspires to the argument that social fabric and the cultural norms of human society matter in economic exchange; and cultural beliefs and norms are rooted in historical processes. So value chain interventions remain disembedded. Therefore, history plays important role in determining the development trajectory of particular societies. In post-war economies, not only diverse institutional infrastructure is required to be rebuilt but also a set of cultural beliefs places societies on a development path.

2.5 Social Embeddedness of Economic Activities

Social embeddedness recognizes the influence of social cultural norms, beliefs and trust on the performance of institutional arrangement, that is, the ways in which social relations of economic actors are intertwined with the broader structures and process of economic change at the various geographic scales (Yeung 2005). Classical economists recognize the presence of social relations as distortions to the smooth operations of the markets (Granovetter 1985). As such, when social relations are detected in economic exchange, it is seen as a problem which is often solves through vertical integration or a move to another partner willing to transact on competitive market terms with no strings attached (ibid). This, however, is ignoring the reality that economic behaviour and institutions are constrained by on-going process of social relations and customs which makes economic interaction dependent on these relations (Plateau 1994b). An individual is born into an institutional world which confronts his or her with its rules and norms (Hodgson 2006) and conditions their interactions.

Granovetter (1985) introduces the complex dynamic interplay between institutional environment and institution arrangements and economic behaviour. He highlights the influence of actors on institutions and its outcomes. Recently more attention is being given to the influence of social, cultural and political institutions that go beyond efficiency and rationality argument of formal institutions (Hodgson 2006, Hodgson 2014). It, therefore, deals with broader institutional modalities for organizing economic transaction. The framework recognizes that most contract arrangements are made with full regard of the legal systems. The basis of every day contract is necessarily a combination of laws by government and long-term accumulated customs and traditions (Hodgson 1988). In real world the contract arrangement are not made as a rational choice of the abstract individuals who are driven by costs and benefits alone but a combination of formal and informal customs and traditions (ibid). Each individual is embedded in a web of customs and tradition reflecting the complex relationship between them. This view brings the state at the centre of performance or failure of contracts arrangements in economic exchange.

In order to understand the changes in local institutions and their embeddedness in social structures, in this thesis, institutions are structured into lower (community level) or higher (regional or national levels) institutional order, based on the geographical scale and functional scope. Institutions of embeddedness such as cultural norms, conventions and trust (Deguech 2003) form the basic foundation for the performance of other institutions.

Embeddedness of economic activity stresses the role of concrete personal relations and network of social relations in generating trust and discouraging moral hazard (Granovetter 1985). The features of social institutions are *customary norms, practices and trust* (ibid). Institutions of embeddedness are part of the inherited culture through socialization and practice (Platteau 1994b). Culture is used here in a wider sense of norms and practices of a given society or territorial in the sense of a local, regional or national culture. The literature argues that institutions of embeddedness are durable and, therefore, act as an economic stabilizing force and enhance institutions of coordination in ensuring compliance (Mumvuma 2000).

2.5.1 The Role of Cultural Norms

Hodgson (2006) defines (cultural) norm as a network of mutual beliefs held in society or group. Cultural norms play two broad, distinct but complementary roles in influencing and sustaining institutional arrangement and economic exchange (Fukuyama 1996, Deguech 2003).

Firstly, cultural norms play informative role in the process of institutional change. (i) Deguech (2003) argues that norms provide the understanding that enables individuals to engage in economic activities and give social virtues to ends economic agents pursue. It is the desire to attain these social virtues attached to the activities and institutions individuals pursue that provide incentives to follow and enforce them (Fukuyama 1996). (ii) Cultural norms also provide reference for the perception of the reality in economic life which helps individual to select economic partners and provide common interpretation of information exchanged (Falcone and Castelfranchi 2011).

In addition to incentives and disincentives, which make actors to follow or not to follow, culture attaches social values to rules as an important driver in choosing to comply with rules. The norms provide essence to the rules and conventions governing their economic exchange. Hodgson (2006) observes that people do follow rules not only because of the associated sanctions but also because the legal systems can acquire the force of moral legitimacy and moral support of others. It becomes normal thing to do and, therefore, obtains the status of a norm within a society or group. For example Wiltgenstein in Hodgson (2006) observes that "a person goes by a sign-post only in so far as regular use of sign-posts has become a custom". These informative roles cultural norms play lends credence to the argument that informal institutions do not only constrain human behaviour but they also enable and orient human interaction (Hodgson 2014).

Related to social values is the argument that people follow rules because of a conviction that adherence to the rules and conventions produces outcomes that are public goods; to the effect that, the rule itself represents a public good (Platteau 1994b). For instance, if every road user adheres to traffic rules, it makes the road secure for all users. This environment of safety is a public good. In which case, civic consciousness that generates attitudes that respect the law will tend to prevail in citizens who have such conviction while the reverse is true where there is lack of respect for cultural norms and conventions (ibid).

Secondly, the role of cultural norms as advanced by Platteau (1994b) is to regulate economic behaviour. They act as lubricants for formal institutional arrangements to work better and at low cost in regulating economic relations. This connotes enabling role of informal institutions. He argues that cultural norms embody a notion of collective intentionality, that is; when an individual articulates an intention to the group to which he or she belongs while holding that intention with the belief that group members hold it too. "We act this way because we belief others will have a similar aim and reaction. Reciprocity intention and expectation develop belonging to regulation referred to as norms" (ibid).

The two roles of cultural norms as discussed above demonstrate the compelling influence informal rules can have on formal institutions and institutional arrangement. Hodgson (2006) observes that formal rules rely on informal rules and norms for their enforcement, because not everything in formal interactions is contractual or included in formal agreements but are expected to be followed because it is customary (in that particular society or group) to do so and goes without saying. In real world, legal systems and formal contracts are invariably incomplete and give room for social institutions to complement (Fukuyama 1996, Platteau 1994b, Deguech 2003).

2.5.2 Trust as a Lubricant of Economic Coordination

Trust is another important feature of social processes essential for commercial partnerships, strategic choices and coalition formation (Falcone and Castelfranchi 2011). High degree of inter-group social cohesion and low opportunistic behaviour lower transaction costs for all groups because information is readily available in the environment (Mumvuma 2000). That means generalized trust or social norms when complemented by formal trust-enhancing institutional arrangements, protect inter-group transaction and promote increasing level of division of labour and more dependence on each other (Plattaue 1994, North 1990).

Risks, production and transaction costs are lower in transactions that take place within homogenous groups or socially coherent groups of actors. It is easy to build trust in members with whom one has other social relations than with member of other groups. The common identity, whether on ethnic, religion or kinship, enhances coordination of individual actions and decision with each other to create stable economic relations. "Within the groups, identity matters since it dictates both individual and overall group behaviour" (Mumvuma 2000:257). However, for interactions between heterogeneous groups, risks, production and transaction costs are higher because individuals and groups have to invest in protecting themselves against pervasive opportunistic behaviour and breach of contracts. Corrupt tendencies, rent-seeking with guile due to poor ethics are common in such environment (Mumvuma 2000). To mitigate these vices, more time and financial resource must be invested to monitor possible malfeasance and unethical behaviours such as cheating, lying by trading partners, thus increasing transaction costs. On the other hand where trust is lacking, individuals will devise clever means to evade formal rules (Fukuyama 1996). Which means even for formal institutional arrangement to be successful trust must be assumed to operate as institutional arrangement alone cannot entirely stamp out force or fraud (Granovetter 1985).

There are two conditions for trust to be appreciated and used; firstly, the belief that one needs the other to depend on, and secondly, the belief that the other person can be trusted or appears to be dependable (Falcone and Castelfranchi 2011).

2.6 Chapter Conclusion

This chapter contains two main parts. The first part started by describing the market performance in institutional and economic environment that have been influenced by prolonged civil war. It highlighted the comprehensive and complementary approach to post-war reconstruction in the new United Nations policy for post-war reconstructions involving three simultaneous tracks to long-term development. The policy has introduced new approaches to assessing and addressing post-war reconstruction challenges, where post-war reconstruction has different but complementary and parallel paths adopted with different emphases at different times in the process.

The policies have laid emphasis and shed light on the importance of private sector involvement and development in the process of post-war development. This introduced the concepts and practices of value chain development as avenues for identifying and addressing problems of small producers' production and distribution. Through value chain development, actors are able to address problems with the full range of production, processing and distribution of goods and services.

Presently, value chain development interventions are being adopted in many post-war reconstructions programmes in Africa as a new policy instrument for economic and industrial development to raise their regional and national competitiveness. The value chains in Africa have common characteristics of being state-led and FDI-oriented. The value chains are facing challenges of upgrading local capabilities to adapt to eroded economic conditions and platforms linked with private sector development.

3 Framing the Analysis

3.1 Introduction

The chapter elaborates the framework for institutional analysis, focusing on institutional environment which entails the background conditions for the performance of institutions of governance and economic activities. North (1971) defines institutional environment as a set of fundamental, political, social and legal ground rules that establishes the basis for production, exchange and distribution. They may be formal or informal social rules. The principal theme is investigating the changes in institutional environment and institutional arrangement arising from legacies of civil war. It focuses more specifically on destruction of institutions of embeddedness of economic activities. These institutions include networks of interpersonal relations, cultural norms and social conventions as part of institutional environment; other being laws, courts and regulations.

The framework focuses on the structural and agency perspectives of institutional analysis that embraces important roles institution environment play in structuring the different forms of economic organizations and institutional arrangements. It advocates for the role of strategic coordination to go beyond facilitating reforms in institutions of governance to stimulating political and social processes of rebuilding social rules and development of trust in which post-war economic reconstruction activities is embedded.

The analytical framework takes a microeconomic approach of North (1971) and Granovetter (1985) for analysing the way economic agents interact within the context of their institutional *environment* which structures the institutional *arrangements* for their economic exchange. North (1971) defines institutional environment as a "set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution"; while institutional arrangements are the arrangements between economic agents/units that govern the way in which they can cooperate and/or compete (North 2000). However, the analysis of the institutional environment is limited to institutions of embeddedness such as community networks of interpersonal relations and social norms of moral behaviour in which economic activities are embedded as argued by Granovetter (1985).

The research question presented in the first chapter investigates the how value chain development interventions resolve market and coordination failures for smallholders in post-war local economies. As a case study, the experiences of cotton and oilseeds producers in northern Uganda provide insights into the strength and weaknesses of value chain interventions in resolving market imperfections. It addresses five different but related issues/questions. The entry point to the research is question (a) which identifies and analyses impacts of civil war on institutions of embeddedness such as network of inter-personal relations, cultural norms and beliefs that are essential for economic exchange. This is followed by question (b) that aims to examine the responses of the actors and the markets to these changes in institutions of embeddedness. Question (b) also investigates the changes in institutions of embeddedness affect institutional arrangements for smallholder producers in fragile environments. The last three questions (c), (d) and (e) address investigate the conditions, forms and contents of strategic interventions in value chain coordination in resolving market and coordination failures for smallholders. The three questions, first of all, look at the core activities of development partners, NGOs and government in facilitating political processes of institutional changes, facilitating creation and enforcement of institutional arrangement for economic exchange. Then it questions the forms of market failure prevalent in post-war situations and conditions under which non-market coordination can address market failures for smallholder producers in the post-war environments.

3.2 Conditions for Value Chain Promotion

A number of transformative conditions for the success of value chain development have been identified. They are applicable to both domestic and global value chains.

The first is an organizational change of actors in the chain. The management systems of the value chain in specialized product categorization, centralized production through distribution centres which can act as certification points and, assured and consistent supply through "preferred suppliers" (Reardon et al. 2004). It is better if adoption of a technology springs naturally from the producers' voluntary action than imposed from outside by development agencies. The organization of producer must be devoid of political action (Glävan 2008). It is possible that when better organized in collective and joint action, small producers can overcome barriers to entry and gainfully participate in value chains. How smallholder producers can be positioned in a (global) value chain and how this positioning stimulates changes in the whole industry and other sectors of the economy to increase employment and incomes for the poor in post-war environment. Strategic coordination can help forge collective action among small producers and joint action with other chain actors to compensate for weaknesses in institutional environment.

The second is institutional change. Transparent and non-discriminatory investment rules, a generally business friendly policy framework and properly functioning infrastructure are basics to stimulate new indigenous firms and attract external investment. Apart from that many local and state governments offer generous fiscal and non-fiscal incentives. These are all aimed at sharing the risk of expanding supply with the private sector (Osborne et al. 1992). It is the interaction between institutions and organizations that shapes the institutional evolution of an economy. When the institutional framework rewards productive activities then organizations and firms will come into existence to engage in productive activities, otherwise, they will not. Institutions are being altered by actor interactions to find stability. This requires skills and capacity for enforcing to find that fit (ibid). These can be done internally by the actors or with external agencies.

The third is technological changes. In order to respond to the market conditions of network of small producer require changes in technological (physical production practices and management techniques). Best (1990) contends that institutions and the technology employed co-determine the transaction and transformation cost that add up to the cost of production. Demand for technologies is driven by competition where intermediaries ensure year round product supply in the right quality and standards. This competition arises from each other but more increasingly from the low quality, cheap fresh fruits and vegetables from the local market and sophisticated and more efficient global competitors (Best 1990). Technology raises productivity and that reduces costs

However, Glävan (2008) argue that there is no guarantee that employing certain technologies always sustain the evolutionary process of institutional change. United Nations agencies are known for designing and enforcing strategies down to local actors based on best practices from elsewhere. Such one size-fit-all modules are not reliable as the contexts vary across space and time (German Federal Foreign Affairs 2004:29).

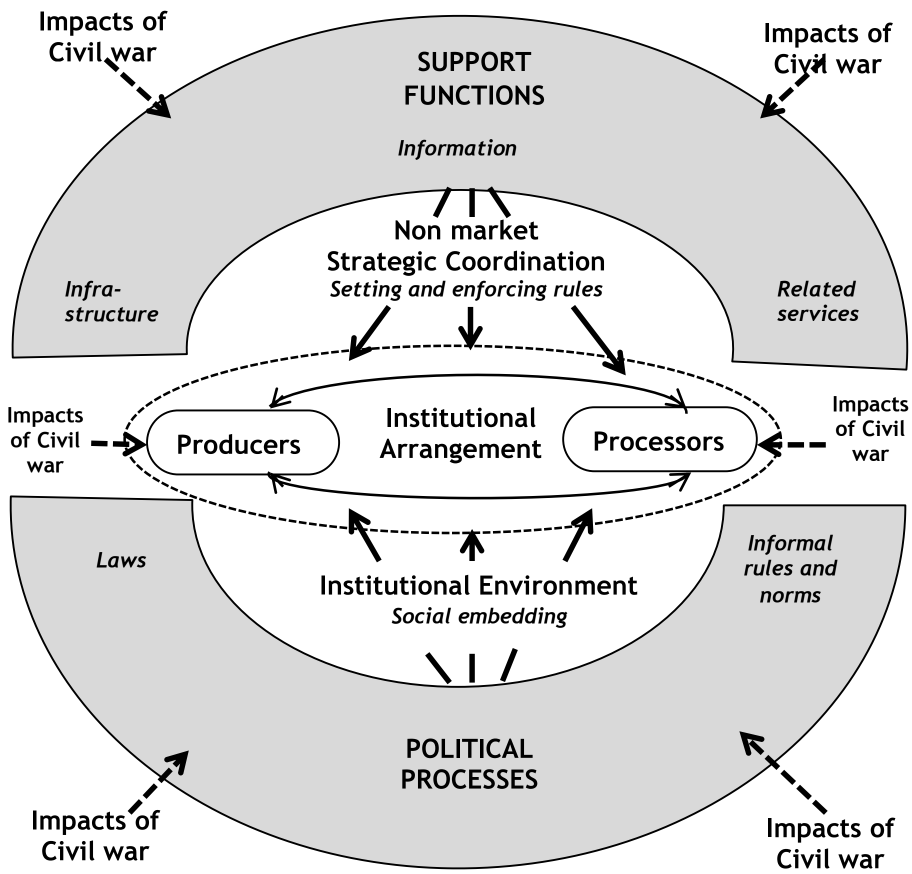
3.4 Elements of the Framework

The framework graphically illustrated in Figure 2.1 above, centres on the analysis of institutional environment and arrangement in which smallholders transact and complementary markets for credit and inputs that condition the forms and contents of their transactions. In this case the unit of analysis is the complex institutional environment for smallholder producers' transaction. The thrust of the argument is that, the institutional environments are regressively (being) altered by the civil war which, therefore, and this in turn has undermined the institutional arrangements for smallholder economic participation.

However, within the narrow margins of a disrupted institutional environment, and notably the collapse of institutions of embedding, strategic coordination can generate new lead firm driven private ordering of institutional arrangements or new NGO driven ordering or SF driven ordering of institutional arrangements. Private ordering takes place under strong institutional environment, while governments play important role to provide basic public infrastructure and NGO driven ordering empowers supply base under conditions of poor linkages and absence of public and private ordering.

The success of these initiatives is dependent, however, on measures undertaken to repair the institutions of embeddedness. in Africa where the largest number of the poor participate in and informal economic activities much influenced by network of social relations and cultural norms and conventions, the presence of these informal institutions plays important role in performance of institutional arrangements. The latter problems constitute a major hindrance to post war economic reconstruction.

Figure 2.2
Market Systems Development in a Fragile Post-war Environment



Source: Modified from Elliot et al. (2008)

The framework illustrates three core elements of the analysis. The first is the explanation of the structural and agency theory of institutional analysis. It describes the relationship between institutional environment and institutional arrangement which are important in the function or failure of the markets. The second is that, in war affected areas, institutional environment (both formal and informal) are not stable and thus prove problematic in building functional institutional arrangements for economic exchange. The third element of the framework is that through strategic coordination, institutional reforms can be made to address institutional gaps and build capacity of economic agents to build and maintain institutional arrangement to promote exchange.

3.4.1 Institutional Environment and Processes of Change

Institutions are important for economic development. 'Getting the Institutions Right', came into the development discourse to demonstrate that institutions matter for economic change (North 1990). It suggests that once a correct institution can be identified, it can replace a wrong one that is in place. Institutional environments apply to a large number of heterogeneous transactions and therefore it is generic (Brousseau and Raynaud 2006). The institutional environment provides solutions that are general and incomplete. Generic institutions do not provide agents with complete coordination solutions. So agents are encouraged to build bilateral institutional arrangements to allow them use resources and transact with each other more efficiently.

North (1971) defines institutional environment as a set of fundamental, political, social and legal ground rules that establishes the basis for production, exchange and distribution. It argues that well defined and secure property rights, rule of law and political constraints are important for economic development (Williamson 2009). Therefore, markets are in the end political constructs defined by a range of formal and informal institutions and embody certain rights and obligation whose legitimacy is determined in the realm of politics (Chang 2002).

All markets are regulated by institutions to guide who can participate or not. Institutional environments are generalized devices of society that sets '*the rules of the game*' and makes it mandatory either because they are enforced by coercive force, as a last resort, by the state or they represent the belief and conventions which form the identity of a society (Brousseau and Raynaud 2006). It includes, therefore, both formal and informal components. Elements of institutional environment include political institutions, legal laws and cultural traditions (Chang 2002, Hodgson 2006).

Political institutions include electoral laws such as regarding adult suffrage which gives powers for the citizenry to determine who can lead them and for what period of time (Chang 2002). Political institutions also include agents' rights and obligations such as property rights, environment regulations, land tenure, land use regulations, health safety rules and dispute resolution systems. This element includes institutions that determine legitimate objects of the market exchange- laws that outlaw trade in addictive drugs, firearms, indecent publications, human organs, and child labour etc.

Laws in whose development, the legal systems are involved. These include company laws and industrial licensing rules which determine who can participate in the product market. Also in this category are Institutions that regulate the process of exchange- rules regarding fraud, break of contract, bankruptcy backed by police and court systems. Social conventions-regarding say fairness or probity or codes of conduct. Norms of reciprocity, fair sharing and guilt feeling and adherence to civic virtues is rewarding investment environment (Mumvuma 2000).

There are functional link between formal and informal institutions of embeddedness. Hodgson (2006) assert that people do follow rules not only because of the associated sanctions but also because the legal systems can acquire the force of moral legitimacy and moral support of others; that it is the right thing to do morally. In choosing to follow (in) formal rules, not only incentives and disincentives matter but also the value attached to rules. The consideration of values of rules or norms is a process of internalization of the rules through social interactions over time. For example Wiltgenstein in Hodgson (2006) "a person goes by a sign-post only in so far as there is a regular use of sign-posts has become a custom.

> "In turn, these moral norms help to further reinforce the institution in question. Habits are acquired in a social context and not genetically transmitted. By accepting the foundational role of habit in sustaining rule-following behaviour, we can begin to build an alternative ontology of institutions in which we avoid the conceptual problems of an account based primarily on intentionality. This is not to deny the importance of intentionality but to regard it as a consequence as much as a cause and to place it in the broader and ubiquitous context" (Hodgson 2006:7)

Hodgson (2006) contents that for a law to become a rule it must become customary for people not to ignore it. Otherwise, ignored laws are not rules. Institutions become more effective when they are embedded in a trust-enhancing shared habit of thought and behaviour, the basis of rule-following behaviour. Habits are "tendency to repeat the same act in a similar material condition" (ibid: 6). Habits can acquire the status of rules if it acquires some inherent normative contents, codifiable and prevalent among a population group. Habits constitute part of rulemaking process providing them with enhanced durability, power and normative authority.

Processes of Changes in Institutional Environment

Having identified and described the key elements of institutional environment, it is important also to describe the processes of change in institutional environment. Changes in formal institutional environment can be described as political processes. The process may be either elite driven (North 1990) or through political competition between dominant groups (Chang 2002).

From the agency perspective, changes in institutional environment may be a result of collective action and civic struggles which culminate into pressure that may invoke institutional adjustments by economic elites who disproportionally benefits from it at the expense of others (Williamson 2009).

In the same way, Chang (2011) and Williamson(2000) also posit that established groups who benefit disproportionally from existing institutional arrangements can block institutional change to maintain the status quo; so that the 'normal course' of searching for optimal transaction cost reducing outcomes for everyone does not materialize. Since other actors may have less power to influence sustainable alternatives, they end up following the dominant institutional solution as it offers option that lowers transaction cost. The dominant institution becomes the generic standard for all transactions.

According to Brousseau and Raynaud (2011), institutional changes takes place through "a multilevel system at the bottom of which several local and flexible institutions apply to subsets of the society while, at the top, a single 'generic and rigid" institution applies to all. These are decentralized processes of institutional competition between political organizations or individual. It takes the form of trial and error. Dissatisfied with the generic institutions, promoters of local order will design collective governance institutions that address their coordination needs. Where actors are heterogeneous as is often the case, coordination needs will defer and so are the needs for different collective governance institutions. This sets in competition between different institutions for coordination. The dominant institutional order becomes the preferred order due to efficiency gains associated with its adoption. Such institutional order becomes generic. So what began as a local institutional order becomes a broad institutional environment.

Socialization as a Process of Social Institutional Change

In the case of social cultural norms, conventions and beliefs which form social institutions, they are transmitted from one generation to another through a process of socialization (Platteau 1994b). The literature identifies three forms of socialization: family or kinships, voluntary associations and the state that, respectively, are primary, secondary and tertiary socializations.

Primary socialization: Family and kinship socialization are the fundamental human interactions enable passage of cultural morals, norms and trust from one generation to another. Children are born into a culture that conditions their belief systems and shapes their interpersonal relations right from the family to the neighbourhood and wider community. Children identify with general interaction of others in the society through learning from parents and other capacity to recognize the claims of others and to impose sanction such as on one's self (Platteau 1994b). This is the force that creates the social cohesion behind family businesses and neighbourhood community solidarities. This is typical of smallholder communities where the primary source of farm labour is the family.

Secondary socialization: Participation in voluntary associations and other community organizations such as social clubs, schools and business corporations, often with little or no government support provide social space for individuals to socialize (Fukuyama 1996). It is in these community interactions that indigenous knowledge transfer takes place. Certain behaviours and knowledge not commensurate with the norms and value of the community are unlearned while new knowledge is gained.

Tertiary socialization: The state and increasingly civil society organizations stimulate emergence of trust in a society that has a long history of distrust and deceit. Socialization can be state sponsored through state businesses or supporting emergence of family or kinship socialization. Plattaeu (1994b) notes that, some degree of activation initiated from external agency may be needed for a shift from a less, to a more efficient, social rule or trust. This is on condition that a large number of people aspire to honesty-based convention, which just needs a reassurance of other's preference. However, for such external agents succeed in stimulating trust, people will need to have trust in the agent, which in turn depends on their past experience of their relationship working with the agent (ibid).

Of the three forms of socialization, lack of primary socialization affects post war reconstructing most. It is from primary socialization that cultural norms of moral behaviour which are fundamental to building family and community ties are reproduced and transferred from one generation to another. If primary socialisation has collapsed then the secondary and tertiary socialisation will either collapse as well or take a different structure. According to North (1990), changes informal institutions cannot be generate through collective choice process of negotiation. State or civic society organizations cannot rebuild the institutional environment where primary and secondary socialization mechanisms are still are absent.

In both formal and informal institutional changes, the process of institutional development is also described as path dependent (North 1990). The framework of a new rule is not entirely new because people are already familiar with past frameworks and experiences. In the process of bargaining a range of feasible option may arise and existing institutions create different interest groups. The beneficiaries of the current institution would resist change. This may lead to preservation of some of the traits of the old inefficient rules. Since it is a negotiated process the changes are incremental. When multiple evolutions result in stable equilibrium, efficient institutions may not emerge if even there are changes in exogenous parameters but the change will exhibit path-dependence. Initial conditions and past incidences may have profound impact on the institutions that are observed even when it is inefficient

Processes of Building Trust

As discussed in the previous chapter, trust plays important roles in both institutional environment and arrangement. According to the society-centred approach of (Putnam 1993, Fukuyama 1999), the origin of generalized trust is the long-term experience of social organization anchored on historical and cultural experiences that can be traced back over centuries. The transmission is through regular social interaction, more so, as membership in voluntary organization. Socialization effects are seen in stable democratic and cooperative values and norms.

In traditional societies constant interaction in small groups, communities or clans produces trust, which leads to cooperation and honesty behaviour (Fafchamps 1992). It is based on the argument that relations matter in economic exchange because everyone is dependable upon the social agency- community, clan state, priesthood etc. In addition, individuals know each other so well that they can observe each other's behaviour and as they are in constant interactions. This creates a condition of near perfect information due to repeated interaction in small groups as long as the group is small and everyone gets the information.

In this vein, any kind of collective action was sustained in the traditional African societies. The practices created an economy wide morality and trust. In that, even if two parties do not necessarily trade with each other in the past, but are frequent partners with other traders in the community of traders, this participation serves as yardstick for ascertaining their trustworthiness in the dense network of traders. The honesty to deal with other will easily circulate widely in the community.

According to Granovetter (1985) trust is produced by dense interpersonal networks supported by effective codes of limited group morality does not completely address the problem of coordination in large public participation. People are constantly mobile and informally interacting and exchanging information on regular basis which is helpful in building trust.

Trust and reputation building are possible in small communities with dense networks of continuous relationship where information is easily obtained and share kinship (Fukuyama 2001). Adherence to cooperation brings the value of the information flow and expectation of future hiring of trusted persons. In this way the principle-agent problem is solved.

Since trust is built through repeated interaction between actors, in post-war areas, due reduced economic activities, interaction between actors is reduced as well and thus the reproduction of social relation and trust is interrupted. This interruption applies both to within group trust and cohesion due to disintegration of community groups. Where civil war creates enmity between different community groups, the between group trust is eroded and takes time to rebuild after war.

3.4.2 Institutional Arrangement and Processes of Change

Institutional arrangement or institutions of governance describe the arrangement between economic units that governs the way in which they can cooperate and/or compete (Marlelova et al., 2008, Williamson 2000). They are mutual and bilateral commitments established between agents that governs and enforces the way they cooperate or compete with each other. It refers to the governance structure and contractual arrangement for economic exchanges (ibid). It ranges from private-public cooperation and contract organizational networks arrangement, local to global levels (Williamson 2009). Economic actors design coordination mechanisms with ex-ante objectives which may vary considerably from the ex-post governance structures (Brousseau and Raynaud 2006).

Alternative institutional arrangement and agents select governance structures that reduced transaction costs, that is, the cost of measuring and enforcing rights of access and use over resources and agents to reorganize and transfer the rights (Brousseau and Raynaud 2006). They select rules that minimize transaction cost for both agents. However, this thesis stresses that in the case of NGOs ordering whose main objective is to promote inclusion of the poor in value chain; the issues related to increased transaction due to high coordination costs are often overlooked. Institutions that increase collective efficiency will be selected over others, because it provides a win-win situation for all actors. If a rule minimizes transaction cost for one and not the other, negotiation is employed to solve the dilemma (ibid). This involves negotiations influenced by political position and civic standing of the agents.

In terms of process of changes in institutional arrangements, different organizational forms of economic exchange require different forms of institutional arrangements. Dynamic sets of formal and informal regulations and networks are shaped by economic exchange, social cultural norms and political regimes which provide welfare, identity and solidarity (Williamson 2009). In development discourse, weak, missing or perverse institutions arrangement hinders economic progress (ibid). Development does not necessarily request for more institutional arrangements but might mean new or other institutions arrangement that complement hierarchical models such as private-public partnerships or horizontal governance based on network management, inter-decision making, self-regulation and co-production (ibid).

Changes in institutional arrangement take place at the interface of different geographical scales. This may be through endogenous of strategic coordination namely private ordering by lead firms or civic ordering by a third party or collective action by producer organizations. Particular attention is required to be paid in endogenous nature of institutional change through private ordering due to reduced cost of coordination (Williamson 2009). There are concerns of risks, influences of self-interests, power struggles and participation for enforcing coordination with institutional arrangements mainly associated with private ordering.

However, where several pairs of agents face similar coordination problems, they are motivated to design collective devices to overcome the problem on common basis (Brousseau and Raynaud 2006). Collective action institutions resolve coordination problems that prove costly to resolve at the bilateral or generic levels. Therefore, private institutions are intermediate institutions that voluntary organization for collective coordinating and cooperation. They are self-regulating process, trade unions, professional associations enforcing voluntary order (ibid). They provide agents with specialized or collective coordination solution to overcome high costs associated with both customized bilateral governance structure and the cost of generic and often incomplete institutions (Williamson 2000).

The changes in institutional arrangement may also be driven by a combination of exogenous actors by civic organization or the state and endogenous ordering by private sector. In such a case, efforts are made by participating actors to align individual incentives and governance structure to better resolve their institutional need. Incentive alignments are ex-ante activities negotiated politically while governance structure and enforcement are ex-post which emphasizes good order and clear institutional arrangement understood by and acceptable to all parties involved in the transaction (ibid).

3.4.3 Strategic Coordination: Non-Market Coordination

This section introduces the concept of strategic coordination, its contents and forms. It provides basis of how strategic coordination interventions can be planned and assessed. More detailed theoretical and empirical discussion of strategic coordination is in chapter 6 of this thesis.

Neoclassical economics does not ignore the importance of coordinating economic transaction but they focus on role of prices as the most efficient coordinating device for economic transaction. However, Doward et al. (2005) argue that markets may help to adjust institutional arrangements but it would take long or not happen at all (market failure) so by strategic coordination between transacting parties, institutional changes process can be speed up. Markets fail to adjust institutional arrangements because in real world all contingencies of a contract cannot be foreseen and included *ex-ante* (Menard 2000). Incomplete contracts beg for third party involvement in designing and enforcing institutional arrangement for transaction game. Value chain development interventions which are the cardinal theme of this thesis are aspects of strategic intervention to fill gaps in incomplete contracting process.

What is Strategic Coordination?

Kydd and Dorward (2004:951) define economic coordination as "coordination of individual economic agents' investments in complementary activities that are necessary for these investments to yield satisfactory returns". In this thesis, strategic value chain coordination is defines as a deliberate non-market intervention to address market imperfections. Targeted coordination can mitigate market access failure by improving access to information, low transaction costs and creating and enforcing institutional arrangements for economic transaction. It can as well mitigate supply failures through empowering producers to enhance their competencies and capabilities to increase production and productivity. Coordinated markets involve gradual but continuous technical innovation and technological change. It is a deliberate action that brings together market actors and promotes institutions that enhance and enforce coordination of economic agents (Hall and Soskice 2001).

In a value chain system, strategic coordination role falls within the overarching governance function of executive managers of the chain (Gereffi et al. 2005). Coordination is often undertaken by a firm or firms operating in the production and/or distribution of the commodity, that is, chain-actor coordination and capacity building of small firms and producers. However, in the initial stages of economic recovery and development where chain actors are weak, central coordination by government or civil society organization and careful sequencing of activities that takes recognition of the heterogeneity of the rural population can fill the coordination gap. But this runs into technical, political and administrative challenge of building functional synergies between chain and non-chain actors in general and between different non-chain actors supporting different nodes of a single value chain (Dorward et al. 2005). Regardless of whichever coordination and management model, an effective network relation must translate into increasing returns, in terms of incomes and dynamic rents that must be leveraged across the chain. It is observed that, in early phases of development there are increasing returns from coordination externalities which can, thereafter, be self-sustaining by technical progress and innovations. This requires investment in knowledge and skills, research and development to maintain the momentum.

Strategic coordination entails setting and adherence to an institutional arrangement for economic transaction. Economic development entails emergence of appropriate transaction-enabling and transaction cost reducing institutional arrangement as well as improvement in the broader institutional environment (Dorward et al. 2005). This, however, is not applicable in post-war areas which lack basic institutions to facilitate emergence and enforcement of institutional arrangements. Violent conflicts destroy community ties which lead to disintegration of communities and erosion of trust between economic actors.

Strategic coordination also involves internal or external enforcement mechanism to reduce transaction costs. It includes brokering or facilitating linkages of small producers to output and complementary markets. Different economic organizational models have different governance structures with different (power relations) institutional arrangements. Strategic coordination aims at creating institutional arrangement that bring regularity of behaviour in transacting parties; that is predictable behaviour, decisions and/or actions of others in the transaction game (Greif 2006). The measures of order and regularity are: trustworthiness, increasing levels of social relations, communication reliability, resource sharing and level of negotiations for different terms and conditions of transaction. These actions are meant to reduce search and enforcement costs. Henriksen et al. (2010) and Neilson (2014) identify two models of strategic coordination interventions in value chain development discourse: lead firm interventions and direct targeting of small firms and producers. In addition you have different ordering mechanisms: NGOs and collective action as discussed earlier in this chapter.

Elements of Strategic Coordination

There are two elements of strategic coordination; which are soft and hard coordination (Kydd and Dorward 2004). Externally assisted 'soft' coordination, by the state or NGO entails small producer organizational development such as formation of traders association or contract farming relations, nucleus/out-grower and other interlocking systems (Hall and Soskice 2001). Government and NGO interventions take the form of soft coordination, when an opportunity to access markets exists but capacity of small producers to meet entry conditions is lacking. Soft coordination aims at building or enhancing the capacity or linking the producers to the market without necessarily getting involved in primary activities of the value chain. It is a value chain support service provides by not-for-profit organizations, often as social entrepreneurs.

The second element of coordination is a more extensive 'hard' coordination where strong central coordinating actor with a mandate from the state ensures investments across the value chain with a highly credible coordinated commitment (Hall and Soskice 2001). Hard coordination entails substantive support to the development of a body with government mandate and highly credible commitment to take the coordination role and organization that has capacity to formulate and enforce appropriate institutions for market development. In hard coordination, the external agent becomes fully involved in the primary activities of the chain such as buyer, input or credit supplier to directly address existing market and coordination failure. Hard coordination is often done as a short-term measure in order to expand the market and allow for credible large firms to penetrate the market and possibly take charge of coordination.

The latter was the strategy parastatals adopted before liberalization, where they later took over investments and investment risks exclusive of primary production (Kydd and Dorward 2004). Through parastatal, government attempted to provide protection against opportunism and risks of market transaction failures. But as experience has shown, in many sub-Saharan African countries, parastatals failed to achieve effective coordination (ibid). This demonstrates the difficulties in pursuing extensive coordinated markets for a large number of small producers scattered in remote rural villages where logistical problems continue to be insurmountable and at the same time relevant.

In the initial stages, economic recovery and development requires central coordinating player(s) and careful sequencing of activities that takes recognition of the heterogeneity of the rural population (Dorward 2005). Regardless of whichever coordination and management model, an effective exchange relation must of importance translate to increasing returns, in terms of incomes and rents for participating agents that must be leveraged across the chain (Kaplinsky and Morris 2001).

Value chain approach to development is often rolled as an institutional support which is more than enhancing the penetration of the lead firms and inclusion of the poor in economic activities. Therefore there is often tendency to play down power dynamics embedded within modes of chain governance and its role is shaping market relation and upgrading prospects. This is in line with the critique of the post-Washington Consensus that continues to protect and support transnational companies in the global economy. It also raises exclusion concerns- enhancing the competitive of a firm's chains and region creates losers and winners and thus local inequalities.

Forms of Strategic Coordination

The elements of strategic coordination discussed above fall into three forms of ordering which facilitate the establishment and governing of markets. Under perfect conditions of complete information on the product, market actors and market price. The spontaneous process of market development is akin to getting the institutions right and letting the price system to coordinate the market. This is a form of completely decentralization of market development to forces of demand and supply. Rosenbaum (2000) observes that classical economics takes the existence of market for granted. They assume markets always exist when and wherever, demand exist a supplier will emerge to meet the demand. They disregard preconditions of perfect markets such as functional private property rights and rule of law. Plattaeu (1994a) argues that, given the complexities of the problem of imperfect information, spontaneous rule is not sufficient enough to support a market order.

Private Ordering by Lead firms:

Lead firms have emerged as a strategic development partners. This contradicts the public imperative defining to create development for the poor participants. Lead firm with capacity to govern the value chain. But requires institutional framework- how local, national and international condition and power shape global production processes (Neilson 2014). The change in terminology from GCC to GVC appealed to donors because it moved the theoretical underpinning from world systems theory to structural theory with the periphery and core concept.

The lead firm model is in line with the value chain development model of separating value chain activities into primary and support services (Humphrey and Navas-Alemán 2010). Confusion can easily arise between the focus on supply chain challenges of a particular lead firm with the broader development priorities of the poor target participants. Lead firm model is opposed to direct production capacity development of poor producers and enterprises by development agents. This approach considers lead firm as strategic development partners. Their roles are to address supply chain constraints related to low capacity of supply-base in response to demand and other existing market opportunities.

Lead firm model uses partnership-based approach where the information and knowledge relevant for designing interventions is obtained from large firms that are already active in the area under cost sharing schemes (Henriksen et al. 2010). It is premised in the idea that existing companies know better areas where interventions can provide maximum impacts in building competitiveness or economic growth. This assumes the presence of lead firms capable of embracing the idea and participating in the projects.

According to Humphry and Nava-Alem's (2010) the problems of lead firm interventions are (a) lack of strategic targeting of poverty reduction impacts have been one of the weaknesses of the organization, (b) less focus on building environment such as norms, customs, laws, regulations, policies, international trade agreement and information that either facilitate the exchange of products or services along the VC and, (c) reflecting institutional environment as a business enabling environment as in the of USAID and WB, that leans towards a strategy of eliminating the state from direct participation in the market.

Under the lead firm approach to value chain development, (a) the lead firm is considered a conduit through which development intervention is channelled; (b) development agents seek large (preferable) multinational firms as partners to work with to develop the supply chain backwards to the farm-gate; (c) the potential impacts of unfair competition between the lead firm and local firms are rarely considered and yet "the needs of the lead firm are frequently […] conflated with the needs of the wider community during the initial design activities" (Neilson 2014:59).

The first is interventions that build capacity of lead firms to develop supply relations in manufacturing or service sector or linking small firms with large processors. This form of coordination can be successful where large commercial processors are available and actively participating in the value chains. The benefits of the interventions are meant to trickle down to the poor producers, such as access to specialised information or skills, quality control and linkages to the markets for outputs and credit, transport which are difficult for individual small producers to achieve. Dorward (1999) looks look beyond market share and power of the lead firm to examine its technical and financial capacity, investment ethics and incentives to create and sustain a long-term market relation with producers. Otherwise coordination may lead to oversupply of the product which may again reduce prices and stagnate the economy further.

Civic Ordering by NGOs:

Strategic interventions directly targeting the poor are mainly promoted by the state, non-government organization and business associations (Henriksen et al. 2010). Neilson (2014) notes that UNIDO was one of the pioneers of direct targeting of industrial producers and was attracted by the potential to facilitate SME development in developing countries by working together with the supplier networks of multinational companies (Neilson 2014). This is aimed at building the bargaining capacity of the poor producers and provides knowledge, skills and capacity to produce quality products and do not have business links to move their products. It requires presence of business linkage opportunities where the poor can be connected. Producer characteristics such as level of organization, access to complementary resources, personal preference, level of commitment and knowledge shape their decisions.

Direct targeting of the poor involves participatory approach that aims to build capacity of poor producers with full involvement of the intended value chain participants and use of local knowledge and resources aimed at soliciting local ownership and commitment (Henriksen et al. 2010). The analytical concept of 'upgrading' has been embraced almost unanimously by development agency actors establishing conceptual foundations for the approach and has been instrumental in chaperoning value chain theory along its transformation from a critical social science through to an action framework for development interventions. According to Gereffi et al. (2001: 5), 'firm upgrading involves insertion into local and global value chains in such a way as to maximise value creation and learning'.

Kula et al. (2006: 14) define firm-level upgrading as 'changes made by firms to improve their competitiveness through product development and improvements in production techniques or processes'. This is not limited to information gathering but also in design, implementation and monitoring stages of the intentions (Henriksen et al. 2010). This presupposes think local knowledge base appropriate for the designing of market oriented value chains. It involves creation of stakeholder forums for knowledge and experience exchange along the process. Policymakers subsequently embraced the idea that participation in global value chains and production networks was the key to economic growth.

The critics of value chain upgrading have been driven by the arguments that, it negates the inherent power asymmetries in value chains that perpetuate inequalities in local and global value chains (Neilson 2014). Interventions in strategic coordination should be driven by the broader outcomes of poverty reduction and economic recovery. Each mode of operation has its strengths and weaknesses which require to be considered in applying them to value chain development (Henriksen et al. 2010). Each of these approaches can be used at any stage of the value chain development processes.

<u>Mandatory Ordering by Government:</u>

Kydd and Dorward (2004) argue that the role of the state is instrumental in the market for pro-poor agricultural development with targeted short-term interventions in early phases of economic recovery. Hoff summarises possible examples of government interventions that support value chain development as:

> Investment in communications infrastructure or support for (regulated) monopolies; franchises, trader and farmer associations to address coordination failures and risks from opportunism (but these generally face major governance challenges); grain reserves, price intervention and guarantees, market information systems, market infrastructure development, commodity exchanges and insurance systems to address vulnerability to shocks (although these face major problems of moral hazard and adverse selection) and price support, input/output/ credit subsidies, communications infrastructure, Technical research and extension, and support for trader and farmer associations to increase basic supply chain profitability (Hoff 2000:967)

In some cases it involves provision of social action fund for the victims of stabilization process and violence conflicts (Dorward and Kydd 2004). These all concern support rather than actual value chain development.

Collective Action and Civic Ordering by Producers Associations:

Producer ordering and collective action are practices that bring small producers together to analyse and address their market failure problems jointly. As individuals smallholder have no or limited capacity to innovate and upgrade in the value chain, but through bulking for input, technology and/or credit acquisition while lower transaction costs.

Economic ordering by producer associations entail joint actions to increase their bargaining power to negotiate with buyers, they reduce the powers of existing monopsony and monopoly to undercut them. Civic ordering by producer organization increase their capacity ability to limit opportunistic behaviour of their counter parts in the transaction game (Harris et al. 1996). Low production costs can also results from enhanced access to low cost capital acquisitions. Producer organization has comparative advantage in collective risk-management by sharing the risks and through pooling resources.

3.5 Chapter Conclusion

The chapter presented the analytical framework for this study and concepts underlying each of the framework's three main elements earlier presented in the figure 2.2 in this chapter. The *first element* is context and external factors, which is analysed based on the changes institutional environment, focusing on institutions of embeddedness as result of civil war. It seeks to identify the ways in which civil war affects the basic institutions and institutions of embeddedness.

The *second element* investigates dynamic interaction between institutions of embeddedness and institutions of governance. It focuses on the interaction between the small producers/suppliers and processors/buyers within the context of post-war. It underlays the responses of the markets and market players in relation to sharing of information, resources and exercise of power in the process of economic exchange within the environs of post-war.

The *third element* is strategic coordination, defined as non-market coordination geared towards specific market and coordination failure. This is in attempt to create the necessary institutional arrangement to foster value chain development. The utility of strategic coordination is seen through the roles in generating and sharing information, resources, building capacity of the weak link and facilitating market linkages. The different forms and elements of strategic coordination have also been identified for further investigation in the empirical chapters. The capacity of local actors has been taken into consideration in the analysis of market failures and consequently in strategic coordination.

4 Institutional Decay in a War-Affected Area

4.1 Introductions

The chapter analyses the impacts of civil war on institutional environment. It is premised on the argument that, civil war has negative impact on institutional environments and capacity of local actors to use existing institutions. It further argues that context matters for economic progress and thus understanding changes in the post-war institutional environment and arrangements helps development practitioners to design appropriate institutional reforms that foster economic reconstruction and mitigate the vulnerabilities arising from civil war.

The literature on institutional changes in politically unstable environments is scanty. The role institutional environment such as culture, social relations and local politics plays in economic transaction have never received substantial attention it deserves in understanding the challenges of long-term reconstruction (Agrawal 1997, Cowen and Coyne 2005). Aron (2003) and Coyne (2005) have made some contribution in our understanding of the how institutions in post-war areas can affect economic behaviour of individuals and firms in the transaction game. They, for instance, observe that where formal institutions are weakened by civil war, economic activities may shift to the informal or illegal sector of the economy, regulated by informal institutions. Implicit in this observation seems to be the assumption that in the process of civil war informal institutions remain intact. This observation supports the argument that informal institutions are stable and take long to change (North 2000a). But this assumption does not hold in civil and communal wars where internal community cohesion is undermined.

Whereas there is emerging literature that acknowledges devastating effects of civil wars on local institutions (Coyne 2005b, Cowen and Coyne

2005, Lai and Thyne 2007); which institutions are destroyed and the processes of these changes have not been adequately researched. This is the focus of the present chapter. It addresses two key questions; which institutions for promoting value chain development have changed over the period of civil war and how have these changes taken place.

The objective is to develop a framework for analysing institutional changes due to civil wars. Existing framework for analysis of institutional changes as synthesised by Kingston and Caballero (2009) mainly focus on stable political environments. They do not take into account the potential influences of armed conflict on existing institutions and their implication for post-war reforms. It provides insights which can inform strategies for rebuilding post-war institutions and economies. It is premised on the argument elaborated in chapter two; that local institutional arrangements, economic activities and property rights are largely informal and are influenced by on-going social relations, trust, customary norms, beliefs and conventions. The following propositions support this chapter.

- *Proposition 1:* Wars and, particularly, civil wars undermine processes of building trust, reproducing and transferring customary norms, values and shared beliefs of society.
- *Proposition 2:* Wars also weaken capacity of local formal (and informal institutional actors) to formulate, implement and enforce institutional arrangements to transaction with each.

It is important to reiterate the observation of Aron (2003) that, in Africa, challenges of institutional reforms include degree of bureaucratic delays, corruption and lack of respect for private property rights and central enforcement. In microeconomic research where formal institutions are weak focuses on societal capital, trust and networks (ibid).

The chapter is structured as follows. The next section identifies and describes the importance of local institutions and institutions of embeddedness for smallholder production and marketing. It is followed by highlights of how changes in institutional environment occur as a result of civil war. The case of northern Uganda as the region grapples with institutional decay and institutional reforms is discussed. Before the conclusion, a theoretical reflection on institutional changes in war affected environment.

4.2 Institutions in War-Affected Areas

4.2.1 Emphasis on Local Institutions of Embeddedness

The role institutions of embeddedness play in economic change was discussed in chapter. The importance of informal social institutions in reconstruction has been echoed by the new UN policy under Track B discussed in earlier chapters (United Nations 2009). Gasser et al. (2004) note that in developing economies, the prospects of post-war economic recovery increase in "cases where solid local institutions are in place and where endowment of infrastructure, local firms and human resources are in a relatively good state". It has been observed by World Bank (2009a) that, natural disasters such as earthquakes, floods and famine tend to draw communities together to cooperate in order to address the impacts of the disaster (World Bank 1009a).

Local institutions are defined by their geographical scope of operations as limited to a given community or group of individuals and their intergroup interaction at the grassroots (Uphoff 1992). In this case the focus of this chapter is on local institutional environment and frameworks for smallholder participation in economic activities. This includes land rights and their enforcements, collective action, social norms, conventions and trust in which reconstruction takes place. The strength of local institutions lies in facilitation of face-to-face contact and interpersonal relations between economic players that create opportunities for cooperation and mutual support, feeling of responsibility and obligation to one another.

Two attributes of local institutions are important to note: firstly, whereas local players and processes shape the nature of their interactions at the local levels, the interactions in-turn condition their individual behaviours and actions. Secondly, higher order institutions have impact on performance and changes of lower order institutions (Williamson 2000, Roland 2004, Ostrom 2000). Likewise, for higher levels institution and institutional arrangements to success, they must consider the influences of local institutions in the community in which higher institutions enforced. Existence of a mutual interest in collective participation in the market is the incentive to generate the commitment to effectively participate. An important characteristic of local participation is its embeddedness in culture, social networks of interpersonal relations, norms and trust (Hodgson 1993).

Local institutions are often voluntary and complementary as they are enforced alongside other existing ones. In addition, lower levels economic institution takes place between different and alternative institutions while at higher levels political competition takes precedence between higher order institutions. Finally, local institutional arrangement have tendency to seek expansion and climb higher institutional ladder and solidify to be considered institutional framework (Brousseau and Raynaud 2006).

Due to the assumption that informal institutions are relatively stable and may withstand violent conflict (Coyne 2005), post-war institutional reforms tend to concentrate on restoration of formal institutions (Elbadawi 2008) while paying less attention to informal institutions such as voluntary private organizations, community networks, social norms, conventions and trust that are often eroded during civil wars.

4.2.2 Institutional Dynamic in Fragile Environment

The literature demonstrates that civil war can have both short-term and long-term effects on institutions (Aron 2003, Cowen and Coyne 2005, Dolan 2011). Where there is severe fractionalized country or region or community, as a result of the war, there is likely to be high levels of mistrust while society with high economic development is more like to share a common ideology and ethics because the advanced exchange requires trust (Cowen and Coyne 2005). But in homogenous community's social relations and identities play big roles in people relations, trust may still be possible depending on the nature and technology employed in the violence and actors involved.

Conflict erodes the capacity of government to enforce formal institutions as skilled civil servants may flee the area and in extreme cases government offices completely seize to operate. If the institutional environment which is the bedrock of investment crumbles, then small scale trade, agriculture production and commerce may shift to informal sector while large firms that survive may those with links to one of the fighting parties and do so as opportunists benefiting from the war economy. In economic activities of poor countries where formal rules are weak and poorly enforced, informal institutions have re-emerged under the term social capital, trust and informal networks (Aron 2003). Informal rules and regulations are not legally and thus cannot be used in courts of law.

Social capital emerges to promote social interaction and trust in the communities to minimize moral hazards in economic interactions (ibid). Even then, the informal institutions may achieve only limited contract and property rights as they are legally binding conventions. However, "social networks can be disintegrated as a result of the demise or flight of a key "change agents" (Coyne 2005) of the network, which can impede the capacity of the household to produce. In addition, Coyne (2005) notes that social capital works better among homogenous groups. It may fail to succeed in interconnect heterogeneous groups.

Conflict may alter the pre-conflict power structure and dynamics and replace them with military coercion or government elites capture (Saperstein and Campbell 2007). In post conflict areas, inter-firm coordination is weakened due to displacement by war or hostile environment. Inter-firm trust, which is crucial lubricant of relations, is lost and leads to mistrust between different segment of the population in post-war locality (Mac Sweeney 2007, World Bank 2009).

4.3 Processes of Institutional Decay during Civil-War

In a nutshell, the effects of civil war can be set in form of impact chain starting from direct to more indirect impacts, in what is referred to as first, second, third, etc. order impacts as summarised on Table 3.1 below. The first order impacts mainly affect institutions that are not deeply embedded in social institutions and at the same time are easier to restore. The second and third order impacts are results of first impacts and that endure beyond resettlement process to recovery.

4.3.1 First Order Impacts

Examples of first order impacts include; fleeing of civil servants or in extreme cases government offices cease to operate, displacement of people either internally or as refugees to neighbouring states (Ghobarah et al. 2004) with large proportions normally confined in camps for ease of targeting relief and protection service provision. According to (Summerfield 2000), 80% the refugee population is in developing countries.

Table 4.1
Impact Chain of Civil War on Institutions

First order (Immediate)	**Second order Post-war effects**	**Third order Post-war effects**	**Implications for post-war strategy**
Death or displacement of populations to safety or security camps within the country or as refugees in other countries.	Disintegration of family and community networks which disrupts socialization and reproduction of local institutions.	Loss of trust and respect for socio-cultural norms of behavior.	Restoration of hope, trust and respect for socio-cultural norms and behavior.
	Loss of access to land which is a key productive and non-moveable resource.	Ineffective formal and informal land property rights transfer and enforcement institutions.	(Re) building local institutions for land rights and management to reopen land boundaries.
Damage to households economic and physical assets and capital	Changes in economic activities of affected population from farm to non-farm activities and relief.	Alteration of institutions from formal to informal sector and/or businesses from legal to illegal markets (Coyne 2005).	Restoring or establishing new economic activities requires changes in institutions.
• Death or flight of government staff from duty stations in war zones • Relocation of government facilities and offices • Physical destruction to government facilities & public infrastructures.	Limited capacity of civil service departments to function normally or complete closure of civil service department and non-delivery of public resources.	Dominance of military institutions and humanitarian organizations in public service delivery but with reduced quantity and quality.	Put in place incentive structures to attract and retain government staff and budgets.
• Death or flight of staff of banks, industries etc. from war zones. • Relocation of private sector business outside war zone.	Reduced or wiped away private businesses and services such as banks, product and input markets, logistics, electricity and thus reduced services.	Absence of private sector services or services obtained at high costs due to high risks of insecurity, disappearance of cluster effects.	Focus on reducing residual insecurity through systematic disarmament and economic reintegration of ex- fighters in the communities.
Internal or external displacement or death members of producer organizations.	• Disintegration of members' organizations. • Irrelevance in wartime economy.	Dormant organizations which can become obsolete without regular use.	Support to rebuilding or formation of farmer organization tailored to the new economic opportunities.

Source: Author's construct on basis of Magaret (2006), Coyne (2005) and Aron (2003)

Insecurity and destruction of infrastructure which are critical for rule enforcement can limit effective functioning of institutions. For example in the financial sector, during civil war, banks and other formal financial institutions reduce operation or close business completely to protect their assets and staff. In the event that durable formal institutions like taxation policies and business registration remain operational, they may be irrelevant in an environment of informal economic activities, which often characterize war affected economies.

4.3.2 Second Order Impacts

One of the second order impacts of civil wars on institutions is driving the economy into the *informal* sectors (Horen 2002). In post-war economies informal rules such as norms, conventions and trust regulate the economy. Small scale trade, agriculture production and commerce may shift to informal sector dominated by survival businesses. Informal economic activities are embedded in a network of social relations (Putnam 1995) and customary norms where trust enhances enforcement of institutional arrangement. Aron (2003) observes that the inter-personal relations promote social interaction and trust in economic interaction to minimize moral hazards in their interactions. However, if the conflict has tribal inclinations, which often is the case, then it is only bonding capital that survives as the conflict would have made between group relations and interactions difficult (Coyne 2005b). Even then, the informal institutions may achieve only limited contract and property rights making the conflict economy to shrink due to limited inter-group truest enhancing activities.

At the worst, it may occur that due to prolonged violent conflicts, social networks, norms and trust which are institutions of embeddedness are eroded (Dolan 2011) preventing family and community socialization that helps to internalize cultural norms and trust. Aron (2003), for example, notes that war may actually disintegrate communities and undermine social relation which is the fabric of society. War often leads to displacement of populations either internally or as refugees which make it difficult for relatives and neighbourhood communities to interface. Depending on the economic activities individuals engage in, new relations may be forged for survival during the wartime. There are standards protocols of formation and management of IDP camps and provision of social and economic services to IDPs. Due to limited productive resources such as land, financial capital and access to markets, economic activities are purely survival as insecurity and host nation states impose restrictions on movement of human beings. Institutions for agricultural production and marketing are rendered inappropriate.

Therefore, relief and humanitarian assistance to IDPs and refugees create and draw on a different set of institutions enforced by UN agencies and host governments. The may include institutions for delivery for registration of IDPs and provision of services such as schools, health centres, toilets and water. In most cases the camp institutions are adapted from generic UN sets of institutions and protocols designed for camp management.

4.3.3 Third Order Impacts

The third order impacts are long-term in nature. These arise from the influence of the second order impacts. In that case they may not be directly observable in the active war period. The behaviour of large private institutions such as formal bank, factories and transport systems is often unpredictable. The return of such companies is often not guaranteed due to the fear of repetition of the conflict. Poor people often "turn to local money-lenders in times of need" (Allden 2009:271). Even when formal institutions reopen after the war, due to uncertainty their lending portfolios to the poor are often limited and the capital markets may be controlled by few powerful military or government elites focusing on industries and large scale firms. External private service providers are often closely monitored and their geographical expansion regulated for security reasons (ibid). Government provision of risk capital is often limited to medium and large firms that have the political influence.

Loss of assets and vital legal documents during civil war limits the chances of the poor to access credit which may require collateral (Allden 2009). Besides, assets like land may be communally owned without well-defined property rights and documentation which cannot be presented to the banks as collateral either. Banks do not lend to micro-businesses and agriculture, which have high risks of failure due to fear of not repaying the loans (World Bank 2009b).

4.3.4 Constraints to Institutional Changes

There are two important supply side constraints to institutional change related to path dependency, political power and resource constraints to implement change.

(i) Path dependence of institutional change- the negative effects of past distortions will last long into the change process. North (1990) argues that actors rationally bounded therefore they stick to the existing institutions and organization routines. The concept of bounded rationality argues that, actors are unable to correctly predict the outcomes of the new rules ((Kingston and Caballero 2009). This may force them to drop the changes altogether for fear of losing.

(ii) Resistance from groups that are potential losers particularly if they are the powerful, however inefficient the institutions may be. If the majority are losers and are the powerless, this may enable development of collective violence to express their grievance against the change ((Kingston and Caballero 2009). Many organizations in Africa are dominated by network of elites who have sunk capital in being able to operate in a weak institutional environment- such organization may have perversely become more efficient in making the society less progressive. Reluctance to change from the opportunists who are seeking rent from the weakness of existing institutions.

(iii) Resource constraints to manage change process- the capacity to reform through technical knowledge may in practice be limited- post-war economies do lack the resources to fund the process of institutional reforms. Local capacity to interpret and integrate formal institutions into informal economic activities and institutions-capacity to keep records in order to effect taxes, to access bank loans. On the demand side there is limited demand for institutions from market participants. Gray in Aron (2003) argues that institutional reform is not a prerequisite for economic change but is inextricably linked to it. Another demand side challenge is forms are the lack of adequate dissemination of institutional reforms to users: new laws and rights.

4.4 The Case of Northern Uganda

4.4.1 Acholi Culture and Practice of Cooperative Farming

Acholi is one of the largest tribes in Uganda and most affected by the LRA insurgency. The Acholi are traditionally mixed farmers, growing crops and keeping livestock. Cattle were kept for wealth, prestige, marriage dowry and as power for ox-traction and provide manure for crop production (Gulu District Plan 2010). During the war, the cattle were looted by both fighting parties as source of food. In addition, the rebels exchanged traded cattle for weapons in South Sudan. Matters were made worse by frequent cattle-raids by the neighbouring Karamojong, who are traditionally hostile to the Acholi and ardent cattle-raiders. By 1998 when the last raids took clear the remnant of the cattle took place, a total 285,000 cattle were raided (Doom and Vlassenroot 1999). The major cash crops were cotton, tobacco and sunflower while finger millet, sorghum, sesame, groundnuts, cassava and beans were the dominant food crops.

The Acholi had a practice and tradition of cooperative farming long before the formalization of producer cooperatives. Trust, reciprocity and social networks were integral part of the farming systems of the Acholi community. The cultural practices and norms of farming promoted group farming and nonviolent resolution of disputes among its members. However, these tacit norms are now under threat of extinction due to the loss of agricultural activities and disintegration of the population and community systems for the last 20 years as a result of the civil war. The camp economy rendered many traditional practices and local farmers' institutions redundant and thus not effectively transferred from the old to the young ones who form two-thirds of the population (Ker Kwaro Acholi 2010).

The use of farmer groups was promoted to increase food crop production to ensure food security (Ker Kwaro Acholi 2010). A food secure tribe was politically stable, militarily strong and capable conquering more territories. The core of the farming groups was to provide farm labour during pick seasons. The critical areas where labour was required urgently have remained planting, weeding and harvesting. With no formal extension systems, the farmers through practice and experience knew that timely weeding prevent pest's infection and diseases and increases productivity while timely harvesting aimed to avoid harvest and post-harvest losses associated with most of the cereals and legumes grown in the region. Such knowledge was passed from one generation to another through farming practices and experiences.

There were specific informal guidelines to promote cooperation among the Acholi farming community. (i) *Pur awak:* This is a practice of providing labour for a community member during planting, weeding or harvest period which are crucial activities in farming systems for maintaining productivity, quality of produce and reduces losses during harvest. *Pur awak* is a practice where the owner of the garden having assessed his/her labour demand and supply gaps, calls compatriots to provide to help in weeding or planting or harvesting for him on an agreed day (Ker Kwaro Acholi 2010). In return the owner serves food and drinks after the work or later after harvest depending on the availability of the food. (ii) *Pur aleya:* Rotational labour services provided to each other by a group of self-selected and regulated farmers for the purpose of increasing acreages.

Others were (iii) *pur gweno/dyel/ ringo/ cam/ cente:* where a group of people provide labour for someone for payment of either animals or food items. These are mainly group of people who may not have their own garden to grow food or who have lost harvests for one reason or another and are at the brink of starvation. (iv) *Pur pa rwot:* is a practice of community labour contribution for the clan chief by working on his garden as incentive for his service. The chief was not to dig but to administer justice, promote peace, cooperation and security.

These were self-regulated social practices among the communities that had profound impacts on social cohesion as well as maintaining food security. Besides, incidences of illegal harvests, thefts and destructions by malicious people which are now common threats to producers, were unheard of. These activities strengthened the social bonds between members of the community and neighbourhoods. This was the backbone of the strong cooperatives in northern Uganda.

However, these practices are no longer effective in the communities due to growing influence of cash labour markets. The camp life reduced opportunities for people to engage in farming. Instead IDPs supplied their labour to the host farming communities for cash and not food, as was in the culture, in order to meet other household basic items such as salt, clothing, medicine and kerosene as food was being provided by WFP. Another reason for preference of cash for labour is the increasing amount of food crops going for sale with the decline in cash crop production. These two experiences introduced a cash labour market which is becoming the custom. With poor access to agricultural finance, hiring extra labour has become one of the constraints the poor farmers face in increasing acreage.

4.4.2 Displacement of the Population into Camps

When it became apparent that the government army was causing a lot of collateral damage on civilian lives due to inability to distinguish civilians from the rebel soldiers, the government forced the civilian population to move into camps set within the region. In 1999, close to two million people, 90-95% of who were the Acholi, 33% of the Langi and 10% in eastern Uganda were internally forcefully displaced by government and confined to camps set by government in anticipation to launch effectives against LRA (Gelsdorf et al. 2012).

The aims of forcing the population into camps were two folds. One was to distinguish civilians from rebel soldiers and their collaborators. The other aim was to make it easier for the government to army to protect the local population from LRA attacks. For these two purposes, the IDPs were surrounded military detaches. Freedom of movement out of the camps was limited. Permission had to be sought from the government militia for people to move outside the camps. Otherwise anyone caught outside the camp without prior knowledge of government army was considered a rebel or collaborator and becomes a target for government shooting.

Dolan (2012) best referred to it as "social torture", while others call it genocide (Wegner 2012). The condition in the camps was deplorable with 84% of the region depending on food relief from United Nations organization (Nannyonjo 2005). The IDPs were crowded with poor hygiene and sanitation, poor or no public service delivery to the communities.

During the camp economic activities shifted from farming to labour markets in the host community's farms for cash or additional food stuff (Gelsdorf et al. 2012). This change of economic activity continues after the war. In 2010, it is estimated 71% of women and 72% of men now work in labour markets (Lehrer 2010 in Gelsdorf 2012). The life in the IDP camps forced women to engage in survival economic enterprises outside the home, making them bread winners for the households unlike most men who spent their time in leisure. Again this scenario continues after the war as men can be seen loitering along the roads and rural growth centres when they could be attending to their crops.

On return to their previous communities after the more than a decade confinement in the camps, daily patterns of people's lives have been "disrupted, economic foundations of the communities have been shattered, and some of the social and culture relationships that sustained the communities have been undermined" (Olaa 2001). The effect of the war is evident in a number of ways many of which are beyond the scope of the present study. In this chapter the focus is on the impacts of the war on local institutions relevant for smallholder market development as such as local government, producer associations, social institutions and land rights.

However, when displaced people started to resettle in their original village, to date, a number of the elderly and youth have remained in some camps. The demand to maintain the camp status quo had led to redevelopment of some camps as Urban Councils, thus transforming a rural growth centre into s town council. Elders saw no reason why they should relocate again from the camp which had become their place of abode for years to resettle in their original communities when they are not sure of how long they would survive in the new environment where health facilities were inadequate. They felt it fit to finish the remaining years of their life in the camps. The youths remained mainly due to lack of education opportunities in the villages of return as socio-economic infrastructures had all been destroyed. The case in point is that of Opit IDP in Gulu district which has now turned into a Town Board[1] after a number of the IDPs refused to quit the camp when others returned after the war. The management of the town council comes with demand for a different set of institutions for managing the town board from that of camp management.

4.4.3 The Impacts of Civil War on Collective Action

The impacts of the LRA insurgency on the functioning of producer institutions is indirectly through disruption of socialization which is critical for reproduction and passage of cultural norms and shared beliefs. It is the changes in social relations, cultural norms and mistrusts that further constraint the development of producer organizations. The first and common challenge alluded to by most respondents is the difficulties in nurturing internal cohesion among the members of producers' groups and associations (Harm et al. 2013, Wegner 2012, Gulu District Plan 2010, Lecoutere et al. 2013). Success of collective action can only be possible if there is internal cohesion between members. Recent researches in northern Uganda (Wegner 2012) and interviews for this study attributed lack of internal cohesion in groups and resistance to join groups to among others to a general breakdown of social relations, lack of respect for social norms and values and deep sense of mistrust. More so, rampant disputes over land are increasingly pitching community members against each other. Four salient factors undermine group cohesion can be identified; weak council of elders, disruption of family and community ties, mistrust among community members and dependency on subsidies. These are discussed in detailed in the following sub-sections.

Weakened Traditional Council of Elders

Although the traditional cultural institutions did not have direct influence on collective action institutions, they imposed on individuals and collective action organization responsibility for each other as a social norm. Traditionally a council of elders is considered regulators and enforcers of social norms and cultural institutions. In the past, their decisions were almost taken as final and going against tantamount to an abomination which attracted punishment. These institutions were autonomous from government in terms of resources and control. However, elders' institutions were grossly weakened when they negotiated for government support to finance their activities (Doom and Vlassenroot 1999).

The community members now see them as people who have been compromised by government through financial inducements to run affairs of traditional institutions who are by tradition remunerated through in-kind labour support in their farms by the community members. The implication is that they are no longer respected as in the past and some of the decisions not adhered to by the youth. For example in Amuru the elders resolved to give a part of the communal land for a private firm to grow sugarcane and establish a sugar factor in the district that would provide job opportunities for the locals (USAID 2009). The local political leaders, majority of who are youthful, disregarded the decision and literally lynching the team of investors. Such behaviour in the past would not have been tolerated by the elders. To date firm had to withdraw from pursuit of that investment.

Disruption of Family and Community Socialization

The displacement of the population to the camps had disastrous impacts on the traditional family settings and structures. The processes of primary, secondary and tertiary socializations were disrupted. One cultural practice that was vital in passing of values and tradition from one generation to another was what is referred to as 'night fire-place' *(wang-oo)* associated with peaceful time and celebrations. *Wang-oo* is where fire prepared is prepared at night on the household compound and the family gathers around it to tell stories, riddles and poems which all aim at imparting cultural values in the younger generation. It is considered vital social space and institution for informal education (Cagney 2012).

A number local leaders interviewed argued that, in the camps, parents did not find time to spend with their children to impact traditional value that promote cooperation and cordial interpersonal relations because:

(i) Parents were pre-occupied with daily struggles to put food on the table, clothe the children and meet health care. The WFP food rations were not adequate to meet all the food needs of the families. There was need to supplement it with off-farm activities.

(ii) High mobility of the men who went out of the camps looking for employment in towns and plantations in the southern Uganda. A large number of children missed total parenting leave alone the congestion in camps that comes with its attendant social evils such as rape and child labour.

(iii) Night commuters: due to fear of abduction, more and more children spent the nights in towns and returned to the village during the day. The spent their nights at the aprons of shops, churches and schools. During the day they would walk back to the camps to take meals and go to class, thus earning the name night commuters by from news reporters.

Environment of Mistrust among Community Members

The relations between farmers were injured by atrocities by close rebel fighters. Abducted children were trained to fight and kill many times their own relatives and neighbours indiscriminately. Many of the victims knew their tormentors some of who have returned and live in the same community (Cagney 2012). Although Acholi traditional justice and reconciliation ceremonies have been held for them, the wound is deep and not easily healed to freely interact. One farmer who lost children one of whom never came back commented that it is easy to forgiven each other but he still finds it difficult to freely interact and cooperate with ex-combatants to undertake joint economic activities. There are many of these experiences reported in a number of forums and studies (Amone-P'olak et al. 2014, Dolan 2011, Nannyonjo 2005, Cagney 2012). This has disentangled the family relation and clans, kinships, which are the bedrocks of social culture and source of bond and trust (Cagney 2012).

Despite the amnesty extended to former LRA rebels and the victims unconditionally forgiving them, people still find it difficult form and work together in the same farmer groups or cooperative leave alone reside in the community. The process of resettlement by Amnesty commission and the subsequent traditional justice and reconciliation are in complete and have delivered the much needed justice and reconciliation, as is illustrated by the experience of Alice as reported by Baine:

> On a few occasions, the community has destroyed the family's property, insulted them and marginalized them from community activities. Local leaders, including local government officials, camp leaders and the local Council of Elders in the camp, offer Alice little support, in part because of their own biases and fear of *cen* (spirits of the dead). Alice displays signs of psychological trauma that are believed to be signs of *cen*: she is often seized with fear brought on by certain triggers, such as when digging in nearby gardens- a place where civilians are commonly abducted (Baine 2007:93)

This is just one example of cases of ex-combatants not finding it easy to be forgiven and resettle in the communities. The other constraint is the difficult to meet the cost of traditional justice systems. The traditional rituals slaughter of animal depending on the nature and gravity of the offence; food and drinks for the elders and the clans members which require some amount of resources, which is not affordable by majority of those in need of reconciliation. One of the delays in Alice's reconciliation process is the failure to raise these requirements. The incomes to acquire the needed items could come from joining a farmer's group which she cannot do due to stigma.

Dependency Syndrome and Poor Business Culture

Before the civil war, central government departments and cooperatives unions provided all the necessary support farmers needed ranging from 'free' inputs, credit, extension and marketing. While in the camps the community lived entirely on food rations and non-food items from UN agencies. The post-war, returnees face quite different economic environment from what they left; liberalized markets with less and weak government support, they are required to actively participate in mobilizing own resources for their community development under decentralized system.

Most groups grossly lack business principles in their conception and operations lack. There is lack of culture of saving; a practice that has long term consequences for acquisition credit for inputs, access to new technologies and hire of labour (Cagney 2012). Generally, individual and groups are more driven by what resources from government and NGOs than their strategic choices, as evidenced by many abandoned donor funded warehouses observed, as it was the first priority of the producers.

4.4.4 Changes in the Land Tenure Systems

Land and labour are the most important factors of production the poor heavily rely on for their production and livelihoods. Therefore, matters concerning land are at the heart of smallholder development and poverty reduction. Northern Uganda has 35% of the country land surface with large parcels of land currently unutilized due to displacement leading to loss of agricultural production (Uganda Bureau of Statistics 2010b). Before the war, land was largely not considered a commodity whose ownership right could be exchanged for cash in the market. Agricultural land in northern Uganda, from time immemorial, has always been held under customary tenure. The customary land tenure provides for the family heads or clan elders to own family and communal land respectively.

Ugandan Constitution of 1995, article 237 states that "all land in Uganda shall vest in the citizens of Uganda" and be managed according to the different tenure systems (Uganda Government 1995). There are four tenure systems in Uganda recognized by the constitution: customary, freehold, milo and leasehold. Milo land is most applicable to land in central Uganda under the traditional monarchy. The freehold and leasehold mainly apply to urban lands for constructions and a few farm lands of mainly rich landowners. In northern Uganda, land is largely rural and is held under the customary land tenure system. The freehold, milo and leasehold are formal tenure systems where land ownership has the private right to dispose of it when need arises. However, in customary land tenure, ownership and management are separate. Whereas individuals can own land, they may not have the full right to dispose of it. In Acholi custom, family land may be owned by individual family members but is managed by the head of the family. While communal land is owned by the community and managed by the clan elders on behalf of the community. The family heads and clan elders consent to it before individual or group of individuals to sell land before transaction takes place.

The separation of ownership and management of customary land does not mean under customary tenure land cannot be sold; but that family and relevant community members have to be consulted and involved in the transaction. The problem is that the customary land tenure is not fully defined nor written thus increasing the transaction cost of customary land. This makes the transaction of customary land very unsecure, thus preserving the family or communal land. A conversation with Okello, an elder in Gulu town, reveals the moral values behind customary land tenure systems. Two important customary values lie behind the customary tenure. They are linked to the strong communal ties (bonding capital) between members of the clan in a homogenous community.

Firstly, the harvests of crops produced by individuals on their private land are not fully private good. Part of it is contributed to the clan chief as his remuneration for his oversight services of the clan, the landless exchanging their labour during weeding and harvesting for food during harvest time and meals are often shared with vulnerable members such as elders and person with disabilities. Therefore, the clan chief will ensure that those who have the ability to till the land get more so that more food is produced in the community.

Secondly, the systems allows for family heads and clan elders to ensure land is fairly distributed among those interested to produce crops. The disadvantaged like widows, orphans, divorced women and unmarried girls were able to have access to land when they need it. According to Okello, contrary to the argument that customary land tenure systems discriminates against women and children; when well-managed, under customary land tenure, land was passed from the family head to a responsible and married eldest son or to a widow in case of death of the family head, when the children are still unmarried. The widow becomes the family head and inherits the land of the deceased husband on behalf of her unmarried sons.

Before the discovery of HIV/AIDS, the widow would be inherited by one of the brother-in-law's who protected the land for her until she passed it to her sons. But the in-law inheriting her would not inherit the land. Because of the risks associated with HIV/AIDS, the practice of inheriting widows has been discouraged. This has also led to widows being subjected to pressure of leaving the deceased husband's premises, particularly if she does not have a son to claim the family land. Unmarried girls and boys were free to till the land available to their father. In case a girl did not marry at all, she would inherit part of her father's land which will be taken over by the brother if she died.

The Impacts of the Civil War on Land Rights

Focus group discussions observe that the customary system was working well before the war but things have changed because the post-war environment is quite different. Office of Prime Minster found out that, land insecurity exists in 62% of the sub-counties (OPM 2007). In addition, according to UNDP (2007), 15% of the women and 13% of the men had no access to any form of land after the war, which would not be the case before the war. In Lalogi sub-county in Gulu, the police reported registering three to four cases of land conflict per week up from almost zero before the war. The conflicts constrain social interaction between members of communities as trust, which is a vital medium of relationship, is eroded. From the focus group discussion, four salient factors undermine effective functioning of the customary land tenure.

The first is commodification of land in the camps. During the camp some IDP rented land to produce extra food to supplement supplies from relief organizations. Many of the IDPs could not afford to hire land due to lack of resources. This is the time people started to realize, if one has private land, it can actually be hires out or disposed of for a living. When asked where the demand of land is coming from, one of the chairman of defunct Purang-Gem cooperative society reported that the demand for land is mainly by the businesses, military and government elites, who are able to speculate future land demand challenges and have the money to pay. On return to their villages, land is seen as a commodity and direct sources of income. The people who are supposed to protect vulnerable group of people like the widows, orphans and unmarried youth are now the ones cheating them. Family heads and clan elders connive with military and government elites to sell family or clan land without the due customary processes of consultation with other interested parties to seek their consent.

The second is the weak institution of family heads and clan elders to enforce the customary land tenure systems due to inadequate knowledge of the different pieces of land and their ownerships. Most of the elders who knew the land demarcations of individual and clans died during the war. The current leaders are young and ignorant of the demarcations, as such just solutions to land dispute are proving hard to obtain. According to Uganda Bureau of Statistics (2010) over 78% of the population in northern Uganda below was 25 years of age. Most of this generation have little experience of life outside the IDP camps or following traditional rules and lifestyle (Gelsdorf et al. 2012). This makes resolution of disputes very difficult for the local courts.

The third is population increase. Due to population increase, the available land does not seem to be enough for individuals to share even when it is reported northern Uganda has the largest amount of free arable land. Those who have the chances and the power to acquire more do so at the peril of other family or clan members. The communal spirit is no more. Land is more looked at as private property that can be disposed of like through any other land tenure systems.

The fourth is that most of the population and their leaders are ignorant of the provisions of the 1995 constitution relating to land and the Land Act 1998 which came into effect when the population was suffering from the war. The Act provided for local land adjudication mechanisms that were accessible to the communities and reminiscent of the cultural land dispute resolution mechanism. When government conducted sensitization on the land law, the camps were not targeted because of the insecurity and it was inappropriate to sensitize them on land matters when people were detached from their land.

4.4.5 Disruption of Public Service Delivery

In Uganda local government are mandated to provide extension services to smallholders, ensure compliance to sector norms and standards. They also offer judiciary services by resolving local disputes over land through local courts at sub-county, parish and village council levels. In the village courts the elders are incorporated to tape a wealth of social and historical knowledge they have in local justice and dispute resolution. However, by the end of the war in 2006, the local government had weak financial and technical capacity to provide the required oversight role and guidance local court systems to function effectively to resolve civil cases that fall under their mandate.

The decentralization policy in Uganda was introduced in 1997 when the LRA insurgency had already started. In 1999 before the system could take root in the region, the population was displace in camps until 2006 when peace returned to the region (OPM 2011). Due to insecurity, grassroots participation and local revenue collection could not be effectively undertaken and yet many aid donors still required counterpart contributions as precondition for access development grants. There was little, if any, local taxes collected from the population in northern Uganda, simple because there were no incomes to tax.

Therefore, in the wartime, districts could not attract competent staff in all the key departments. Local government staffing level was as low as 36.8% in Acholi district while the national average was 50% in the rest of the northern district (OPM 2007). Besides, most of the top staff was on acting positions to as they did not meet the required minimum qualifications. This precarious situation was made worse by the continuous illogical division of districts which made targeting and planning difficult (ibid).

In addition to the low staffing capacity in the period of insurgency, the local leaders also mentioned the lack of equity in resource allocation between secure and war affected districts. The formulation for allocation of central government transfers to the districts did not take cognizance of the hard to reach and stay district in northern Uganda. Yet, costs of military escorts for the district leaders and staff to reach the camps, exorbitant high fuel prices due to few fuel providers, high costs of building and construction materials all conspired to add extra costs of service delivery and low quantity and quality of service provided to the communities.

4.4.6 Strained Civic Society-Government Relations

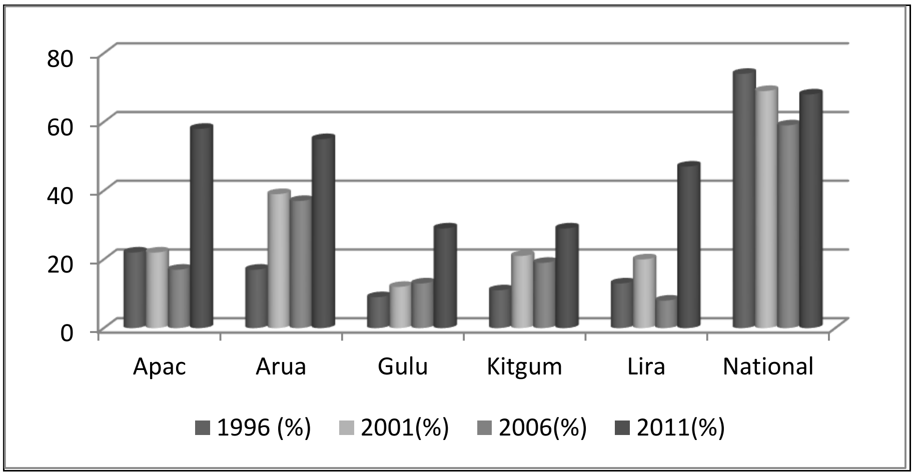
In nation states operations and interactions with the community, trust between the civic society and the government is vital element for success in delivering public goods required for economic change (Putnam 1995). The trust relationship between civic community and government is measured according to vibrancy of associational life such as freedom of association, newspaper readership, electoral turn out and preference voting (ibid).

There have been two streams of adverse effects of the civil war on the relationship between civic community and government. There was growing resentment towards the Museveni government, which eroded trust in the NRM government. Using voting patterns in the different presidential elections as a proxy for measuring trust in government, in the first election held in 1996 after Museveni government took over power through military victory, less than 10% of the Acholi and Lango voted for Museveni as indicated in the figure 3.1 below. This was at the height of the civil war and many communities were living in constant fear of rebel attacks. The resentment to government emanated from three important sources related to the insurgency.

Firstly, the Acholi strongly believed that the government deliberately allowed LRA to torture the civilians to pay for the Luwero war killing by the UNLA who were 90% Acholi. It is believed over 200,000 people died in that war killed by both the Museveni rebels and government militia (Semuwemba 2012). Government had capacity to end the rebels the way it did to Lakwena and others in western Uganda, the ADF, who would not stage attacks for a week before they were neutralized.

Secondly, in Acholi a major impact of the civil war was the loss of cattle. Acholi were traditionally cattle herders and crop farmers. During the war the cattle population was reduced by over 95% (Doom and Vlassenrrot 1999). Both focus group discussion and individual interviews revealed that, in the beginning, people gave their cows to the Uganda Peoples Democratic Army (UPDA), the initial rebel group that wanted to recapture power from the NRM. The cattle were given on request to exchange with guns from Sudan. The agreement was that after recapturing power, the people who provided cattle would be compensated. The local people perceive that on realizing this, government connived with the Karamojong to raid their cattle to rid the rebels of source of weapons. They argue that, when Karamojong cattle raids were taking place the government military did little to protect or recover the cattle as they would do in other communities.

Figure 4.1:
Voting Trend for Museveni in Northern Uganda



Source: Data from Uganda Electoral Commission-www.ec.or.ug

Thirdly, the blatant brutality with which the government soldiers made counter offensive attacks, on the rebels was sporadic and caused excessive collateral damages. In the end, the civilians were caught in between the two warring factions typical of a Kikuyu (Kenya) proverb *"when two elephants fight, the grass suffers*". The civilians were afraid of both rebel and government army. They argue that when government realized this resentment, the civilians were moved to the camps, to separate them from the rebels to avoid the collateral demand which was becoming too alarming. Now, whereas, Kony was indicted by the ICC on the recommendation of Uganda government in 2005, the individual commanders who order killings have not been brought to book.

The strained relationship between northern Uganda and government affected the way community's perceived government programmes meant to rehabilitate their livelihoods immediately after the war. For example in the peace, recovery and development where communities generated projects through a bottom-up approach, a sub-county community development officer who undertakes appraisal of community project for funding by government noted that these activities have become opportunities for communities to organize feasts under fake reconciliation events (*Interview, community facilitator, March 2013*).

It is common for local elites to use the opportunity to claim a conflict has occurred and mobilize communities to prepare a project to purportedly resolve it. The paper work is done with the knowledge of the key community leaders and the faked conflicting parties which she said was difficult to ascertain because all the parties will have connived to conceal the truth. She also adds:

> Even if you are convinced that something is amiss with this proposal you cannot come out openly or indicate in the project documents for fear of being rejected by the community for whom you work. So you pass the project. After all if you don't the money will go back and again you will be accused of low absorption capacity (*Interview, community facilitator, March 2013)*

This is one example of negative side of social capital. These practices point to the way communities outsmart government as the process is politically driven less rigorous evaluation of the process and authentication of the projects. Many 'ghost' projects of community elites under fictitious groups were funded undetected. In addition, many people looked at these funds as government compensation for the loss during the war when other regions were developing.

However, early in 2014, in a rally in Gulu, Museveni publicly admitted there could have been torture by individuals in his army against the communities in northern and eastern Uganda and promised to open investigations with the view of bring them to book. He dismissed the claim that it was orchestrated by the government army. The local people believe that it will take long for the community to forgive government, leave along forget what happened.

As the trend shows in figure 4.1 above, with the end of the civil war 2006, the support for the ruling government in the last election of 2011 has more than doubled from the 1996 results. As more people settle and begin to regain their livelihoods and increase incomes from farming, government continues to regain its legitimacy and trust from the citizens. The peace, recovery and development plan for northern Uganda by government is helping to bridge the gap between the state and the civic society. Government current efforts are in line with Horen's (2002) observation that social services such as water, education, and health care offer opportunities to build trust in government and bring people together; a good tool for social mobilization.

4.5 Discussion and Conclusions

This section discusses the findings in relation to the wider literature on institutional changes in stable political environment. This is aimed to contribute to and reflect on institutional changes in war-affected environments. A number of insights can be drawn from the northern Ugandan case as far as institutional embeddedness and dynamics of institutions change in post-war is concerned. The important role informal institutional play in economic interaction has been reiterated strongly in this chapter.

Firstly, civil war has an indirect impact on as the rules of the transaction game. Civil wars impact on institutions through destroying the capacity of actors that make institutions to function. Therefore, the pattern of change cannot easily be identified. The change process depends on each conflict pattern. The war planners may make deliberate decision to destroy a set of institutions by destroying the game or the actors that enforce these rules. But for war victims the impact of war is spontaneous as they never anticipate and prepare for consequences of war ex-ante.

Secondly, in line with Chang's (2011) observation, that advances in economic development can create demand for new institution and cause institutional changes, the findings reveal that non-farm economic activities that characterise wartime demand different set of formal and informal institutions than pre-war institutions. Chang's argument was based on advancement in economic progress, namely, increase in wealth that may demand better quality institutions (Chang 2011). Chang's argument applies was restricted to a situation where changes in economic progress are positive. What happens when the economy declines rather than advances?

What can be learnt from the experience of smallholder in northern Uganda is that disappearance of an economic activity renders associated institutions irrelevant. The inability of IDPs to engage in agriculture due to lack of access to land in the camps rendered the relevant institutions for agricultural production and marketing redundant. The case has also demonstrated that in prolonged war, the institutions may eventually be ineffective even when the same economic activities are re-established. The weak performance of farmer organizations in northern Uganda attests to this argument.

The northern Uganda case shades light on what happens to institutions when an economic change takes a negative trend. As Coyne's (2005) observes; in war affected areas formal economy may cease to operate and activities shift to informal sector. It has also been evident that due to decline in farming activities in the camps, farmer institutions such as farmer groups became ineffective in the camps. The camp economy is largely dependent on micro-scale off-farm activities targeting the local camp markets, regulated by local camp committees. The practical example is where the old forms of cooperatives are not helpful in the new economic environment and yet continue to exist, albeit weak. This highlights the importance of institutional environment as an external factor in influencing both economic and institutional changes (Williamson 1985). Government policies regarding support NGOs provide to producers organization has been conducive, the cooperative development policy of 2009, freedom of association and information exchange are some of the important government support in ensuring the right institutional environment for local institutional changes to take place.

When Coyne (2005), Cowen and Coyne (2005) argue that, in wartime period, economic activities may shift to the informal sector, they seem to assume that informal institutions remain stable in during war. Whereas this may be true for certain wars, the northern Uganda case shows that informal institutions can be destroyed during civil wars. The question is under what conditions does a civil war alter or destroy informal social institutions? Conventional argument by conflict theorists is that, intra-group cohesion and inter-group alienation combine to provoke conflict behaviour (Murshed 2010). It is the intra-group cohesion that acts as preservative of social relations that reproduces and preserves informal institutions as the basics for economic reconstructions. In the northern Uganda case, since a section of the community (LRA) went to war with government without fully mobilizing the community for which it claimed to fight, the war polarized the community instead of creating cohesion. In really the LRA was fighting both government and the same community it claimed to fight for, creating a communal conflict within the civil war. It is this intra-community conflict that injured social relations, generalized moral and trust.

Thirdly, the findings have also demonstrated that in fragile environments informal institutions are not as stable as new institutional economists argue. Institutional economists assume that informal institutions are ever present to support informal economic activities and are taken for granted (North 1990, Williamson 2000). But the case shows that in prolonged conflict-affected situations even the informal institutions are can be destroyed and therefore, require deliberate investments to restore them. Furthermore, with changes in economic environments, they may require deliberate reforms to make them suitable for the post-war economic activities. It is from these informal sectors that recovery starts to gradually move to the formal economy with passage of time as formal institutions get embedded in the social relations. Chang's (2011) argument an increase in wealth may demand better quality institution does not explain the needs for informal institutions.

Fourthly, the experience of northern Uganda corroborates the argument that formal institutions such as central government, banks and prominent private sector are the first to disappear compared to informal institutions in during war due to insecurity (Coyne 2005, Aron 2003). The reason presented in literature is that banks, government staff and departments are often target of rebel attacks (Coyne 2005), provides partial explanations. But in addition, from the case of northern Uganda, one explanation is that formal and higher level institutions are less rooted in social cultural relations and norms of the locality. Besides, due to their national scope, staff can easily be moved to other branches. The experience of northern Uganda also shows although most of the district offices remained operational, they were ineffective and in some instances due to insecurity, unable to deliver the required services to the population who were dispersed in IDPs all over the region.

Fifthly, civil war halts the normal processes of socialization which is the normal evolutionary process of creating social relations, reproducing and preserving cultural norms and conventions (Platteau 1994a). New habits, norms, languages and practice that may have been acquired in the camp and are not in line with the values and norms of the community take time to unlearned and adjusted to the post-war needs. This situation results in the preservation of new institution and habits acquired from the camp over the old traditions and habits, which seem out of step with developments in society.

Therefore, life outside the camp is quite a new experience to which they have to (emotionally, physically and economically) adjust. The literature on post-war recovery does not focus on the peculiar needs of this group. Development agencies tend to focus on the needs of youth who are ex-combatants for obvious reasons of preventing return to violence. The activities are geared towards vocational and technical trainings which promote off-farm skills development and enterprises.

In summary, whereas civil wars cause informal institutions in a few decades, the process of regeneration of informal social institutions may take too long or never to fully recover. The process can be frustrating, costly and yet there is no guarantee that the expected changes will ever take place. This is discussed in detail in the next chapter of this thesis, which candidly looks at the process of rebuilding local institutions in post-war localities.

In conclusion, the chapter was set to examine the changes that occur in local institutions in an environment of civil war. It started with an understanding of the importance of local institutions in the process of economic reconstruction supported by external development organizations. The important but indirect role social institutions such as norms, conventions and trust play in economic transaction coordination were reiterated. Economic activities and institutions are embedded in social network of interpersonal relations, cultural norms, conventions and trust.

However, contrary to conventional thinking that changes in informal social institutions such as cultural norms, conventions and trust take long time to change, civil war as an external shock has ability to alter informal institutions in a short period of time as violence devastating impact on social ties.

The chapter also shows that the impacts of civil war on institutions are not only direct. Civil war disrupts the day to day processes of community socialization which is important processes of reproducing and passing social norms from generation to generation. Increased community interactions also build trust between members of the same community group or between group bridging social capitals which is vital for transacting within and between groups.

Wars also weaken capacity of local formal (governments) and informal (business association) institutional actors to formulate, implement and enforce informal rules, norms and built trust in between actors in transaction game. Non-functionality of an institution for a long period of time may render it obsolete for use in the post-war period since the economic situation would have changed. Identification of such obsolete institutions is pertinent for post-war reform agenda.

5 Analysing Market Failures in Post-war Economies

5.1 Introduction

The chapter analyses the responses of the smallholder markets to weak institutional arrangement and environments that characterise the post-war areas, from the perspective of smallholder producers. Nearly, two-thirds of countries in Sub-Saharan Africa are grappling with reconstruction of their (local) economies after civil wars (World Bank 2009b, Coyne 2005b). The role of markets and private sector in accelerating post-war economic recovery has gained attention and support of development aid donor agencies (World Bank 2009b). In order to inform market development strategies in post-war economies, it is imperative that a thorough pre-intervention assessment of the markets is undertaken to identify and address the relevant development challenges. Market failure analysis is a useful tool to understand what interventions have to be designed and whether or not there will be net economic gain from interventions in the markets (Barrass 2007).

As Sexton (2012) observes, most studies on imperfect competition have dwelt on monopoly and oligopoly power of the producers and retailers, which is the supplier market power more akin to producer driven chains in industrial studies. Less attention has been put on the exercise of buyer market power of monopsony and oligopsony that is characteristic of the smallholder agricultural markets where large numbers of small producers transact with few large processor-buyers. The buyer market power is an important aspect to consider when analysing market failures for farm products (Borooah 2003).

The chapter is premised on the argument that failures in agricultural markets are results of weaknesses in institutional environment and institutional arrangements. The analysis takes markets as embedded in a set of complex socio-economic, political and cultural environment which influence the way firms relate and transact with each other (Rosenbaum 2000). Institutional arrangements provide the structure of markets and inherent power dynamics that influences market performance. The analysis looks at a market as a (social) institution that constraints and orients the way commodities are exchanged and in turn, it is influenced by the market interactions of economic actors (Rosenbaum 2000, Dorward et al. 2005). It examines the different forms and causes of market failures in smallholder agricultural markets in environment of weak institutions and capacities of actors to coordinate complementary investments. The analysis goes beyond the simple demand and supply dichotomy of the classical economics to the underlying structural problems of economic sociology, such as market power dynamics (Yeung 2005, Sexton 2012), coordination and institutional weaknesses (Kydd and Dorward 2004, Williamson 1991). The following propositions guide the study.

- *Proposition 1:* weak institutional environment and arrangement endemic in post-war environment drive market to systemic failures (Kydd and Dorward 2004.
- *Proposition 2:* conversely, changes in economic activities may demand changes in institutional arrangements (Chang 2011).
- *Proposition 3:* lack of competences of economic agents to put in place institutional arrangement or to use existing institutional arrangements increases risks of coordination failures in complementary investments and risks of transaction failures (Knorringa and Helmsing 2008a, Helmsing 2013, Helmsing and Enzama 2014)

Markets play very important roles in economic analysis but the criteria to assess and analyse market are absent (Sissors 1966). Small firms require market knowledge, access to new and better technology, support in better production organization and information search, investment training, research and development. This can be done by government entering in close business partnership with private sector under public-private partnership, effective network of government agencies involved in the value chain and optimal use of new technologies (Badrinath 2004).

In the next section, the links between weak institutional environment and lack of institutional arrangement or poor enforcement and how these leads to systemic market failures is discussed. It also has a brief exposition of prolonged impacts of civil wars on market structure and thus market performance. What follows are reports on the nature and, causes market failures and the implications for the economic recovery and development of smallholder production in northern Uganda. Before the conclusion, a theoretical reflection on the key features of institutional arrangement and systemic market failures is discussed.

5.2 Institutional Arguments and Market Failures

In an economy, an institutional arrangement describes the composition of transacting parties, their respective market positions and power relations as a component of market structure restricted to a particular transaction (Sexton 2012). Here the term institutional arrangement is used broadly to mean interaction between economic players in which exchange is involved. Contracts are central to all economic activities (Menard 2000) and their nature and performances are greatly influenced the market structure.

Market structure determines the market relations of players participating in economic transaction (Perloff and Rausser 1983). Clodius and Mueller define market structure as;

> The […] organizational characteristics which determine the relations of sellers in the market to each other, of buyers in the market to each other, of the sellers to the buyers, and of sellers established in the market to other actual or potential suppliers of goods, including potential new firms which might enter the market. In other words, market structure for practical purposes means those characteristics of the organization of a market which seem to influence strategically the nature of competition and pricing within the market (Clodius and Mueller 1961:516)

In institutional terms, market structure describes the institutional arrangement for economic exchange. There are four key elements of a market structure that impacts on the market conduct of transacting parities; which are important for understanding the way economic transaction takes place (Clodius and Mueller 1961):

- The degree of seller concentration, defined by the number and the size distribution of sellers in the market.

- The degree of buyer concentration, defined in parallel as the first.
- The degree of product differentiation which is the extent to which their products are viewed as non-identical by buyers.
- Ease or difficulty with which a firm may join the market. The entry and exit barriers are the cost advantage of the established firms over new potential entrants.

5.2.1 Uncertainty and Systemic Market Failures

Uncertainty in economic exchange is one of the leading factors of high risks of investment failures. Investments failure is defined as "the failure to make an investment due to a possible absence of complementary investments by other players at different stages in the supply chain" (Kydd and Dorward 2004: 959). Uncertainty arises from information asymmetry or when safeguards are too costly to put in place due to the need and cost of obtaining required information. When institutional arrangements are not clear or poorly enforced, there will be no incentives to generate and share information among actors, because cost of hoarding information will be low. This leads to systemic market failures.

Systemic market failure explanation is premised on the argument that economic transaction contracts are complex interactions between different sectors of the economy involving not only directly transacting parties but also support agents outside the transaction. A single transaction involves more than demand and supply. It requires participation of also those that complement and enable successful exchange like the public sector and civil society organizations. A value chain operates as a system and hence a failure in one link of the transaction directly or indirectly cripples the operation of other links in the chain, setting a system of failures (Dorward et al. 2005). For instance inelasticity of supply experienced by small producers may arise due to missing markets for inputs or credit which affects the producers response to increasing prices despite the argument that small enterprise are flexible and do adjust easily to changing market stimuli. Secondly, the capacity of the production system to respond to market stimuli is very important for the performance of the market for small producers (Menard 2000). In the case of smallholder producers, any changes in their product demand or price cannot lead to a corresponding adjustment in production volumes immediately because farm production takes at least a season to change even for annual crops, while it take long time to make adjustments in perennial crops.

Markets in early stage of economic recovery may not coordinate activities because of spill overs or externalities between the different complementary sectors (Kydd and Dorward 2004). Already agriculture in rural areas is prone to conventional risk of natural disasters such as weather, pest and diseases or market price fluctuations. The prolonged absence of strong institutions during prolonged civil wars presents addition risks of investment and transaction failures due to coordination problems (ibid). Further risk of residual insecurity of persons and property makes the post-war environment insecure for private investments (Margaret 2006). Kydd and Dorward (2004) observe that transaction costs and risks undermine the process of exchange and specialization necessary for economic growth. Since communities continue to rely on the own food production they tend to not to specialise in a few crops for which they could have competitive advantage because the systems of economic exchange are not fully functional to meet their consumption needs. They categorize transaction risks as risks of coordination failures and opportunism.

The structure of the smallholder markets is often that there are large numbers of small producers facing very few large processor buyers who have market influence over the producers. There is often information asymmetry between small producers who transact with large processors which weakens the bargaining power of the producers. The producers face challenges of access to information and enforcement of their private property rights. This limits their access to better markets that further impends their production, economic and technological advancement (Dorward et al. 2003). Information and its distribution are controlled by the dominant firms who are better positioned downstream close to the end-market (Clodius and Mueller 1961). In developing economies the countervailing institutions such as sanctions and courts of law that can curtail the influence of the powerful actors or increase the bargaining power of the weak parties are either non-existent or weak or corrupt. In stable political conditions, in the absence of formal systems, coordination is complemented by strong network of social relations trust and norms of behaviour. However, in post-war settings such networks, trust and shared beliefs are destroyed, thus prolonging the failures.

In which case a formal clause can be made into the transaction contract to deal with the zone of tolerance or informal contracts and informal institutions that require less resource to fill the gaps are adopted. In some cases vertical coordination and control by a lead firm to minimize information asymmetry, uncertainties and transaction risks about the future (Clodius and Mueller 1961). Where lead firms are non-existent in the value chain, governments or non-government organizations intervene in the market to provide coordination of economic activities (Kydd and Dorward 2004).

5.2.2 Risks of Opportunism and Moral Hazards

The risk of opportunism is the risk faced by dealing with another player who has made complementary investment "having an effective monopoly in the supply of a critical service and thereby capturing an undue share of revenue in the supply chain, or delivering sub-standard goods or services whose quality cannot be easily assessed when entering a contract" (Kydd and Dorward 2004:959). Example of risk of opportunism can include loan default by farmers, low price offered by traders at harvest time or in remote areas because of lack of other outlets for sales; sale of poor or adulterated inputs and use of inaccurate weights and measure.

A related concept to opportunism is that of moral hazards and adverse selection. Moral hazard is where in a transaction "a person seeks to gain from a situation which is not provided for in the contract" (Sloman 2006:11). This often arises due to lack of clear defined institutional arrangements and lack of safeguards or poor enforcement of institutional arrangements or lack of trust among the economic actors. It is a practice, for instance, where products of different qualities are sold at the same price or same product qualities sold to buyers of different qualities at the same price (Borooah et al. 2003). The result of adverse selection is often low-quality products or high risk to buyers. Adverse selection is a form of market failure where low quality products at low prices are over supplied while high quality products which at higher prices are under supplied (ibid). For example consumers choose supplies with low prices due to information asymmetry on the quality of products. The low price for supplies may signify low quality. Information asymmetry is a key explanation in understanding of information imperfections and is relevant for explaining many aspects of market failures such as institutional weaknesses and externalities (Sloman 2006).

5.2.3 Thin Agricultural Markets

A thin market is where demand and/or supply for a given good or service is not enough to stimulate more production or consumption towards full employment of resources. Thin markets present serious problems of co-ordination risks and risk of opportunism because returns to investment rely on successful complementary actions of others (Kydd and Dorward 2004). There are two conditions of thin markets: the less frequent transactions and fewer players. The reasons why the market actors are few include:

Firstly, the market power problem: The problem of market power is a key factor in explaining market failures. The power of a firm in economic sense is the "ability to influence the intentions and actions of other firms" (Emersion in Yigitbasioglu 2010:555). A firm or a group of firms which has the largest share of the market, or has superior information on alternative markets may be so influential that its presence or absence in the market greatly affects the functioning of the market (Perloff and Rausser 1983). The sources of a firm's market power include:

- Size of the firm in relation to others and its position along the chain: the nearer to the end market a firm is the more market power it has over upstream actors.
- Possession and utilization of superior information and knowledge about the product, price, market conditions etc. The superior information gives the firm leverages to control a bigger share of the market and expand its control of others and entry of new market players. Agricultural markets in developing economies has high barriers to entry in downstream activities such as processing and retail trade, where returns to investment are higher, resulting to fewer players (Clodius and Mueller 1961).
- Low cost of storage or possession of alternative markets which are often associated with economies of scale and scope (ibid).
- The degree of product differentiation (Dubov 1962). Where a firm or groups of firms control entry of new firms, market prices, quality and quantity of products to be produced and marketed through product differentiation, natural monopolies/oligopolies, etc.

In agricultural markets, entry and exit is controlled by large buyers who act as market leaders in the value chain. They control the distribution of the benefits from participation along the chain. In the networked markets, lead firm are increasingly playing key role in building chain wide competitiveness which captures benefits for all in the chain.

Secondly, inadequate capacity of local producers or buyers to cope with advancement in economic and technological development: leading to decline in economic activities that eventually result in high cost of coping with the vulnerability arising from such changes.

Thirdly, unfavourable investment environments: such as government policies (public monopoly and taxation) and insecurity.

Fourthly, on the supply side, although in agricultural production there are large numbers of producers, the size of each farm firm's production is small. The small volume limits the frequency of products transacted by each firm in relation to its potential (Clodius and Mueller 1961). Factors that limit the volume of a farm firm's production are:

(a) Poor access to improved farming technologies which lead to low productivity growth as a result of inadequate access to inputs, credits and technological knowledge. In most agricultural intensification programme production volumes have increased as a result of increased acreages and not productivity growth.

(b)The nature of farm production: the nature of agricultural production is that "[f]arm production is a series of continues biological processes that cannot be switched on or off at will during the product period" (Tanvry et al. 1991). In addition agricultural production is seasonal and so are the marketing process and income flows. These characteristics of agricultural sector have ramifications for productivity growth and production. This leads to low frequency of transaction.

Other forms of market failures related to information asymmetry and number of buyers are monopsony and oligopsony in agricultural markets (Sexton 2012). Monopsony markets are the extreme situation where there is only one buyer for large number of agricultural product. In some cases the monopsonist has 100% market share. In other words it operated alongside small number of small buyers whose absence or presence means nothing for the performance of the market. While oligopsony markets are where there are very few large buyers and each firm's conduct dependents on the conduct of the others. If one firm increases producer price to undercut the others, the rest will respond by doing the same as a countervailing strategy. In simple classical economics monopsonists and oligopsonists act selfishly to increase and maintain their supernormal profits.

5.3 Case 1: Systemic Failures in Cotton Markets in Uganda

This section examines the different forms and causes of market failures for cotton producers in northern Uganda since the liberalization of the cotton sector in 1994. Cotton is an annual cash crop grown nearly in over 80 countries in both the tropics and temperate areas. It is one of the most internationally traded agricultural commodities. It is used in the manufacture of textiles and garments, edible oil, soap and livestock feeds (Walusimbi 2002). Cotton was introduced to Uganda by the colonial administration in 1903 to kick-start a cash economy and as raw material for industries in the United Kingdom (ibid). Whereas cotton is produced in all the regions, it is highly concentrated in the northern and eastern Uganda. Since its introduction, cotton was the major export of Uganda until the 1950s when it was overtaken by coffee which was introduced to Uganda much later.

5.3.1 Cotton Institutional Arrangement before Liberalization

Before the beginning of the co-operative movement in 1946 and formation of LMB in 1959; cotton processing, marketing and trade were handled by private sector, comprising of mainly Indian origin while the "[colonial] government handled research, extension, seed multiplication and quality control" (Baffes 2009:2). After Uganda's independence in 1962, a number of structural reforms were introduced to the sector. Cotton marketing and ginning was regulated by the Cotton Act 1947, amended in 1964.

Under this Act, all ginning operations were made a monopoly of co-operative unions. The ministry of Agriculture maintained the role of research and planting seed multiplication. The Lint Marketing Board (LMB) Act 1959 amended in 1979 gave LMB monopoly of local and external lint and seed sales and oil milling. Traders dealing in lint and seeds were licenced by the Ministry of Agriculture. A Cotton Price Assistance Fund was then established to which profits of LMB were transferred. This fund was used to stabilize producer prices which were set by the LMB. Under the Act, a system of zoning was adopted with a zone comprising of a number of ginners. Co-operatives Unions owned and operated all the ginners in the country.

At first the sector's performance improved as the area under cultivation continued to increase reaching an all high of 900,000 hectares in 1969 and cotton production peaked to 465,000 bales of lint in the 1969/70 season when it contributed to 40% foreign exchange earnings (Baffes 2009, Walusimbi 2002), which made Uganda that year the third largest cotton producer in Africa after Egypt and Sudan.

However, the success was unsustainable. (i) It was not based on increasing productivity but expansion of acreage as a response to high world cotton prices that were not stable in subsequent years. (ii) The post-independence period saw a new category of political elites who captured co-operatives and greatly mismanaged and alienated decision-making from membership (Walusimbi 2002). (iii) In Uganda, the period between 1971 and 1986 was characterized by economic and political instability that was detrimental for cash crop production. In effect, there were delayed payment to cotton growers, disruptions of research, reduced animal population and thus animal traction due to cattle rustling, mismanagement of seasonal crop finance, collapsed cotton advisory and extension service delivery system, market inefficiencies, indebtedness to the government, deterioration of ginning facilities, skyrocketed overhead costs of the two institutions and corruption.

By 1988, total national cotton production declined to an all low of 2,000 tons of lint (Baffes 2009). Uganda had been Africa's third largest producer of cotton in 1960's, was hardly exporting cotton in 1988 (ibid). This was due bureaucratic public hierarchical contracting, that is, outside the market (Helmsing 2003).

5.3.2 Institutional Reforms in Cotton Value Chains in Uganda

As mentioned earlier, market failures looks at the market structure, institutions, information flow and confidence of market players in market organization and practice. The table 5.1 provides a summary of the institutional changes that have taken place as a result of the liberalization of the cotton sector since 1994. The government run LMB was liquidated and replaced (at least in theory) by an autonomous Cotton Development Organization (CDO), albeit still under the docket of a government ministry and with largely public, a case of 'old wine in a new bottle'. The monopoly of the co-operatives to buy and gin seed-cotton was removed. It is important to note that, the liberalization policy did not directly abolish co-operatives. But the withdrawal of government subsidies rendered cooperatives financially bankrupt (CDO 1995).

Table 5.1
Current Institutions that Support Cotton Value Chains

Institution	Description	Key Roles and responsibilities
Cotton Development Organization	Statutory Body established in 1994 through act of parliament	Performs some of the responsibilities of the defunct Lint Marketing Board. The objective was to promote, regulate the production and marketing of cotton in Uganda. Represents the cotton industry in all aspects.
Cotton Research Institute (CRI)	Statutory body and based in Serere Research Centre.	Responsible for all cotton research and thus, studies and controls cotton diseases, breeding and seed multiplication
Uganda Ginners and Cotton Exporters Association (UHCEA)	Private sector organization of all cotton ginners formed in 1997	It is a common forum for ginners to associate. It is aimed at procurement and distribution of seeds, pesticides, seed multiplication, training of smallholders through demonstration plots and acts as self-policing for individual ginners.
Audit Control and Expertise (ACE)	Private international inspection and collateral management consultancy firm	Monitors all the production promotional investments including procurement activities of the ginners. It is represented in all the ginneries and provides CDO with required statistics.
Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)	Government organization	It is mandated to promote, support and guide the agriculture sector. Most of its cotton related roles are vested in the Cotton Research Institute
Ministry of Tourism, Trade, Industry and Co-operatives	Government organization	Provides the required policy on trade, industry and co-operatives. All the three department deal with cotton-policy issues like value addition, competitiveness and Textile development
Ministry of Finance, Planning and Economic Development (MFPED)	Government organization	Oversees the overall planning of development strategies to facilitate economic growth, efficiency, stability and poverty reduction and mobilizes the required resources.

Source: CDO (1995) and Baffes (2009)

Since the advent of the liberalization, surviving cooperatives operate and compete with the private sector without special government support they usually received. A number of them have been crowded out by their private sector counter parts. Some of the cooperative unions are still operational but expressed lack of credit facilities, organizational and managerial weaknesses as their competitive disadvantages against the private sector. Government through Uganda Development Bank advanced credit to private ginners to refurbish the ginneries and pay cash for seed-cotton from farmers. But cooperatives find it difficult to access credit that can enable them compete with private ginners, due to their weak capacity to prudently manage such credit as evidenced by their past failures in similar financial transaction (Walusimbi 2002).

However, due to important role of co-operatives can perform as social entrepreneurs in advancing economic and social development of poor producers; there is government policy since 2009 to revive co-operative movement in Uganda. The policy has proposed a more robust structure of cooperative organization to avoid lapsing into previous challenges. These institutional changes have resulted in changes in the cotton market structure and consequently in the performance of the cotton sector as whole.

5.3.3 Post-Liberalization Structure of the Cotton Market in Uganda

The cotton market liberalization process witnessed the transfer of ginneries and ginning rights from the cooperative union to private sector firms. It also witnessed increased registration of intermediaries in the seed-cotton markets. Seed-cotton is the farm product that has not been de-seeded or ginned. Ginning is the processes of separating the seeds from the cotton fibre. The de-seeded cotton is referred to as cotton lint. Due to poorly developed textile industry in Uganda, only 10% of the cotton lint is consumed locally. The seed-cotton market is composed of the over 250,000 farmers as primary producers and suppliers of seed-cotton mainly concentrated in eastern and northern Uganda. Each of the producers sells an average of 600-800kgs of seed-cotton per season in one or two transactions per year (CDO 2009). There were a total of 560 individuals and firms registered as traders who act as intermediaries between the farmers and ginneries. Some of these traders are commission agents for the ginneries.

The table 5.2 below shows the market share of functional ginning by sizes and the market share. A total of 20 registered private and 4 cooperative ginning firms provide the demand for seed-cotton in Uganda (ibid). This was an increase from 7 registered private and cooperative ginning firms in 1994, the beginning of liberalized cotton market (CDO 1994). The table shows that the top six ginners control a market share of 66% with an average of 11%while the rest of the 18 have the rest with an average of less than 2% of the market share. Despite this skewed distribution of market share, none of the top six firms have influence on the cotton markets as in practice the coordination function was retained by government.

Table 5.2
Market Share of Private Ginners in 2009 by Size

Category of market share (%)	No of ginners	Weight of lint per category (Kgs)	Total Market share (%)
00-04.9	18	22.712.470	34
05-09.9	03	16.522.149	25
10-14.9	02	16.401.481	25
15-19.0	01	10.289.917	16
Total	**24**	**65.926.017**	**100**

Source: Data obtained from CDO (2009)

According to Cotton Development Organization (2009) half of the ginneries are owned by foreign companies, seven of which are from India. Only one locally based firm is in the top three while the rest are among the smallest 18. This demonstrates the weak capacity of the local private sector in Uganda, which cannot favorably compete with foreign firms. Three institutional arrangements characterise the cotton market in northern Uganda. However, due to lack of statistical data, the market shares for each institutional arrangement cannot be estimated.

The first and most common is the use of commission agents by the ginneries to buy cotton from a given geographical area. Commission agents are local traders who reside in the community from which they buy cotton. With repeated interactions overtime, some agents have developed transaction relationship the farmers. They have become 'dedicated buyers' whom famers call, whenever they have a substantial quantity of cotton to transact.

The second is spot markets. By 2009, CDO had registered 560 individual and firms to trade in seed cotton in Uganda. The list of the traders was not acceptable to determine the regional distribution of the traders. Whereas they establish stable relations with farmers through maintain buying centres in the trading centres, they also go looking for any farmers willing to sell they cotton on spot markets.

The last arrangement is the use of the old cooperative societies that are struggling to maintain some loyalties of their former members who are still active in cotton production. Many of these are through informal interlocking production and marketing contracts between producers and ginneries brokered and coordinated by NGOs.

Cotton is mostly produced in remote areas where it is difficult for the producers or their groups to access the ginneries. For commission agents it is the ginneries that fix the farm-gate prices which they pay without negotiation with the farmers. As intermediaries, the local traders provide markets for these remote locations where ginners find it too costly to maintain a buying commission agent. The traders take the advantage of the remoteness to pay lower farm-gate prices, and rightly so, to compensate for the high transactions costs. By offering lower prices, intermediaries have traditionally been misunderstood by the smallholder producers as being exploitative and profit motivated.

However, experience in the cotton value chain shows that the intermediary firms or individual are playing vital role in linking producers in remote locations to the ginneries by paying for the transaction costs and taking the associated risks. In the end they provide opportunities for income for the smallholder producers who otherwise would not be motivated to continue to produce due to lack of access to buyers.

5.3.4 Types of Cotton Market Failures

Since liberalization of the cotton market in 1994 the market has gone through a process of change that combines different forms of market failures; ranging from extreme case of monopsony, to incomplete markets and thin markets. The details are presented below.

Government Regulated Monopsony

In the beginning of the liberalization period guided monopsony markets were developed as a result of government policy. The CDO Act 1993 that liberalized the cotton market provided for the creation of a zoning system which created monopsony markets in the different cotton growing regions. The first 7 ginning firms registered were allocated specific geographical areas from where to source seed-cotton. This restriction created public regulated monopsonies in every sub-national region. However, the government put in place Cotton Development Organization (CDO) as a countervailing institution to check the powers of the ginners and compelled them to cooperate with rather than exploit local suppliers. Public hierarchical contracting was replaced by partial private hierarchical contracting. Every ginner was tasked to invest in distribution of fertilizers and seeds, extension services delivery including training of producer in post-harvest handling to maintain good quality cotton. This collaboration boosted the confidence of the producers in the market which resulted in increased cotton productions in that period from 110,000 bales (of 185kg) in 2003 to 254,000 bales in 2005 before a decline to 134,000 in 2007 (Cotton Development Organization 2009). This was an implicitly interlinked contract as the ginneries had to provide seeds, fertilizer, technology and agricultural extension services to farmers in exchange for exclusive rights to buy their produce.

Owing to the abuse by contract farmers by side-selling to new ginners entering the market, government abolished the spatial monopsony markets in 2007/2008 season. The new firms offered more attractive prices than those who had invested in in-kind input loans and seeds to be deductions from sale of their cotton during marketing. Cotton markets shifted from contract farming arrangement to spot markets. The number of operational ginners had increased to 24 and that of registered local traders to 560 individual and firms shifting the markets from monopsony to the current thin markets being faced by the cotton producers. The aftermath of the abolition of the zoning system resulted into a reduction of cotton production from 134,000 bales in 2007 to 66,500 bales in 2008 (ibid).

Incomplete Markets

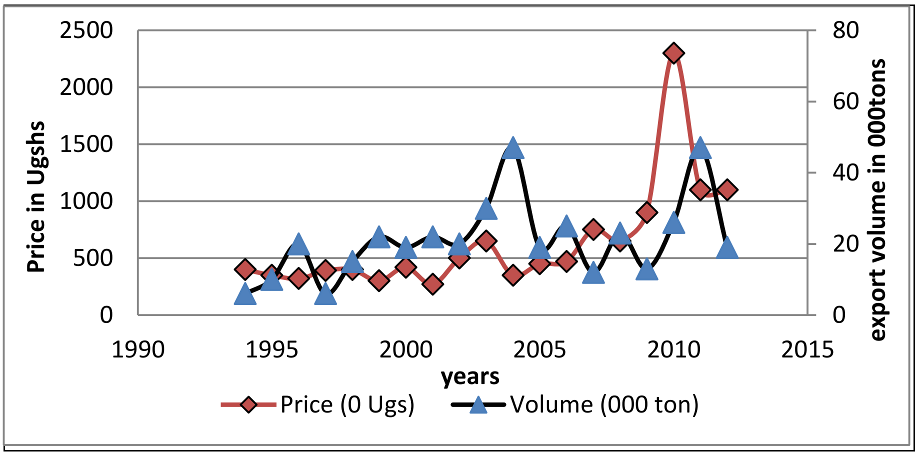
Incomplete markets are common phenomenon in agriculture markets, where the producers do not have the capacity to access adequate information on prices, quantity and quality of products potential buyers are likely to demand. According to the interviews with producers and local leaders, liberalization has increased the uncertainties in the cotton markets for small producers. Since the majority of the small producers are rural based, their access to market price information, credit markets and inputs has been limited. This is aggravated by the volatility of prices, creating a continuous uncertainty in the market for the small producers. The difficulty in accessing information and volatility in prices was envisaged during the process of formulating liberalization policy. The CDO Act (1994) mandated CDO to fix and communicate minimum market prices at the beginning of every marketing season. This continued to create imperfection in the market which then limited the producers from negotiating with the ginneries for higher prices than the CDO's indicative price.

In addition, the farmers complained of (i) incomplete contracts as the price information is often communicated in the beginning of the buying season but not the planting season, which makes it irrelevant for planning primary production and output marketing in advance, (ii) each communication channel used almost provided conflicting policy and market information. Two dominant factors affect cotton pricing for small producers. Firstly, cotton is bulky to store for long time in order to sell when prices increase. The storage capacity of farmers is very limited (Janowski et al. 2003). Observation during fieldwork shows that; due lack of space most farmers pile cotton harvest in their homes for lack of adequate storage which prompts them to sell at the earliest opportunity. Secondly, market power asymmetry between the producers and buyers/ginners: the producers do not have power to bargain for prices with the buyers. The only way to increase bargaining power would be through collective action in storage and selling; but they are ill-organized.

According CDO they make efforts to pass on indicative price information through the print media, community radios and magazines, for ginner, traders and local leaders to cascade to the their communities. It is in the process of cascading that the information is distorted due to different perceptions and interpretation people attached to the prices. These two experiences point to problems of reliability of the market information provided, in the end failing to increase the transaction cost. The figure 5.1 below shows farm-gate prices and ginnery cotton lint production trends.

Since all the seed cotton produced in Uganda is purchased by the ginneries and ginneries are not importing seed cotton, the cotton lint production is a proxy measure for production trend from the smallholders. The annual production figures for seed cotton are inconsistent and unreliable. The trend reveals two patterns. From the time of liberalization in 1994 to 2002 and from 2005 to 2008 the trend shows a juxtaposed relation between production levels and prices throughout the liberalization period. In these two periods, every year farm-gate price dropped, production increased, followed by a decline in production and price increase in the following year.

Figure 5.1
Farm-Gate Price and Cotton Lint Export Trend 1995-2012



Source: Data obtained from CDO Annual reports of 2008/2009 and 2011/12

A change in price in a given year will result in corresponding change in production in the following year. Producers tend resort to previous season's prices for planning their production which often provided wrong signals. A good example is when in 1996 price declined from 1995 as shown above. Anticipating a continual drop in prices in following year, aggregate production levels went down in 1997. Incidentally in 1997 prices rebounded; again prompting farmers to increase production in 1998 only for the price to fall again that year. This is because it is difficult by farmers and even CDO and ginners to accurately predict future prices of cotton in order to guide production. The second pattern shown in 2003-2004 and 2009-2012 is that price decline or increases were prolonged and farmers were able to adjust their production levels accordingly in line with the changes in prices. This means that farm-gate prices are key incentive or disincentives for cotton production.

These trends are seen throughout the period of liberalization, thus corroborating the testimony of the Ogur farmers recorded above. They are indicative of the long time lag between generation of information in the world market, computation and dissemination by CDO and reception by local market players. Information is useful if it is relevant, reliable, and timely. A farmer in Ogur sub-county in Lira district had this to say on the impacts of price volatility and confusing price information:

> "I have been disappointed by the constant price changes and CDO's reluctance to fix stable prices like those days. I am always unlucky. When I increase production of cotton that is when prices fall making me reduce the size of the garden for the next season only to find price bounce back again; I don't want to abandon the crop as it is the only source of income for me to pay school fees and look after my family" (*Interview, February 2013)*

These statements from the farmer describe conditions for incomplete markets because the information not complete, timely and accurate (Borooah et al. 2003). Price may not be the reliable factor for planning production and marketing activities. The farmers have no capacity to verify price information from the world cotton markets.

Whereas producers would like buyers to offer predicable prices in order to make production and marketing decision well, buyers argue that such arrangement is difficult to make due to the price uncertainty and volatility and the ginners do not have control of the price changes. When farming contract was signed, the prices were not honoured by the ginners due to drastic changes in the prices. The producers have been discouraged from cotton production opting for other competitive crops such as sunflower, maize and rice which have stable local markets and the price information from end-market is relative predictable and quicker to access (Janowski et al. 2003).

Experiences of Opportunism and Moral Hazards

Another way buyers use to cheat farmers is tampering with the weighing machines used to buy cotton. The adjustment of the weighing scale is made in a way that a unit measurement weighs more than the normal for the same price. This has been experienced Purang-Gem farmer's association in Gulu in northern Uganda. The group now prefers to jointly sell to Africote a distant ginner located in eastern Uganda, instead of to the many surrounding ginneries. When asked why they prefer a distant buyer to nearby buyers the chairman of association who has become an agent of Africote said:-

> "… Africote's weighing machines are standard. My experience with this machine (pointing to a weighing machine in a dilapidate warehouse that survived the war) shows me that other buyers cheat us by tampering with their weighing machines" *(Interview, 3rd October 2012*).

Even if the gap in the weighing machine is small, in aggregate terms the famers do can lose much money. On the part of Africote, they are assured of stable source of cotton from this group, who through the chairman is able to mobilize cotton from non-group members to increase their volumes and economies of scale for Africote.

There is a government controlled cotton buying period from October-March. Before this period, buyers take advantage to offer very low price for the farmers who are desperate to get cash. Many farmers interviewed said they cannot wait for the official buying period from the CDO because they need cash to pay school fees and meet loan obligations.

Laxity in complying with quality standards by both the producers and the processors is hurting the value chain competitiveness. Poor post-harvest handling undermines the quality of seed cotton supplied to the ginneries. In the past cotton was sorted to remove stains to maintain the purity and while colour. This however, is not the case these days. Since the production of cotton is less than the demand by ginners, there is scramble over farmers produce to the extent that some ginners through their agents pay for cotton while still in the field. What the farmer does is simple harvest and supply regardless of the quality. This practice has infiltrated the industry. At the ginnery levels, huge piles of lint and seed cotton are packed in the open, which can undermine reduce their qualities. The ginneries face cash constraints to pay their suppliers and expand storage facilities for seed cotton.

On the producers side, side-selling have been the common practice. With the entrance of more ginning firms in the chain, the producer could not fulfil their contractual obligations to sell to the company that supported their production. They would sell to any ginner that offered them higher prices. Due to this lack of trust the vertical linkages smallholders and ginners/buyers collapsed. The critical question to ask is in the prevailing circumstances, what needs to be done to reconstitute these very vital vertical linkages to enhance the overall value chain competitiveness?: the choice between competition and cooperation in a liberalized agricultural market.

Another related practice is moral hazard through selling of conventional cotton disguised as organic cotton in order to get the premium price of organic cotton. Soon, organic cotton production ran into problems linked to the dishonesty of some farmers who declare conventional cotton as organic cotton at the buying centers only to fail the test for organic cotton. In other ginneries where they did not expect the farmers to mix organic cotton with conventional cotton to flirt the buyers, such exercise to ascertain quality was not done.

Although there are still some few cooperative unions managing ginning, particularly organic cotton and are meant to compete with the private sector, their managerial and financial capacity to compete is very weak, bearing in mind that their link with primary societies is weak as well. An institutional gap is the lack of credible producer organization to provide the on-farm and post-harvest support to smallholders after the demise of the co-operatives. As Stiglitz notes, an avenue of addressing scale and scope problems of small producers is by collective action in the form of producer organizations or any other horizontal integration strategies that are concentric and conglomeration in context of market failure (Stiglitz 1989). The small volumes and few transactions evidently contribute to high transaction cost experienced by both the suppliers and buyers. Cost can be reduced by collective access to input and output marketing, information, research, technology and credit opportunities. With weak producer organizations, the bargaining power of smallholders continues to be weak, access to information difficult and diseconomies of scale will continue to increase investment and transaction risks and costs.

5.4 Case 2: Systemic Failures in Oilseeds Market in Uganda

As a local value chain and a market that has been driven largely by the private sector. Before sunflower became the dominant raw material for vegetable oil production in Uganda in the 1990s, cottonseeds were the sole raw material for vegetable oil production in Uganda. The collapse of the cotton sector in the 1970 resulted in over 90% of vegetable oils imports from mainly from South Asia. The 10% domestic production was coming from micro and small household-based sunflower seed oil millers in northern Uganda. Although sunflower was introduced into the Ugandan in the 1930s, the production and marketing of sunflower-seeds remained marginally coordinated by the informal sector and church missionaries.

Since 1990s, sunflower is now the largest oilseeds for large scale commercial vegetable oil production in Uganda, accounting for 25% of total domestic vegetable oil production. However, unlike other oilseeds such as groundnut, soya beans and sesame, sunflower-seeds cannot be consumed at household level without investing in processing. This limits the markets channels of sunflower to the small and large oilseed processing firms. The export market for sunflower seed has not been exploited since the available current production volume can be absorbed locally.

The market for sunflower seed has experience two major structural changes over the last two decades all resulting in different forms of market failures. The revival of domestic vegetable oil production by Mukwano Industries (U) Ltd, a private company, in 1991 opened the markets for producers of sunflower. Mukwano's dominance in the oilseeds market as a monopsony was however, broken in 2010 when Mt. Meru Industry Ltd, another large scale sunflower and soya beans milling firm, joined the market of sunflower and soya beans.

5.4.1 Mukwano's Monopsony in Sunflower Oilseed Market

In the period 1991-2010, Mukwano was a dominant player and driver of the sunflower seed market in Uganda, alongside small scale household-based processing firms who use hand-operated milling machines. The small processors controlled about 20% of the sunflower markets. Mukwano's monopsony was a result of substantial amount of resources required to establish such large scale production line for oilseeds. The company had to combine two types of transactions to get enough raw materials. The first was intra-firm integration by in-house large-scale farming of sunflower in mid-western Uganda. Mukwano's own production is still practiced alongside other procurement methods. The second was supplies from smallholder producers through spot markets. By 1991 there were an estimated 7,000 small producers of sunflower throughout the northern and eastern Uganda. But because of the civil-war, the producers could not be formally organized into groups. Production was on trial and error and on marginal lands. So, yields were very poor. The end of the civil saw the number of producers increase to 54,000 farmers in 2009 (SNV 2012) and there were simply too many small producers to deal with. This increased the transaction for Mukwano who had to source sunflower-seeds from the rural producers.

Sunflower seed like any other primary agricultural good is bulk and costly for the producers to transport to Mukwano factory in Lira. The company had to meet all the transaction costs of sunflower supplies by hiring local agents to operate buying centres close to the producers in order secure enough supplies. Funds are advanced to the agents to pay cash for oilseed delivery to the buying centers set by the agents. The agents are usually locals whose good track records are proven by local authorities before they are engaged. The company paid for temporary storage at the buying centres and transported the supplies to the factory. But there were still problems: (i) increased number of producers who were returning to sparsely populated remote areas difficult to access, and (ii) productivity was still very low and therefore, supplies to the factory were not substantial enough to operate at near full capacity.

In 2004, Mukwano sought for pre-season contract/agreement with farmers. There were two objectives to invest in contract arrangement and support to farmer institutional development. Firstly, to get a stable quality and quantity of sunflower supplies to the firm, if producer honoured their agreement. Secondly, to reduce transaction costs by dealing with fewer but organized farmer groups with stable long-term contracts. According to the company's extension officer, in order to encourage more farmers to consider sunflower production, the company only charged the farmers the cost of hybrid seeds and offered a reasonable farm-gate price that took into account the labour and land costs of the producers. This soon became a captive chain as the farmers could not think of other alternative markets; say in eastern Uganda where other oil-milling companies were already offering competitive prices. Captive chains reduce the risks for the buyer.

It is common practice for agricultural market to take the form of captive networks as Sexton (2012) observes that in such a resource providing contracts, the producer literally does not own the farm product and the ability to act independently is curtailed. Nevertheless, there were benefits of the contract to the small suppliers as well. (i)The farmers were assured of a stable market and price for their produce. They had the essential basic information required to undertake an informed farm business planning. (ii) The small producers also benefited from subsidized access to hybrid seeds, extension services and burden of transaction cost taken by Mukwano.

However, the major problem with the transaction contract was the lack of price negotiation between the producers and Mukwano. The terms and conditions of the contracts were determined by Mukwano and handed to the farmers by the buying agents. Mr. Amodo a farmer in Ngetta in Lira gave two reasons why they accepted the contract conditions: (ii) they had no other known options, as Mukwano was the only buyer they knew at the time and (ii) the offer of free seeds lured them agree to the unwritten contract, held in trust. What is important to note is that, the famer claimed they did not know that the inputs were in-kind loans to be deducted from payments from Mukwano. It was the local agents who were literally in charge of the groups as the link between the farmers and Mukwano.

The contract farming arrangement worked fairly well until 2010 when Mt. Meru started milling operations in Lira. The prices of sunflower seeds started to increase steadily as more local firms started to invest in formal and informal sunflower seed trade as intermediaries. Producers started to default on their agreement with Mukwano by side-selling to Mt. Meru. Mukwano and the rest of the small processor started to increase prices offered in order to survive. Side-selling became rampant and production support from Mukwano became costly to sustain.

The problem for both Mukwano and the producers in the contract management was due to incomplete contracting. There were no mechanisms to resolve such unforeseen practices and constrain such maladjustments. On one hand the producers were not organized to understand and negotiate for better prices with Mukwano, allowing Mukwano to select which information was in their favour to give the producers and which to horde. On the other hand, since the contract was not formal and unwritten, Mukwano could not take legal actions against 'defaulting farmers'. In effect the coordination and transaction cost became unsustainable for Mukwano as a lead firm and production and marketing support to producers was dropped. The market witnessed a shift to current oligopsony form.

5.4.2 From Monopsony to Oligopsony Markets

Interview with a staff of Agency for Sustainable Rural Transformation, an NGO actively involved in empowering oilseeds producers reveals that the current sunflower-seed market is composed of a total of 32 processor-buyers all based in Lango in northern Uganda. This includes Mukwano with an estimated market share of over 40% in 2012 and Mt Meru Millers Ltd, a new miller with market share of about 20% both with operational capacity of more than 2000ton per day. There are a total of 7 medium sized millers of 50ton controlling 30% of the markets, while 23 small producers of less than 50ton per day share the 10% of the market. With this number and capacity of millers, the demand for sunflower and increasingly soya beans is hugely unmet by local production and the price is steadily and predictably increasing. In mid-north, the stability in the oilseed sector is beginning to attract farmers away from other cash crops such as cotton and tobacco in mid-western Uganda. This makes the market for sunflower readily available, with potentials for expansion.

Mukwano as an original lead firm still has an advantage over the others thanks to their past market relations particularly of providing hybrid seed which the firm continues to control. Mt. Meru seems to have its competitive advantage in the state of the art technology and machinery and price competition by offering and promising about 5% higher prices. For example, at the time of field visits to the two firms, the prices displayed at the two factory gates were Ugs 800/kg and Ugs 850/kg of sunflower seed for Mukwano and Mt. Meru respectively. This is beginning to introduce some level of competition, which is healthy for the local producers as the prices continue to increase with the entrance of new buyers.

As competition continues to set in, the need for market price information becomes crucial. With the absence of the government in the oilseeds market, the NGOs have taken over the role to provide market information for the local producers using various means of communication such as community radios and mobile phone. This mode of information sharing seem to work well as the farmers and traders interviewed where able to quote the reigning market in their localities and major towns. The only problem of the current market information is failure by the providers to provide explanation to any difference that arises due to distance to the market. One of Mukwano's agents in Ngetta sub-county, complained that some remote farmers feel cheated if on radios they know the price offered is lower than elsewhere nearby the market, not knowing that where the prices are higher when transaction cost are low. However, producers continue to be price takers due largely to the weak farmer organizations that are not providing marketing support to their members. With the collapse of the production support to the farmers, a common response from the farmers interviewed shows that the farmers are beginning to realize that despite increasing prices for their products, increasing production costs leads to low returns.

5.5 Failures in Complementary Markets

There are direct linkages between markets failures in cotton and oilseeds markets and in financial, land and labour markets. In both value chains, the production levels are less than what the market demands. The limitation in productivity growth and low production is related to failures to access credit, land conflicts and lack of interest in the youth to engage in agriculture, leaving the old and women as major contributors of family labour.

5.5.1 Financial Market Imperfections

Generally there is low capitalization of cotton production. In the past, co-operatives provided working capital in kind. Inputs like seeds, pesticides, sprayer pumps, packaging material (gunny bags) and farm tools were provided for by the primary cooperative societies for their members. Such cost were met by the society using their savings or deducted from the farmers' total payments, thus addressing potential investment capital problem. This arrangement collapsed with the demise of the cooperative movement in the 1990s and adversely affected cotton production in Uganda. During the war only three commercial banks in Gulu town remained operational. Since the return of peace in northern Uganda, the number has risen to eleven. But still the vast of the rural population is not served with banking services. They have to travel long distances to access financial services.

There are a number of constraints in acquisition and management of seasonal finance Uganda that can be summarised into two. (a) Financial illiteracy. Most producers do not have the skills for business planning, management and simple record keeping which are essential for performance measurement and timely meet their credit repayment. In effect, financial services providers have to accompany credit services with business development services and financial management skills which increase the transaction costs and thus interest rates to borrowers. (b) Lack of crop insurance that enhances the poor's ability to bear production risks agriculture is prone to. In Uganda there is only one insurer for crop insurance, which faces similar constraints of high transaction costs and risks due to small amounts of insurances, high monitoring and enforcement costs. In the event of crop loss, due to frequent drought and flooding, the producers have no options to salvage the loss.

Conversely, the service providers incur high transaction cost of financial service arising from:- (i) high transport costs due to the dispersed nature of the large number of smallholder producers and small traders and poor roads networks that make it costly to reach the remote smallholder producers; (ii) small scale deposits and demand for loans yet overhead costs remain the same; and (iii) seasonality in repayment arising from seasonality of agriculture which may not match with the financial principles of the service providers.

Government introduced the idea of smallholders forming Savings and Credit Cooperative Organizations (SACCOs), to provide financial assistance to smallholder to avert the fiscal problem. However, SACCOs have had many management challenges: political interference, lack of understanding of the structure and roles of SACCOs and their relationship with the other relevant institutions for the promotion of agricultural production in Uganda. Asked why he complains of credit when SACCOS were nearby source of small loans, one Ogur sub-county cotton farmer in Lira retorted thus;

> Where will I get money to join SACCOS? It is for certain people who have something. For me I cannot afford the registration fee and buy shares. You need to save regularly to maintain membership where will I get the money to save besides if you ask for loans you pay a lot of interest *(interview in October 2012*)

A District Commercial Officer reported that for a person to join SACCOS he/she pays U.sh 5,000 as membership fee and then buys shares costing U.sh 10,000 per share. The constitutions also demand that for you to borrow money one has to be saving regularly. This is meant to instil a spirit of saving in the membership. Loan attracts 10-14% of interest much lower than traditional banks. But this is not applicable to Ajok who says;

> I will rather save small amounts with my fellow women in the neighbourhood to whom I can run without problems when am in need of cash (interview October 2012)

Therefore, smallholders tend to resort to the informal sources of financial services. The commonest is Village Savings and Loan Associations (VSLA) being promoted by NGOs, FBOs, LGs and community leaders. Most of these are fairly stable and sustainable option of mobilizing local savings because they are self-propagated and thus organic. Since the small producers are members of these VSLAs it is a secure source of credit regulated mainly by social capital. They provide producers with a better and cheapest form of investment finance as it does not attract much interest and where social capital plays big role in ensuring successful financial business management. However, the amounts involved cannot support commercial agriculture as much as one would require. Secondly, being informal they face the generic constraints of informality, i.e. can only be regulated by informal institutions which limit their expansion across heterogeneous groups.

5.5.2 Extension Services Market Failures

The historical background of cotton discussed in section 5.3.1 of this chapter placed the role of extension in the hands of the cooperatives and the government staff. The institutional changes brought about by the liberalization policy placed the role of extension in the CDO with the help of ministry of agriculture. However, CDO under the zoning systems challenged the ginning company to provide the require production support including extension services to the farmers. Therefore, since 2006 when northern region resumed cotton production up to 2010, extension services were delivered by individual ginners within their areas of jurisdiction under a form of unwritten interlocking contract with groups of smallholders. This model was not successful due to side selling by the farmers. CDO had to centralize extension service delivery under its control but still funded by the ginner through their association to ensure every ginner contributed to support production. In effect, although cotton development organization has allocated certain specific geographical locations to specific ginners, producers can sell to any buyer at competitive prices. This extension service delivery method is parallel to the national extension and advisory systems, a function that has been devolved to the LGs. But extension of the traditional cash crops-cotton, coffee and tea- have not been transferred to the private sector.

The implications are that local government participation in providing the necessary support to cotton producers has been curtailed. The district extension systems mainly target food crops which are fast growing non-traditional cash crops. Besides, CDO has zonal offices which the required number of extension staff that would offer adequate services to producers. Currently each cotton farmer undertakes individual efforts to ensure good agronomic practices are adopted for quality production and increased productivity of both land and labor. Technoserve (a business development NGO) is providing support in establishment and strengthening of producer groups, that could be a remedy for this challenge

5.6 Discussion and Conclusion

Having reviewed some of the literature on market, structure market power and market and coordination failure and presented the cotton and oilseeds cases, the discussion in this section provides some insights from these cases on which to reflect. These findings corroborate earlier arguments of Clodius (1960) that perfect competitive markets are not appropriate models for agricultural markets due to the structural weaknesses: large number of small and weak farms facing too few powerful buyers. The following are the key emerging issues from the cases.

Incomplete Liberalization of Cotton Market

The liberalization of cotton market meant a shift from government controlled marketing system to a more private sector driven process. The monopoly of LMB and the cooperative unions in cotton and lint marketing was broken. The local cotton and lint markets including ginning which was a preserve of the cooperatives for years was also to be privatized.

It can be argued that cotton market was not fully liberalized because government maintained a firm control of the cotton market not only as non-chain actor but on several occasion fully involved in the production and distribution of planting seeds and other farm inputs. Kydd and Dorward (2004) describe this kind of practice as incomplete liberalization. In liberalized market, the role of government is to remove market imperfections such as government monopolies, price stabilization support programmes such as minimum wage policies so that the market is coordinated and resources allocated by flexible price systems (Borooah et al. 2003). In line with this argument, the creation of CDO and removal of cooperative monopoly in buying and ginning of seed cotton was aimed at eliminating both input and product market imperfection and increasing efficiency in cotton production and marketing. However, in this case one government monopsony 'the Lint Marketing Board (LMB) was replaced by another the CDO to almost retaining the same functions and product marketing which was divested to the private firms.

Kydd and Dorward (2004) also note that there is always a certain level of perceived or real uncertainty in government about the performance of the market, and private sector. Another fear is the likelihood of skewed distribution of the gains from market participation due to structural difference and power asymmetries inherent in market relations. The aim of government to empower to oversee the development of cotton value chain in Uganda was to maintain a certain degree of government coordination to stimulate the private sector and, thus, evolution of endogenous coordination systems in the cotton market. But the exit strategy was not clear in the CDO Act (1994) which leaves it open for anyone to interpret in any way. With increasing level of market concentration and inter-firm networks, it is beginning to be clearer that there is need to ensure increased performance of network markets relation in a liberalized economy.

Lead Firm Coordination: Dampening Opportunistic Behaviors

Monopsonistic competition is not always about opportunistic behaviour towards other players there can be compromises made to get a win-win situation as has been exhibited by both the ginners and Mukwano. The excessive exercise of market power can diminish returns to farmer investment to a point where other will exit the market. This is not beneficial to the processor-buyer either as supplies of raw material may reduce and the firms processing capacity reduces as well. Another disastrous impact of opportunistic behaviour would be increased transaction cost due to investment in search for new suppliers (quote).

Markets are becoming more vertically coordinated by lead firm such as monopsonists, who invest in the support of upstream activities as quality and productivity upstream have implication for competitiveness of the firms downstream. This is evident in the collaboration under the ginners support programme between the ginning firms and the cotton producers in what were monopsony markets. Mukwano's contract relations with local producers another example. Whether the coordination efforts succeeded to fulfil the intended motive or not is a different matter. Rogers and Sexton (1994) advance possible reason for such market conduct by monopsonists as asset specific investment in terms of sunk costs and the nature of the goods. Mukwano had made huge sunk costs in establishing oil milling plant in Lira and ginners in rehabilitating the ginneries which are specifically designed for oilseeds and cotton respectively. The contract were aimed at securing enough supplies of raw material to maintain a high operational capacity, otherwise, recouping the investment in fixed assets would be at jeopardy.

The theory of perfect market, does not recognize the importance of relational assets such as trust and share ideologies in the operations of the market that develop when parties repetitively transact with each other even in free markets (Borooah et al. 2003). But the fact that despite Mt.

Meru's entry in the oilseed market, farmers who had had a long contract relations with Mukwano during the war period have maintained their loyalty to the firm to date. Mt. Meru had to start by increasing the price above that of Mukwano and undertake rigorous market promotion, to attract suppliers

Opportunistic Behavior of Small Producers

Most studies of agricultural markets power have not explicitly mentioned the opportunistic behaviour of producers towards the large scale buyers. The rampant side-selling by producer became deterrent for the execution of contracts and caused loss of investment to buyers. This can be attributed to the absence of countervailing institutions (Sexton 2012, Coyne 2005, Saperstein and Campbell 2007) but the fact that small producers are able to detect and use such institutional weaknesses to their advantage should not be overlooked in economic exchange. In such contract, uncertainty is experienced by both parties in the transaction (Yigitbasioglu 2010). Reduction of uncertainty can be through close sharing of information between buyers and sellers. Information for search goods can be obtained prior to purchase while that of experience goods can only be obtained after purchase (Borooah et al. 2003).

Exercise of market power is not always at the expense of other firms will less market share; there is an increasing level of cooperation between firms to construct their core competencies to satisfy each other needs. The use of market power to take the role of strategic coordination is emerging as a new discourse in network studies to provide more informal and formal linkages and organization support.

Coordination Failure in Captive Value Chains

Another observation from the two cases relates to market failures experienced in captive networked markets, such as monopsony, as a result of poor institutional arrangements. Coordination failures in long-term contractual relations can emanate from a number of factors.

Firstly, misuse of market power by the lead firm creates captive chains with the benefits to the lead firm in reduced transaction cost which may not trickle down to the poor suppliers (Sexton 2012). Different actors experience different forms of market and coordination failure depending on their relative market position and influence. In both the oilseeds and cotton cases, the producers assumed Mukwano and ginners respectively, were offering very low prices. The farmers assumed the buyer market power enables the firms to control the producers and make supernormal profits from participating in the value chains while the rest of the actors are losing out from the contract. Meanwhile the processors complained of bearing the transaction cost of the producers who seem not to understand the magnitude of the costs involved. These examples attest to the realities that even coordinated market can fail amidst efforts to ensure transparency in the exchange.

Secondly, the cost of vertical coordination can be excessively high as coordination deals with mobilizing large number of small producers dotted over a large hard to reach and hard to live rural areas. Surging cost arise from poor transport infrastructures, inadequate logistical services which all contribute to increasing cost of doing business. Due to breakdown of physical market facilities, roads, bridges, shops, buildings and transport infrastructure transactions become costly. This increases the search and logistical costs for both the suppliers and buyers (Coyne 2005, Saperstein and Campbell 2007

Thirdly, however, such coordination costs are often transferred to the producers through low farm-gate prices. The room for exploitation and concentration of benefits downstream remains high because coordinated market are not immune to information asymmetry and moral hazards.

Fourthly, there is weak institutional environment and organizational capacity to implement institutional arrangements in the cotton market. CDO's capacity to enforce the rules of the game is limited. Coordination failure requires a strong institutions and institutional order. Besides, CDO has also directly joined the transaction game and thus becomes compromised. While in the case of oilseed, there is complete absence of public institutions that regulates the market.

The Importance of Local Intermediaries

The important discourse is the changing role of intermediaries. The use of agents by the ginners removes the traditional intermediary market power as they act on behalf of the processors-buyers. Their presence is not visible in this sense. Otherwise market power exercised by intermediaries can cause output in the market to decrease relative to competitive levels increases the price to the consumers and reduces the cost to the producers thus reducing the consumer and producer surplus (Sexton 2012). This is typical of Mukwano in the oilseed and the ginneries in the cotton marketing in Uganda. Market power of intermediaries can capture the benefits of policy intended for directed to benefit farmers. This distorts farmers' incentives to invest. Policies such adoption of new technology though research etc.

Choosing Between Spot Market and Contract Farming

Sexton (2012) observes that most critics of modern agricultural marketing criticize the contract farming mode of production and gratify the spot markets in the liberalized economy. This is exemplified in the cotton case in Uganda by CDO's ban on contract farming model of production, on the basis of the argument that the farmers do not have adequate powers to negotiate and favourably execute farming contract to their advantage. Farmers do not undertake farm business analysis and planning for informed choice on whether to join contract farming or use spot market. The price is not an appropriate measurement for decision because: (i) to the buyer the costs of contracting are higher than in spot markets where there are no upfront investments such as extension service provision, logistics and transport (ii) while for the farmer, although the price in spot market is higher, the transaction cost is also high, because the farmer has to transact in many markets (not only product but inputs, credit, extension etc). At the end it could turn out that the low price offered by a contracted buyer translates to higher returns to investment than the higher prices in spot markets. Much depends on the productivity increases and how this translates into prices

In conclusion, value chains identify and target those community members and association with access to productive resources and are active in market as incentives for innovation and upgrading. The number of producers participating in the chain may be small and yet overhead costs remain fixed. The literature cites examples like underutilization of stores due to small scales, difficulties and costs in reaching isolated individual producers in remote in the villages. The risk is higher in hierarchically integrated chains as they are not equally shared among partners (Saperstein and Campbell 2007). The many unutilized USAID funded warehouses and the huge investments in dormant ginnery in Lalogi sub-county are good examples.

In the cotton case, the market for the small producers is characterised by incomplete market and monopsony. For the oilseeds, the farmers face monopsonstic and oligopsonistic markets. The post-war environment clearly presents additional challenges not only by destroying existing market structures but also undermining efforts to rebuild markets for small producers. The war delayed the re-introduction and promotion of sunflower and other oilseed production in northern Uganda, which ecologically is most suitable for cotton and oilseed production in Uganda. Market structures and the attendant power dynamics have a lot of impacts on the conduct of market players. In real markets the behaviours and actions of transacting parties are not discrete and thus unpredictable because they are embedded in and influenced by a fluid institutional environment.

6 Rebuilding Institutional Environments in a Post-War Economy

6.1 Introduction

The chapter examines processes of post-war institutional reforms. It responds to the challenges of weak institutional environment discussed in chapter 4. Post-conflict recovery efforts face challenges of re-establishing institutions of embeddedness as prerequisite for economic reconstruction (Coyne 2005a). The ultimate goal of a post-war economic reconstruction is a self-sustaining liberal political, economic and social institutional order that secures private property and contract rights for economic actors (ibid). Sustainable and inclusive growth requires strong public institutions to ensure low cost and increased returns to private investments as investors appropriate these environments for increased economic returns (World Bank 2009b). Properly enforced propriety rights and increasing market performance are some of the outcomes of appropriate government policies and service delivery (World Bank 2009b).

Rebuilding local formal and informal institutions as a foundation for economic reconstruction has become one of the interventions of the new United Nations policy in the late 2000s mainly under Track B briefly discussed earlier in chapter two (United Nations 2009). On the importance of local institutions, Horen (2002) argues that the success of post-war interventions depends on the extent to which local institutional capacity is built and institutional arrangements are enforced. This underscores the importance role informal institutions play in influencing the direction and magnitude of post-war economic reconstruction. It highlights way economic activities are embedded in the everyday lives of the society. The institutions of embeddedness include shared beliefs and ethics.

Trust is another a product of the institutional environment that substantially influences the way economic agents cooperates or competes with each. Therefore, institutional environment and trust influence economic performance and become the basis for stable economic relations and thus economic reconstruction (Coyne 2005b).

Whereas local participation is much desired in post-war reconstruction, it is much more difficult to achieve due to the prolonged impacts of wars on social relations, norms and trust in which local organizations and institutional frameworks are embedded (Dolan 2011). Besides, most economists focus on changes in formal institutions and while taking informal ones for as a given because informal institutions are believed to take relatively long to change (North 1990). However, (Ritchie 2012) observe that it is possible for communities in collaboration with donor agencies and governments to manoeuvre changes in social cultural institutions to foster women's cooperation and empowerment in enterprise development. In this vein, Horen (2002) stresses the importance of donors and governments to invest in rebuilding the local institutions in invigorating the local economy.

Therefore, the key question this chapter addresses is: How are government and donor or NGO interventions addressing local institutional gaps created by the legacies of civil war? It focuses on political processes of institutional reforms and strategic coordination by firms, development agencies, civil society organizations and government. This leads to the following propositions the chapter addresses.

Proposition 1: Rebuilding formal institutional environment requires a process of political deliberation and struggles while social institutions require community socialization to reproduce them.

Proposition 2: In fragile settings such as post-war, political processes of institutional reforms may require support of aid agencies and/or NGOs.

The remainder of the chapter is structured in four sections. The next section is a discussion of existing literature on nature of changes of local institutions. This is followed by the case of northern Uganda, a region now grappling with rebuilding of local formal and informal institutions to foster its economic recovery ad growth. A theoretical reflection on the case will follow before some concluding remarks.

6.2 Reforms in Post-War Local Organizations and Institutional Environment

6.2.1 Conditions for Successful Institutional Reforms

Cowen and Coyne (2005) suggest a continuum along which reconstruction takes place from state of conflict on one end (where interests are at odds) to a state of cooperation on the other (where interests are aligned). The goal is to have institutional reforms that result in formation of the same expected order or adherence to the same convention, where everyone will be better off. Clear rules of the game sets the scope for influencing altruism in the cooperation or social, economic and political interaction will be cooperative rather than conflicting. Emerging from the state of conflict to long-term development along Cowen and Coyne's continuum, Reigner et al. (2008) observe that the first activities are continuation of war-time humanitarian and relief services delivery. This period is often dominated by institutions that are set and regulated by relief organizations.

Cowen and Coyne (2005) also observe that post-war reconstruction succeeds where strategies are able to turn the game of violent conflict to a game of coordination, where relations of confrontation give way to dialogue and mutual cooperation. Sustainable cooperation requires durable institutions such as trust and shared norms and beliefs to enhance organization and coordination between members in the same transacting group or between the different groups.

The United Nations has official protocols to follow in the returning and resettling of refugees and IDPs in liaison with the host country governments. This protocol and comprehensive strategies have been packaged under the three tracks (United Nations 2009) as discussed in chapter 2. However, the presence of pre-war stock of institutions will depend on the heterogeneity of culture and language, the level of economic development and the types of conflict (Margaret 2006). A task of reconstruction is whether and how trust can be regenerated in the new reconstructed order.

The existence of shared ideology and ethics does not grantee successful reconstruction process per see. The shared ideology of the majority may conflict with the selfish goals of the powerful rule makers which slows the acceptance of a reconstructed institution (Coyne 2005a). When the expectations of a defeated party are aligned, to a large degree, with the actual processes of reconstruction, coordination will result to greater degree of success (Cowen and Coyne 2005). People often relate the achievement of outcomes with their expectations which determines the level of acceptance and degree of cooperation. Frank in (Cowen and Coyne 2005) argues that "individuals value their current state of affairs relative to their expectation".

In the same way, Cowen and Coyne (2005) argues that, if expectations of primary actors, whose economic lives are being revived, are modest, and reconstruction may be easily achieved because the targets that are set will be modest and easily achievable with limited resource. Knowing the expectation of communities and working towards its achievement is important for government to win citizens loyalty back to the state where state-citizen relations are injured by civil wars. If citizens' expectation is at odds with the reconstructed order and feel cheated, they are likely to exhibit non-cooperative behaviour (ibid). This can generate more grievances which becomes a recipe for return to violence. For example the population may expect in the immediate phases of reconstruction, truth and justice will be upheld and prisoners will be expeditiously release. In other words events that leads to negotiated settlement need to be documented and disseminated as soon as possible to avoid uncertainty and thus speculations of government actions.

Therefore, in post-war recovery, emphasis should be put on institutions that increase the pay-offs for individuals to cooperate instead of conflict. In Rwanda, for example, the *Gacaca tribunal* a traditional justice and reconciliation court has played important role to restore relationship between those who participated in the 1994 genocide against Tutsis and their victims by public confession and forgiveness. Testimonies of survivors of how they relate freely and even intermarriages between victims and perpetrators families is taking place to further cement that bond (Hansen 2005).

6.2.2 The Process of Post-war Institutional Reforms

Post-war institutional reforms refer to deliberate actions taken by agents to rebuild or restore institutional arrangements and environments. The literature on local institutional reforms that promote economic recovery in post- war environment is scanty. Conventional argument for informal institutions is that informal rules are part and parcel of the changes in formal institutions-they shape the forms and contents of formal institutional change (Kingston and Caballero 2009). For Roland (2004) changes in informal rules are the main drivers of institution changes. Formal rules normally develop through collective-choice and political process which are embedded in informal institutions (North 1990). The social networks of interpersonal relations and cultural norms influence the political and economic choices actors make. However, institutional changes can also come from external or internal processes such as learning, adaptation and institutional innovations as described earlier in analytical framework.

How trust and cooperation come about to change the game of conflict to that of cooperation and the types of cooperation that can provide framework for collective action in an environment of mistrust is the gist of this chapter. Cooperation might consist of or result in deciding not to loot, voluntarily hand over any weapons in possession of civilians and to support a democracy and a move to sanction non-cooperation (Cowen and Coyne 2005).

Social capital is not something that can centrally be planed and crafted by external agents during reconstruction (Coyne 2005a). It is spontaneously and many times unconsciously generated though time. Most reconstruction efforts focus on formal institutions. For communities where social capital fails to support interconnectedness between heterogeneous groups, these efforts directed at formal institutional reforms may fail to achieve the required self-sustaining liberal economic and social order for economic transformation.

6.3 The Case of Northern Uganda

The year 2006 effectively marked the end of LRA rebellion in northern Uganda. Secession of hostilities agreement was signed between the LRA and government of Uganda and paved a way for comprehensive peace negotiation launched in Juba, the capital of South Sudan in the same year (OPM 2007). By 2010 majority of IDPs, referred to in chapter four, had returned to their original villages which were ruined by the prolonged war and in the absence of the residing community. An interview with the chairman of Odek sub-county, farmer group leaders and focus group discussion reveal that, returning to the original village straightaway was difficult because basic social amenities such as education, health care, clean water, police protection, community roads and local government administrative facilities had all been destroyed and public services terminated in communities were the IDPs were returning. The district commercial officer of Lira noted that, during the war, facilities such as farmers markets, shops for general merchandise and community solidarity groups that provided support to individual community members were all destroyed. However, in the camps local markets were created for basic household items. It was also common for households to sell part of the food provided to them by World food Program in order to get essential manufactured items such soap, sugar, and kerosene.

6.3.1 Processes of Restoring Institutions of Embeddedness

Peace Recovery and Development Plan is the government's comprehensive recovery plan, which is seen as an overarching strategy to consolidate development efforts for northern Uganda. Its aims were to streamline all development efforts and resources into a coherent plan to avoid duplication of resources and ensure sectoral and spatial equity in development within the region. It turned out to be a sole government plan funded from the normal government donor budge support through the Office of the Prime Minister.

Changes in socio-cultural organization of the Acholi overtime

The various in-depth interviews about the role of culture in economic recovery and hoe the war has affected the effectiveness of social institutions, it can be concluded that, historically, the Acholi maintained a cultural government rooted in traditional religious beliefs, norms and customs which insured peace and stability at all time. Before the arrival of the missionaries in the 1870s and the establishment of colonial rule in 1900, which laid foundation for formal legal systems, the Acholi as ethnic grouping had a well-functioning decentralized system of governance based on chiefdoms. Customarily, the Acholi did not have a central administrative unit. Each of the chiefdoms of the 54 clan was autonomously headed by an anointed chief, *rwodi moo,* assisted by council of elders (Ocowun 2011). Peace and stability were maintained by the *rwodi moo,* as he had power to try both civil and criminal crimes with the assistance of council of elders.

Elders played roles in governance, dispute resolution, justices and retribution. A number of elders were assigned different roles to play in the administration of the clan. These included elders in charge of authorization of war against other clans or tribes, justice and reconciliation, food security including managing communal food banks, land management and related disputes, priests to consult the goods during times of disaster such as drought and floods (known as rain makers) who were also in charge of the forests, valleys and water bodies. These were all coordinated under the anointed clan chief.

However, these institutions and systems were eroded over the years since 1900s. According to Okello, one of the elderly farmers (*interviewed in 2012*), three key factors account for ineffectiveness of chiefs and council of elders in Acholi culture. His assessment summaries events that led to erosion of the power of social institutions, starts right from the colonial periods to the present.

The first is the introduction of government legal processes and modern religious beliefs gradually eroded this tradition. Many of the traditional practices involve rituals with blood of animals and stepping on eggs considered as worshiping African gods, forbidden by the modern religions of God the creator. However, it should be noted that practices associated with divinations and conquests of more territories, considered regressive, were the most challenged by the western religion and modernity.

The second is the impacts of the two-decade violent conflict. Two important effects of the war on nature and role of traditional institution are identified. (i) The institutions became redundant during the two decades. Naturally, their importance faded away as time went by. The traditional leaders became immobile due to insecurity and logistical challenges. (ii) The demise of key inspirational leaders during the camp period or on return to a dilapidated village. A number of elders' positions are now held by junior people who in olden times would not have the changes to who held positions in the institutions died while current leaders are relative young, most had not grasped and appreciated the institutions before displacement and so are not kin to follow them (Ker Kwaro Acholi 2010).

Elder Okello also observes in an interview that, with the coming of modernity, the younger generation is not keen on understanding and preserving cultural heritages, even if it could address some of the social polarization in the post-war communities. For example with modernity influencing character of the youth, they tend to question the validity of the Acholi tradition of stepping on an egg to atone for atrocities committed during the war. Therefore, their faith and interest in cultural norms, conventions and beliefs is limited. The interests have shifted to broader societal norms and practices generally acceptable in most regions of the country.

It is, however, important to note that, despite their weaknesses, chiefdoms and the role of elders in many aspects is still relevant and are still useful in land matters, dispute resolution, traditional justice and retribution systems, language and literacy, oral traditions, traditional values, harmony, in art and crafts continue to be relevant and practiced (Ker Kwaro Acholi 2010)

Reform in socio-cultural organization of the Acholi

Article 246 of the 1995 constitution of Uganda gave powers for the different ethnic groupings to re-establish traditional systems of governance alongside the formal government administration, if they like. To operationalize this provision, government earmarked resources to facilitate traditional leaders to run their traditional cultural governments. This incentive motivated powerful traditional and local political leaders to introduce a centralized governance system for the Acholi to tape the resources from government, because the government resources were not meant for chiefdoms which are too many to be funded. Thus, the creation of Ker Kwaro Acholi (KKA) headed by the Paramount Chief (lawir rwodi) altered the structure of the socio-political organization of the Acholi. The paramount chief became a more powerful institution as opposed to the chiefs who the historical cultural leaders in Acholi.

Some of the roles of the chiefdoms are to initiate, control and organize tradition reconciliation and justice was taken over by the office of the paramount chief and funded by donors and government. This is currently a bone of contention between conservative traditionalists who believe in chiefdoms and the local political leaders who promoted the establishment of the *ker kwaro*. Literally translated, the paramount chief is the *'chief of chiefs'* of the Acholi people. The KKA forms a central cultural organization that constitutionally has the mandate to speak for all the 54 chiefdoms of Acholi. However the chiefdoms still have the role to play in operational aspects such as conducting the actual traditional rituals and ceremonies. Under the KKA, all the chiefdoms are unified through a council of chiefs as the policy making body. The KKA has ministers composed of technical persons to implement the policies of the council of chiefs and a 'prime minister' who heads the technical team (Ker Kwaro Acholi 2010).

The importance of a unified governance (Ker Kwero Acholi)

The government's goal was to have a unified Acholi cultural institution that could speak for the entire Acholi to denounce Kony and force him to abandon rebellion. Indeed this central administration managed to rally religious leaders and civil society behind them to initiate peace negations which, despite not conclusive, was responsible for the relocation of LRA away from northern Uganda. Now in the post-war, the role of the Ker Kwaro Acholi has shifted to transition justice and reconciliation. They now perform a number of roles and responsibilities in the recovery process. The KKA is involved is community dispute resolution and reconciliation involving "enhancing the roles of community level mechanisms, taking into account how traditional and formal mechanisms interact, and sensitizing local government, traditional justice structures and communities on violence" (OPM 2011).

One of the elders involved in the dispute resolution narrates the process of community dispute resolution under the PRDP projects. "Communities identify an on-going or unresolved past dispute that requires resolution. This is brought by a community leader to the attention of the sub-county who conducts an expanded participatory action plan that stipulates the steps to be taken" (OPM 2007: 57). Common activities include community resolution meetings to identify the root causes, the primary and secondary parties in the conflict and wayward. This often culminates into a final ritual involving conflicting parties sharing a meal and feasting as final event in the process.

In addition to government interventions are NGOs investment targeted towards restoration of trust within and between communities, facilitating formation and strengthening producer organizations. Notable organizations are the USAID, SNV, Norwegian Refugee Council, War Child Holland, War Affected Child Association, War Affected Youth Association, Watoto Church and religious groups. However, due to space two cases of USAID and SNV interventions have been selected for further examination. The other interventions are more concerned with institutions that offer social protection of vulnerable groups such as children, women and elderly. The USAID interventions focussed on building capacity of basic institutions, land rights and local legal systems with minimum support to smallholder organization while SNV interventions looks emphasized institutional frameworks, especially, farmer organization for marketing. The detailed discussions of the interventions are discussed in the following sections.

6.3.2 Interventions to Restore Social Cultural Institutions

USAID's partnership in Uganda started in 1950s and has endured throughout the independence and post-independence political turmoil of the 1970s and 1980s (USAID 2009). It supported the Juba peace processes between LRA and government of Uganda, humanitarian relief efforts throughout the conflict period and now the transition to development. USAID works through both external and local implementing partners. Its Office of Transition Initiatives launched a program in 2008 focused on rebuilding local formal and informal social institutions, traditional and civil society leaders in their efforts to rebuild public confidence in the peace that had returned to Northern Uganda. These activities were meant to be precursors to much long-term recovery (ibid). USAID's post-war interventions in rebuilding local institution can be categorized into three main thematic areas.

Support to traditional justice and reconciliation process

USAID through its implementing NGO partners have provided support to strengthen the traditional institutions of Ker Kwaro Acholi in various ways. One is support for tradition justice and reconciliation mechanisms through the Uganda Amnesty Commission (UAC) set in 2000 to provide amnesty to rebels who voluntarily denounce rebellion and come out of the bush. The project, therefore, provided funds to the *ker kwaro* (council of chiefs) to undertake the *mato oput* for justice and reconciliation (USAID 2009). Mato oput is the tradition justice and reconciliation process that involved traditional ritual of drinking a bitter root, stepping on eggs and jumping over certain herbs to atone for the crimes committed. This would be followed by sharing of a meal by the victim and perpetrator, dipping hands in the same pot to signify forgiveness and harmony. The chiefs organize the ceremony and perform ritual of *mato oput*, for public confession and forgiveness which ended with sharing a meal.

However, these ceremonies are not for every crime committed by former rebels but for those known to have killed a particular person or at the request of the ex-combatant to confess to killing of a particular person. Going through the ritual is considered a psychological and socially healing and total acceptance of the perpetrator to the community. Since 2000, the cultural leaders have helped to resettle over 15,000 ex-combatant and abductees in liaison with the Uganda Amnesty Commission (UAC) who provide resettlement packages for those receiving amnesty from government.

Rebuilding local systems of nonviolent dispute resolution

Another support of USAID was to strengthen local systems for nonviolent dispute resolution. Top on the agenda is the resolution of growing rate of land disputes both at family and clan levels. In Lalogi sub-county, the police reported to be registering over 5 cases of land disputes every week. This is already beginning to take away vital resources of the sub-county to register and arbitrate. Land dispute arise due to lack of clear knowledge of their land boundaries and incompetent local courts to adjudicate land conflicts and lack of understanding of the land law (Gulu District Plan 2010).

The intervention offered training of area land committees in the entire district. Area land committees are formed by the local governments and constitutionally recognized as local institutions and the first point of reference in land registration processes. It is a committee of honest members selected from among the elderly persons of the community who are respected and knowledgeable about land matters. This is to restore land property rights, because abuse land rights are causing land conflicts and domestic violence. Over the years there is an increased desire by communities to register their land including community land to avoid cases of land grabbing which are rampant and a major cause of on-going conflicts in the post-war era. This committee is, therefore, crucial in the process of land registration.

A very important intervention was the support to training of local courts and traditional leaders on human rights and rule of law. Local courts are part of the legal judicial systems for trial of petty crimes that does not necessarily need the attention of a formal court. So the training of members of local courts was aimed at re-establishment functioning local judicial systems to protect the rights of the most vulnerable, adjudicate land tenure disputes and foster confidence in local administrative structures as basic fundamentals of a healthy environment for private investment and business development.

The training also touched on civic educations to address the problem of "negative attitudes and perceptions of communities towards government programmes" (Gulu District Plan 2010). This was because, limited community awareness on their civic rights, roles and responsibilities in the reconstruction process had resulted in low community participation in planning and budgeting meetings at the village levels, which are the first steps in government participatory development planning and budgeting processes.

6.3.3 The Oilseeds Sub-Sector Multi-Stakeholder Platforms

In collaboration with Makerere University Kampala, Wageningen University Netherlands and SNV the oilseeds Multi-Stakeholder Platform (MSP) was formed in 2009 (SNV 2010). The platform was formed by the key actors in the oilseed sub-sector such as smallholder producers, small processors, Mukwano, Mount Meru, input suppliers and intermediaries to identify and jointly address the challenges of the sub-sector. Since 2009, the MSP operated as a loose organization of oilseeds actors based on shared interest in the sector. It was aimed at compensating for the weak post-war institutional environment.

Interviews with oilseeds stakeholder indicated that the MSP was neither registered as a government or non-government or private sector organization. Due to this loose nature and uncertain legal status, it was not appropriate for donors to fund operations of the platform directly. SNV as a key facilitator of the sub-sector was identified to coordinate its activities. SNV has created a desk to where activities of the stakeholder platforms are coordinate. Funds for the operations of the platform have been channelled through SNV.

The MSP plays very important roles in addressing the needs of the stakeholders as mentioned above. (i) It offers opportunities for interface between buyers and suppliers in a neutral atmosphere. (b) The organization is fostering collaboration between inputs traders and farmers. A result many large input dealers are contracting small local agents to distribute inputs to farmers in various locations. (c) It provides space for members to acquire BDS to ensure quality and competitiveness of the sector. (d) Activities such as 'Marketplace' where input suppliers of different kinds of inputs, credit suppliers, processors, traders and producers come together to showcase what they are doing and educate the general public have been organized under this platform. Call it a one stop centre for information and knowledge by face to face interaction.

The platform events and activities are mainly organized at regional levels since each sub-region may have different challenges from the others. Secondly, interview with producers indicate that, it was easier and cheaper for actors to organize activities within the different regional hubs, rather than combining the activities at the national levels. These hubs include the Lira Hub in northern Uganda, the West Nile hub, the Mbale hub in the eastern Uganda, each with its coordinating organizations. The first platforms were held in the Lira hub in 2012, it was extended to the other platforms. The youngest platform is the Gulu Hub where in 2014. The Lira hub is being coordinated by Agency for Sustainable Rural Transformation (AFSRT). Since 2012, the Lira Hub which was visited by the researcher had every year; a platform taking place and organized meetings between stakeholders.

The 'research and development market place' events

The R&D market place events are one day public forums organized for stakeholders to showcase any activities they are involved in and from which others can learn. This is a one of the innovative interactive learning strategies for maximizing the impacts of technological knowledge communication and feedback. It is one of the rare successful practices that are being fronted to out scaling to other sectors of agriculture and other regions. According to the report of the R&D Marketplace Event (SNV Uganda 2010), the event is an attempt to bring the sector actors and R&D organizations together with the goal of stimulating joint actions towards increased innovation in the Uganda vegetable oils sub-sector.

The specific objectives of R&D events are to: (a) Exhibit, demonstrate and share information on available technologies and innovations (both local innovation resident with actors and innovation at R&D institutions) so as to encourage their uptake and up-scaling. (b) Present an opportunity for small producers and related off-farm enterprises to register their R&D needs and for R&D institutions and organizations actors to commit to act on them. (c) Encourage formation of multi-disciplinary, multi-institutional teams to conduct research and technology development that is suitable for problem solving strategies of actors in the Vegetable Oils sub-sector. (d) Identify key sources of funding for important innovations without prior budget allocations at the R&D institutions. (e) Agree on other follow-up activities for necessary for further up- and out-scaling of specific innovations (SNV Uganda 2010:29)

The above objectives aim at four important outcomes. The first is an institutionalized mechanism for knowledge and innovation acquisition, documentation, sharing (management) and application/utilization. The second is a more relevant, user-oriented and effective R&D agenda for the sub-sector. The third is inventory of available innovations with potential for up- and out-scaling in the vegetable oils sub-sector. The last is list of research needs and R&D institutes and multi-disciplinary, multi-institutional teams to conduct research on them (ibid).

The event is also a platform to lobby government to increase funding and capacity in research and developing of local hybrids that can be made cheaply available to the farmers. Majority of smallholders find it too expensive to buy the imported hybrid even when the private seed imported have made it a little cheaper. This is done by inviting influential and high level government official to open and close the events. In these sessions, calls are made to government support.

In the market event of 16^{th} December 2012 for northern Uganda which the researcher attended (SNV Uganda 2012a), the participants included oilseed farmers, large and small seed oil processors, formal banking institutions, local input suppliers who participated on behalf of their national headquarters, local researchers and government extension officers. The marketplace events are innovative strategies for face to face interactive learning by chain actors. The event is more than an agricultural trade show as it ended with a plenary question and answer session. Experiences are shared by participants along the value chain in order to access innovation, information and technology dissemination by R&D partners. It is an opportunity for different members to show case ideas and new technologies in the relevant areas. Some of the new technologies disseminated that day included:

(a) A rural works vehicle locally fabricated by artisans to address logistical problems in remote areas and rough roads where conventional trucks cannot operate. The engine can be ignited manually or by battery which is appropriate for remote locations. Although the technology is not yet widely used, it is already helping to transport oilseed to collection points where other trucks are able to reach.

(b) Seed planter developed by Nile Trust Pro (a private firm), planting sesame seeds. This is being adopted by some farmers already to aid in planting in rows rather than the traditional broadcasting where spacing of the seeds cannot be controlled. The line planting has enabled men to participate in weeding of sesame which traditionally is women's job since they used traditional wooden tools culturally designed for use by women, now the hand hoe can be used for weeding which makes appropriate for men to participate. However, according to the innovators, there are yet to improve on the planter to add a motorized engine since the current is still hand operated and thus laborious.

Weaknesses of the multi-stakeholder platforms

As a new way of information sharing and synergy building, the process still requires some components of top-down support in skills formation, technology transfer and functional regional coordination. The linkage between the multi-stakeholder platform and agricultural research in developing new demand-driven on-station technology development that reaches the farmers through public extension systems is weak.

The representatives of producers who participate in the platform do not provide feedback to the association. This tends to alienate the rest of the producers from the support the platform is providing. Strong producer organizations so as to increase their participation and negotiation power in the platforms through federated farmer organization that has the capacity and exposure to engage the processors in fruitful negotiation and information sharing.

The uncertainty in the legal status of the MSP undermines commitment of members and threatens the sustainability of the platform when donor funds managed by SNV on behalf of the stakeholders will be withdrawn. Interview with Ariko John one of the key actors in the platform indicates that, stakeholders are in the process of registering the MSP as a private sector organization. However, this is presenting challenges of whether the private organization will not start competing with rather than foster cooperation among stakeholders in the sub-sector.

6.4 Discussions and Conclusions

In chapter two, it was argued that social norms, shared beliefs and conventions are essential for economic governance and in chapter four it was observed that social institutions are either altered or undermined during prolonged civil wars. It then follows in this chapter that, the post-war economic reconstruction requires institutional order that has to be deliberately put in place. A number of insights can be drawn from the northern Ugandan case on the process of changes in local institutions embedded in social structure and processes of change in the social structure as prerequisite for economic reconstruction in post-war environment.

Firstly, the literature discusses the dilemma of reinstating pre-war institutions for post-war recovery and development. On one hand, Coyne (2005) and others argue that for faster recovery, recovery programmes should target to restore pre-war institutions and economic activities, as these institutions and activities have been tested in the past. This argument is in line with the path dependence theory of institutional change. While on the other hand, Margaret (2006) and others argue that pre-war institutions may not be relevant for the economic activities as the institutional needs may have been altered by the demand imposed by the economic legacies of the civil war. In addition to Margaret's assertion, this thesis supports Collier and Duponchel (2013) observation that institutions that support wartime economy often have limited use beyond wartime economy, thus requiring new institutions. The case in northern Uganda supports that argument, in that, as the IDPs return to the villages, the solidarity groups that were instrumental in supporting trade, farming and social safety-nets had disintegrated as IDPs do not return as a group to the same locations. New alliances have to be forged in the post-war localities for reconstruction activities.

Secondly, the findings also reveal that, the relationship between institutional change and economic change is not mono-directional as alluded to by Chang (2011); that changes in economic activities do call for changes in institutions. However, civil wars trigger negative economic changes that reflect on the decline in institutional demand from economic actors. In case of cotton value chain, fall in cotton production as a result of low and fluctuating world prices and the displacement of the population had negative impact on the demand for institutions and institutional arrangement for cotton production and marketing.

In post-war reconstruction, failures in one sector such as infrastructure may influence changes in economic activities as well. In a normal evolutionary process where there are no constraints to spontaneous institutional change, self-adjustments would be possible. But in a situation where deliberate actions have to be taken to shape changes, collaborations or understanding what happens in other sectors is very important for institutional entrepreneurs facilitating the process of institutional changes.

Thirdly, the important influences of higher institutions on the changes in the lower institutional order are confirmed by the findings (Williamson 2000). The existing body of knowledge is in agreement that, local institutional reforms take place within national political and legal systems that comprise of commercial laws, judiciary systems and national business culture. In our case, the national policies regarding NGO support to producers organizations has been conducive, the cooperative development policy of 2009, there is freedom of association and information exchange form some of the important government support in ensuring the right institutional environment for local institutional development to take place. However, it is one thing to have rules and yet another to implement the rules for them to have the intended impact. Since 2009 the cooperative development policy has not been implemented despite government leaders often make reference to it in many fora.

Fourthly, the experience of the civil war has brought in different dimensions to the functioning of elders association as an important institution for enforcing social norms and moral behaviour. At least with the formation of a unified cultural institution this is formally recognized by government and the donor community. USAID would not have placed the close to $100,000 in the hands of chiefdoms to strengthen peace building mechanisms if it were not for the formation of the *ker kwaro*. Ker kwaro is an important achievement for the people, although the process has also been infiltrated by evils of corruption rampant in almost all spheres of life in Uganda.

But as Doward et al. (2005) argue, politically, powerful actors respond to institutional changes by modifying institutions in ways that can enable them achieve a certain perceived interest depending on the political effectiveness of the group influencing the change. Since government started reconstructing houses for cultural chiefs, the chiefs have become or at least are seen by their subjects to be more accountable to the government than to community. In an interview with Mr Okello, an elder in Gulu, he argued that one of the interest of government is to use the elders association to clear its dented image in the region and elders association as being influential institution was seen a good avenue to penetrate the heart of the Acholi. Paradoxically, while government negative image is getting cleared, the unified cultural government of *ker kwaro Acholi* is losing credibility with detrimental impacts on general morality. This means even the social institutions such as customs, norms and conventions can be subject to manipulation by powerful individuals or groups to advance their personal interests at the expense of the wider community.

Fifthly, rather than support institutional change, the response of the communities who are affected by the action of the political powerful is to develop resistance toward the elite who tend to capture the process for their personal gain. The PRDP has been criticized by the opposition political leaders in many fora and branded as a political tool by the party in power to solicit the political support of the northern Uganda population. Kingston and Caballelo (2009) observe that resistance from groups that are potential losers particularly if they are the powerful will prevent institutional change to take place, however, inefficient the institutions may be. If the majority are losers and are the powerless, this may enable development of collective violence to express their grievance against the change. Another source of impediment to institutional changes is bounded-rationality. Inability of the communities to correctly predict the outcomes of the new rules is discouraging them from actively participating in the activities.

Sixthly, external programmes are too short to address real time recovery and long-term development challenges. The problem is post-war responses tend to be around distinct phases of "relief", "recovery" and "development" (Labadie 2008, Margaret 2006, and Coyne 2005); This is being recognized my practitioners. Their activities are often rushed in two to three years, which does not give time for new institutions to emerge or take effect. In the case of northern Uganda rebuilding trust among the community members has been a gradual experience which a once for all traditional ceremony of *mato-put* cannot provide instantly (Baines 2007). This reflects argument that it takes time to rebuild trust among warring faction to engage each other in a peace economy after long period of violence. Addressing deep-rooted historical obstructs hinged on social structures which producers face, takes long to remove. It requires extensive and long period interventions which very few donors if any can agree to do.

Seventhly, the formation of multi-stakeholder platforms for the oilseed sub-sector aims to compensate for the weak institutional environment in northern Uganda. It is in line with the concepts of participatory value chain management first development in potato value chain in Bolivia and Peru (Devaux et al. 2009). The main idea of a multi-sector platform is to bring together actors and support agencies to exchange information, knowledge. In the oilseeds case in northern Uganda, the face to face interaction in the platform has helped a number of actors to forge market alliances with each other; between smallholder cooperative with bug buyers and agro processors, between NGO and cooperative to provide inputs and crop finance.

Lastly, the lack of achieving concrete outcomes does not mean institutional change process in northern Uganda has totally failed. It just reveals that, the process is simply going through a process of trial and error as alluded to by Helmsing (2013). Even in politically stable environment, the process of institutional change is never linear and clear but involves complex back and forth changes. Secondly, what matters is whether incremental changes are being observed in the process as argued by North (1990) particularly changes in informal institutions. In this vain, progress being made by SNV and others in developing the multi-stakeholder platforms, the formation of various farmer groups and emergence of new cooperative alongside old one, the campaign by communities to lobby government to start implementing the cooperative development policy are all indicative of progress in the right direction. The experience of three of the producer cooperatives is discussed in details in the next chapter.

In conclusion, the chapter provides insights into the importance of the institutional context for sustainable economic transformation. Basic institutions such as trust, social structure influence the perception of local communities in appreciating and accepting external development programmes aimed at bettering the local economy. The social institutions provide local legitimacy to external organizations and their activities. However in fragile settings the reforms in informal institutions, spontaneous processes of change may take too long to achieve even with deliberate investments informal institutional development to maneuverer changes. The new setting of the *ker kwaro* is doing a lot to resettle the ex-combatants with the help of government and NGOs. However, it will take some time for the community to fully appreciate its role and importance as the gains begin to be realised. Already, the peace process that was initiated by the *ker kwaro* is one such recognizable success they have scored

Amidst the challenges, in the oilseeds sub-sector, achievements have been scored in developing farmer institutions for collective action. All the 13 newly formed cooperatives based in Lira hub have oilseed production and marketing as their core economic activity and more groups are expressing interest to form cooperatives. The oilseed cooperatives mainly handle agro-processing, bulk marketing of members produce and others are already going into vertical coordination of the value chain. On the contrary, previous cooperatives in the cotton value chain are collapsing. Sunflower specifically, among other oilseeds, is new cash/food crop that gained prominence after the war.

The increased adoption of the use of farmer organizations in the subsector confirms the argument that new economic activities in post- periods require new institutions and new institutional arrangements. However, the modes of formation and management of the new cooperatives remains the same as in the past. Pre-war institutions may not be useful anymore but they provide direction for creation of new institutions, alluding to the path dependence of institutional change.

The capacity and legitimacy of government in post-war areas may at its lowest, particularly in the case of northern Uganda when the government caused atrocities with impunity. But its presence and authority of the state with its machinery still plays important role in providing the political direction and oversight for all programmes, providing legitimacy for non-government actors. People may resent the state but they have little choice not to refer certain matters to the state. For instance the government military was one of the hate institutions in the camps, but when the community is attacked, where do they go?-to the state for protection.

7 Towards Strategic Coordination of Economic Transactions

7.1 Introduction

This chapter examines the three forms of strategic coordination and conditions under which each is applicable in response to systemic market failures in smallholder markets. Systemic failures in agricultural inputs, financial and output markets continue to hamper smallholder development and consequently economic progress in war affected areas, as well as other disadvantaged regions. Value chain development interventions facilitate the emergence of coordinating institutions where markets have failed or are non-existent to address the gaps. Interventions in value chain development by development an organization underscores the importance of interdependence between firms in the chain to coordinate activities with each other and between chain actors and other players. In the value chain system, the performance of one firm has implications on the performance of another. This calls for interventions from actors outside the value chain as Helmsing and Vellema (2011) observe; market systems perform better when non-market coordination is strong.

The chapter addresses two pertinent questions; when can chain actors and/or non-chain actors come in to intervene in strategic coordination of a pro-poor value chains in a liberalized post-war economy; and what kind of market failures can be addressed by chain actors or non-chain actor coordinators?

The following propositions guide the theoretical and empirical analysis:

Proposition 1: Systemic risks and uncertainties prevent self-regulated processes of market development to take place in post-war local economies.

Proposition 2: Value chain interventions in fragile environments may run into problems because getting the institutional arrangements at the level of the chain is not enough to reignite economic activities as the basic institutions and their associated organizations no longer function and trust is lacking.

Proposition 3: The roles of different actors in strategic coordination should do not compete but complement each other.

The dilemma faced by state and non-state actors is striking a balance between pursuit of neoliberal agenda of increasing competition by allowing the market to operate free of interventions and pro-poor bottom-up development agenda. However, Dorward et al. (2005) argue that without strategic interventions in economic coordination, it may take a very long time or in terms of Williamson (2000) and Chang (2011) argument, pro-poor development may not happen at all. Strategic coordination has two important roles. One is that, strategic coordination reduces information asymmetries. The other is that vertical and horizontal integration achieves economies of scale and scope and increased market power of poor producers. In this case, how strategic coordination is achieved in a neoliberal environment, its effectiveness and conditions under which it can be successful are the thrust of this chapter.

Implicit in the argument of the neo-liberal agenda appears to be a completely decentralized market where all forms of non-market integration and coordination is absent. Each and every producer is completely specialized and a high division of labour is achieved in the economy. In Coase's (1937) argument about transaction costs, he stresses the importance of a shift in our theoretical arguments from making choice between the real world of new institutional economics and imperfect world of the neoclassical economics, to making a choice between real alternative institutional arrangements that can solve the real problem of transaction costs. This chapter contributes towards enriching these arguments.

The rest of the chapter is organized in three sections. What follows is a review of the concepts of economic coordination. The term strategic coordination is used to differentiate non-market coordination from coordination by prices and to denote importance of non-market coordination in market relations. A distinction is also made between the forms and contents of coordination and between chain actor and non-chain actor coordination. This is followed in section 3 by discussing the different coordination practices in the cotton and oilseed value chains in northern Uganda, in the post-liberalization and post-war era. Specifically, it identifies the key actors in strategic coordination, the core coordination interventions and, the depth and reach of these interventions. The last is some reflections on the two cases.

7.2 Strategic Coordination: Review of Literature

Neoclassical economic foundation of market does not deny the importance of coordination; but they argue that coordination by market forces is superior to others forms of organization (Besanko et al. 2000). Contrary to the neoclassical standpoint, the argument in this thesis is that; conditions for price coordination, such as perfect information, strong institutions and effective provision of public goods do not exist in most developing countries as alluded to in earlier chapters in this report. The effectiveness of a market price coordination mechanism depends on stable institutional and political environments. Where there are no consequential disparities with regards to ex-ante and ex-post arrangement, spontaneous changes take place due to availability of clear information and knowledge of the other party's behaviour (ibid). War affected regions do not have the stable and relevant institutions, regulations and technical and socio-economic conditions for efficient markets. The contention in this chapter is that strategic coordination is often desirable when price mechanisms fail to create the expected efficiency in the economic systems. In real world price systems have never been efficient in allocation of resources due to transaction costs.

7.2.1 What is Strategic Coordination?

Kydd and Dorward (2004) observe that non-market arrangements are essential to provide coordination necessary to induce private sector to invest in different activities in the value chain. They define economic coordination as "coordination of individual economic agents' investments in complementary activities that are necessary for these investments to yield satisfactory returns" (ibid: 951). Following this definition, *strategic* coordination in this thesis, therefore, refers to a *deliberative and targeted* intervention from a third party that "brings together the different actors and promotes institutions for fostering and enforcing coordinated action and shared understanding of the goals and distributive outcomes of such actions" (Kydd and Dorward 2004:562). It is a non-market intervention which involves continuous technical and institutional innovation in economic exchange (Hall and Soskice 2001). This is the fundamental purpose of value chain development interventions for poverty reductions.

In the early stages of economic reconstruction, targeted non-market coordination to kick-start market and private sector development may be a more efficient option, so that as markets reach a critical mass and as institutions are strengthened, market mechanisms become effective and more desirable. Strategic coordination is aimed at lowering systemic risks and transaction costs to prevent transaction failures (ibid). Kydd and Dorward (2004) note that although the critics of the market are critical of the simplicity of liberalized markets, strategic coordination is pro-private sector and competition.

7.2.2 Roles of Economic Coordination

The role of strategic coordination is, therefore, to: bring order in economic transaction through ensuring regularity of individual actor's behaviour and expectation of each player in a transaction game (Menard 2000). This fills the information gaps and reduces the problem of uncertainty (North 1990). In fostering efficiency, institutions and institutional arrangement become means by which order is achieved in the relations where opportunistic behaviour is offset for mutual gains and equity in distribution of the gains (Greif 2006). Strategic coordination in smallholder value chain entails the following actions:

Firstly, facilitating the designing of institutional arrangement that stimulate interactions between the agro-processing firms/buyers and their suppliers. This enhances quality assurance for inputs, products and materials (Li et al. 2006, Liesbeth et al. 2009). Similarly, small farms need more assistance per unit output because of lack of essential management capacity or investments (Liesbeth et al. 2009).

Secondly, facilitating development of supplier-farm capacity and providing incentives for the small farms to participate in the market. The role of strategic coordination by actors such as NGO and government is to reduce the information asymmetry, organization of farmers to enhance their capacity to negotiate prices and increase outputs to avoid supply failure. Strategic coordination can as well mitigate product market failure through empowering producers to increase their competencies and capabilities to increase production and productivity. From the public policy perspectives, strategic coordination can be a strategy for poverty reduction and redistributing the gain from value chain (Li et al. 2006).

Thirdly, overcoming transaction cost inefficiencies and helping to organize stable supply chains and distribution systems. Long-term market relations lower entry barriers and transaction costs, such as costs of identifying partners, logistics, negotiation of contracts, enforcement of contracts and resolution of conflicts (Key and Runsten 1999, Li et al. 2006).

Fourthly, providing avenues for generation and transfer of knowledge, information, and skill, technology across the segments to enable farms to improve their performance and maintain competitive advantage (Gereffi et al. 2005). Forward linkages downstream can address challenges of distribution and information bottlenecks that limit exchange between the farmers and their buyers (Liesbeth et al. 2009).

As indicated in the analytical framework discussed in chapter 2, strategic coordination can be endogenous by a firm or group of firms who are players in the transaction game, that is, private ordering. It also be by a third party, that is, public or civic ordering. Traditional, external coordination is often expected to be by government. But increasingly NGOs or business association are offering strategic coordination, especially in transactions where the poor are engaged (Dorward et al. 2005).

7.2.3 Private Ordering by Lead Firms

Lead firm coordination is an endogenous coordination (Dorward et al. 2005) or what Menard (2000) refers to as private ordering; which is the desired form of strategic coordination. Private ordering is a situation where uncertainty is reduced and a state of regularity in behaviour of transacting actors is maintained without third party enforcement of the institutional arrangement. It is where there is security of property rights even when the public sector is weak or unwilling to secure property rights or enforce contracts. Private ordering is also strongly advocated when state intervention is expected to distort rather than regulate property rights (Greif 2006).

Private ordering is mainly undertaken by a lead firm either through vertical integration or local relations linking different actors interested in investing in different (complementary) activities along the value chain. Private ordering entails setting and enforcing parameters under which other chain actors operate (Greif 2006, Ahmed and Ojangole 2012). Where institutional environment is conducive, economic agents respond to market failures by choosing contracts and contractual arrangement that minimize transaction costs (Greif 2006). Self-enforcement clauses are always purely private and successful in stable institutional conditions (Menard 2000).

Important in the institutional arrangements are considerations for:

- What to produce in terms of product design, specification, quality, quantity and time of delivery;
- Decision on the production process including choice of technology, quality control systems and ethical standards to be used and
- Determining the quantity and time of delivery.

These parameters are all key determinant of competitiveness of the firms their and the value chains in which they participate. The logic of endogenously generated strategic coordination is that, if there is sufficient growth in local coordination mechanisms within the value chain, it may in aggregate terms reach the threshold level of investment in supply chain enabling a transition into a purely market based growth path. In a liberalized market, the goal of strategic coordination is to support development of private ordering that can effectively minimize transaction costs and fairly distribute the gains from trade.

Private ordering can evolve through two ways:- (i) by pseudo-integration of chain actors with the lead firms taking responsibility to organize and coordinate cooperative activities upstream; and (ii) by developing local relations linking different local agents interested in different levels of the value chain, like traders associations or interlocking arrangement by producers, traders and processors (Hoff 2000). The market power gives the lead firm sufficient security to invest in say input credit and improve quality. Even if the benefits accrue to all actors in the value chain, the lead firm captures more shares of the benefits than the rest.

Strategic coordination by a lead firm can occur at different levels of the value chain. Being largely buyer driven, agro-value chains are often coordinated by downstream actors such as intermediaries, large-scale farmers or processors or retailers in the case of food chains (Kaplinsky and Morris 2001). The coordinator can be a single firm, a group of traders, a trading cooperative society or apex organization of producer cooperatives. If the value chain is to enable the small producers to gain entry into the product market, actors must devise different options and synergies that can strengthen their position in the industry.

Challenges of private ordering in a post-war environment

Private ordering is more desirable non-market intervention in resolving market failure as it deals directly with the challenges of uncertainty and opportunism in transaction (Menard 2000). In order for the private sector to succeed in strategic coordination, government and civil society need to have a shared belief in the private sector and also to have ethics of protecting private property rights. Meanwhile self-enforcement clauses are always purely private and work effectively in stable institutional conditions (ibid). As Coyne (2005) observes in post-war environment, such favourable conditions for the emergence of credible lead firms to assume the role of coordination are absent. One of the problem is that due to fragility of the post-war peace and related structural weaknesses, most private firms that are capable of coordinating the value chain tend to take long to (re) establish their operations (Saliola and Zanfei 2009). Meanwhile surviving business may have done so barely through unscrupulous means such as undue protection from political and military elites (Bhatia 2005).

The situation is worst in post-war rural areas where the private sector may require technical and financial incentive from government or donor agencies to recover from losses arising from the civil wars or cost to locate to such post-war regions. In addition, in post-conflict environment actors may not have the social and political infrastructure to build consensus on a common value chain-wide interest around which to organize (Coyne 2005b). In effect, what is common are large foreign multinational companies operating in industries and sectors such as infrastructural reconstruction where majority of poor do not participate (Reinecke 2002).

In an environment of weak institutions and capacities, the emergence of private ordering is likely to be slow, messy, highly path dependent. In such condition, self-enforcement is inefficient or too costly due to the flexibilities required to make adjustments (Menard 2000). This is so particularly in transactions with high asset specificity and non-measurability or non-predictability of *ex-post* condition *apriori* (Williamson 1971). This is typical of agricultural production and marketing in developing countries characterised by high systemic risks and uncertainties and difficulties in ascertaining intrinsic qualities of farm products by producers and buyers before sale. This is where governments and/or civil society organizations can come in to empower chain actors to strengthen private ordering in economic transaction (Kydd and Dorward 2004).

Greif (2006) also argues that, private ordering is embedded public ordering. The institutional environment in which private ordering is embedded is influenced a lot by government and social structure which are not fully within the control of value chain actors. Legitimacy of private ordering comes from government policy and support. In order to succeed there is need for government to believe in private sector and provide the appropriate condition for its effectiveness. In less privileged areas, two important and more empirical challenges are noted by Kyddd and Dorward (2004). (a) Reluctance of the state to completely withdraw from the market and piecemeal implementation of liberalization distorts the process of private ordering. (b) Existence of weak institutions of embedding that support market and private sector development. These institutions include culture, political and legal factors that undermine private property rights (Hodgson 2006).

7.2.4 The Role of State Agency in Facilitating Strategic Coordination

In environment of weak institutions and high systemic risks of transaction failures, externally facilitated coordination can create the required institutional framework for economic exchanges, local and extensive coordination. Traditionally, governments have justified their interventions in the market by invoking a market failure argument including weakness of private ordering. Public ordering represents a powerful and durable set of principles for enforcing transaction contracts (Menard 2000). This is more critical, particularly, in early stages of market recovery and development. Kydd and Dorward (2004:562) observe that "government may facilitate this deliberative and coordinated process, facilitate strategies which emerge from these processes and actively promote particular coordination strategies".

Dorward et al. (2005) observe that these strategies may include: technical changes aimed at increasing productivity, reduce risks, price intervention to increase profitability or reduce market risks. State facilitated coordination also involves institutional change to reduce production costs, and risks of coordination and transaction failures. Non-standard contracts and regulated monopolies are some of the prominent coordinating role for the state. Strategic coordination by government may also entail subsidies to private sector where there are failures in complementary markets for credit and inputs. Carefully targeted government subsidies can play vital role to induce productivity growth and responds to market demand by small producers. In circumstances where there are dire needs to resuscitate the local private sector, such as in post-war areas, it may involve social funds to stimulate productive and marketing activities. These are strategies that are seen as counter neoliberal markets and are often ruled out (Kydd and Dorward 2004). But is there are properly planed and they can empower poor smallholder producers as local private sector actors.

Kydd and Dorward (2004) and Dorward et al. (2005) observe that, before structural adjustment programs of the early 1908s, state managed marketing boards provided inputs, credit and cushioned producers against price fluctuations by stabilizing the prices across territories. Stable prices were incentives for producers to organize in collective action to invest in commercial agricultural production. Liberalization of the agricultural markets limit the functions of the state to provision of public goods and services (Kydd and Dorward 2004) such as effective macro-economic policies, appropriate laws and their enforcement, governance, property rights and market regulation (Dorward 2001, Gereffi et al. 1994, Gereffi 1994, Taylor 2010, Armstrong et al. 2008)

However, although state strategic intervention in facilitating coordinating transaction is a pre-requisite, it can also be a constraint to private sector or market development:

Firstly, questions about appropriate roles for the state in promoting coordination in a liberalized market system require answers, because a strong but unpredictable state action can be problematic because of imperfect information, goal displacement and firms' wariness of governments unilaterally changing the rules.

Secondly, in line with Kydd and Dorward (2004) argument that coordinated market have historically been promoted in specific sectors such as agriculture. They may not be appropriate or even successful in other sectors of the economy. But agriculture production and marketing have linkages with other sectors and government absence in complementary sectors affects the sector.

Thirdly, failure with state-led approaches is not limited to rent seeking but extends to lack of inventiveness in planning, execution and timing of entry and exit are very important even in the big-push. Linkages with broader policies regarding way in which trade and domestic policy is supporting institutions is very important.

Hoff (2000) argues that, once government is in the business of providing services to the firms, the incentives shift away from profits and efficiency. Instead of private investment moving to productive sectors, they may be devoted to compete for political favours. This entrenches the economy even more in the poverty trap. State regulations that stifle entrepreneurial initiative lead to corruption, which affects individuals' reputation and further decreases the benefits of acting honestly". However, this does not absolve the government from carrying its legitimate mandate of provider of supportive business environment (Helmsing and Knorringa 2009).

7.2.5 Strategic Coordination by Non-Government Organizations

The public sector is not the only external actor that can facilitate strategic coordination. NGOs or producer or processors or trade associations have high stakes and potential capacities to undertake strategic coordination when government and private sector ordering is weak or have negative impacts on the poor. The roles of NGOs in post-war recovery have primarily concentrated on supporting livelihoods development to mitigate the vulnerability against shock of civil war. They have for a long time worked in the development arena on the tenets of 'not-for-profit' organizations with purely pro-social, community-led motivation, integrating survival mechanisms through collective actions, all grounded on grant dependency (Chell 2007) and viewed their mode of interventions as alternatives to that of corporate and public sector (Helmsing and Knorringa 2009). However, the adoption of the neoliberal agenda in the 1990s which witnessed the market taking centre stage in economic development presented NGOs with new challenges of supporting civil society to embracing and participating in the market.

In an analytical framework developed to examine value chain development interventions in Asia, Henriksen et al (2010) classify value chain interventions by NGOs according to the process of pre-intervention analysis, the nature of actors and inter-firm linkages, and response of the interventions to broader development goals. Each mode of operation has its strengths and weaknesses which require to be considered in applying them. Each of these approaches can be used at any stage of the value chain development.

Nature of NGO strategic coordination interventions

The next consideration is the level and depth of intervention based on the results of the pre-intervention value chain analysis. The criteria used to make choice of level of intervention are the nature of actors and linkages in which they participate. Henriksen et al (2010) identify two modes of interventions; support to lead firms and direct support to the supply-base.

The first is brokering exchange relations between lead firms and supply-base. This intervention is targets the demand-side of the transactions by facilitating processor-buyers to develop stable supply relations with poor producers. This is possible where large commercial processors are available and active in the value chain as lead firms. The benefits of the increasing the capacity of lead firms are meant to trickle down to the poor producers through the stable exchange relations, information access, support in farm production . For the purpose of this study the analysis will look beyond lead firms to understand their capacity, investment ethics, the nature of relations with its suppliers and influence in bringing about the required transformation in the value chain.

The second is non-lead firm interventions where the interventions directly target smallholder producers. This is aimed at building the bargaining capacity of the poor producers and provides knowledge, skills and capacity to produce quality products and do not have business links to move their products. It required presence of business linkage opportunities where the poor can be connected.

Three different approaches are employed by the NGOs to deliver strategic coordination interventions in the value chains. (i) Expert-driven approach in which the information and knowledge that informs the analysis is collected through a rigorous research by experts with quasi-academic rigor. This requires adequate resources, time and knowledge and skills by the team that is undertaking the planning of the interventions to meet the local needs of the actors involved in value chain. (ii) Participatory approach with full involvement of the intended value chain participants and use of local knowledge and resources aimed at soliciting local ownership and commitment. This is not limited to information gathering but also in design, implementation and monitoring stages of the intentions. This presupposes think local knowledge base appropriate for the designing of market oriented value chains. It involves creation of stakeholder forums for knowledge and experience exchange along the process. (iii) Partnership-based approach are where the information and knowledge relevant for designing interventions is obtained from large firms that are already active in the area under cost sharing schemes. It is premised in the idea that existing companies know better areas where interventions can provide maximum impacts in building competitiveness or economic growth. This assumes the presence of lead firms capable of embracing the idea and participating in the projects.

The dilemmas are: To what extent and how can NGOs support value chain development in free-market economy without distorting the market? How can NGOs broker successful relationship between small producers and lead firms that can smoothly wane their (NGO) coordination roles without negating sustainability of chain? They may have the mandate from the civil society and/or government to engage the market, but do they have the required capacity and orientation to engage the market?

Comparative Advantage of NGO Strategic Coordination

There are a number of advantages of NGO value chain coordination particularly in early phases of market development in conflict affected environment (Glävan 2008).

Firstly, NGOs are assumed by their proponents (at least theoretically) to be committed to their social mission but apolitical in their way of operating. Their usually small scale targeted interventions have the ability to engage in context sensitive empowerment of local producers and can broker relationships between businesses and producers without suspicion of political interference. However, in practice the processes of licensing NGOs to operate in a particular sector and location often have some political connotation and may cause some NGOs have particular political inclinations.

Secondly, Helmsing and Knorringa (2009) observe that NGOs can reduce or eliminate some structural market failures in sectors or communities, particularly through pre-enterprise development interventions that build the incentives for income generation as part of rural and urban livelihoods, which government and private sector find unattractive to engage in due to their weak capacity to generate tax revenue and profits respectively. Pre-enterprise development activities target micro-enterprises or households action within livelihoods contexts are economically unviable but may have high social benefits for the participating households.

Thirdly, the traditional comparative advantage of working with and for the poor is applicable in managing value chain development in transitional economies. They can empower small producers through capacity building with competences to increase quality and productivity to integrate into the market. They can draw on the information advantages through the network of NGO partner's organization across the globe and combining it with local knowledge in countries (ibid). The NGOs have ability to organize small producers to raise their quality and increase scales that can reduce production, search and transaction cost.

Fourthly, NGOs have global connections and often use synergetic opportunities where the results are much more than the sum total of individual operations.

The fundamentals of NGO coordination focus on (a) developing mechanisms to address government and systemic market failures as no single initiative can make the value chain evolve and NGO have intentions and potential complementary role to play; and (b) timing of entry and exit of interventions as most NGOs build on existing opportunities and mechanisms for intra-sectoral non-market pathways (Hoff 2000).

Weaknesses of NGO Coordination

However, the critics of NGO-led economic coordination argue that provision of direct financial bailout of enterprises, which may in the end fail to operate and maintain profitably leads to a de-facto socialization of private investment. Over the years NGOs have come under criticism for poor targeting of poverty reduction interventions not reaching the poorer and vulnerable category of the community as claimed by their traditional comparative advantage (Helmsing and Knorringa 2009). So long as NGOs continue to offer value chain coordination support, this criticism is likely not to end as value chain does not benefit the landless poor as land is the single most basic asset the poor access to improve production and productivity.

Short-term interventions regardless of whether the intended outcomes are realized on not. NGO projects are at most 3-5 years. Yet as discussed in previous chapter that rebuilding institutions especially informal social institutions takes very long time to yield results.

Table 7.1
Type of Markets Failures and Choice of Coordination

Market failure	Lead firm Coordination	Government Coordination	NGO Coordination
Product Market failure	• Organize stable supply chains and distribution systems • Leverages brand equity across multiple products / services • Address distribution bottlenecks to gain scale economies • Joint acquisition of technology and skills	• Market information to firms for informed production and consumption decision • Create physical markets for buyers and sellers to interact • Provides physical infrastructure to reduce transformation, transaction and coordination cost • Create environment for business development	• Acts on value chain intermediary systems • Empower firms to organize to ameliorate scope challenges • Broker market relationship between producers and buyers outside the reach of producers • Provide market information for firms
Capital Market failure	• Leverages privileged access to internal pool of risk capital • Strategic position offers early signal of pockets of opportunity • Direct business development and management training for borrowers	• Provides interest subsidies through conditional grant transfers to lending organizations • Provides direct transfers to firms for investment and working capital to reduce the need for loans • In formal banking systems, loan guarantees • Provide policy and legal environment for contract management	• Provides low or no interest lending facilities for firms • Provides direct transfers to firms for investment and working capital to reduce the need for loans • Training of firms in business and loan management to reduce the risk of defaulting repayment
Input Market (particularly equipment and land)	• Enhances quality assurance for inputs, products and materials • Encourages registration and commoditization of land to make it more tradable input • Joint search and procurement • Reach and technology adoption	• Direct provision of inputs to ameliorate supply failure • Private property rights formulation and/or enforcement mainly concerning land transaction • Extension and training in agronomic practices and management • Research and development	• Input subsidies through input traders or direct provision of inputs to producers • Provide business counseling and training • Encourage producers to register and own their land • Organize group land leasing • Research and development

Source: Compiled from Li et al (2006), Stiglitz (1989), Dorward et al. (2004), Minelli and Modica (2009)

At a time when outcome are about to be realised and in need of additional time is NGOs withdraw their support, to move to the next crisis of new buzz activity. In the end projects outputs and outcomes become unsustainable.

Summary of Arguments for Types of Strategic Coordination

To summary the discussion on strategic coordination, clearly there are areas of comparative advantages for the different forms of organization and coordination is presented in the table 7.1 above. However, there are also quite a number of similarities of possible activities carried out by the coordinating organizations.

For instance support in access to credit market can be provided by the lead firms under inter-locking contracts or externally by government or NGOs. The same is true with extension services, market information, knowledge and technology. This brings to the fore the importance of developing collaborations between the coordinating institutions in the same or related value chains to in order avoid duplication of resources and reduce coordination costs. The table above summarises the types of markets failures and appropriate coordinating institutions and activities that minimize transaction costs.

The influence of public ordering on private ordering deserves to be stressed again here. Public ordering provides the legitimacy for private ordering (Menard 2000). The state does not only guarantees the credibility of private ordering but also provides public goods and service to enable private ordering to resolve market failures. In effect most contractual arrangement is enforced by mixture of public and private ordering.

7.3 Case 1: Cotton Markets in Northern Uganda

7.3.1 Maintaining a Strong Presence of the State in the Market

In line with the Cotton Development Statute 1994, the instrument which liberalized the cotton sector, Cotton Development Organization (CDO) was established. CDO was created as an autonomous government agency mandated to promote the revival of the cotton sector in Uganda. CDO took over the role of defunct LMB to set the institutional framework to revive the sector. Its core responsibilities stipulated in part II are "to monitor the production, processing and marketing of cotton so as to enhance the quality of lint cotton exported and locally sold, to promote the distribution of high quality cotton seed and generally to facilitate the development of the cotton industry" (Government of Uganda 1994).

The specific statutory roles of CDO in the Statute include; (a) policy guidance to government through the ministry of agriculture; (b) mobilization and sensitization of the value chain actors on chain development; (c) providing training to farmers and offering extension services; (d) quality control through control of the input acquisition and distribution, (f) regular monitoring and checks and (g) register ginneries and cotton traders (Government of Uganda 1994, Cotton Development Organization 1995b).

Sensitization of the Public about Cotton Production

In order to promote the revitalization of the cotton industry information and communication is very important. Of the roles CDO plays is continuous education and sensitization of the citizens on cotton sector liberalization policy. CDO uses a number of communication strategies to undertake this role. CDO regularly publishes price information to stakeholders on the electronic and print media. The most notable and accessible to rural farmers are the use community FM radio stations. Nearly all the corners of Uganda receive at least a signal of an FM radio or phone network, which has helped the organization reach the communities in local languages across the country. There are also print media news bulletins regularly produced to provide the population with progress being made and challenges being faced in the sector. In the period 1995/06 to 1999/00, the CDO Board undertook a country-wide campaign to meet face to face with the various stakeholders across the country to exchange knowledge and information, and understand the constraints the farmers and other actors were going through. This provided the basis for some of the later investments in the sector by CDO (Cotton Development Organization 2009).

Seed Purification and Distribution

CDO has been undertaking seed purification and provision of seed for planting to the farmers. The purification is aimed at ensuring the right standard of seed for planting is used across the country. It is only CDO that does the purification CDO has a monopoly on seed purification while the trade in seed for planting can be undertaken by any firm. However, CDO is also taking centre stage in seed distribution to farmers. During the past, the cost of seed, processing, packaging and logistics were in-build in the farm-gate prices paid to the farmers.

In the three years following liberalization of the cotton sector, seeds for planting were provided for free of charge. The idea was to start charging for seeds after three years' time when the farmers would have made savings to pay for seed for planting. In the fourth year 1996/97, CDO sold seeds for planting at U$2 for a 3kg packet. Farmers claimed they could not afford to pay this cost. As a remedy, the ginners were tasked to provide seeds to farmers to be deducted at the time of marketing through a ginner's production support program, which was a directive under the zoning system. This program increased the visibility and influence of the ginneries in their in their areas of jurisdiction for a decade.

The problems with the seeds have been of low germination of seeds and low yields. Whereas the farmers believe CDO gives them seeds that fail to germinate and yield very few cotton balls even when fertilizer and pesticides are used, CDO insists the farmers are not applying these fertilizers correctly. A number of issues have been observed. (a) Re-cycled seeds which are now exhausted. (b) Lack of time to test the seeds in the research centres before distribution to farmers. Cotton buying season is often between October and March. While planting season is from May April to July. The time lag between the seasons does not allow for seed testing before distribution.

Setting and Enforcement Quality Standards

Uganda's cotton had premium prices in the past. It was one of the best quality cotton in the world market. The role of CDO was to set and monitory quality standards in order to maintain Uganda reputation in the world market. Fair Average Quality (FAQ) standard was set to guide the seed cotton buyers. In addition government set an official standard for lint exports which was recognized by the world market players in Liverpool. The quality of Uganda's cotton is competitive in international markets due to its long staple length of 1-3/16" compared to majority of around 1-1/8" (Cotton Development Organization 1995b). There is also local cotton standard that guides the farmers, traders and ginners. Standards such as sorting, maintaining clean cotton and standards of packaging material right from the gardens to the ginnery.

To under this role effectively, CDO outsourced this responsibility to a private firm known as Audit Control and Export (U) Ltd (ACE) with staffs deployed at every ginnery who keep watch of all the physical activities that go on when cotton arrives at the factory gate. Just like CDO and many ginneries, ACE accesses online local and international cotton prices which it relays to ginners daily. In this way the ginners have access to market price information almost instantaneously while the producers have no idea of what goes on, unless informed by CDO which usually happens after significant price changes because of associated costs of information.

Provision of Market Information

In the seed market, the farm-gate prices are influenced by world cotton prices. The world cotton market operates a commodity marketing system, whose price is flexibly determined by the forces of demand and supply. Cotton is one of the oldest crops classified as a commodity in the world market. There are a number of exchange centres around the world where cotton is traded, the famous being the New York Cotton Exchange. In the beginning of the season, a cotton outlook report is disseminated to producing and buyers globally. Interview with CDO reveals that CDO and cotton exporters (some of who are ginners) are constantly monitoring the world market price changes while the producers do not have the capacity to have direct access to world markets. Based on the world market price, CDO computes a local market price which is communicated to the local market players before and during the local buying season.

The farmers interviewed complained that price communications from CDO is often too late for producers to make production investment decision as it comes during marketing seasons. It is meaningful for the cotton traders and ginners to plan their procurement. It has been difficult for the farmers to speculate future prices from the current; due to lack of reliable information they have often made wrong prediction. However, this problem is not peculiar to farmers in northern Uganda. It is typical of problems associated with smallholder agriculture.

Returns to producers' investment is often very low and in some cases negative. These prices communicated by CDO do not take into account the production and transaction costs of producers. Therefore, producers end up taking over the burden of any shortfall through lower farm-gate price. This explains why after any decline in average price for a year, many producers would shift to another crop the following year and aggregate outputs would decline.

Governments have traditionally evoked a market failure argument to intervene in market coordination but liberalization presents a different challenge to the state: of withdrawing from the market after decades of control. In the cotton sector, this has been difficult. Since its liberalization in 1994, government through CDO has been deeply involved in the coordination of the value chain. CDO claims its involvement in activities meant for price sector such as input provision is the inadequate capacity of the private sector to successfully manage these activities (Cotton Development Organization 1995b). It is further argued that because the sector had collapse and the business environment was not favourable for private sectors investment; it was justifiable for government to control direction of the cotton sector development for the benefit of the producers (ibid). By now the government should have developed the capacity of private sector to take over the market activities. Government's traditional role in the market has often been creating an enabling environment by providing the supportive public goods and services (Helmsing 2003), for which CDO has failed. This sets the situation back to the era before liberalizations. Surprisingly, Baffes (2009) an economist from World Bank who has done extensive study on cotton in eastern and southern Africa including twice in Uganda, has not critiqued government for these failures.

7.3.2 Coordination by Cotton Ginners

In the cotton sector, the private sector does not have flexibility to make rational investment decision because CDO literally directs and controls activities of all the players in the cotton value chain under the guise of quality control and protection of the producers. The Cotton Development Act 1994 gives the CDO mandate to 'oversee' the cotton value chain development. The problems seem to be in the ambiguity in what constitutes 'overseeing' in as far as cotton value chain development is concerned.

The Case of Gulu Agricultural Development Company

During the war and the mediate post-war period, cotton in Acholi was exclusively bought by Dunanvant, an American private with firm, which was funded by USAID to develop the cotton value chain in readiness for resettlement. The ginneries operated by Dunanvant were located outside the war zone in Lira Town. In 2009 Gulu Agricultural Development Company Limited (GADC), a private firm licenced by CDO was allocated part of the Acholi zone. The zone covered the area where the defunct West Acholi Cooperative Union operated. In 2009, the Union leased its ginnery to GADC. However, it was until 2010 that GADC was able to start buying and ginning of cotton, effectively opening the local market for cotton farmers.

Under the ginner's production programme, GADC entered in an informal interlocking contract farming arrangement with the farmers in Gulu, Nwoya and Amuru district. This contract was involved value chain financing by Acument and Root Capital Investment Funds, GADC and the farmers under the union, which is still limping to survive but basically by the former leaders without members.

Acumen is a not-for profit financial organization that supports businesses that are working with and transforming the lives of rural communities in Latin America and Africa. Acumen moved to East Africa: in Kenya and Tanzania in 2001. The support to GADC in northern Uganda is the first investment undertaken in Uganda. The aim is to contribute to the revitalization of the economy of northern Uganda through supporting business that work with communities. Root capital is a not-for- profit organization aimed at supporting middle-level providers of investment fund to businesses that are too big for micro-finance and yet too small for commercial bank lending.

Under the agreement in 2010/2011 cotton season, Acumen Fund and Root Capital Investment Funds jointly provided $2.2million to GADC for two streams of investments. To support production processes in northern Uganda and for cash payment for supplies from the supported farmers to induce production. Therefore, with funding from Root Capital GADC:

- Provided training to farmers in better agronomic practices and post-harvest handling.
- Supplied free farm inputs like spray pumps, seeds, hand hoes and ox-ploughs and oxen. This was aimed at kick-starting the production by smallholders most of who were just returning to their native villages.
- Directly hired 40 workers from local communities as commission gents who supported the extension services, mobilized and sensitized farmers on how to increase productivity.

By the end of 2011, a total of 2,500 farmers had benefited from the GADC's contract farming arrangement. Meanwhile the role of the farmers was to participate in the trainings as much as possible, use the new knowledge and free inputs to increase production. In exchange they were supposed to exclusively supply cotton to GADC in order to kick-start ginning in the company's newly leased ginnery and thereby increase demand for cotton in the Gulu zone.

The Collapse of the Interlocking Contracts

The inter-locking contract between GADC and the farmers continued until 2011 when the problem of side-selling cropped in the system. The increasing production levels in northern Uganda attracted traders from eastern Uganda to buy cotton from northern Uganda at higher prices than was offered by ginnery. This was particular due to the entrance of small ginners, albeit, with limited financial capacity to establish their own contractual relations with producers. However, they provide readily available market at prices higher than the pre-season price agreed with ginners who embedded upfront investment in production of cotton. In addition, the demand for cash to meet household needs during the festivity period of December pressures producers to sell cotton at any rate to any early buyer before CDO pronounced buying season. Cotton harvest season starts in October, a period approaching Christmas festivities when the demand for cash is often high. Cotton sale becomes a prime source of cash for many households who are forced to sell to any buyer even at a price less than the floor price communicated by CDO.

The ginners and local leaders blamed the problem of side-selling which has killed the spirit of contract farming in the region on lack of coordinating institution. The ginners believed that if the farmer organization were strong enough, they would be dealing with the farmer group instead if individual farmer who are difficult and costly to monitor. It would be the responsibility of the groups to reign in on their members who deviate from such contracts. But the local institutions for such groups to function well are equally weak and require major investment in their rebuilding after the war.

Whereas inter-locking contractual arrangement failed because of side selling, the ginners did not fully meet their obligation to provide extension service to the producers. Private ginneries are firms that specialize in processing. They did not have capacity to undertake agricultural extension service provision as it was really not their core function. This is where the ginners and farmers complained that CDO let them down; by not concentrating on providing public services such as agricultural extension and rather than competing with private sector in input supplies. However, CDO argues that they are limited by number of staff and funds to provide the required extension services.

Centralization of Agricultural Extension under CDO

Agricultural extension being one of the vital productivity growth elements identified by the ginners, the ginner's association established a joint extension service delivery strategy. In the strategy, the association got a bank loan of U$2m which was made available to CDO to provide extension service on behalf of the ginners. The association charges U$0.02 for every unit of cotton procured by the ginneries to service the loan. This was considered a fair deal to resolve the problem of side-selling because every ginner meets the cost of production support according to individual capacity to buy. This fund has enabled CDO to increase its human resource in the regional offices to 16 staff and 93 field extension workers for all the cotton growing regions (Cotton Development Organization 2009).

The 93 extension workers were picked from the cotton growing communities with the collaboration of local leaders. Interviews with two of the field extension workers in Gulu reveals gross technical capacity gaps in agronomic practices despite the short training the workers were provided. The best they could do was to assist CDO in seed distribution and record keeping but not agricultural extension work. This was corroborated by information from focus group discussion with producers, who reported not to have been visited by an extension worker in their communities.

7.3.3 NGO Coordination under Fair Trade Organic Cotton

The immediate post-liberalization period witnesses the entrance of both private sector and international development organizations in the cotton sector to take advantage of the liberalized markets. Liberalization opened the way for the NGO to participate in empowering the local producers to improve their market position and bargaining power and provide direct market access for others through special programs such as fair trade. The private sector continues to concentrate on conventional cotton while NGOs developed interest in organic cotton production along the principles of fair-trade. In 1996 Farmers' Fair Trade (FFT) Uganda in collaboration with a Dutch-based company Africa Farmers' Trade Association (AFTA) launched a program to develop certified organic cotton value chain in Lango sub-region in northern Uganda. The main objectives of AFTA BV was "to operate effective trade of commodities in national and international markets in Africa and to give fair prices to farmers by way of commercial trade with fixed and limited profit margins" (Malin and Nelson 1998:11).

This proved to be one of the successful and largest programs in the world of organic cotton production and propelled Uganda to 7th largest exporter of certified organic cotton in the world market in early 2000s. Production stated with 60ton of lint exports in 1995/96 season. By 1996/97, production increase to 450ton and over 5,000 farmers involved in organic cotton production (Malins and Nelson 1998). The organic cotton value chain was a global value chain involving several actors in the development process. These included the farmers' cooperative societies and union, organic cotton certifiers and the private traders, CDO and the local governments.

In an interview, the Chief Executive of Lango Cooperative Union under whose docket the organic cotton production was coordinated observed that, the value chain development was well planned and carefully executed in a model similar to the government's marketing boards which was familiar to the actors involved. Through the union, FFT Uganda provided all the required inputs such as seeds, packaging materials, extension services, post-harvest support and procured all the cotton, roles which the government marketing board performed. FFT Uganda had specialized ginnery dedicate for organic cotton which was ginned and the lint exported under fair trade. The involvement of the farmers' cooperative societies and union played an important role in facilitating commitment and compliance of the farmer to the agreed contractual arrangement. The involvement of the cooperative union prevented side-selling but did not have the capacity to prevent the practice of moral hazard by farmer of mixing organic cotton with conventional cotton to get the premium price on organic cotton. The union did not have instruments for measuring the level of chemical contamination. So, there was a case of incomplete contracting in this transaction.

FFT Uganda discovered the Lango Cooperative Union (LCU) management structure was still functional and had maintained some loyalty of a number of cooperative societies. As a result the cooperative institutional arrangement was used for coordinating the value chain. FFT Uganda was the sole buyer of the organic cotton from northern Uganda in collaboration with AFTA based in Netherlands as the main link to the European market where the organic cotton was exported. FFT Uganda set the standards; provided certified seeds for planting, used certified trucks to transport cotton from the collection points to a designated ginnery. In the designated ginnery; certified gins, warehouses and packaging material for both seed cotton and lint were used. FFT Uganda paid U$40,000 to a Dutch organic cotton certification consultant company every year to before accessing the world organic cotton market (Malins and Nelson 1998). These funds were obtained through a loan extended by AFTA in Europe as part of the collaboration in the value chain. Meanwhile FFT Uganda managed to pay cash for all the cotton it sourced from the region.

Whereas FFT Uganda offered strategic coordination, Lango Cooperative Union (LCU) managed the implementation of the programs. It distributed the seeds, supervised the production and did the ginning in one of the ginneries they had preserved for their own operations. The required extension services were provided by the Local Government (LG) with financial support from Danish International Development Agency (DANIDA). The advantage of using the local government extension workers was that, they were familiar with the security and geographical locations which that time was a very important aspect of any community interventions as the security situation was bad. The LG staff worked closely with the military that provided security cover for them

Another important aspect of the contract is the process of negotiation. It was reported that FFT Uganda sat with the representative of producers to negotiate the prices they paid. This did not take place anywhere with other buyers of conventional cotton. The fair trade principle responsible trade was applied here in order to be transparent and not to cheat the poor producers. However, this price is closely related to the CDO communicated prices in that it is often around 20% above the conventional cotton price. One of the interesting element in the contract was should FFT Uganda get higher prices that had been anticipated, then it would pay some more cash to the producers.

Table 7.2
Cotton Markets Failures and Choice of Coordination

Market failure	Ginneries	Government	NGOs

Product Market failure	• Organized stable supply chains and distribution systems • Addressed distribution bottlenecks to gain scale economies	• Market information to firms for informed production and consumption decision • Provides physical infrastructure to reduce transformation, transaction and coordination cost • Create environment for business development	• Acts on value chain intermediary systems • Empower firms to organize to ameliorate scale challenges • Broker market relationship between producers and buyers outside the reach of producers • Provide market information for firms
Capital Market failure	• Used by NGOs as a channel to provide input-credit to farmers under the ginners production support programme	• Provides direct transfers to firms for investment and working capital to reduce the need for loans • In formal banking systems, loan guarantees • Provide policy and legal environment for contract management	• Provides low or no interest lending facilities for firms • Provides direct transfers to firms for investment and working capital to reduce the need for loans • Training of firms in business and loan management to reduce the risk of defaulting repayment
Input Market (particularly equipment and land)	• Enhance quality assurance for inputs, products and materials	• Private property rights formulation and/or enforcement mainly concerning land transaction • Research and development	• Provide business counseling and training • Encourage producers to register and own their land • • Research and development

Source: Author's own construction based on interviews with producer, SNV, processors and district leaders

However, information from interviews with the union members shows that such higher prices were not experienced in the project period and thus no second payments were made. A staff of Lango Cooperative Union lamented that;

> It is ironic that Uganda government decided to ban organic cotton production for the reason that farmers were not honest since they mixed conventional cotton with organic one. They should have used other means to regulate the production and monitor quality (Interview February, 2012).

The farmers were not convinced by the reasons advanced by CDO to ban production of organic cotton. The lack of clear information actually became a good breeding ground for suspicion towards CDO.

This was a case of moral hazard which needed to be addressed in its own right by ensuring compliance but not total ban. The ban discouraged a number of farmers who were active in organic cotton production and earning the premium that comes with organic cotton. Many of them have since switched to other crops where government interference is minimal. In summary the actual roles played by the government, ginneries and NGOs in the cotton value chain development is presented in the 7.2 above. This is in reflection to the expected roles listed in table 7.1.

7.4 Case 2: Smallholder Oilseeds Markets

Since its introduction in the colonial period by the church missionaries, sunflower production was organized as a nucleus production around the mission which had hand pressing machines to assist the communities to increase oil intake in their nutrition. The production was coordinated by the missionaries who availed the planting seeds, provided extension services and processed the oil. A farmer in Ngetta in Lira district who benefited from this arrangement reported that "at first the local communities thought sunflower was only grown by the 'White Father' (referring to the Catholic Church missionaries) as ornament for beautification. So nobody had interest in its growth". It turns out later that the missionaries saw need to scale up the production after testing its productivity was promising.

The farmers did the growing, harvesting and cleaning of the seeds in readiness for processing. The missionaries would retain 10% of the vegetable oil as in-kind processing fee while the bulk of the oil would be for the farmer's household consumption. When the cotton industry collapsed, a number of local entrepreneurs started to venture into a more commercial production with small and medium scale processing plants mainly for rural market to substitute the imported vegetable oil. The oilseed value chain coordination has changed over time as responses to the changing institutions and investment environment including the 20 year of the LRA war which ravaged the entire northern and north eastern Uganda. The war incidentally affected oilseed production as over 90% of the population was forced to reside in camps where opportunities for cultivation were limited. Farmers who managed to continue production were those who were hosted by relatives and could lend them land to use. Sunflower seed forms over 70% of the commercial vegetable seed-oil production raw materials; others being soybeans, sesame and groundnuts.

7.4.1 Mukwano Company as Driver and Coordinator

In order to increase its production capacity, Mukwano went into promotion campaign by increasing sensitization of smallholders on sunflower production and providing free seeds to the potential farmers mainly in northern and mid-western Uganda; but the results were mixed. In Acholi and west Nile, the response of farmers to Mukwanos gesture of support was poor because "many farmers thought this was a ploy by Mukwano to cheat them" (interview with Mukwano Agent in Ngetta, 2012). Majority of the small producers had no previous experience of direct contract farming relationship with private sector as earlier market linkages have been through cooperative societies. Thus, this informal supply contract with Mukwano was one of the first direct linkages to a private sector buyer. In a focus group discussion in Barr sub-county in Lira, for example, one producer observed farmers were sceptical about farming contracts with private sector drawing from lessons from the experience in the tea and sugarcane out-growers scheme in central and western region.

> The sugarcane growing under the contract with the sugar factories only benefits the *maidi* (Asians) while the farmers get low returns or sometimes negative returns (*FGD, 16th January 2013*).

On the other hand, sunflower producers in Lira and Masindi where the oil milling factory is situated and the company had its large farms respectively, entered in informal contractual supply relation with the company. Physical proximity to Mukwano's investment sites could have inspired the local communities to trust the company. The company provided hybrid seeds and extension services for small producers during production period and offered transport to the seeds to the factory. The company ensured that payment was made within a week from the time of delivery of supplies to win the trust of the producers. This paid off because the area under sunflower cultivation increased from 39,000ha in 1992 to 145,000ha in 2004 with corresponding increase in volumes from 31,000tons to 162,000ton in the same period (Mwesige 2009).

The end of the LRA war in 2006 witnessed a marked increase in the production of oilseeds including sunflower-seed. The organization of the production and marketing of sunflower-seed changed. As a lead firm in the value chain, the company started to reach out again to the smallholder producers. The northern Uganda produces 49.9% of the total national production of sunflower with districts in eastern Uganda producing

35.2%, central at 4.9% and western Uganda 10% (Mwesige 2009). Oil milling attracted 36 small and medium scale processing firms who operated alongside Mukwano with 70% market share (ibid).

Mukwano continued to provide sunflower production support in term of extension service, provision of hybrid seeds. This was done through local agents the company had to recruit, not as employees who would get wages but as business partners who received fees when and as they performed duties of the company. This was a rational decision but which later proved unsustainable as the agents shifted loyalties from Mukwano to other companies that were entering in the value chain. The roles of the agents were to distribute planting seeds, mobilize supplies from the producers in their areas of jurisdiction. The agents' regular buying spots became centres of bulking for the producers. This worked well as the producers were communicated buying prices well in advance, which helped them to plan and budget their farm businesses. However, with the entrance of new processors like Mt. Meru Industries Ltd, the trust between Mukwano and the producers that was still being nurtured over a period of time began to erode.

7.4.2 Facilitating Market Linkages by SNV

The year 2013 is when SNV marked its 25 years of development work in Uganda. It has supported a number of communities and sectors in capacity development and market linkages for poor producers mainly in oilseeds and honey value chains (SNV 2013). A number of initiatives and models have been promoted by SNV. SNV works through implementing partners to support the capacity development and market linkages of the producers. An interview with SNV reveals that support to producer organizational development in Lango sub-region was done through Agency for Sustainable Rural Transformation (AFSRT). AFSRT is a civil society organization formed by young graduates and legally registered in 2006 to provide support to rural communities in information generation and dissemination, skills development and resource mobilization for recovery and development initiative in northern and eastern Uganda. The young graduates have acquired skills facilitating participatory approaches and market linkages. This drew in Equator Seeds Limited (ESL). ESL is a private company that specialized in improved seed multiplication and input provision for the smallholders in Uganda and South Sudan. The collaboration resulted in a form of institutional arrangements between SNV, AFSRT and ESL.

Tripartite Agreement between SNV, AFSRT and ESL

According to SNV (2013) ESL's participation and interaction with smallholder producers opened opportunities for it to develop market relations with producers for stable supply of quality seeds and inputs. The collaboration was initiated by ESL, which wanted to expand but they did not have the financial and technical capacity to develop a model that could result in a win-win situation between the firms and farmers. Their request to SNV led to a search for AFSRT that could establish this linkage. AFSRT was hired by SNV to develop a suitable model that could see farmers' access quality seeds from a credible sources and while ESL finds stable markets for their planting seeds and inputs.

SNV through in-house consultants played oversight role and provide the financial support to under the farmer institutional development. ESL's as a private input dealer was to provide in-kind inputs credits and extension service to oilseed producers.

AFSRT was the critical local change agent in this agreement because the success of the arrangement depended on the performance the organization. The strengths of AFSRT are that, (i) it is local NGO based in Lira and thus knowledgeable of the social norms, beliefs, conventions and the level of trust or mistrust within and between the different farmer organizations and their marketing partners. (ii) Its personnel have skills in farmer institutional development. It is active in 8 districts of Lango sub-region. The roles of AFSRT were:

(i) To facilitate farmer group development and Village Savings and Loan Associations (VSLA). In an interview with a staff of AFSRT, the activities undertaken by the organization and their impacts on the performance of local collective action organizations were discussed.

(ii) Sensitizing small producers, through public meetings and/or workshops, on the importance of collective action, the different forms and levels of producer organization and the processes of forming them including its legal implications.

(iii) Provide hands-on support to groups that needed it in the process of their formation. Training the groups on group formation, dynamics of group management, writing constitutions, importance of meetings and how to conduct them, record management, business development services such and business planning and management. An important element of the training was on management of village savings and loan association which has become an integral part of the activities of the farmer groups and a source of some of the successes.

Effects of SNV Interventions

Agency for Sustainable Rural Transformation (AFSRT) has made progress in supporting the development of higher level farmer's institutions. Of the 13 cooperatives that AFSRT has helped to form and strengthen, 7 of them are active comprising of 1,860 groups of over 60,000 smallholder oilseeds producers. The 60,000 farmers are involved in production of sunflower, soybeans, sesame and peanuts. A few of the groups, mainly women and children, are involved in collection of wild sheanut which they supply to Guru Ananak cosmetics factory in Lira. Women and children are involved in wild oilseed gathering which is indicative of their lack of access to land on which to growth crops. With the support of AFSRT, the producer organizations are developing into institutions of governance and institutional arrangement for oilseeds marketing. The cooperative already have developed marketing relation between ESL for their input and while Mukwano and Mt. Meru for product market. In the next chapter, three of the cooperatives will be examined in detail.

However, the interventions do not address the underlying causes of lack of group cohesion and failure to form and maintain higher and heterogeneous producer organizations. The challenges are that, many of the farmers prefer to participate in groups even though groups do not provide them the appropriate market and farm production support. They are too small to realize collective efficiency in economic activities. Groups are formed by farmers of the same family, clan or neighbourhood community which acts as their group identity and glue that keeps them together. Cagney (2012) observed that, people hold allegiance in order of family, kinship, village, the parish and then can they turn to larger social relations. Beside, group activities are often within the vicinity of the households, with familiar people and common language. These makes the small group preferred organization.

There is an on-going debate on the national innovation systems to strengthen the linkages between technology development and adoption, which might address this gap. Similar to the cotton case, the actual roles played by the government, ginneries and NGOs in the oilseeds value chain development is summarised in the 7.3 below. This is in reflection to the expected roles individuals, firms or organizations play in strategic coordination listed in table 7.1.

Table 7.3
Oilseeds Markets Failures and Choice of Coordination

Market failure	**Mukwano**	**Government**	**SNV**
Product Market failure	• Organized stable supply chains and distribution systems through commission agents • Supported farmer organizational development to address distribution bottlenecks to gain scale economies • Joint acquisition of technology and skills	• Provides physical infrastructure to reduce transformation, transaction and coordination cost • Create environment for business development	• Acts on value chain intermediary systems • Empower firms to organize to ameliorate scope challenges • Broker market relationship between producers and buyers outside the reach of producers • Provide market information for firms
Capital Market failure	• Strategic position offers early signal of pockets of opportunity	• Provide policy and legal environment for contract management	• Training of firms in business and loan management to reduce the risk of defaulting repayment
Input Market (particularly equipment and land)	• Enhances quality assurance for inputs, products and materials • Input subsidies through input traders or direct provision of inputs to producers • Extension and training in agronomic practices and management	• Research and development	• Provide business counseling and training • Encourage producers to register and own their land • Organize group land leasing • Research and development

Source: Author's own construction based on interviews with producer, SNV, processors and district leaders

7.5 Discussion and Conclusion

In this section a theoretical reflection on strategic coordination in the cotton and oilseeds value chains. Three forms of strategic coordination of economic exchange were examined in both theory and practice; these are lead firm coordination, facilitation of coordination by government and NGOs. The findings provide insights into how value chain interventions support development of institutional arrangements and/or build capacity of economic actors (individuals, firms and organizations) to utilise existing institutional arrangement for economic exchange. Also highlighted are the important roles played by different actors in coordinating complementary investments to reduce risks of investment coordination and transaction failures. In tables 7.2 and 7.3 a summary of interventions by the three forms of strategic coordination in the two cases are provided. The findings provide the following insights into the nature, forms and effects of strategic coordination.

Firstly, these tables show that not all the potential roles of government, private sector and NGOs listed earlier in table 6.1 as a menu of possible interventions is practically fulfilled. The government is over involved in the cotton value chain development while under investing in the budding oilseeds value chain which is attracting more farmers every year. Two possible explanations can be attributed to this behaviour. Firstly, the difficulty in withdrawing from the cotton market coordination to its enabling role since government had monopoly in the sector together with cooperatives. This explains the path dependence of cotton markets on past institutions as farmers are not well prepared to deal directly with the market. Secondly, due to uncertainties in world market pricing which has externalities on domestic markets, government has to support producers to access these markets. The practice of announcing seasonal farm-gate prices is an attempt to mitigate this externality. While as a local value chain, market information in the oilseeds value chain is easier to access than for cotton.

It is clear from these tables that where government is dominant, the private sector role is relegated to ensuring compliance to public policy and standards. Cotton ginners and traders have little room to make innovation in coordinating and developing the value chain. The same is evident with the NGOs. Their influence and presence in the cotton value chain development is minimal and subject to government directives as was the case with fair trade of organic cotton. These restrictions are not pronounced in the oilseeds value chain, giving Mukwano and other private sector actors and civil society organizations room to innovate and develop the value chain according to market principles. The multisector platform is a vivid example of the contribution of external actors.

Secondly, the findings also demonstrate difficulties in designing and implementing appropriate institutional arrangements in an environment of institutional instability and uncertainty as in conflict affected situations

(Coyne 2005b). As Kydd and Dorward (2004) observed, agriculture is face with systemic challenges arising from natural calamities, market price fluctuations, and risks of investments failures due to difficulties in accessing complementary market for inputs, credit and technology. Addressing these systemic risks require concerted efforts of all relevant actors: public, private and non-governments organizations, based on the comparative advantages each one possesses.

Thirdly, it is not only the presence of coordinating institutions or institutional arrangements that matter but also the capacity to generate and disseminate reliable/timely information, to develop effective institutional arrangement or effectively utilize existing arrangements. Hodgson (2006) observe that institutions do not only constrain but also enable interaction. But in the cotton sector CDO's weak capacity due to limited personnel, funding and goal displacement, does not permit it to enable actors to effectively engage in the cotton value chain. CDO is not in position to deliver adequate support it was mandated to provide as envisaged during its formation. This resonates with Hall and Soskice's (2001) observation that government manipulation and patronage is one of the weaknesses of government interventions in the markets.

Fourthly, the findings dispel critics who argue that private sector's interest is always to exploit weak partners through information asymmetries and creating institutional arrangement that mostly favour them (Yigitbasioglu 2010). On the contrary, in line with Perloff and Rausser's (1983) observation that, the presence of dominant firms in the market plays important role in supporting market development because small firms may engage in intense competition which would kill any attempts at strategic coordination. Through interlocking contracts or captive chains, which are common in agricultural value chain systems and in the two cases, regularity of behaviour of actors under private ordering can be ensured. The case of Mukwano in oilseed sub-sectors one practical example. In order to undertake this kind of strategy with many small farmers spread in difficult, Mukwano used its market power as lead firm mobilize the farmers and provide hybrid seeds, extension service which is a traditionally a government role to increase productivity and sources of its raw materials under a win-win situation. Mukwano has also been instrumental in catalysing institutional innovations and creating dynamics in the market. Since its introduction to Uganda in the 1960s, sunflower production and marketing has flourished under private ordering and more so under Mukwano's monopsony power.

In the same way the ginners' investment in rehabilitation of ginneries, seed multiplication, extension services and facilitating input distribution through their agents provides the necessary support required by small producers.

These practices are evidences of increasing role of private sector in development, not just as a corporate social responsibility (Knorringa and Helmsing 2008b) but as part of its business development strategy in production networks which define today's production and product distribution. The resources invested in these value chain developments also espouse the importance of private sector in value chain financing. In the oilseed value chain Mukwano has invested a lot in financing the value chain. This huge amount of resources invested in mobilising farmers groups for bulking farm inputs and outputs is a fundamental contribution made by private sector. However, private sector involvement in value chain development seems to be much more conditioned by the asset specific nature of their investments and the huge amounts of suck costs in establishing their businesses.

Fifthly, as is discussed in detail by Williamson (2000), asset specificity plays important role in stimulating and maintaining long-term contracts. Under conditions of asset specificity and high sunk costs, the processors are able to extent their business development strategies to develop production capacity of its major suppliers. The experiences of cotton ginners and oil millers attest to the power of asset specific investment that compels private firms to dampened opportunistic behaviour to cooperate and coordinate activities with upstream players. to avoid risks of supplier failure. This is aimed to avoid risks of supply failures (Li et al. 2006). Due to asset specificity, ginneries and oil mills were compelled them to cooperate and coordinate with each other and producers. The ginners have invested in rehabilitation of the ginneries and replacement of old gins with the state of art ginning equipment. Strategic coordination succeeds where coordination targets the marketing system as whole, to include investments in complementary markets. The credit needs of the ginners were addressed at the expense of the financial market failures for the producers.

The drive to increase ginning capacity and raw materials was an incentive for private firms to dampen opportunistic behaviour, invest in partnerships with small producers and coordinate the value chain to address supply failures. A role of lead firms in development of market for small producers is to enhance producers' access to new seed varieties and extension. These above examples from the study attest to impetus of private firms to dampen opportunistic behaviour in order to cooperate where the processor firms increase their acquisition of raw material supply while producers get upfront in-kind input or financial support to increase their productivity and production. But at the same time the entry of many new small cotton ginners meant the collapse of the zoning system in which ginneries had interlocking contracts with their farmer suppliers.

Sixthly, in the two cases, parallel institutional arrangements operate side by side in the same geographical location leading to competition between institutional arrangements. In both the cotton and oilseed cases some farmers prefer not to take part in long-term contract farming and bulk marketing. They prefer to deal at arms-length with whoever comes around to buy their produce or takes it to the nearest buyer known to them. The experience shows that contract farming is more acceptable to farmers in location far from the ginneries or oil millers. The distance to the final market is seen as one of the determinant for collective action. It is easy for farmers in remote communities to cooperate and take part in long term contracts. This is rational because remote farmers incur higher transaction cost than those close to the final markets. They have fewer alternatives to switch to in their vicinity.

This supports Williamson's (1991) argues that the firm's decision to transact through the spot market or coordinated markets is dependent on transaction costs, coordination and transaction risks associated with the form of economic organization. In addition, due to the need to meet household needs, poor producers are forced to sell their farm products as soon as harvested since basic needs are not covered by any other means. Therefore, low price during harvest period is preferred over higher cash incomes at a later time. That is, it is not only the type of transaction but also the predisposition of a poor producer facing volatility in his needs and means of livelihoods that matters to them. Another factor for choosing either network or spot markets is the mode of payment which is part of the institutional arrangements. Due to the need for cash, farmers who have farming contracts with a buyer tend to reserve some of their produce to sell in export markets. This creates complexities involved in ensuring strategic coordination is achieved in an environment where spot markets are dominant.

This brings us to the question: *Under what circumstances does private ordering overcome market failures? Which market failures?* Private ordering has been lauded as an endogenous ordering of economic activities which is the desired mechanism due to its focus on market and building of chain competitiveness. However, it is becoming increasingly clearer that, private sector coordination is not independent of government influence. Greif (2006) argues that private ordering is embedded in public ordering. Therefore, one of the conditions under which private sector coordination takes place is if government provide the space and favourable environment to do so. Public ordering gives legitimacy to private ordering. The state must believe in and trust private sector to perform its role of developing markets. In the cotton value chain, CDO is so dominant that the private sector is does not have the space to active participate in value coordination. (i) CDO's minimum price aimed at guiding smallholders has instead prevented farmers from bargaining for higher prices as ginneries tend to pay the minimum price fixed by CDO, although at critical times towards the end of the season, the prices sometimes go higher than the minimum; (ii) Ginners cannot make decision to enter in long-term contractual arrangement with producers because it is not allowed by CDO, otherwise, government will often interfere with the smooth operation of the private sector no matter what; (iii) The ban on organic cotton production rendered the institutional arrangement for its promotion ineffective despite the buyers and support organization having the capacity to address the moral hazard problem that was affecting the arrangement. This confirms Kydd and Dorward (2004) argument that market development succeeds where government is able to trust and support the private sector.

(a) In the oilseeds sector where government is not visible, the private sector is able to flexibly develop business relations with the smallholder. Mukwano as the major oilseeds buyer was able to contribute substantially to the development of the oilseeds markets by increasing demand for oilseeds on one and helping to build capacity of producers to meet this demand. This has been done through meeting the cost of transaction on behalf of the producers by de-concentrating the market. Through the agents, the firm offer opportunities for the producers to sell their goods in their vicinities and transport the products to the factories.

The oilseed sector is unique in the sense that, without the support of Mukwano in collaboration with NGOs, the oilseeds producers would not access to input financing, new technologies and extension. The same principle was used by ginners under the production support programmes that increased the capacity of farmers participating in the value chain. But it collapsed due to side-selling but more so due to government regulation of preventing ginneries from contract farming. With a clearer institutional arrangement which has sanctions on and incentives for performance, side-selling problem can be resolved. However, the final bearer of the increases in transaction costs and access to inputs are the farmers. This reduces the margins and discourages production further.

(b) Chain actors have incentives for strategic coordination where there has been high systemic risks and input supply failures. Increasing number of ginneries is increasing the demand for seed cotton and yet the supply has failed to respond to this increasing demand. Most ginneries have been operating at less than 50% capacity, partly due to inadequate cotton produced and operational costs.

In the cotton case, under their Production Support Programme, ginners developed supply contracts with the producers in their respective zones and offered production support in terms of extension services, inputs, post-harvest handing and meeting the transaction cost of the producers. The support witnessed the increase of production levels and supplies to ginneries. The close of the programmes in 2007/08 had a market impact in reducing production. While in the oilseeds value chain in which Mukwano has been almost a sole private sector with no government involvement, the firm established out-grower scheme to stimulate production and increase supply to the milling factory. To prevent supply failure, the company built the productive capacity of the producers through extension service and seed provision.

(c) The private sector has come in to provision public goods where there has been government failure, like in agricultural extension and technology development services. The ginners and oil millers have at some points taken active role in attempting to provide agricultural extension services and farmer mobilization on behalf of government because these are essential public services they cannot afford to miss. The private sector has also been instrumental in addressing government failure in extension services provision, mobilization and sensitization of potential producers to embrace commercial farming, provided technology adoption aimed at resolving supply failures. Steady increase in price as a result of market forces.

The increase is further predicable partly because as a local value chain, the information on the final-end market is easy to access by all chain actors.

(d) Investing in not only enforcing quality standards but also supporting small producers to meeting quality standards where product quality is being comprised upstream. The oil contents of sunflower seeds are dependent on the quality of planning seeds and timing of the harvest seasons. These all require knowledge and skills. With weak producer organizations to ensure compliance to quality, ginners hire good storage rooms for their agents to maintain the quality. Ginners have been active in contributing quality seeds to the CDO seed production processes. They also distribute seeds to the producers in their vicinity and ensure that producers plant them.

(e) Increasing overall chain competitiveness against the threat of substitutes. Mukwano's role in coordinating the oilseeds value chain has been instrumental in increasing chain competitiveness against the backdrop of rising competition from palm-oil value chain. Palm-oil value chain is a newly developed in Uganda and is receiving huge government subsidy as a result. The government subsidy in land acquisition, import of planting materials and pesticides has tilted the competitive advantages towards palm-oil value chain. Mukwano has recently invested in modern oil milling facilities that has increased its processing capacity to 200 tons per day and is diversifying raw materials to include soybeans and cottonseeds.

(f) In addition to the sunk costs, the company is increasing its activities of farmer mobilizations, reducing their transaction costs through supplier contracts and offering transport for their farm products so as to attract smaller producer into the supply chain. Traditionally these are developmental activities in which private sector was reluctant to invest. The challenges of private capacity and inadequate resources allocated to farmer support since it is not their core business has been highlighted in the findings as impediments to fully develop capacity of producers to increase productivity and productions.

Equally, *under what conditions do non-chain actors have to come in to provide supportive services for value chain functioning to make it pro-poor in a liberalized economy? What market failures?*

Firstly, in an endogenous process of self-selection of institutional arrangements through learning, imitation and experimental, an efficient mechanism will emerge in the long-run while inefficient ones will disappear (Williamson 2000). Depending on the attributes of the transaction, such as asset specificity, uncertainty and frequency of transaction, some sets of institutions will emerge to minimize the transaction cost.

However, in post-war environment where institutional environment is weak, such self-selection processes take place in the long-run or do not take place at all. Menard (2000) also observes that where chain actors are weak, coordination by government or civil society organization, with careful sequencing of activities that takes recognition of the heterogeneity of the rural population can fill the coordination gap. This is common under conditions where private sector investment is unattractive because of high risks and uncertainties.

Post-war areas present risky and unattractive environments for value chains and private sector development. There is high chance of investment failures. The International Rescue Committee (IRC) support to Dunavant to build production and marketing relations and coordinate the value chain was a sort of insurance as part of Dunavant's costs were covered by the USAID.

Secondly, government's traditional role in the market has often been creating an enabling environment by providing the supportive public goods and services. In the same way, CDO has been engaged researching in production of improved planting material and developing, monitoring the quality of seeds and cotton sold. They have also invested in provision of market (price) information to farmers and traders. However, government has failed in provision of extension services to increase farm productivity.

Thirdly, non-chain actor driven coordination has been vital where the producers' productive and marketing capacity has been inadequate to participate in the market. This is particularly so where there is no prominent lead firm to build the competitiveness of the development of the value chain. This is done by supporting the weaker player to develop capacity to engage the dominant market players. On the part of producer to self-organize and take active role in vertical coordination, they still have a long way to go before they can build the required technical and financial stamina. In the oilseed value chain, of the 4 cooperative societies formed with the facilitation of SNV, two years after the end of project, only one; Angetta is still active. Strategic coordination by non-chain actors can be in the product market but more relevantly in addressing failures in supplementary markets such as input and credit markets.

Government has attempted to address incomplete markets through announcing indicative price prices and providing information for industry actors as fast as possible to inform their decision. This effort has not yielded much positive results as CDO itself does not have control over the final prices charged by the buyers.

There are two types of missing markets that have been of interest to government and NGO coordination in the two cases:

One is provision of public goods such as physical infrastructure (roads, telephone, electricity etc) to reduce search, transport and coordination cost. NGOs and government have been active in repairing roads and bridges since the return of peace in the region. The railway from Kampala to Pakwach through Gulu is being rehabilitated and soon to resume operations. This will cut the unit cost of transportation of goods and services to the region and the neighbouring South Sudan. These are all aimed at creating good environment for business development.

The other missing market is non-existence of inputs and outputs market for cotton and oilseed. Due to high risks of insecurity, farmers abandoned farming activities, physical markets and agro-processing factories were vandalized. Government and NGOs have are offering to farmers interest subsidies through conditional grant transfers to lending organizations to address incomplete markets for the financial service. But as has been discussed above, the results have still not seen a positive change towards increased access to credit for small producers and traders.

In conclusion, the chapter has theorized facilitate market development process as involving gradual but continuous technical innovation and technological change (Hall and Soskice 2001). In a value chain system, strategic coordination role falls within the overarching governance function. It is often desirable for chain coordination to be undertaken by a firm or firms operating in the production and/or distribution of the product. The private sector is believed to be more efficient but exploitative in pursuit of competition and profit maximizing goals. But, sometimes governments and civil society often view private sector and indeed markets with lots of contempt as people bend on exploiting others.

The findings show that private sector coordination can be effective if government supports it through creating institutional environments that enhance private sector capacity, freedom to innovate and minimise risks of investment failure. Too much control in the way CDO has practiced only demonstrates governments' lack of trust in private sector in Uganda which is detrimental to market development in a liberalized economy. Whereas institutional arrangement for value chain development is required, coordination of value chain development interventions is equally important as the roles of the private sector, government and civil society complement each other. Private sector requires strong institutional environment and public goods and services by government and capacity of supply-base that can be enhanced by NGOs to invest in the value chain.

Coordination from below is being facilitate by NGOs but will take time to materialize. However, the multi-sector platform being facilitated by SNV and other organizations are proving useful in exposing smallholder to information and technology.

Under liberalized market economy, markets are expected to exist where demand and supply of a good exist. In post-war environment where institutions are weak, spontaneous evolution of markets is difficult. The government had to provide policies for the private sector to take over the ginneries. But efforts of private ginneries to develop market relations with the producers were curtailed by guideline imposed by CDO. The absence of clear institutional arrangement in the two value chains under study creates uncertainties in their promotion. This uncertainty is mainly a result of government failure to provide the right institutional environment for emergency of effective institutional arrangement for economic exchange to take place. This attests to Grief's (2006) argument that private ordering is subject to public ordering. The state has important role to offer the enabling environment for private sector and civil society to engage in the game of economic transaction or the state can use its machinery or simply do nothing to hinder the other actors from pursuing their goals of economic change.

8 Collective Action and Civic Ordering by Farmer Cooperatives

8.1 Introduction

Local participation in post-war reconstruction is increasingly being promoted, not only for community members to work together, but also as a healing and trust building process for peaceful coexistence and sustainable peace building (Gennip 2005). It involves bottom-up approaches where users of the reconstructed order are involved in the decision making on reconstruction of their livelihoods and economies (Coyne 2005a). In chapter four we discussed the support external agencies provide in facilitating the development of farmer organizations in the oilseed sub-sector. These interventions have seen the creation of 1,860 farmer groups of 15-30 members in all the oilseed seeds growing regions of Uganda. Existing data does not have disaggregated number of oilseed producers groups in northern Uganda. However, some of the groups have formed and registered cooperative societies as a bigger and federated form of farmer organization. With the support of various development organizations, seventeen primary cooperative societies have been formed in the oilseed subsector in northern Uganda.

This chapter takes that discussion further to examine the roles the smallholder cooperatives play in addressing the institutional gaps and coordinating markets for their members in northern Uganda. Mazzarol et al. (2013) argue that, cooperatives as transaction oriented organizations provide members benefits that increase their competitive advantage over non-members competitors. These benefits can be categorized as additional returns to investment and risk management (Peterson and Anderson 1996).

However, smallholder cooperatives are not silver bullets for increasing pro-poor market development where the prerequisite conditions such as the right social, institutional and physical environment are lacking (Coyne 2005b). Whereas participatory approaches are much needed in post-war setting, they are also more problematic to implement due to the legacies of war (Gennip 2005). Cooperatives in developing economies face many organizational challenges and capacity constraints that hinder their performance (World Bank 2009). Nevertheless, cooperatives can mitigate market inefficiencies in economic transaction and address institutional gaps for smallholder producers better than other models of economic organization (Frederick 1997, Harris et al. 1996).

The chapter examines the extent to which and how collective action and cooperative civic ordering can address systemic market failures for poor producers. It answers the question: under what condition can farmers' cooperatives succeed in collective action and civic ordering of economic activities for small producers. The field investigations focussed on growth processes of the selected cooperatives, the nature and level of their organization, capacity to deliver services and nature of external support (being) received in the different phases of development. Lastly, the conditions under which cooperatives succeed in delivering the services are also examined.

Two cooperatives, out of seventeen, all of which were formed during or after the war with support from by external organization, were selected for an in-depth case analysis. The chapter is premised on the following propositions.

- *Proposition 1:* whereas collective action can address the institutional gaps in smallholder value chain transactions, it requires targeted interventions from external actors to support the process.
- *Proposition 2:* civic ordering by farmer cooperatives succeeds when the level of internal cohesion and capacity to coordinate with other chain actors are high.

The chapter is organized in four sections. The next section reviews the existing literature on cooperatives as local organizations, their market power and the rationale for engaging in coordination. This is followed by presentation of two cases: one fairly successful and the other barely surviving; and last but not least, some theoretical reflections on the two cases and conclusions.

8.2 Review of Literature on Smallholder Cooperatives

A cooperative is defined as a "formal form of collective action for the marketing and processing of farm products and/or for the purchase and production of farm inputs" (Bijman et al. 2011: 83) or a group of people who identify a problem or opportunity that requires cooperation (Harris et al. 1996). Cooperating members commit themselves to a common goal and mutually dependent interests. The history of cooperative organization is commonly traced to the 'Rochdale Equity Pioneer Society' in 1844, formed as a consumer cooperative to respond to exploitations by traders of food and clothing in the United States (Centner 1988).

Later, as a result of economies of scale and market power of collective action, cooperative business model was adopted in production, marketing, finance and trade. In late 1800s, the model spread from America to Europe, Asia and in early 1900s to Africa (ibid). The activities of cooperatives are meant to have positive externalities in the (local) economy in terms of increased incomes, quality and quantity of public services, jobs and general increase in the stock of knowledge and skills (Okello et al. 2013). Cooperatives aim at making change for their members and neighbourhood community.

Frederick (1997) identifies seven conventional principles which enable a cooperative to provide services in line with its objectives. These principles enable cooperatives to grow stronger and bigger, and sustain service delivery to the members. They include, open and voluntary membership; democratic control; property rights based on use rather than investment; autonomy and independence of the management; commitment to educate, train and provide information to enhance member knowledge and awareness; cooperation among cooperatives rather than competing against one another; and concern for community development.

When Uganda embraced cooperative model of economic organization, these core principles were incorporated into the cooperative development statute of 1946 and in all the amendments that followed. These legal instruments guide the establishment and registration of cooperatives in Uganda. In later sections the extent to which these principles are practiced in the selected cases is discussed.

8.2.1 Rationale for Strategic Coordination by Cooperatives

There is a growing recognition and use of participatory approaches and local organizations to promote inclusion of poor producers in the process of local development. The role and participation of local organizations in post-war economic recovery have been evident in mobilizing local resources and regulating their use for sustainable development. The argument for participatory strategies is that, rural people have more to contribute to their recovery and development than just money:

> […they] are deemed to have better knowledge of the prevailing local conditions (such as who is poor and deserves to be helped, or the characteristics of the local micro-environment), and a better ability to enforce rules, monitor behaviour, and verify actions related to interventions (Platteau and Gaspart 2003: 2)

Participation can enable a shared understanding of the development problems and the possible courses of action to take, which becomes an incentive to cooperate (Libecap 1994). The strength of cooperatives lies in the opportunities for interpersonal relations and mutual support, feeling of responsibility and obligation which nurtures trust and group cohesion. Cooperatives play very important roles in facilitating access to product and complementary markets, thereby, address systemic risks associated with agriculture. Some of the fundamental roles of cooperative are discussed below.

Increasing Returns to Members' Investment

Firstly, cooperatives increase returns to their members' investment by enhancing efficiency in transactions through collective bargaining (Deininger 1995). Collective bargaining reduces the powers of existing monopsony or monopoly, thus limiting opportunistic behaviour of transacting parties. In effect, they get better market prices for their members (Harris et al. 1996). Therefore, smallholder cooperative help farmer to overcome entry barriers to markets through increasing the bargaining power and business opportunities. Increase access to technology and efficient use of available resource for equitable and sustainable use.

Secondly, cooperative increase returns to member investment through upgrading to more value-adding activities in the value chain (Mazzarol et al. 2013). In developing economies, upgrading is probably a much more difficult task as farmer organizations have limited capacity to innovate. In line with their principles of member education and information sharing among the members, cooperatives obtain and pass market information to their members much faster than when done individually (Hellin et al. 2009).

Thirdly, cooperatives increase returns to their members by reducing production and transaction costs through bulking for input, technology and/or input credit (Bijman et al. 2011, Peterson and Anderson 1996). Minimizing production and transaction costs is the thrust of transaction cost economics and argues that there are some ways in which transaction can be organized with minimum transaction costs (Williamson, 1985). Co-operatives reduce transaction cost through bulking for inputs and product markets (Hellin et al., 2009).

In addition, cooperatives are managed by volunteer members who may support a lean employed management team, thereby, reducing the over-head cost of coordination. However, this presupposes that members have the capacity to undertake key roles of management on voluntary basis, which often is not the case. Most cooperative in less developed economies lack management capacity as opposed to those in advance economies (Hellin et al. 2009).

Fourthly, cooperatives manage common-pool resources. Agrawal 2001:1649) observes that collective action "avails institutional arrange-ments and management regimes that help them allocate benefits equally with limited efficiency losses". The reduction of efficiency losses arise from the economies of scale and sharing of risks and management costs.

Risk-Management Argument

Risk reduction is the primary reason for the existence of producer coop-eratives. Cooperatives play key roles in managing risks of various kinds to which agricultural production in developing economies is prone (Harris & Fulton 1996). Agriculture-based economic activities are risk prone activity. Risks range from crop failures due to vagaries of nature and diseases, price changes and transaction failures in input, credit and output markets. Due to their small sizes and asset fixity, smallholders find it difficult to manage risks individually. There are both direct and indirect strategies cooperatives employ to manage risks better (Centner 1988).

The first is *pooling strategy;* where producers are paid average prices across seasons, regions or products to address risks arising from price un-certainty. Under this strategy, most cooperatives provide pre-season prices for their members. This enables members to objectively plan and budget their farm businesses. The second is *saving bank strategy;* where returns in good economic times are saved to be paid out in bad economic times. This is aimed at resolving both price instability and credit market failures by making financial services available for the members. Last but not least is, *maintain the market strategy;* a strategy where markets for farmer-members are maintained during adverse market failures when non-cooperative members exit the market. The main aim is to maintain member market share during bad times when markets are failing.

8.2.2 Organization of Cooperatives

The structure of an organization is defined as the internal differentiation and patterning of the components of that organization (Thomson 1967:56). Traditional cooperatives structures are designed to achieve the increasing returns and risk management mission discussed above. According to organizational theorist Thomson (1967), there exist interdependences between different parts of an organization and there are different ways in which organization coordinate the different components, actors and activities within the organization and between organizations. Three main types of interdependences are identified by Thomsons (1967). They are relevant for the understanding of the ways in which cooperative are structured and coordinated. The three types of interferences have been discussed by Bijman et al. (2011) as summarise below.

Pooled interdependence is where "…each discrete part contributes to the whole and each is supported by the whole" (Bijman et al. 2011:85). In this kind of interdependence, the appropriate form of coordination is standardization; by setting and enforcing internally consistent routines or rules across all constituent parts of the organization. The success of such coordination requires stable institutional and political environment and repetitive activities. Traditional cooperative organizations fall under pooled inter-dependency. Individual farmers make their separate contributions to the cooperative and the cooperative in turn provides services to the groups (Bijman et al. 2011).

However, with increasing vertical connectedness in agribusiness, more vertical and heterogeneous relationships exist between actors. This is known as *sequential interdependence*. For example transaction between the farmers and cooperative and between cooperative and buyers interdependence requires hierarchical coordination (Bijman et al. 2011). Coordination by command is less costly as a set of rules or schedules applies to all parts in the organization as convention. Cooperative provide vital vertical linkages between farmer-members and buyers; between farmers and input/credit suppliers through vertical coordination by command (Bjiman et al. 2011). But cooperatives also undertake horizontal linkages with other support organization such as government and NGOs at all levels where they exist.

The other is *reciprocal interdependence* where outputs of each part are inputs of the others. Coordination is by mutual adjustment. Where the situation is more uncertain, there is more propensity to rely on mutual adjustment. The role of information gathering and sharing across the different parts of the organization is vital. Complexity in this case is in terms of coordination but not size. A cost reducing strategy under complex situation would be to differentiate between the core and contingent activities of the organization and devote resources more on the core.

Social relations and norms play vital roles in coordination of small sized cooperative with homogenous members. This means primary cooperatives base at small geographical area with members of the same clan, having interpersonal relationship of clanship or kinship, governed by the traditions and cultures. According to Bijman et al. (2011) bonding social capital works well where the cooperative is small and composed of homogenous members. It is shared norms with real people, talks of real relationship as opposed to theoretical relations that motivates joint activities and collective efficiency (ibid).

8.2.3 Factors Influencing the Performance of Cooperatives

External Environment

Context matters for cooperative development. Existing institutional environment has influence on structure and internal cohesion of the cooperatives in a number of ways. Firstly, the presence, quality and cost of outside support in funding and technical knowledge from government or NGO is important when internal resources and capacity have not accumulated enough to meet all the investment and operational needs of the cooperative (Peterson & Anderson, 1996). However, intervention may demand interests and capacity beyond existing bonding social capital that generates the required commitment. It is important that external agencies do not force collective action on existing groups unless the interest is generated and expressed by the groups (Marlelova et al. 2008). External actors that provide support need to assess the existing institutional arrangement before introducing any changes; otherwise they may introduce a practice that disintegrate rather than support it to succeed (Peterson & Anderson 1996).

Secondly, vertical interdependences and coordination between cooperatives and outside actors including buyers requires development of *bridging trust* (Bijman et al. 2011) External relations impose a different kind of structure and institutional arrangement on the cooperative due to the increased heterogeneity of that comes with the linkages. That is why investments in bridging trust become necessary. Bridging social capital defines relationship between cooperative members and outside partners like NGOs and government staff on whom the cooperative dependence for its development. Trust is often developed through repetitive interactions in hierarchical government or market relations. It is a formal relationship and trust developed through repetitive interaction.

Bijman et al. (2011) observe that, bridging capita facilitates vertical coordination through hierarchy or market. Members interest clashes with that of cooperatives which influences commitment. The trade-off between bonding and bridging social capital lies in the ability of the leaders and the institutional framework to address the failures in the market.

Thirdly, the institutional environment in which cooperatives are located influences the development of trust or provides mechanisms to enforce compliance. These may include characteristics of the transaction and governance mechanism, monitoring and enforcement, relationship between actors and negotiation skills of partners (Michael et al. 2001).

Types of Products and Markets

The attributes of the product influence the incentives for collective action. These may include the degree of predictability, perishability, mobility and storage methods (Marlelova et al. 2008). There are also differences between staple foods, fresh foods and cash crops. Whereas staple and perishable foods may have local and national markets and require less light primary processing, cash crops are associated with exports and large processing requirements in which individuals may not invest. The potential advantages of collective action in staple foods are less because of the low transaction costs of local markets in which greater proportion of the goods are traded. However, with the rise of large urban markets, the need to invest in information, logistics and meeting the required standards has led to increasing transaction costs.

Marlelova et al., (2008) argue that the most successful collective action organization is in high value foods and cash crops where producers face high transaction costs and which require more technical guidance. The incentive for collective action will then be high to obtain logistical support, equipment, cold chain and expert knowledge. Sunflower falls under this type of product as it is mainly grown as cash crop since it cannot be consumed without secondary processing. It has missing markets in the village markets. The longer the value chains the more incentive for collective action because access to the market will involve higher transaction and transport costs where the market is concentrated locally. National markets may offer high returns but the transaction costs are high.

8.3 Reforms in Farmer Organizations in Uganda

8.3.1 A Bird's Eye View of Cooperative Movement in Uganda

The cooperative movement in Uganda was formed in 1946 as formal institutional setting for the production and marketing of cotton. By 1959 the 273 existing cotton farmer groups immediately registered as primary cooperative societies with 21 unions by 1960 (Kwapong & Korugyendo, 2010). The cooperative had autonomy in forming and managing their affairs with minimal government involvement. The cooperatives underwent several changes due the number of farmers it had attracted and its growing political influence. The cooperative performed well until 1970 when the law was changed to give more powers to the government to have more influence in supporting and controlling the affairs of the cooperatives.

Producer cooperate share of the cash crop market dropped from 100% to about 37% by 1979, nevertheless, the total number of registered cooperatives increased from 2,800 in 1971 when Idi Amin took over power to 3,054 when he was ousted in 1978 (Ahimbsibwe, 2009). There was a resultant increase in the number of unions from 35 to 41 and total number of participating members from 750,000 to 1,100, 000 in the same period. During the military junta, consumer goods and services became scarce; cooperatives became a prime avenue to ration them. This forced many people to form consumer cooperatives to access goods and services. But cooperatives also expanded to non-agricultural and financial sectors of the economy.

In addition, the cooperatives were embedded in the Ugandan Peoples Party's (UPC) socialist ideology that followed the immediate post-independence era which made cooperatives enjoy government support under the first post-independence government in 1960s and again after the military rule in early 1980s. However, the current Museveni government is driven by neoliberal ideology under liberalization policy introduced by the IMF and World Bank in late 1980s.

The impact of liberalization of agriculture made government to withdraw financial and technical support the cooperative that heavily depended on government subsidy; crippling the operations of the cooperative to provide inputs, price stabilization and marketing support to its members. The farmers and their former cooperative leaders continue to blame government for the collapse of the cooperatives. They claim the demise of cooperative movement was engineered by the NRM government to frustrate UPC party, which had come to be closely associated with, and had long been using, cooperatives to create political support base. A district agricultural officer observed that most of the high level UPC party leaders were leaders of cooperatives could not fail to get votes from farmers.

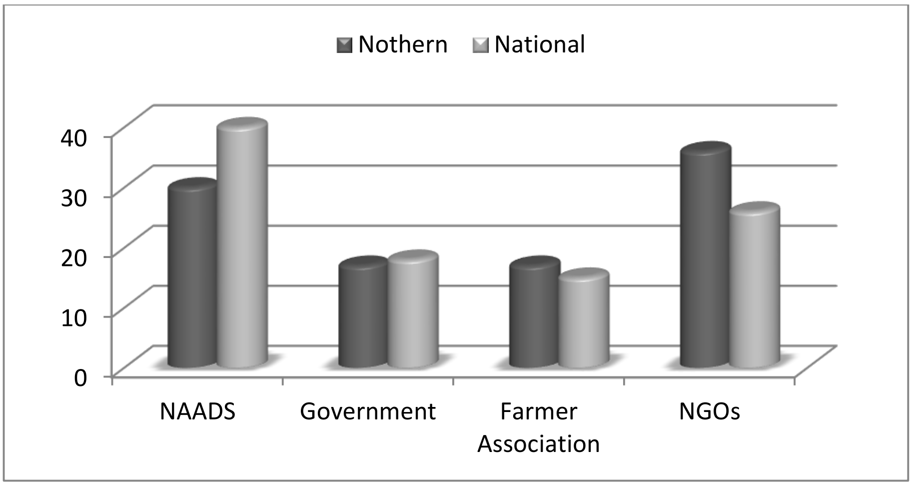
8.3.2 Background to Farmer Groups in Uganda

An agricultural census undertaken in 2008/2009 categorised farmer groups under different organizational forms and regions. A former district NAADS coordinator gave a historical overview of farmer groups. According to her the cooperative was the only form of farmer organizations. The collapse of cooperative movement in the 1990s gave rise to the formation of Uganda National Farmers' Association (UNFA) which had farmer groups as the lowest grassroots organization, followed by a federation at district (district farmers associations) and national levels. The major problem of this organization was lack of funding right from the beginning and, therefore, its influences on smallholder development was minimal the groups withered.

In 2001 when NAADS was introduced it aimed at existing groups. Most of them were small solidarity groups formed under various NGO programmes for the purpose of social development and community safety-nets for vulnerable members such as women and persons with impairments. The NAADS simply incorporated farming in their groups for targeting NAADS interventions. The reason to focus on existing groups was in the beginning was to avoid scrupulous farmers or even non-farmer from forming groups with short term objective of getting NAADS resources that will not be put to group development and farming activities.

Since the formation of UNFA and introduction of NAADS coincided with the civil war in northern Ugandan, the operations of farmer groups in the region was limited to the few NGO support programme that facilitated production of additional food on rented or borrowed farms around the camps. However, the post-war reconstruction efforts of government and development agencies are increasingly targeting farmer groups. As such, the use of farmer groups in northern Uganda is far more than in other regions as shown in the table 8.1 below.

Figure 8.1:
Distribution of Farmer Groups in Northern Uganda by Association



Uganda Bureau of Statistics (2010)

The figure 8.1 above shows that much as the promotion of farmer groups as a form of farmer organization has been spearheaded by NAADS, nationally NAADS accounts for only 40% of total number of farmer groups. The government agencies that are supporting and using farmer groups are the cooperatives and the agricultural research centres.

The farmer association here refers to the Uganda National Farmers Federation (UNFFE) which supports less than 20% of farmer group while the rest is other NGOs.

In northern Uganda, 36% of the farmer groups are supported by NGOs with NAADS handling only 26%. However, it should be noted that, groups tend to ascribe to different categories of farmer organizations. This is because the different organizations specialize in different aspects of the value chain; therefore, a single category cannot fulfil all the needs of the farmers. Remember the smallholder do not specialize in any single enterprise. For examples NAADs deals largely with extension service delivery and technology development mainly in food crops sub-sector, while the UNFFE offer support in cash crops and food crops that can be marketed that is business development services after NAADS took over the role of extension.

- The ministry of agriculture in its sector strategic plan targets interventions through farmer groups,
- The NAADS which is the public sector extension systems organizes extension service delivery through farmer groups,
- Uganda National Farmers Federation (UNFFE), a large NGO for solely to by farmers and for farmers to promote their interest. It has a business unit to foster economic investments. It aims to participate in export marketing. Now there is in the offing an east African farmers' federation formed between the national farmers federation of the east African community.
- The cooperatives are federated organization and for farmers the lowest organization is the farmers group of about 20-30 farmers mainly residing in a neighbourhood community.

The table indicates that for northern Uganda, 35% of the farmer groups are being used and supported by NGO other than federated former organizations. This include agencies like WFP who are sourcing food supplies locally though these groups. This attests to the importance of NGOs as change agents in strengthening capacity of smallholder to organize and integrate in the post-war economy where the government capacity to do so is limited.

8.3.3 Institutional Environment for Farmer Organizations

The legal procedures for the formation, registration and management of producers' associations in Uganda are very clear and simple. Under the NGO Registration Amendment Act, 2006, producers' organizations are classified as Community Based Organizations (CBOs) which are registered at the sub-county or with the District administration (section 7 (e) (2) of the NGO Registration Amendment Act (2006). A sub-county community development assistant in Gulu district who registers community based member organization elaborates the terms and processes of registering the groups:

> The process is simple. What are required are the basic details of the organization and letter of recommendation from the village chairperson and the parish chief where the group is based. These details include things like the name of the organization, number of individuals, location, group constitution that should spell out aims and objectives, group dynamics, acquisition and management of resources, etc. After registering with the sub-county, the organization is referred to the district for recognition and issuance of certificate by the community-based services department (*interview on 23rd March 2011*).

If the farmer organization has regional (sub-national) or national focus, it is registered by with the ministry of Gender and Community Services and the NGO board under the ministry of internal affairs. As the farmer groups evolve to cooperative society, they are considered formal organizations and legally registered by the registrar of cooperatives in the ministry of trade, industry and cooperatives under the Cooperative Development Act 2000.

8.4 Introduction to the Individual Cases

This section presents the case of two cooperatives; Alito Joint Christian Farmers' Cooperative and Angetta United Cooperative society. These cooperatives have been formed with technical support of Agency for Sustainable Rural Transformation (AFSRT). These are mainly in the oilseed sub-sector, which is fast replacing cotton as cash crop in northern Uganda. In the post-war economic recovery strategy, sunflower is emerging as a major crop for domestic edible oil production to supplement imports.

Table 8.1
The Summary of the Business Models Alito and Angetta

Thematic area	Angetta	Alito
Sector	Crop production and bulk marketing -Primary product is sunflower and rice -Others are sesame, Beans and groundnuts	Crop production, marketing and value addition Primary product is sunflower, bean, sesame and groundnuts
Type of ownership	Producer organization	Producer Organization
Local ownership	100% local member owned	100% local member owned
Members	21 groups of 750 registered members in one parish	141 groups of 5,006 members in 7 districts
Markets	Sunflower seed is sold to processing firms while other crops have both village markets and south Sudan	-Sunflower is sold to processing firms while other are to retailers in Lira town -Plans to process all sunflower into vegetable oil
Customers	Agents of processing factories Local traders, traders outside northern Uganda	Deals direct with millers, thus bypassing intermediaries. Acts as intermediary for the members and non-members who chose to sell to and through the cooperative
Niche(s)	Upland rice is gaining popularity locally and in South Sudan	Potential for refined oil in South Sudan
Qualitative Performance rating	Has not performed well. Still young	Fairly successful with room for improvement
Assets	-Plot of land earmarked for office and warehouse	-Seed crushing equipment (yet to be put to use) -Old pick-up vehicle, -warehouse, office, land where office and ware house are located

Source: Author based on interviews with cooperative leaders

The cotton oriented cooperatives are not functional any more as more farmers continue to join newly formed oilseeds oriented cooperatives. Alito and PKWI indicate that they have been subject of several researches, especially from 2007 as interest in their growth and achievement increased.

8.4.1 Alito Joint Christian Farmers' Cooperative

Background to Alito

Alito Joint Christian Farmers' Cooperative (here after simply referred to as Alito) is located in Alito sub-county in Kole district, northern Uganda. It is located about 15 kms from Lira town, the commercial hub of the sub-region. Alito started in 1998 as a farmer's group of 5 members, from the same neighbourhood community, who had mutual interest to run their farming as a commercial business. The goal was to increase their household income and improve livelihoods. The name 'Joint Christian' comes from the group members' identity as Christians from both the catholic and protestant churches, located hardly 0.5km apart. They stress this identity to demonstrate their history of close community ties, despite differences in religion. One of the founder members was a priest in one of the churches. The founder members had noticed that during harvest period, traders from Lira town would stores in the village to bulk produce that were transported to Lira town got higher prices and grew richer while the producers received little money for their produce. Yet the individual farmers did not produce enough quantities to meet the demand in Lira town. There was, therefore, need to increase farm product quality and quantity in order to get direct access to the processor-buyers.

The ultimate aim of the group was to by-pass the intermediaries. However, this could not be immediately achieved as the group had to build a critical mass to increase volumes adequate to directly access the processors. Secondly, this was a period of civil war where hiring private vehicles to collect produce from those remote locations was risky due to insecurity for vehicle owners and financially costly for the group to afford. They first started by bulking and selling to the very traders they were aiming to eliminate. Instead of the traders buying directly from individual members, they were buying from the group. This offered them better prices than before because the group could negotiate prices and choose who to sell their products to. The benefits from the group encouraged more farmers to join. Their performance was limited due to inadequate organizational and financial capacity.

By 2004 the number of group members had risen to 58. In order to attract and relate with development organizations to support their activities, the farmer group required to formalize its legal status. This necessitated the group to be formally registered with the local government and ministry as a peasant farmers' Community Based Organization (CBO). The end of the war in 2006 led to more farmers joining the group. This necessitated the transformation of the sub-groups from the core group. Nevertheless, the core group continued to provide overall management and support to the sub-groups. In order to undertake farming as a business, the farmers discovered that a CBO was not the most appropriate model of organization. A cooperative society was a more appropriate model of collective action as it had capacity for vertical coordination.

Consequently, in 2010 Alito Joint Christian Farmers Group was registered as a cooperative society, composed of 62 sub-groups. The numbers had increased from the 58 in 2004 to 1,998 members. By the time of the interview in January 2014, the number of registered sub-groups was 141 with a total of 5,006 farmers in 7 districts of Lango. With more requests from new farmer groups to join the cooperative, Alito plans to register as a cooperative union and develop the clusters into cooperative societies as members of the union. This is likely to increase the demand for management capacity that will require more resources to hire competent human resources

Table 8.2
Development trajectory of Alito

Date	Evolution stages of Alito	External Support
1998	Formed by 5 members. This group operated as informal farmers organization based on trust and shared belief to transform their households and community.	No evidence of external support
2004	Formally registered as CBO with a total of 58 members.	UOSPA contracts Alito to undertake seed multiplication. They mobilized and trained leaders in group management
2009	As a CBO Alito was contracted by Uganda Oilseed Producers and Processors Association to undertake sunfola sunflower seed multiplication	SNV intervention is further training and linkages to the markets FAO support in extension service provision and technology development Donation of seed crushing equipment for the association
2010	Registered as a cooperative society with 62 farmer groups as affiliate members and a total of 1,998 individual farmers	Further training preparing to register as cooperatives by SNV through AFSRT
Jan 2014	Plans to register Alito as cooperative union. The number has more than doubled from 62 sub-groups (1,998 farmers) in 2010 to 141 sub-groups (5,006 farmers) in January 2013	SNV continues to monitor and enhance capacity to cope with growing numbers

Source: Author based on interviews with farmers and cooperative managers

The cooperative is a federated farmer's organization. This means the cooperative admits farmer groups as affiliate members but not individual farmers. To become a member, each sub-group registers with Sh.162, 000

(€50) as registration fee paid once. There is also annual subscription fee of Sh.20, 000 (€0.6) and their constitutions are all aligned to that of the co-operative. The farmer groups who are members of the cooperative are autonomous with their own internal management and support structure. Any farmer is free to become a member of the cooperative through a group. The geographical coverage of the cooperative has increased from the small neighbourhood community of the 5 founding members to current 7 districts in northern Uganda.

Organization and Management

The management structure of Alito is composed of 9 executive member and 6 committees. Of the 9 executive committee members, 3 are founding members who are permanent in the committee while others serve for a maximum of two 5-year terms. The recruitment of a project manager, accountant, four extension workers and a store keeper was supported by USAID. The organization offered to pay the salaries of the technical staff for a period of three years, as the cooperative accumulates its own savings to fully meet its overhead costs. In the structure there are contact farmers who link the activities of cooperative with that of the clusters and groups. An annual general meeting for the cooperative is attended by leaders of all the sub-groups who form the Electoral College of the cooperative.

In the discussion with Alito leaders, they argue that Alito is trying to avoid surrendering of its management to technical people who are not the owners of the cooperative. They contend that from their experience with the traditional cooperative, the technical managers do not have the vision and commitment members would expect to drive the organization. "They would swindle all the resources and run away when the organization becomes bankrupt" (Chairman, interview 2014). Therefore, in their annual general meeting in 2006, Alito resolved that, founder members should be life members of the executive committee to ensure that the original ideas and goals of the cooperative are maintained to drive the cooperative. One such principle is that of transparency and accountability of the leadership that is seen as the strength of the cooperative and the reason for their success.

Another strength the cooperative members mentioned is the presence of a priest, who is not only a committed member of the executive committee but also provides counselling services for farmers who do not adhere to the set rules; which otherwise would jeopardize internal cohesion of the groups and cooperatives. This counselling service offered by the priest is a source of morality that generates trust and commitment to the leaders and each other.

Collective action: Horizontal Coordination

Alito cooperative supports farmer groups in their collective action, through a form of interlocking contracts with the groups. Groups that subscribe to the cooperatives are compelled by the bylaws of the cooperative to access services they require from the cooperative in return for reserved right to sell the harvests through the cooperative. Alito specializes in two main economic activities to support its members: joint marketing of oilseeds and access to complementary services to increase agricultural production and incomes of the members. A part from sunflower, the cooperatives supports the production of cassava and beans for members food security.

Bulk Marketing of Farmer's Sunflower Grains

The bulking process has two levels. It starts with the farmers delivering their produce to the nearest group stores. The responsibility to ensure farmers in a group bring their produce to the group store rests on the group leaders. The role of the cooperative is to link the producers to the product markets. By end of 2013, there were 8 such small stores in the seven districts. They are either offered free by a member of the group or the group hires the store using their group. When the group store is full, the cooperative hires a truck to transfer the products to the cooperative warehouse. Due to cash constraints the cooperative pays the farmers through the groups after 2-3 weeks of delivery, which is why members have to produce other crops to cater for household consumption as incomes from sale of sunflower can delay.

Increasing access to complementary services

In addition to bulk marketing, Alito cooperative also procures seeds that is distributed to farmers on credit and paid during marketing period. Alito pays for the input using cooperative savings and membership fees. The variety of sunflower seeds the cooperative deals with is the sunfola black seeded, which was brought to the cooperative by Uganda Oilseed Producers Association (UOSPA) in 2005. It is better than the white seeded in terms of oil contents. Another advantage of the sunfola is that it has soft husks which make it less costly to process than the white seeded. Since

2005, the cooperative has been used by UOSPA to multiply the sunfola for its members but also to sell back to UOSPA to distribute to other farmers elsewhere. The multiplication gardens doubled as demonstration plots for better agronomic practices.

In order to address crop financing problems of the members, Alito operates a savings and credit scheme. The revenue from the interest is ploughed back into the scheme. The loan money is an accumulation of membership fees, registration fees for affiliate groups, commission fees for bulk marketing and interest. Farmers can borrow U$20-U$100 mainly for hiring additional labour for land opening, weeding and harvesting as the production is labour intensive. This loan is deducted from the borrower's earnings after sale of the product with interest of 2% per month.

Upgrading along the Value Chain

During the war as it was difficult to transport sunflower seeds to the Mukwano factories in Lira town, the cooperative acquires rudimentary processing technology of pounding with hand motor designed for processing cassava. The residue would be for feeding pigs while the oil was for subsistence and village markets. Increase in pig production after the loss of cattle to the civil war increased the demand for sunflower seeds. This increased the production of sunflower instead of cotton because cotton market was limited. As production of sunflower increased, most farmers sold their seeds without adding any value to it since the hard-seeded varieties were difficult to crush by hand operated machines.

The cooperative has already acquired a crushing machine from UOSPA under a project known as vegetable oil development project to make vegetable oil locally. They will soon start to compete with the big millers. As the communities continue to resettle and get back to production, the purchasing is increasing and the demand for vegetable oil in the village markets is increasing. The local consumers have been complaining poor quality vegetable oil being sold by Mukwano to the local market while taking the purified oil to the city and for exports. A visit to the local markets reveals that the semi processed vegetable oils are actually coming from the local small millers but not from Mukwano.

Vertical Coordination: Producer-Buyer Linkages

Prior to the formation of cooperatives, farmers were connected to Mukwano through inter-locking contracts coordinated by the commission agents. Under the agreements, Mukwano supplied hybrid seeds to farmers which were deducted from the sale of the sunflower grains. The advantage of the hybrid is that the yield (1,800-2,000kgs per acre) and oil contents (45-50%) are higher than that of the local variety (1,200-1,500kgs and 30-40% respectively). However, since the seed coats are hard, they cannot be crushed easily by the small (non-motorized) equipment. Thus their market is the big processors. This makes the hybrid dedicate investment, while subjecting the producers to lower prices. The problem with the contract was that Mukwano did not stick to the agreed pre-season prices. Mistrust of the company by farmers continued to increase, resulting to side-selling. Eventually, farmers resorted to using the cooperative to market their sunflower grains.

By the time of visit, the cooperative had no specific contracts with any buyers. This gives them flexibility to negotiate for better prices with any buyer. However, the frequent buyers are Mukwano, Mt. Meru, Nile Agro Industry Ltd. and some firms from Kenya. The flexibility was also occasioned by the sunfola variety in which the cooperative specializes. Sunflola (OPV) Open Pollinated Variety is grown by over 70% of the farmers. It is being promoted by UOSPA because its seed coat is soft and easily crushed by small (sometimes manually operated) equipment majority of small scale processors use.

The cooperative model of coordination became attractive because farmer gets higher prices negotiated by the cooperative. By the time of visit to the cooperative at the end of 2013, Mukwno's farm gate price was Ugsh 1,000 for farmers who sold outside the cooperative while the cooperative negotiated for Ugsh 1,150. However, the cooperating member still received the Ugsh1, 000 farm gate prices from the cooperative at the time of delivery of produce to cooperative stores. The additional Ugsh 150 would be paid to them later after deducting 3% overhead costs. The strong negotiation power for higher prices enables members to get positive returns to their investment. This is the reason for the cooperatives rapid expansions, since every farmer group aspires to become a member to benefit from this additional return from the sale of sunflower grains through cooperative.

The cooperative is also responsible for quality assurance in order to maintain its reputation and expand its market power and share. Quality matters for the pricing of the sunflower seeds by the buyers. The quality standards are the maturity of the seeds, moisture content, and the seed variety. There are quality assurance committee that goes to the group bulking store to ascertain the quality of the sunflower seeds before transferring them to the cooperative warehouse. In the past due to lack of quality testing equipment, the committee would bit the samples of the seeds to ascertain moisture contents and level of maturity which is a crude way of doing things. Recently, UOSPA donated a testing machine commonly called moisture meter, to detect moisture contents, presence stones and sand in the seeds.

The institutional arrangement for the vertical coordination with the buyers been fairly successful due to the following factors; (i) leaders commitment to maintain accountability and transparency; (ii) in the general meetings, profits are declared to members and shared among the members; (iii) bonus is given to the sub-group that has the highest performance and (iv) best farmers are rewarded with extra funding or inputs or equipment, such as bicycles. These have proved to be robust incentive structures for compliance to the rules of the game.

Constraints Faced by Alito in Vertical Coordination

Despite the success registered over the years, the cooperative is faced with a number of constraints that hinder their effective coordination and service delivery to the members. Since there is a functional relationship between coordination of collective action and vertical coordination of the value chain, these challenges affect both forms of relations. These include problems related to opportunism, human resource, lack of financial resource and logistics.

Just like others in other cases of contract farming discussed in earlier chapters, the cooperative faces the problem of side-selling by members and defaulting in loan payment by borrowers but they have mechanisms for reducing these malpractices. However, the cooperative has a system to control opportunism. Members who side-sell ones are pardoned and counselled by the priest or elderly members of group where the farmer is a member. If the same person side-sells for three seasons, he/she is expelled from the group. In the case of defaults on loan repayment, the member is brought to a disciplinary committee of the cooperative to explain circumstances which have led to the default. Most cases the problem is linked to side-selling since the cooperative does not have enough revenue from the sale of the farmer to deduct for the loan. The defaulter is often given more time to pay. If he/she does not pay, the matter is taken to the village council court[1], which is a recognized government institution that handles such small civil cases at that lowest level.

A problem reported by the chairman and members of the group is how to manage growing number of memberships. The number of technical staff such as 7 extension workers has remained the same despite the growing number and scale of work. To manage growth, the sub-groups have formed clusters which are being developed to become cooperative societies, while Alito is planning to be registered as a cooperative union whose members will be the newly created cooperative societies.

The cooperative does not have adequate cash to pay for farmers products. Everywhere there is pressure by farmers to get cash as quickly as possible from supply of produce to the warehouses. But managing this demand by the cooperatives is their competitive disadvantage. The locally raised revenues are not enough. There is a loan facility being negotiated with Uganda Development Bank with an interest of 10%, which is more affordable than credit from commercial banks of 25% interest rate as at end of 2013. However, low absorption capacity due to lack of technical staff to manage finances is still a challenge the cooperative is grappling with. Previously the cooperative negotiated a total of $148,000 grant from United States African Development Foundation (USADF) but only $61,600 was disbursed due to low absorption capacity. The members attributed the low absorption capacity to bad weather. The grant was terminated as a result.

Poor access roads to some of the productive centres increase the cost of transportation and reduce the profit margins of the farmers and the cooperative. Due to the poor roads there are no commercial vehicles which the communities can use to transport their products are lacking. The only means of transport is the bicycles which cannot carry large volumes.

8.4.2 The Case of Angetta United Cooperative Society

Angetta United Cooperative Society is located in the remote district of Alebtong in northern Uganda. During the war, the population of the district was forced to IDPs where farming could not be undertaken. The people have all returned to their original lands and agricultural production has resumed. In Alebtong, Angetta United Cooperative Society (hereafter known as Angetta) is one of the few farmer cooperatives formed after the war which is still surviving, although marginally as will be discussed. Angetta is a higher level farmer organization; which means the members are not individual farmers but farmer groups. There are 21 independent groups, each of 30 farmers, affiliated to Angetta. The cooperative has a total of 750 fully paid up members, 35% of who are women.

Historical Background and Drivers

The end of the civil war and return of IDPs to their villages in 2006 witnessed renewed demand sunflower, as Mukwano which was upgrading its vegetable of processing capacity to 200 tons per day. Mukwano through its extension department, sensitized farmers who were returning from the IDP camps on the economic benefits of producing sunflower and its readiness provide hybrid seeds, extension service and buy sunflower farmers produced. This increase in number of sunflower producers was envisioned to increase oilseed supplies to the processing plants (Beyssac et al., 2012). Indeed many farmers embraced production of sunflower as a source of income, alongside food crops. Soon the transaction cost of dealing with a large and increasing number of farmers became too high for both Mukwano and farmers.

This prompted Mukwano in 2007 start mobilizing farmers to form group for bulking distribution of hybrid seeds and corresponding supply of sunflower grains to the factory. Existing groups adopted the production sunflower in their economic activities while some farmers formed new groups. In Angetta parish, a total of 17 groups of 750 farmers were formed, without following any criteria because Mukwano did not have the technical capacity to undertake group development. Since the groups were weak, despite their presence, the company continued to face high level of transaction cost. Something needed to be done enhance the performance of the farmer groups. The company collaborated with SNV to undertake a more focussed farmer institutional development.

Table 8.3
Development trajectory of Angetta

Date	Status of development	External Support
2006	• Farming households returned from IDP camps to their village and resume oilseeds production including sunflower.	• Mukwano penetrates the community to buy sunflower through commission agents
2006	• Mukwano started to distribute seeds and buy sunflower grains from the farmers. • Mukwano incurred high cost of transaction due to diseconomies of scale.	• Mukwano facilitation and mobilization of farmer to form groups
2007	• Mukwano to mobilized and sensitized sunflower producers to form groups for bulking inputs and product. • The effect of the sensitization formation of 17 farmer groups Angetta parish, with total membership of 750 sunflower farmers. • Some of the groups that were formerly formed for other self-help purposes incorporated sunflower production in their activities due to the anticipated support from Mukwano.	• SNV trained the groups in business development services and group management and leadership
2009	• The 15 farmer groups were again restructure with the help of SNV to 21 groups of 30 farmers each. • Angetta cooperative with a total membership of 21 affiliated groups and a total of 750 farmers.	• Further training by SNV to prepare the cooperation for registration. Facilitating cooperation between the groups to form cooperative. This was meant to be a pilot project. • Teso Cooperative Union offered training on how to write bylaws and register

Source: Author based on interviews with farmers and cooperative managers

In a group discussion with the executive members of the cooperative, reported that, for easy management and to encourage every member to participate effectively, SNV had to reorganize the groups to have only 30 members. Some members of groups that had more than 30 members had to leave to form other groups. The number of group increased to 21 from the original 17 groups Mukwano had mobilized. But the number of farmers remained 750. The 21 group were facilitated by SNV and Mukwano to form and register Angetta United Cooperative Society, in 2009 with the registrar of cooperatives while the groups registered as farmer groups with the district and sub-county. The training by SNV covered group leadership, business planning and management, resources mobilization, financial management, simple bookkeeping and accountability, monitoring and evaluation of collective action and reporting.

The Organization and Management Structure of Angetta

Angetta is structure like a typical federated cooperative society. Farmers participate in the activities of the cooperative through their group and are represented in the AGM and other fora by their leaders. To register, each member pays to the group Ugsh 7,000 (€ 2.30) membership fee as one-off contribution and Ugsh 2,000 (€$0.6) as annual subscription fee. This is different from the membership contribution to the groups. These funds are remitted to the cooperative by the groups.

Each farmer group has its own group management and leadership structure. The groups are not homogenous in the sense that, group activities vary according to their age, performance, scale and scope of activities they perform. Some groups have savings and loan schemes, mutual farm labour support, social support and different types of crops, while others have only one activity, that is, sunflower production. The leaders observed that groups prior to Mukwanos sensitization have more scope of activities and are more stable and effective in providing services to their members than the new groups and the cooperative. Many of the cooperative leaders belonged to such groups and their good performance in the management of the groups was the reason most were elected on the board.

The AGM is the highest authority of the cooperative. The board has been formed as required by the bylaws of the cooperative, composed of 9 members. In the focus group discussion, the members were satisfied with the composition of the board in terms of their integrity and command of respect from the community. However, interaction with the leaders reveals lack of self-determination and self-drive to initiate growth. Since some of the groups are stronger in terms of organization, the cooperative is also finding it difficult to build the required cohesion. The board has formed the required committees responsible for discipline, finance, enterprise development and marketing. But these organs of the cooperative have remained ineffective because the technical management staffs who are supposed to be supervised and monitored are not in recruited.

Due to the lack of technical staff, the day to day management of the cooperative is being performed the executive committee of the board. The chairman, secretary and treasurer take turns in a week to sit in the office to undertake operational duties. The cooperative has survived on this life-line of the boards management support for the last five years since its inception. This reflects commitment of the board to the cooperative and the farmers.

Institutional Arrangements for Coordination

The capacity of the cooperative to coordinate the economic activities of the value chain is inadequate at the moment. As Mukwano played important role in the formation of the cooperative, it distributes hybrid seeds to farmers through the cooperative but does not buy sunflower grain from the farmer through the cooperative. There is no contract between Mukwano and the cooperative but the members complained of lack of clear direction from Mukwano on how they will cooperate to ensure farmers sell exclusively to the company. Moreover, in 2011 Mukwano was unable to buy all the sunflower grains. The excess was then sold to other buyers at higher prices than that of Mukwano.

In the business plan, high on the agenda of formation of Angetta was prospects for bulk marketing of members produce. This was also in line with the aspiration of Mukwano to reduce transaction costs. However, the cooperative has failed to provide its member product marketing services. The organization has inadequate technical and financial capacity. In effect, Mukwano continues to use the commission agent to buy sunflower grains from the cooperative members. The cooperative encourages members to deliver their products to the local agent. As a private business, the agent is believed to operate on sound business principles; thus safeguarding Mukwano's investments in hybrid seeds.

Mukwano's fears are not misplaced because; previous contract arrangement between farmers and the company had failed due to side-selling. It had hoped the cooperative would facilitate to address the problem of side-selling. But with the entrance of new competitors like Mt. Meru, it became risky for Mukwano to continue pursue the cooperative model of organizing the supply chain. The cooperative was meant to countervail the deviating from the agreement terms and conditions of supply.

Support Provided by Angetta to its Members

The board is beginning to realise that they need to do something about their poor financial health. They were negotiating with Pride Uganda, a micro-finance organization to provide credit for farm production. Pride lends an equivalent of U$940-U$2,200 to such producers groups. In anticipation, this fund was planned to enable the cooperative to provide oxtraction services to its members to increase production, hire a store and pay for cash for members sunflower grain. In a way the cooperative is attempting to reposition itself in readiness to compete with the private sector in the oilseed value chain, which one of the most viable cash crop in the region in addition to rice and sorghum.

8.5 Discussion and Conclusion

The two cases have their unique experiences of the growth process, organizational and management mechanisms and areas of emphasis in service delivery. But we have seen experience of Alito and which is clearly making positive strides in mitigating systemic risks and addressing systemic market failures for their members. We have also noticed that, Angetta is still struggling to establish itself. Of the market failures that limits the participation or rather limit the utility members derive from participation in economic activity. Some of the key insights drawn from the experience of the three cases are discussed below.

Adherence to the Principles of Cooperative Movement

The success of cooperatives is argued to be hitched on observance of the seven universal principles elaborated in Frederick (1997) which define cooperatives. The experience of the cases shows that, the principles have not been fully adhered to; which partly explains the weaknesses identified in the performance of the two cooperatives as will be discussed in a short while. In the two cases, there are entry and exit barriers which contradict the principle of open and voluntary membership. The barriers are related to the rules that draw the boundary between members and non-members. To be a member of the cooperative, one must first become a member of a farmers group. To join a farmers group, one must fulfil certain conditions such as membership and subscription fees and be resident of the neighbourhood community. Where such groups are non-existent in the neighbourhood community, the potential farmers cannot be able to join the cooperative.

In the past, the member of the primary cooperative societies of the individual farmers were free to join so long as one was willing to abide by the bylaws and operational procedures of the cooperative and a member could exit when required. Its application in the federated cooperative organization is not clear. By the individual being tied to the cooperative through groups, the decision to exist the cooperative is not at the cooperative level but at group levels. These conditions may prevent other prospective farmers from participating if they are not in position to meet the requirements. These requirement are however, aimed at internal financial mobilization and expression of commitment to the organizations. Sometimes it is the social structure in which the groups are embedded that compels individual to join and retains them in a group. You become a member of a farmer group not because you have the interest but because it is by neighbourhood community member to which you belong. Not joining could be construed as rebelling against the practice of the community.

Whereas, the principle of one-man one-vote have been observed in decision making for example in annual general meetings as the minutes indicated, the challenge remains how to ascertain if these decisions are made from informed-point of view or coerced through the asymmetric power relation between the members and the leaders (Frederick 1997). The fact is that there is limited capacity of the ordinary members to effectively supervise and the implementation of their decisions. Surprisingly, in the successful case of Alito, the leaders have been left to steer the cooperative with limited participation of the members (farmer groups) in determining strategic direction of the cooperative and accountability. This is against the cooperative principle of democratic management and participation of all members in decision making.

Leadership and management

Firstly, the successes registered by Alito are not necessarily a result of democratic leadership. The presence of founder members in full control and direction of the cooperatives is elaborates undemocratic the management of the cooperative. However despite their undemocratic the cooperatives are succeeding in achieving meeting the needs of the members, which is why members are not keen in replacing them. But prospective leaders are beginning to question the long stay of the founder member in leaders while majority are satisfied with the leadership.

In the two successful cases it has been a question of catalytic leadership that is capable of galvanizing the communities to rally behind a common goal. The leaders of the cooperatives seem to grasp the problems of the community and know where help can be sought to address them. These types of leaders can be described as charismatic leader or institutional entrepreneur or change agent. What seems to be important for beneficiaries is action-oriented leadership that is capable of assessing and shiftily respond to the collective needs of the society.

Strong involvement of founder members in the Alito has mixed implications. Their commitment makes the cooperative not to lose the focus on collective good than individual interest which has been cited as the contributing factor for the collapse of many cooperative. The trust in founder members that have developed over years is the strength of Alito. However, the lack of nurturing of other leaders may become detrimental to the future of the cooperatives should the founder members cease to be members.

Institutional arrangement and coordination of collective action

Firstly, smallholder cooperative operate at local levels where informal social norms, shared beliefs, conventions and trust play vital roles in facilitating coordination of cooperatives (Centner 1988). However, in the case of Angetta, there is a demonstration of more commitment and, thus, internal cohesion at the small group level than the cooperative. The groups are incorporating village saving and loans into their group activities, which is running well. Farmers groups are more effective members of cooperatives in social service delivery because most of them are members of the same clan or kinship, conditioned by the traditions and cultures to comply with collective action rules. The prevalence of face-to-face interpersonal relations is more dense and frequent in groups than in cooperative. Member of farmer organization are more homogenous and do easily nurture internal cohesion and mobilization of internal resources, largely mediated by social capital which are evidently lacking in higher level organizations where formal and informal institutions are simultaneously at play.

Cooperative are better placed to advance economic interests and reduce transaction unit costs than the grassroots level but are difficult to coordinate due to heterogeneity of members, complexities of relations and higher overhead costs. But they operate at a much larger scale and provide more services hence reducing the unit overhead costs. This is evidenced by the successful case of Alito; where is able to get for its farmers returns over and above profits they would get if they sold directly to the processors.

Secondly, the cases reveal that there is an overlap between the cooperative institutional arrangements and local informal social institutions and local public institutions. This creates a favourable institutional environment where transacting agents have avenues for resolving conflicts arising from breach of transaction contracts. The example of Alito where cases of moral hazards and opportunities are referred to village courts, whose members are often members of the cooperative and same neighbourhood community and cooperative, if not group, blurs the boundary between the two. Cases of side-selling and loan defaults are thus reduced compared to lead firm coordination discussed in chapter five where no mechanisms were available. In local village courts unwritten contractual obligations are recognized and acceptable as binding by all parties which makes it the more appropriate for managing such informal transaction relations.

The Role of Cooperatives in Civic Ordering

Bijman et al. (2001: 88) observe that "[a] cooperative ownership structure constitutes an opportunity for vertical coordination between the farming activities of the producers and the marketing activities of the cooperative firm". This relationship implies that the farmer groups which form the membership of the cooperatives have to agree to relinquish some of their group functions, powers and activities which previously were facilitated by close interpersonal relations in small homogenous groups to more impersonal relations in heterogeneous organization-the cooperative. Therefore, the farmer must be willing to trade of bonding capital to invest in building bridging social capital and trust for the institutional arrangements to deliver expected results. This is because cooperatives may want to make asset specific investments in reputation and brand name for their sustainability (ibid).

The experience of the two cases shows that, civic ordering is embraced by cooperative after the cooperative has acquired some threshold of technical knowledge and financial capacity for higher level coordination of the value chains. From the development trajectory of cooperatives described in the discussion of each cooperative in earlier sections, it is clear that cooperative largely evolve from small homogenous groups structured around a specific social relations such as neighbourhood community, clan and kinships based on community governance mechanism (Bijman et al. 2011). As they grew, the demand to cooperate with other groups or cooperative emergencies, as espoused by one of the principles of cooperatives-cooperation among cooperatives (Frederick 1997). This interaction increased the role of bridging trust to maintain a positive relationship. The governance mechanism shifts to democratic with more involvement of the members.

Depending on the institutional framework and capacity of actors to enforce them, vertical coordination activities may be undertaken with or without the participation of the farmers if the cooperative realises involvement of the farmers may jeopardize rather than promote the cooperative firm business. It takes the form of either hierarchical or market-type of coordination as the heterogeneity and thus the need for bridging trust increases. It deals with coordinating farmers with other value chain actors such as input suppliers, output buyers and experts such as research scientists. It is more technocratic with less inclusive approaches.

Importance of External Support

Firstly, the growth trajectory Alito demonstrates that, although organically started, at a certain point in their life cycle of growth, external support is required to boost the technical, managerial and financial capacity of the cooperatives societies provide services to its members as argued by Peterson and Anderson (1996). Although formed in 1998, Alito's growth was very slow until 2006 when external organizations such as UOSPA, USADF, SNV and IFAD started to build their capacity. Despite Mukwano's interest in contracting under out-grower scheme, the capacity of both Kuwano and the farmer groups were too low to engage each other. However, NGO support was possible because there was opportunity Mukwano Company presented for the small producers to organize and access hybrid seed and market for their produce. This opportunity informed the goals of the NGOs to mobilize cooperatives (Hoff, 2000). Developing the management capacity and democratic principles of cooperative nurtured the internal cohesion that has seen the two cooperative grow in numbers.

Secondly, due to the impacts of war, the post-war regions do not normally have the required resources to move them on a development path. They rather depend on external resources (Gennip 2005). External support that is aimed at promoting local participation requires thorough assessments and contributing to the goals of the community (Uphof 1992). The problem in most cases is that, the logics of the external support are at variance with that of the community groups. If so, then commitment to embrace such support to benefit members will like wane in a short time, giving fertile ground for elite capture. In the case of Alito, external support came after their local initiative to build their capacity; increase scale and scope of had failed. The support found a society that was eager and receptive to external support because the need was clear. The Angetta cooperative has now reached that critical juncture where the society cannot develop any further unless an external push from government or NGOs comes in.

In the case of Angetta, its establishment was externally engineered and facilitated by Mukwano and SNV against the established norm of the members championing its formation. The external drive has a promotional connotation for the growth and ability of the cooperative. The important question to address is what motivated Mukwano to invest in producer organization, when better organized producers will have more power to engage Mukwano in bargaining process? As a leader in the value chain, Mukwano's intervention in ensuring producers are better organized to increase production defies, at least at the surface, the notion that private sector is often interested in exploitation rather than development. It is in line with the role lead firms play to reduce market failure and increase returns to investment for both the firm and its suppliers, creating a win-win situation (Hall & Soskice, 2001).

However, reliance of external funding (Horen 2002) has ramification for the legitimacy and ownership of external assistances. Development aid often has a set of pre-determined investment areas and certain strategies to follow based on best practices elsewhere but not the best practices of the local communities (ibid). Whereas there can be general principles adapted to different regions, each region has its unique characters that influence the strategies and outcomes differently (ibid).

The experiences of these cooperative show that, external support has to be carefully targeted with clear and feasible strategies and timetable for withdrawal of subsidy to avoid dependency syndrome. If the support involves subsidies in building the market relations, careful targeting is required with. Otherwise it is better to empower producers to directly face the market through trial and error, they will learn to negotiate and provide information for their members. This means not fully participating in actual market and production activities. Secondly in deciding what and where to intervene, take the intervention logic of the producers as guiding principle to better identify their most biting needs. This will direct external resources to the right areas of investments. Strategies should be aligned to the principle on which the organization was conceived and built.

9 General Conclusion

9.1 Introduction

This chapter summarises the key findings of the study and its contributions to theory of institutional change in post-war environment. The study has examined the ability and limitations of value chain development interventions in resolving systemic failures in the product and complementary markets for smallholders in unstable political and social environment. It addressed the question of how value chain development interventions resolve market and coordination failures in post-war locale. In answering this question, the researcher analysed the underlying factors that hinder or foster successful value chain development in war-affected environments. It specifically, explores how development aid assistance supports local institutional reforms geared toward converting subsistence smallholders to commercial producers in value chains.

9.2 Key Empirical Findings

The starting point of the thesis was the importance of institutional environment for the design and enforcement of institutional arrangement for economic reconstruction. Institutional environment comprises formal institutions such as the constitution, laws and regulation and informal social institutions like norms, beliefs and conventions. It is based on Granovetter's (1985) argument that economic activities and institutions are embedded in social network of interpersonal relations, cultural norms, conventions and trust. Trust has been treated as part of the environmental factors. It acts as glue or rather a lubricant for economic relations. Based on these objectives and the corresponding sub-research questions presented in chapter one, the following discussions summarize the responses to the questions and the extent to which the objectives have been achieved.

9.2.1 Impacts of Civil War on Institutional Environment

One of the main objectives of the study was to analyse the impacts of civil-wars on institutional environment for value chain development in post-war period. The findings allude to the destruction of pre-existing community ties and creation of were environment of mistrust. The Acholi culture of cooperative farming was destroyed; chiefdoms were undermined and, thereby, rendering clan chiefs less effective. The demise of many elders in the IDP due to deplorable living conditions rendered the institution of elders ineffective. The ineffective customary institutions have created an environment of uncertainty in customary land management system resulting in increasing land conflicts. Remember land is the single most valuable productive asset available to the poor producers. So, issues of land matter for smallholder value chain promotion.

In the course of a war, rebel forces tend to destroy government facilities and installation in order to weaken government legitimacy. Therefore, government employees and financial institutions are often among the first people to flee a war zones (Coyne 2005). However, it takes time for the private sector actors to return to the territory after the return of peace. In the northern Uganda case, despite efforts made by various development actors, such as Mukwano, CDO and collective action by producers' organization, cotton and oilseeds markets continue to perform poorly. This created resentment between communities and government as the districts have inadequate capacity to provide enabling public services such as extension, primary health care, basic education, community access roads, water and sanitation. As Demstz (1988) observes, all these factors have created mismatches between desired and actual knowledge and institutional patterns. It lowers economic performance.

Reforms in institutional environment are pre-requisite for value chain and market development. It must precede or be part of value chain promotion if value chain interventions are to succeed. However, the reforms in institutional environment are political processes that cannot be achieved through strategic coordination. Strategic coordination deals with designing and enforcing new institutional arrangements for economic transaction. It is more relevance at sectoral level than the whole economy. Strategic coordination requires capacity of local actors to respond to their need for the institutional change. Common understanding of the institutional arrangement right from design and enforcement makes it easy to adhere to and to be enforced.

The research has revealed that civil wars destroy or alter social institutions that have been developed over centuries. In the same way, through political processes, the governments with the assistance of development partners are attempting to initiate processes of change in the social institutions of embeddedness to create favourable environment for effective value chain implementation. This is contrary to the argument that, changes in informal social institutions are spontaneous, incremental and take a while before the new social institution takes root. Political processed therefore, have influence of spontaneous processes of change.

Another noteworthy argument is that, local institutional reforms take place within national business systems that comprise of commercial laws, judiciary systems and national business culture. Importance of political influence on social cultural institutional changes to address broken community relations and mistrust among community members has been observed. Notable example is the role government played in changing structure of the Acholi cultural institutions that historically evolved through time without any deliberate interventions. Already, the peace process that was initiated by the *ker kwaro* is one such recognizable success; though it will take some time for the community to fully appreciate its importance and roles as the gains begin to be realised. However, the research also observed that with the positive results of the changes in *ker kwaro,* there is some emergent conflicts in roles between the traditional clan chiefs and council of elders some of whose roles have been taken over by the higher institution of *ker kwaro*.

9.2.2 Sources of Market and Coordination Failures

The first objective of the study was to expound the nature and sources of market and coordination failures in post-war environment and its consequences on post-war economic recovery processes. The analysis was based on the institutional arguments for market failures (Williamson 2000). The two cases have tended to exhibit fairly different forms of market failures based on the differences in the nature of institutional arrangements and formal institutional set ups. Whereas the cotton value chain has largely remained under government control and thus exhibits more of government failures, the oilseeds value chain is driven by the private and non-state actors; thus experiencing market and collective action failures. The demise of the cooperative institutional arrangement as a result of *both* liberalization and various wars was a blow to cotton production and marketing in northern Uganda.

Therefore, in the cotton sector, the market failures are related to uncertainty in institutional arrangements and lack of clear coordination mechanisms. This is mainly related to the unclear position and roles of the Cotton Development Organization (CDO) in the value chain under a liberalized market. Therefore the cotton market witnessed a shift from one government monopoly, that is, the Lint Marketing Board (LMB) to another, the CDO. The position and actions of government in the value chain has not been very clear to the other actors in the chain. This is because as Borooah et al. (2003) observe, the role of government in a liberalized market is to remove market imperfections such as government monopolies, price stabilization support programmes such as minimum wage policies so that the market is coordinated and resources allocated by flexible price systems. This is not the case for CDO. In addition to the price control by CDO, the government created area monopolies through the zoning systems to secure private sector investments in supply-base development. The zoning policy encouraged private ginneries to invest in addressing imperfection in complementary for inputs, crop finance, extension and information through inter-locking contracts.

However, this strategic decision was contradicted by CDO continuing to register new ginneries which increased competition in the local cotton markets and thus created opportunities for malpractices such as side-selling. The case confirms Kydd and Dorward's (2004) argument about government's reservation to completely liberalize the market for lack of trust in private sector to equitably distribute the costs and benefits of value chain to all participating agents. The uncertain in the state of affairs government has created increases information asymmetries and transaction costs, and discourages private investment at the detriment of the poor producers whose livelihoods depend on cotton production. Since smallholders do not have the resources to invest in searching alternative markets, the only option available to them is to exit the value chain.

In both the cotton and oilseed cases, the problem of side-selling became the defining factor of coordination failures. Side-selling was mainly as due to breakdown of social cultural norms of reciprocity which compelled parties in a contract to honour their part of the obligations. It was difficult for the ginners to take legal action against the defaulting farmers since the contracts were not written. The absence of trust and lack of capacity to enforce informal contract farming arrangements created a fertile ground for opportunism by the smallholders. The processing firms could not do anything to sanction opportunistic behaviour of the producers except to withdraw their support at the peril of both of them, because the institutional arrangement was not clear. Legal processes cannot be instituted against such acts where there are no written agreements. In any case, with time, as more cotton ginners and traders got registered to participate in cotton trade, the cost of switching to other ginners and buyers became very low for cotton producers. This means where the institutional arrangement are weak or unclear, contract farming is likely to fail, more so where there are competition from other institutional arrangements (arm's length transactions) in the same value chain.

In the past, side-selling was avoided because producer cooperative as formal farmer organizations had the scope and capacity to mobilize and enforce compliance of farmers to such informal contracts between the farmers and the cooperative, in a framework of vertical integration members. The cotton cooperative had enjoyed monopsony position protected by the government. The formal relationship between the farmer and cooperative did not have room for side-selling as the rules were clear and sanction for deviation were clear. But these institutional arrangements between the producers and processors in both value chains were not very clear and no sanctions spelt ex-ante with clear monitoring mechanism *ex-ante* as would be in formal contracts. The contract depended entirely on trust of the parties in an environment charged with mistrust and lack of cooperation. This are now being exhibited in a few promising cases of civic ordering by producer cooperatives as discussed later in this chapter.

Insecurity as a result of civil war had direct effects on economic performance. Prolonged displacement of the population in IDP camps altered the economic condition of the population and institutional environment. There were limited economic activities to perform in the camps. Private sector activities stop, market do not functions as people were displaced from their businesses and land where agricultural production was not possible to be carried out. This led to changes in economic activities which rendered existing institutional framework or arrangement non-functional. Non-functionality of institution for a long period of time rendered them obsolete for the post-war period. Strengthening of such obsolete institutions during post-war reconstruction processes is pertinent for post-war reform agenda.

Camp life restricted opportunities for farmer to organize for collective action, restrictions imposed by insecurity; hand-outs from relief organizations limit the growth of entrepreneurial capabilities of actors and thus lead to dependency syndrome. This influence of the camp life continues be felt long after the end of civil war. It has also been evident that due to decline in farming activities in the camps, farmer institutions such as farmer groups became ineffective in the camps. The camp economy is largely dependent on micro-scale off-farm activities targeting the local camp markets, regulated by local camp committees.

Another impact was the disruption of complementary market for finance, extension and inputs. Poor access to crop finances due to a number of constraints in acquisition and management of seasonal finance Uganda. These include financial illiteracy on the part of the small producers to know how to apply for and manage loan facilities. On the other hand, financial services providers have to accompany credit services with business development services and financial management skills which increase the transaction costs and thus interest rates to borrowers. There are also problems related to small deposits and demands for loans yet overhead costs remain the same.

9.2.3 Forms of strategic coordination and performance of markets

The analysis also elucidated the nature of different forms of strategic coordination mechanisms and their abilities to overcome the identified constraints and resolve systemic market failures in smallholder markets in a sustainable manner. In agricultural value chain, endogenous coordination is by chain actors (lead firms) and external coordination can be by government or non-state actors or producer organizations. However, in all the coordination mechanism, the role of government has been found to be either progressive or regressive in terms of promoting coordination by other actors.

The Role of Government in Strategic Coordination

The presence and authority of the state with its machinery still played important role in providing the political direction and oversight for all programmes, providing legitimacy for non-government actors. People may resent the state but they have little choice not to refer certain matters to the state. Issues related to security state have the mandate and legitimacy to address them as a public good.

In liberalized markets the private sector is considered the engine growth while government role is relegated to providing public services to create favourable environment for private sector investment. The experience of the cotton sub-sector is that of incomplete liberalizations, like elsewhere reported by Kydd and Dorward (2004). The government found it difficult to relinquish some of the roles it performed before liberalization, such as distribution of inputs and fixing of farm gate prices. The role of CDO as an 'autonomous' entity established by government to promote the value chain development of cotton in Uganda is not clear and mechanisms for monitoring the institutional arrangement for cotton value chain are not well defined.

A core condition for successful value chain development is a functional institutional arrangement with clear rules in terms of who can participate, on which terms and who does not participate. Unambiguous institutional arrangements eliminate uncertainty and reduce transaction costs. Although in the CDO Act 1994 the roles of CDO to facilitate the value chain are well clearly stipulated, in practice CDO goes beyond its facilitating roles to directly participate in distribution of seeds, chemicals and other inputs. This dual status of CDO leaves the private sector and community actors in dilemma of where government roles stops and their roles start in the development of cotton value chain. Capacity by government to enable private sector to coordinate the chain and to rally other actors to build overall chain competition is important. We have seen that the experience in northern Uganda showed: (i) CDOs limited has capacity to deliver extension services, provide market information and business development services. With only 93 community extension workers in the entire cotton growing regions, which have had limited exposure to agronomic knowledge and practices and are ill-equipped, the organization clearly does not have the human resources to carry out the mandate it has accepted. (ii) The funding of the organization was supposed to be through imposition of a tax on every unit of cotton purchased by the ginneries. This money has not been adequate and government has also been providing additional recurrent budget support to CDO to undertake its public service roles.

Government-Civic Relations

The study examined the relationship between the citizens and government in reconstruction process. The thesis emphasized the importance of government-civic relationship in providing legitimacy and acceptance of public investments in institutional reforms. This was in line with Platteau's (1994a) observes, trust between the civic society and government is important for government legitimacy and acceptance of the civil society. In defining civil war, conflict literature considers the government as one of the warring parties. This means the government is not a neutral party in conflict resolutions.

The research shows that, in the beginning, the capacity and legitimacy of government in facilitating post-war reconstruction immediately after the war was limited. This was particularly because government caused atrocities with impunity and in the way the entire population of Acholi and some parts of Lango were forced to live in camps with deplorable conditions angered the population. There was a feeling of marginalization and rejection by government (Dolan 2011).

Private Sector and Developmental Goals

In value chain literature, strategic coordination role falls within the overarching governance function (Hall and Soskice 2001). It is often desirable for chain coordination to be undertaken by a firm or firms active in the chain. The private sector is believed to be more efficient, albeit exploitative in pursuit of competition and profit maximizing goals. Often governments and civil society view private sector and indeed markets with lots of contempt as motivated by exploiting others. However, the findings show that, in practice, the situation is different.

The Need to Address Supply Chain Constraints

In the real world the private sector is not always driven solely by selfish short term ambition of profit maximization. Rather in their search for stable suppliers, private sector can invest in creating and enforcing institutional arrangements that leads to a win-win situation for all actors in the chain. The competitiveness of the chain is dependent, among other factor, on the product quality across the chain. Knowing the importance of coordination in addressing supply challenges, lead firms are often concerned with activities upstream that have potential to undermined quality of their inputs. This drives them to provide the required information and support to increase farm productivity and product quality.

Contribution to Market Development

The oilseeds experienced natural monopsony of Mukwano due to limited market size and high risks involved in developing the oilseeds markets in war-torn northern and eastern Uganda. Mukwano's market power enabled it to securely invest in building the capacity of its suppliers to grow more oilseeds through provision of hybrid seed, extension services and logistical support. As a monopsony it was certain that the farmers would sell greatest proportion of sunflower grains to the firm. This was the incentive to invest private resources in development of the farmers and the value chain. The efforts paid with the expansion of the oilseed market which has now attracted new large-scale investors such as Mt. Meru in the value chain. The growth of the oilseeds market attracted the attention of government to start investing in research and development which previously had been neglected. The latest figures are not available but are definitely higher. These developments took place in the safer areas of Lira and Apac districts where some of the displaced people took refuge. This risk taking venture by Mukwano helped to expand the market.

Government intervention or Interference?

The cotton case was different. The monopsony power in the cotton market were regulated by the government through the zoning systems to protect ginneries that had invested in initial processes of market development where and were facing high risks of coordination and transaction failures. Before the market could fully develop, due to side-selling the ginneries were not allowed by the government to take similar risks, fearing the risks being transferred to the cotton growers through low prices and this would discourage production. This has continued to present the cotton market with chronic uncertainties and market failures.

However, too much control in the way CDO demonstrates government's lack of trust in private sector which is detrimental to market development in a liberalized economy. The findings show that private sector coordination can be effective if government plays its role of creating institutional environments that enhances private sector capacity, freedom to innovate and reduce risks of investment and transaction failures. This attests to Grief's (2006) argument that private ordering is subject to public ordering. The state has important role to offer the enabling environment for private sector and civil society to engage in the game of economic transaction or the state can use its machinery or simply do nothing to hinder the other actors from pursuing their goals of economic change.

The roles of NGOs in value chain development

Available literature has recognized the increasing role of the non-state organization in economic organization and coordination where the poor participate (Knorringa and Helmsing 2008). This role is becoming more relevant in post-war recovery and development which is not attractive to private sector and where the capacity of public sector is weak. In the oilseed sector, the adoption of participatory value chain management model by SNV and other development partners is a striking example of what non-state organizations can undertake to fill the gaps in existing institutional environment.

The oilseed subsector multi-stakeholder platform addresses a number of market and coordination failures in many ways. It provides space for producers to directly connect with processor-buyers and exchange knowledge and information which would take time and more resources to do. NGOs have also intervened in the credit market through training in business development services to increase financial literacy of poor producers, which have been one of the key constraints in access to and management of crop finance. However, the more the interventions are geared towards building capacity of local institutions and actors, the more sustainable the interventions. For example SNV and USAID tend to use local organizations and individual to channel their supports as strategy to build the capacity of the local partners to implement programme after external intervention comes to an end.

9.2.4 Intersection between Local Initiatives and External Interventions

The research explored the opportunities and forms of synergies between aid assistance and local initiatives that is geared towards building the capabilities of smallholders to participate in value chain transactions. This is premised on the way traditional reconstruction strategies relied on top-down approaches and institutional best practices elsewhere; neglecting the importance of local organizations, institutions and practices which, as Coyne (2005) argues, are the foundations for rebuilding formal institutions and economic activities. The literature emphasises the importance local knowledge and local relational resources external support can invest in, so that when external funding is withdrawn there is hope of sustainability (Horen 2002). The research has provided insights into the intersection between local development initiative from below and external support in pro-poor value chain development.

(a) The promising cases of Alito cooperatives shows that civic ordering by producer organizations can be successful if their technical and financial capacity for higher level coordination can be built. The finding support Bijman et al. (2001: 88) observation that structures of cooperatives constitute an opportunity for vertical coordination. The role of external support has been observed to be vital in building the capacity of local organizations to drive the process of economic recovery. The success of Alito cooperative has been attributed to the continuous capacity building activities of SNV and other partners in the oilseeds value chain while Angetta was abandoned at infant stage and so it was barely struggling to survive.

(b) Development of new cooperatives in Lango sub-regions has come after long time of interventions in strengthening the capacity of the cooperatives. The conflict had negative impact on the performance of producer organization, loss of access to land, reduction in family labour and destruction of community cohesion. On one hand there is increasing pressure to use local organizations and resources as much as possible and yet on the other hand, capacities of post-war local organizations and institutions are undermined by legacies of war. In the cotton sector, farmer organizations disintegrated from being active cooperatives in the past to small farmer groups which have limited scope and capacity to provide economic support to members. Support to strengthen them will need to come from other sources.

(c) Another challenge faced by external organizations is the influence of local political elites on the performance of local institutions and organizations. One of the principles of NGOs is maintenance of political neutrality in their development support (Helmsing and Knorringa 2008). However, the development process of Alito demonstrates that, some successful local institutional and organizational developments can be driven by local elites. The literature also notes that local institutional reforms take place within national political and legal systems which is comprised of commercial laws, judiciary systems and national business culture. These are factors that are not in the control of aid agencies.

Therefore, external support aimed at promoting local participation requires thorough pre-investment assessments if it is to contribute to the goals of the community institutional reforms. In worst cases where local initiation of reforms is not forthcoming, external support has gone a long way to stimulate them. This has been the case of Angetta cooperative in northern Uganda, albeit with limited success. In this vein, the research has also revealed that, groups organically formed without external support struggle to persist even when external support is not forthcoming. But most of these organically formed groups have homogenous members who develop cohesion due face-to-face interpersonal relations and have limited ambition beyond social support. However, more economically sustainable producer organization is that which has economic outlook rather than social support to members.

The experiences of the two cooperative show that, external support has to be carefully targeted with clear and feasible strategies and timetable for withdrawal to avoid dependency syndrome. If the support involves subsidies in building the market relations, careful targeting is required. Otherwise it is better to empower producers to directly face the market through trial and error, they will learn to negotiate and provide information for their members. This means not fully participating in actual market and production activities. Strategies should be aligned to the principle on which the organization was conceived and built.

However, external support is not a magic bullet in enhancing the capacity of local organizations. The weaknesses of external interventions in local development are that the project is too short to realize the desired goals on local institutions and organizations.

Rebuilding Social Capital and Reestablishing External Linkages

The research has also confirmed that it takes time to rebuild trust among warring faction to engage each other in a peace economy after long period of violence. Addressing deep-rooted historical obstructs hinged on social structures which producers face, takes long to remove. It requires extensive and long period interventions which very few donors if any can agree to do.

Economic activities become more viable when the organization develops bridging social capital to transact with other economic agents. This may mean only economically active smallholders participate in such organizations that consider increasing competitive advantages as important part of their goal. The experience of the two cooperatives shows that, the success lies not in internal sources of funding but external financial support is also necessary to boost their capacity to expand.

The Scope of Value Chain Interventions in Post-War Environments

The thesis lays emphasis on the importance of institutions of embeddedness for the performance of institutional arrangement for economic transaction. Actors respond to rules of the transaction game more easily in an environment of trust or have shared belief or identify that bonds them to each other and compels them not to cheat each other. Conventionally, value chain development interventions focus on establishing institutional arrangement and building capacity of actors to use existing institution to enhance economic transactions. However, since social relations and trust are destroyed during civil war, strategic coordination becomes ineffective without interventions in (re)building trust at the local level. The findings reveal that if VCD interventions in fragile settings have to succeed, they have to adopt broader perspectives beyond institutional arrangements to address challenges of institutional environments. Even then, there is no guarantee that the process of informal and social institutional changes argued to be more evolutionary and long-lasting in nature can successfully be deliberately manipulated by political processes of negotiation.

9.3 Contributions to Theory

The research is grounded on the structural and agency perspectives of institutional change. The structural perspective focused on impacts of changes in institutional environment on the performance of economic organizations and institutional arrangement for transaction akin to the structural view of institutional theory (Williamson 2000). The agency perspective stipulates that powerful economic agents respond to changes in institutional environment by designing institutional arrangements that appropriate the institutional and economic environment to minimize transaction costs (North 1990, Williamson 2000). The argument advanced in the institutional economics literature is that; economic change is a result of changes in institutional environment and arrangements which facilitate economic exchange. This research has applied part of the institutional analysis framework for the analysis of the effects of conflict on changes of institutional environments and arrangements. The thesis contributes to the literature on economic and institutional changes in two ways.

Firstly, the analysis of institutional change has mainly been applied to politically stable environments. The argument has been that, institutional changes result from both endogenous contradictions and exogenous shocks (North 1990). In this respect, this research treats effects of civil wars as external shock on institutional environment and arrangements. The findings reveal that civil wars can trigger changes in both institutional environment and arrangements. The research observes that the LRA war created a state of uncertainty in land management and tenure systems which resulted to increasing cases of land conflicts. The conflict has also weakened the cultural institutions who are supposed to enforce customary land tenure systems; which is the dominant system to ensure equity in the use of land.

Secondly, most literature on institutional changes has dwelt on formal institutions, taking informal institutions as a given even in politically unstable environments (Aron 2003, Coyne 2005, Cowen and Coyne 2005). The findings agree with previous studies in northern Uganda (Harm et al. 2013, Wegner 2012, Gulu District Plan 2010, Lecoutere et al. 2013) on the difficulties in nurturing internal cohesion among the members of producers' groups and associations. The confinement in IDP camps disrupted the day to day processes of community socialization. Socialization is an important process of reproducing and passing on social norms and practices from generation to generation. In addition, the process of trust building through increased community interactions was hampered because trust is both a factor and product of repeated interaction in the same game. The destruction property and lives by the rebel militias also created enmities within and between communities thus bonding and bridging social capital that maintains community cohesion was destroyed.

Thirdly, related to the above, social norms and beliefs can be subjected to manipulation by influential institutional actors. Through amending the national constitution government was able influence changes in Acholi cultural institutional arrangements by creating a higher centralized political structure above the historically and culturally recognized clan chiefdoms and council of elders. The influence of government to encourage creation of the Acholi Paramount Chiefs has changed the institutional setting which has weakened authority of the clan chiefs and elders in maintenance of harmony, law and order in their community. It changed the incentive structures of the traditional systems from voluntarism to monetization of their services. The government manipulated the institutional arrangement to address higher level political needs of initiating peace negations with the LRA, which could not be undertaken by clan chiefs whose jurisdictions stop at clan level.

In which case, it deviates from the argument that these social norms and conventions can spontaneously become rules without rational evaluation. Government's action to centralize some of the functions of the Acholi social cultural institution of clan chiefs and council of clan elders was not spontaneous but strategic. This undermined the evolutionary and spontaneous process of institutional change. The intended end result was that "all rational players may be induced to follow them" (Kingston and Caballero 2009:159)

The advantage of the deliberative process in informal institutional change is that the institutional actors are able to orient the institutions towards the market. The Local institutions oriented towards markets can play pivotal role to enable individuals to act in accordance to the principles of the market and get integrated in the formal economy.

Fourthly, the thesis has developed a new framework for analysing impacts of civil war on institutions. It theorizes impacts of civil was on institutions as a chain reaction beginning with formal institutions that are not embedded in social structure of the area affected by civil war. Informal social institutions experience change when the war becomes protracted.

Appendices

Appendix 1
Map of Cotton-Apparel Value Chain Actors and Processes

Core Processes	Provision of various Inputs	Primary Production of seed cotton	Ginning of cotton into lint and seed	Manufacturing of textiles and oil	Exports	Wholesaling of cloths and garments	Retailing of cloths and garments
Actors	CDO, Ginners, NARO, Private Input dealers. Primary producers	Smallholder farmers, CDO	Private companies Cooperative Unions	Private Companies	Ginners Brokers in Importing countries Oil millers	Local wholesalers	Local retailers
Activities	Seed contribution, cleaning, testing and distribution to farmers. Acquisition and application of fertilizers, pesticides and herbicides. Acquisition of farm implements and packing materials. Storage facilities. Quality control measures.	Provision of extension services. Growing and harvesting of cotton. Post-harvest handing. (storage, sorting) Transportation to the markets Marketing of seed cotton.	Procurement of seed cotton, Cleaning , Ginning, Balling of cotton and packaging of cotton seeds Storage Transportation to the market Marketing of lint and cotton seeds (Export and Local)	Cleaning of lint Spinning Weaving Knitting Sewing Supply cloths and garments Branding and packaging Cotton seed and crushing Crude oil extraction Purification of crude oil Branding and packaging	Identification of foreign buyers Transportation Storage Quality control	Transportation Storage Sale of gettable oil and cloths/ garments	Transportation Storage Sale of vegetable oil and cloths/ garments
Inputs		Cotton seeds Pesticides, spray pumps Farm implements (ploughs, hoes, oxen, knives) Labour	Seed cotton Gins Electricity Warehouses Water Weighing machines	Lint Electricity Water Warehouses Working capital Labour	Cotton seed Lint Vegetable oil Transport Warehouses Brokers/agents	Home textiles Cloths Garments Cotton wool Refined vegetable oil	Home textiles Cloths Garments Cotton wool Refined vegetable oil Soap

		Farm land for cultivation Working capital Transport facility	Labour Working capital Transport facility	Spinning mills Looms knitting machines Sewing machines Cotton seeds Oil milling machine Packaging materials		Soap Cosmetics Transport facility Warehouses	Cosmetics Transport facility Warehouses
Outputs	Cotton seeds Pesticides and spray pumps Farm implements (ploughs, hoes, oxen, knives) Labour Farm land for cultivation	Seed cotton Cotton stalk	Cotton seed Lint Planting seeds	Home textiles Cloths Garments Cotton wool Refined vegetable oil Cosmetics Soaps Oil cake as feeds Hulls as fertilizers	Export earnings	Money Income	Money income
Support services	Micro-credit	Working capital Agric-extension services BDS Storage facilities Linkages to the market	Financial capital Water Electricity Roads Policies and regulations	Water Electricity Roads Policies and regulations	Policies Communication services (inc roads)	Financial services Roads BDS	Financial services Roads BDS

Appendix 2

Map of Sunflower Oil Value Chain Actors and Processes

Core Processes	Provision of various Inputs	Primary Production of sunflower seed and soya beans	Oil seed milling and animal feed processing	Wholesale trade of edible oil and other products	Retailing of edible oil/other products	Exports
Actors	Large Milling Companies Local stockists Large seed companies	Smallholder farmers, CDO	Small and Large Private Millers Private Animal feed companies	Local wholesalers	Distributors/agents in other East Africa countries	Local Distributors/Agents
Activities	Development or importation of seed Seed testing and distribution to farmers. Acquisition and application of fertilizers, pesticides and herbicides. Acquisition of farm implements and packing materials. Storage facilities.	Provision of extension services. Growing and harvesting of sunflower seed and soya beans. Post-harvest handing. (storage, sorting) Marketing of seeds and beans	Procurement of sunflower seed Cleaning , Crushing, Purifying of oil Storage Transportation to the market Marketing of vegetable oil (Export and Local)	Transportation Storage Sale of vegetable oil	Transportation Storage Sale of vegetable oil	Identification of foreign buyers Transportation Storage Quality control
Inputs		Seeds Pesticides, spray pumps Farm implements (ploughs, hoes, oxen, knives) Labour Farm land for cultivation Working capital Transport facility	Sunflower Seed Soya beans Milling machines Electricity Warehouses Water Labour Working capital Transport facility	Refined vegetable oil Transport facility Warehouses	Refined vegetable oil Transport facility Warehouses	Refined vegetable oil Lint Vegetable oil Transport Warehouses Brokers/agents
Outputs	Cotton seeds, Pesticides and spray pumps Farm implements ploughs, hoes, oxen, knives) Labour Farm land for cultivation	Sunflower seed Soya bean	Refined vegetable oil Oil cake Animal feeds	Volume of oil sold	Volume of oil sold	Volume of oil exported

Support services	Micro-credit Security of persons and property	Working capital Agric-extension services BDS Security of persons and prop-erty	Financial capital Water Electricity Roads Policies and regulations	Financial services Security of persons and property Roads BDS	Financial services Security of persons and property Roads BDS	Policies Communication services (inc roads)

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