

Towards Equitable Agriculture Development in Uganda: A look at the Terms of Trade amongst Stakeholders

Although the contribution of agriculture to the total Gross Domestic Product (GDP) of Uganda has declined since 2001, the sector remains a fundamental base of the country's economy employing over 80 percent of the labour force. This brief seeks to identify elements of an enabling environment for positive interaction and equitable terms of trade among stakeholders in the agricultural sector i.e. farmers, investors, and traders towards inclusive agriculture development in Uganda.

Key Messages

1. Government policies should focus on improving agriculture production and market access with special attention to farmers' interests.
2. Government and its partners should focus on developing and commercializing agriculture and trade by building formal linkages between the small holders and the market leaders
3. Trade advocacy should improve its goals and shift from over prioritizing external trade policy at the expense of domestic policy issues related to domestic terms of trade between farmers and traders.

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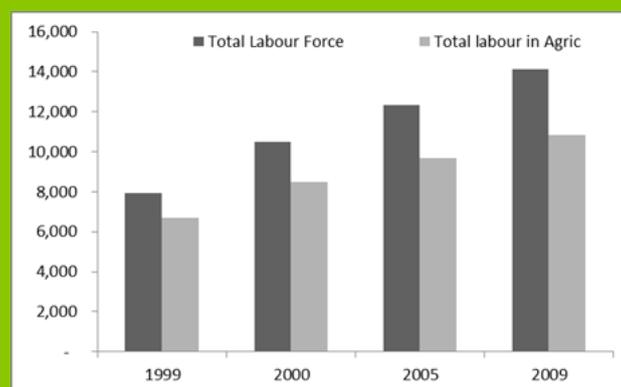
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Background

Between 2000 and 2008, the share of agriculture in GDP fell rapidly while that of industry registered impressive growth rates in Uganda. Whilst this decline is mainly on account of growth in other sectors, it is also true that agricultural productivity has been on the decline as a result of limited application of scientific methods and inputs among other shortcomings.

Notwithstanding the decline in its performance, the agriculture sector contributes significantly to Uganda's employment and the number of people working in the sector has been increasing since the 1990's, as evidenced by Figure 1 below. Available evidence indicates that the majority of those employed in the sector are subsistence farmers and fishermen. Besides this, the sector currently generates 45 percent of export earnings. Coffee, tobacco, tea, cotton, cocoa, cut flowers, and maize are the major exports, while oilseeds, sugarcane, fish and livestock provide raw materials for the expanding agro-processing sector that supplies both domestic and export trade.

Figure 1: Total Labour Force Trends



Data Source: UNCTAD Statistical Handbook (2010)

Nature and Structure of the Agriculture Sector in Uganda

The country is well endowed for the cultivation of a wide range of crops. The main cash crops such as coffee and cotton are primarily grown on small holdings, while sugarcane, tea and tobacco are grown on plantations. Other crops include starch bananas, sweet potatoes, cassava, Irish potatoes, millet, beans, sorghum, sunflower, maize, rice, sesame and groundnuts.

A wide range of fruits also grow in Uganda, e.g. mangoes, papayas, pineapples, desert bananas, avocados and passion fruit. Only limited quantities of fruits and spices are exported in both fresh and dried form, while a few are processed.

With regard to livestock, different animals/birds are reared throughout the country and these include: poultry, cattle, pigs, sheep and goats among others. They are mostly reared by smallholders for subsistence purpose and sold on the domestic market, while there are only a few commercial farms. Livestock production accounts for only 7 percent of the agricultural GDP.

The country has a small agro-processing sector comprising a few small and medium agro-processing plants that add value to crops, livestock and fish products.

Agricultural Systems in Uganda

The predominant form of farming is smallholder crop agriculture which is done on a subsistence basis with little consideration for commercial purposes. The focus is on household consumption with the surplus then marketed. However there are some smallholder farmers engaged in cash crop production such as coffee and cotton that bring in considerable incomes to their households.

Livestock farming is mainly undertaken in the form of cattle and dairy production and is dependent on the agro-ecological, climate and socio-economic setting especially rainfall patterns leading to seasonality in production, supply, and prices.

Finally, plantation farming is mainly practiced in the production of cash crops such as tea, sugarcane and of late flowers. Capital-intensive modern techniques are used as well as inputs such as fertilizers, pesticides and high-yielding or drought-resistant seeds.

Challenges Faced by the Agriculture Sector

Despite its potential in providing better livelihoods and contributing to development, the agriculture sector in Uganda is still faced with several challenges, of which the following are the critical ones:

- **Infrastructure:** Apart from the poor transportation networks that hinder access to markets, the country is faced with unreliable and expensive power supply making any form of product processing costly. Poor storage facilities partly account for the high rates of spoilage and subsequent losses. In addition there is a very low level of farm mechanization with less than 1 percent of the farmers using tractors for plowing, the majority still depend on hand hoes and oxen plows that are less efficient.
- **Prevalent crop and animal diseases:** Foot and mouth disease in livestock limits their potential for export. The country is also faced with crop diseases that have affected productivity especially in the case of coffee and banana.
- **Lack of quality and standards awareness:** Despite initiatives undertaken to redress standards and quality challenges, the effectiveness of capacity building programmes such as Aid

for Trade is hampered by the subsistence nature of agriculture in Uganda.

- Lack of effective farmer organizations: Smallholder farmers, who are the majority in the agriculture sector, are not well organized and are hence unable to effectively advocate for their rights or lobby for their interests such as access to credit and finance, favourable land tenure policies, access to market information and support towards value addition among others.
- High price volatility of agricultural products as well as counterfeit agricultural inputs especially pesticides and fertilizers are among the other major challenges faced in the sector.

Stakeholders' Roles in Ugandan Agriculture

Private Sector Stakeholders

Several categories of private sector stakeholders maintain interactions along the value chain. These include farmers; traders both rural and urban who include brokers or agents, retailers, and whole sellers; transporters; packaging material suppliers; private extension services suppliers; processors and millers; exporters; agriculture input suppliers including NGO's that provide subsidized inputs; and others.

In the absence of relevant contract laws and regulations, poor enforcement mechanisms, and weak collective and bargaining action, these actors face numerous challenges. The most affected are often subsistence farmers who receive low prices at farm gate in addition to being sold adulterated inputs.

A number of organizations attempt to mitigate the above challenges, including civil society organizations engaged in advocacy as well as private sector organizations such as the Private Sector Foundation Uganda; Uganda National Chamber of Commerce; and others. However, their marketing and policy advocacy efforts are hampered by lack of formal mechanisms and legal and institutional framework to promote the engagement process among all stakeholders.

Farmers

The Uganda Rural Marketing Diagnostic Study classifies farmers in four categories:

- Large-scale commercial and general plantation farmers, who generally cultivate 15 ha of land and above, use advanced technology and have reasonable control over their marketing;

- Small-scale commercial farmers who have 5 to 15 ha under cultivation, sell their produce over which they have reasonable control.
- Semi-commercial farmers who have smaller land holdings than the small scale commercial farmers. They use minimum inputs and have limited control over marketing.
- Subsistence plus farmers who generally operate less than 2 ha. They mainly produce for home consumption, rarely hire labour and have little or no control over marketing. Other characteristics of these farmers are that they do not use inputs and use rudimentary technology, usually the hand hoe. They are the majority, accounting for 70 percent of Ugandan farmers.

Investors

In the last two decades, foreign direct investment (FDI) in Uganda has been on the increase from just US \$ 4 million in the 1980s to about US \$ 799 in 2009. However only a small percentage is directed towards agriculture, with much more investment being in telecoms, mining, construction, banking and other service-related sectors.

According to the Uganda Investment Authority, only about 20 percent of FDI goes to agriculture and even then concentrated in a few sub-sectors such as floriculture; textiles; and the dairy sector which has attracted major investment in the production of powder milk and long-life milk. Processing of butter, cheese, ice cream and yogurt is also undertaken. These investments are undertaken and controlled by large corporations while farmers' role is limited to the supply of raw products.

Government Departments, Agencies and Institutions

There are several governmental departments and institutions charged with agriculture policy implementation and monitoring among which are the following:

- Research Institutions like the National Agriculture Research Organization (NARO) and the Kwana Research Centre, whose work focuses on agriculture research;
- National Agriculture Advisory Services (NAADS) which is a governmental programme responsible for extension schemes and provision of support to farmers including production support, subsidies, training and others;
- National Planning Authority responsible for the recently launched development plan for 2010-2015;

- Crop Protection Unit of the Ministry of Agriculture which handles sanitary and phytosanitary issues; and
- The Animal and Fisheries Department which is responsible for livestock management and disease control.

Stakeholders' Interaction in the Sector

Farmer-Trader Interaction

A survey conducted with farmers under the Mashaba Farmers Association revealed both positive and negative interactions between farmers and traders. It was pointed out that where long term contractual business has been established, farmers receive timely and consistent payment for their products. Meetings are also regularly held where farmers are informed of the prevailing market prices. Predictable incomes have improved their livelihoods and enabled them meet their needs such as school fees for their children. However they feel that the traders/exporter benefit much more than them, since they determine the purchase price, in addition to earning in foreign currency in the case of exporters, while paying the farmers in the less valued local currency. The farmers are also vulnerable since the type of crops they engage in on contractual terms are rare or have not been exported before so as to attract other players such as the government and NGOs. They feel that there should be a minimum price so that even where there is high supply, they still get profit.

Farmer-Investor Relations

A survey conducted among selected stakeholders found these relations to be both positive and negative. Two cases of Mukwano Sunflower in Northern Uganda and the Uganda Breweries Sorghum projects in Eastern Uganda were quite illustrative of these relations. In both cases farmers are given seeds free of cost and trained in better farming methods by the investor through their farmer groups. They are offered extension services as well as chemical inputs. Advice on hygiene, sanitation and handling of crops during and after harvest is also provided. In addition the investors provide transportation for the commodities which relieves the farmers of the critical transport challenges associated with the rural areas. However on the negative side farmers pointed out investors' insensitivity. For instance during bumper harvests, investors may choose to buy only what they need leading to waste the surplus, since some of these crops do not have ready market elsewhere.

The other undesirable relationship is on prices that are fixed by the investor and farmers have no negotiating capacity or leverage.

Government-Private Sector Interaction

There are forums in place through which the government and the private sector interact; a notable one being the Presidential Investors Roundtable. It attempts to align the work of the various Ministries to the needs of the private sector particularly by ensuring that service delivery is efficient and effective. Agriculture-related issues are deliberated upon in the Agriculture Sub-committee of the Roundtable.

The Presidents' Export Award is another forum through which they interact; although created to recognize and appreciate contribution of exporters to the economy, it has become a forum where reflection on the needs of the private sector in respect of business-friendly environment is undertaken.

In addition, Public-Private Partnership is now the preferred approach of addressing the challenges of the private sector. However the formal process of legalizing and institutionalizing this arrangement has not been done.

Intermediaries in the Agriculture Value Chain

Intermediaries or middlemen in the agriculture value chain are often vilified on account of underpaying farmers or supplying them with adulterated inputs to obtain undeserved profits; however they play a useful function in facilitating marketing of agricultural produce.

Intermediaries facilitate transportation of agricultural produce from the farmers to the market or processing centres. Other roles they play towards farmers include: dissemination of market information, distribution of farm inputs, and provision of storage facilities including cold storage, as well as assisting in maintenance of quality control. They also provide farmers with packaging materials that enables processing and value addition. The other critical role is the provision of agricultural finance, since they have better access to credit than smallholder farmers.

Although farmers have a problem with the fact that there are many intermediaries in the agriculture value chain resulting in less income; the problem is not necessarily the existence of intermediaries *per se*, since they provide a valuable function to facilitate agricultural marketing.

Interface Between Farmer Organizations and Other Actors in Agricultural Marketing

There are different categories of farmer associations that interface with other agricultural production and marketing actors at various levels. The apex body for farmers' associations is the Uganda National

Farmers Federation (UNFF), below which are district farmers' associations and parish level farmer common interest groups. The National Agriculture Advisory Services (NAADS) government programme has induced formation of farmer group structures especially at the sub-county level. There are also commodity specific associations such as oil seed, beef, horticulture, dairy farmers and other associations.

The interface between the various farmers' associations and state actors such as Ministries of Agriculture, Trade and Finance, is *ad hoc* and informal, hence less effective in addressing the challenges faced by farmers.

Farmers' associations have linkages with processors which are also informal, although some have been quite successful. For example, small-scale rice growers have successfully interfaced with rice processors in Eastern and Northern Uganda.

In the case of agricultural traders there are hardly any noticeable forums that bring farmers and traders together. The forums in which the two categories meet are at the national level in institutions such as the Private Sector Foundation Uganda or Inter-Institutional Trade Committee (IITC) of the Ministry of Trade. These forums usually discuss national and international trade policies but hardly attend to issues concerning farmer-trader relations.

Towards Equitable Terms of Trade: Stakeholders Expectations

Farmers

Given that majority of Ugandan rural households are dependent on agriculture, more investment in the sector is critical for broad based economic growth and improved welfare.

Farmers are also desirous of both government and private sector support in ensuring price stability of their products, an aspect that often undermines consistent production and often occasions hostility between farmers, investors and traders.

Private Sector

This category that includes traders, processors and investors in the agricultural sector, expects farmers to observe the requisite standards, deliver quality produce and to act with honesty. With regard to the latter, in contract farming some farmers are known to short-sell the investor by selling their products to other buyers, despite the investor having provided the start-up capital and supported the farming. In other instances some farmers have been found to adulterate their products, e.g. by diluting milk with water.

Observing standards is still elusive for smallholder farmers, since in most cases they do not appreciate the value therein. Poor standards greatly affect prices of produce.

Another concern for the private sector is timely, regular and constant delivery of agricultural products. This is quite challenging given that most agricultural activities in the country are rain fed, making production dependent on the rain cycle. Farmers cannot meet the regular and timely schedule, which in turn affects the market of export traders that cannot sustain their customers' orders.

Improving Terms of Trade

In order to redress these challenges, there is need for initiatives towards improving productivity and competitiveness of the smallholder agriculture sector through say technological transfer and innovative practices. In addition, proactive commercialization of agricultural produce through strengthened value chains; bulking production and marketing to attain economies of scale; and assistance with certification schemes would also play a positive role.

For equitable terms of trade to be attained, especially for farmers who form the majority of stakeholders in the sector, the following actions are required:

- Provision of more and transparent market information through agricultural extension systems and various media outlets such as radios that are extensively listened to in the country;
- Formation of an effective forum where all stakeholders can commit to redressing equity issues;
- Creating more market linkages for farmers under arrangements that enable them to have more control over their commodities. Cooperatives and other farmers' groups or associations can play this role;
- Improving rural infrastructure that would facilitate farmers' access to local markets and consumers;
- Improving market conditions through enforceable legislation and regulations. Middlemen's' activities should be regulated and unfair trade practices legally curtailed.

Conclusion and Recommendations

In Uganda, stakeholders in the agriculture sector have both positive and negative linkages and are faced with various challenges in their respective categories; however in the agriculture value chain it is the farmers that retain the least value, and although various government policies and programmes intend to redress this,

coherent implementation is lacking, with some, such as NAADS entangled in a delicate balance of addressing farmers' interests and political needs.

Although some large scale farmers and investors are inclined towards supporting farmers to improve productivity through provision of inputs and extension services, their motive is more towards a stable source of raw materials for their processing entities than achieving equitable terms of trade for the farmers.

From the foregoing, and given the critical role that agriculture plays in Uganda, the following recommendations are necessary for an enabling environment towards equitable agriculture development in the country.

- Government should focus on policies towards developing the agriculture value chain by improving production and market access, as well shortening it in favour of farmers.
- Government, Civil Society and development partners should support improvement of farmer organizations to improve their bargaining power and make them more autonomous.
- Government policies should also facilitate development and commercialization of agriculture trade by building formal linkages between the small holders and the market leaders.
- Government trade advocacy should improve its goals and shift from over prioritising external trade policy at the expense of domestic policy issues related to domestic terms of trade between farmers and traders.
- Government should put in place legislation and regulations to prevent unfair trade practices in the agriculture sector.
- Agriculture market research should be prioritised and Government should ensure outcomes are disseminated and implemented across the board.
- Farmers should be educated on the importance of conforming to standards; their capacity in this regard should also be built.
- Government and Civil Society Organizations should provide transparent market information, not only on prices but also on market availability and logistics.
- High level forums such as the Presidential Investors Round Table should also consider the needs and concerns of small holder farmers and not merely discuss concerns of the corporate sector as is the norm.

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For agricultural development in Africa to substantially contribute to its overall growth, development and poverty reduction, three conditions need to be met: there should be increase in productivity and production to generate “marketable surplus”; the infrastructure should be in place, including trade facilitation measures, to transform the “marketable surplus” into “marketed surplus”; and there should be a healthy interaction between farmers, the private sector investors and traders. While the first two are getting the attention of both national governments and their development partners, the third is still neglected. Productivity-enhancing initiatives are certainly important but in order to make use of them, both “**better infrastructure for better marketing**” and “**positive terms of trade between the farmers, and investors and traders**” need to be provided. This project aims to address this third critical aspect for the development of African agriculture, focusing on countries in the East African Community (EAC).

The enabling environment is also a function of international policies and agreements, most important being the international trade agreements. The efforts on the ground may not bear fruit if the provisions in international trade agreements (e.g. under the WTO and the Economic Partnership Agreements (EPAs) with the EU) are not in harmony with these efforts and vice versa. Hence, this project also aims to **link the national and international actions** through research and analysis, advocacy and dissemination and networking. It will also strengthen the pro-trade and pro-equity credible Southern NGO voice in Geneva.

← PUBLICATIONS

- » *Boosting Development in Kenya: better participation of smallholders in agri-business.* Policy Brief N°1, November 2011
- » *Towards Equitable Agriculture Development in Uganda: A look at the Terms of Trade amongst Stakeholders.* Policy Brief N°2, November 2011
- » *Equitable Development through Agriculture: Policy Options for Tanzania.* Policy Brief N°3, November 2011
- » *Sowing Multilaterally, Reaping Locally: Can the WTO promote Equitable Agriculture Development in the East African Community?* Policy Brief N°4, November 2011
- » *EAC-EU Trade Negotiations: Bringing Equitable Agriculture Development to the Forefront.* Policy Brief N°5, November 2011

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CUTS International, Geneva is a non-governmental organization pursuing social justice and economic equity within and across borders by persuading governments and empowering people. It promotes a pro-trade pro-equity credible Southern NGO voice in the policy making circles working on trade and development and other related issues in Geneva. Over the past years, it has established itself and contributed effectively in the international and national policy making process, particularly in Eastern and Southern Africa. The strength of the organisation lies in its capacity to bridge existing gaps between all actors, from the grassroots to global leaders, through a work methodology that links research, advocacy, networking.



Agriculture in Development of Select African Countries

After 15 months investigating the importance of agricultural trade for food security and poverty reduction in five countries of Eastern and Southern Africa, this research underscores limitations faced in boosting agricultural productivity and ensuring food security, due to physical, legal, economic, social and cultural factors, and outlines how the promotion of regional trade and effective trade facilitation policies can provide effective solutions.



How Can Agriculture and Trade Lead to Livelihoods, Food Security and Development?

This monograph summarises analysis around ten themes of importance to development in Eastern and Southern Africa. The themes range from the role of agriculture to that of governments, donors and CSOs, and also include international and regional trade, education and capacity building needs, and multi-stakeholder consultations and coordination. It offers comprehensive and yet concrete suggestions for action.



Taking East African Regional Integration Forward: A Civil Society Perspective

Through this research, the East African civil society offers to join hands as equal partners of policy makers, researchers and businesses in the process of regional integration and takes on some of the difficult issues of making markets work in the region. For example, it makes a case for facilitating easy movement of people, and suggests ways to attract, retain and spread skills across the region.



Towards More Inclusive Trade Policy Making

This research looks into trade policy making processes in five Eastern and Southern African countries. A number of governmental initiatives have opened up these processes to a larger group of stakeholders who are now eager to play an active role in trade policy making. This publication discusses the remaining constraints to their effective participation and ways to improve consultative mechanisms.



Improving Ownership through Inclusive Trade Policy Making Processes: Lessons from Africa

This advocacy monograph looks into trade policy making processes and role of main stakeholders in five countries of Eastern and Southern Africa. Although stakeholders are eager to play an active role in trade policy making, and despite efforts of governments to open up these processes, their effective participation requires strengthened capacity, improved and more consistently used consultative mechanisms, and promotion of a culture of dialogue.

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