

Event report:

Supporting the development of Uganda's 2nd National Strategy for Private Sector Development (2020/21 - 2024/25) through economic research

Session I: Agriculture and agro-industrialization

Introduction: Agriculture and Uganda's private sector development strategy

Agriculture plays a central role in Uganda's economy. The sector does not only contribute around a quarter to Uganda's GDP, provides livelihoods for around a three quarter of the population and accounts for more than half of the economy's export basket. In addition, the sector produces the raw inputs needed to foster a small, but growing manufacturing sector which mostly consists of agro-based manufacturing (e.g., grain milling and flours, baked goods, beverages, dairy products, vegetable products etc).

The *Private Sector Development Unit* (PSDU) at the Ugandan *Ministry of Finance, Planning and Economic Development* is currently in the process of developing *Uganda's 2nd National Strategy for Private Sector Development: 2020/21 - 2024/25* (NSPSD). Anchored in the *National Development Plan III*, the new NSPSD will be Uganda's key strategic document to foster the development of the private sector through government policy over a five-year period. The 2nd NSPSD will be the successor to the first edition of the strategy which is currently undergoing a comprehensive evaluation.

To support the government in the development of the 2nd NSPSD, the *International Growth Centre* is collaborating with the PSDU in a series of webinars concerned with presenting and discussing recent research studies of relevance to the development of the strategy. A first session – held in the afternoon of the 21st October 2021 and chaired by the Director of Economic Affairs of the Ministry of Finance, Planning and Economic Development, Mr. Moses Kaggwa – was concerned with agriculture and agro-industrialization. This note provides a brief summary of the three presentations at the event as well as accompanying responses by experts from government and the Ugandan private sector.

Three presentations on agriculture in Uganda

Presentation 1: Agro-industrialization in Uganda – Current status, future prospects and possible solutions to pressing challenges (Martin Fowler and Jakob Rauschendorfer)

The first presentation of the day, delivered by Martin Fowler, senior agricultural advisor at USAID and Jakob Rauschendorfer, a country economist for the International Growth Centre, began with describing the place of agriculture in Uganda's economy. Specifically, the presenters provided a basis for subsequent discussions by showing the contribution of agriculture to Uganda's domestic economy as well as the country's export basket. Based on this descriptive assessment, the presenters then proceeded to discussing challenges to enhancing agro-based industrialization (i.e., agro-industrialization) in Uganda, a key policy objective for the government. Selected from a longer

list included in the paper providing the basis for the presentation, the presenters suggested three key challenges the country needs to overcome:

- Preserving market access and overcoming supply side constraints to exporting, such as high transport costs and time, procedural non-tariff barriers to trade and limited capacity for testing and showing the compliance of exported goods with international standards.
- Limited coordination between various government institutions as well as policy contradictions with respect to the selection of priority value chains.
- Low capacity utilization for agro-processing units, most likely due to a combination of shortages in raw agricultural inputs, limited market demand for final goods as well as frequent interruptions in electricity supply.

Based on this assessment, the researchers concluded their presentation with policy recommendations concerned with raising agricultural productivity in Uganda to overcome shortages in agricultural input supply, rationalizing targeted priority value chains, improving agricultural statistics for better private sector and public planning and fostering coordination among government institutions for a concerted push for agro-based industrialization and job creation.

The respondent to this first presentation was Mr. John Magnay, a Ugandan agricultural entrepreneur. While his report was subject to significant internet disruptions, key points made by this respondent were that Uganda has a significant comparative advantage in several agricultural sectors such as dairy and poultry (e.g., eggs or chicken meat). However, in order to take advantage of these opportunities the country needs to urgently improve the quality and availability of testing facilities as well as reduce non-tariff barriers with neighboring countries to drive regional agricultural exports.

Presentation 2: Building agricultural market linkages (Prof. Lauren Falcao Bergquist)

The second presentation of the day was delivered by Lauren Falcao Bergquist, a Professor of Economics at the University of Michigan. Prof. Falcao Bergquist's presentation was concerned with presenting results from a research project studying the issue of search costs in agricultural markets in Uganda and the potential for online-based platforms to overcome such barriers to better market integration. Specifically, the platform "*Kudu*" is an SMS-based online market place for the trade of agricultural commodities. Buyers and sellers post their demanded or offered quantity, desired price as well as their location. The platform then automatically connects buying orders (i.e., requests) with offers.

Altogether, the results presented suggest that take-up of the platform was somewhat low among Ugandan farmers: Only 2% of all targeted farmers successfully concluded a transaction on the platform, while 22% of all targeted traders (i.e., buyers) successfully transacted on the platform. Additionally, results from the study suggest that the platform led to a reduction of the profits of traders (due to them being less able to charge a mark-up), but to an increase of revenues among farmers (due to them being able to realize higher prices for their produce). With respect to policy recommendations, Prof. Falcao Bergquist concluded that market platforms are more valuable if more traders and farmers sign up to the online tool and that there may be a case for public financing of such platforms. Additionally, information about such online market platforms could be weaved into existing extension services, thereby leading to higher uptake of existing opportunities.

The respondent to this presentation was a government representative. Ms. Justine Ayebare, a senior economist in the *Department for Macroeconomic Policy* at the *Ministry of Finance, Planning*

and *Economic Development*, pointed out that uptake of the platform was only modest and that therefore the case for public financing to scale-up the intervention could be rather weak, especially in the context of an extremely tight fiscal space in times of Covid-19. Instead, she agreed with Prof. Falcao Bergquist that embedding information about existing online marketing platforms into the country's extension services could be an effective way to promote uptake of online trading platforms that are already in place.

Presentation 3: Uganda's coffee sector: raising quality for exports and growth (Prof. Ameet Morjaria)

The third presentation of the day was delivered by Prof. Ameet Morjaria, Professor of Economics at Northwestern University. His presentation concerned the question how to improve the quality and quantity of Uganda's coffee exports. Coffee remains Uganda's most important export commodity, contributing about 15% per year to the country's total export volume. Prof. Morjaria's presentation consisted of three parts:

1. *Uganda's Coffee Sector - selected facts and Covid-19:* In this part of the presentation, Prof. Morjaria presented key facts about the Ugandan coffee sector, among others highlighting that the sector is dominated by a small number of exporters, a large number of traders and an even larger number of farmers that cultivate the crop in a small-scale fashion. With respect to Covid-19, the researcher showed that the pandemic did not affect Uganda's coffee exports. Much rather, the sector reported record export values and quantities in 2020.¹

2. *Challenges in raising quality and productivity in the coffee sector:* In this second part of the presentation, Prof. Morjaria gave an overview of the obstacles preventing Uganda to export higher quality coffee that would also allow the country to realize higher prices on global markets. Causes of low quality include among others that farmers frequently harvest unripe cherries, employ poor drying techniques and that storage and handling is poor. While there exists a market for high-quality coffee, it appears that farmers are not incentivized to take advantage of this possibility. An explanation put forward by Professor Morjaria is that intermediary traders do not pass on the premiums realized for high-quality coffee when selling to exporting firms.

3. *Policy implications to maintain resilience and boost exports and growth:* In this last part of his presentation, Prof. Morjaria suggested that one promising avenue to raise the quality of Uganda's coffee exports would be for the government to leverage the structure of the Ugandan coffee value chain and impose stringent quality standards at the export gate that would ripple through the entire coffee value chain. Of crucial importance for this policy to result in the desired effects is that these quality standards are enforced uniformly, thereby effectively undermining the existence of a market for low quality coffee.

The respondent to Prof. Morjaria's presentation was Mr. Joseph Nkandu, the Executive Director of the *National Union for Agribusiness and Farmer Entrepreneur Enhancement* (NUCAFE). Mr. Nkandu agreed with most of the content presented to the audience, among others re-emphasizing the importance of coffee as an income source to numerous farmers. Further, he highlighted the importance of an active dialogue and exchange between coffee farmers and the government, to which he contributed the successful development of *Uganda's National Coffee Policy*.

¹ Close to all Ugandan coffee is exported. The product is barely consumed domestically.

Summary and policy implications

Following a discussion among participants of the webinar, the last segment of the event was a summary provided by Dr. John Bosco-Oryema from the *Private Sector Development Unit*, who summarized key lessons from the event for policy making in Uganda and for the development of Uganda's 2nd *National Strategy for Private Sector Development (2020/21 – 2024/25)* in particular. Dr. John Bosco recapped key lessons from the presented studies, but further showcased how these can be accommodated under the programs and objectives of the *National Development Plan III (NDP III)*, the country's overarching development strategy. For example, with respect to the possibility to harness digital platform solutions for higher agricultural trade integration as suggested by Prof. Falcao Bergquist, Dr. John Bosco suggested that the NDP III's *Digital Transformation Program* should be harnessed to realize this goal. The event ended with closing remarks by the chair, the Director of Economic Affairs at the Ministry of Finance, Planning and Economic Development, Mr. Moses Kaggwa.