What are the Key Constraints to Value Addition and Market Access for Agricultural Commodities in Uganda?

Overview

Many farmers in Uganda face constraints in adding value and accessing markets for their produce. These constraints deter farmers from investing more into their own businesses and increasing the quantity and quality of their products which in turn leads to a low agricultural sector growth rate. The agricultural Gross Domestic Product (GDP) growth rate in Financial Year (FY) 2021/22 was 4.6%, below the sector target of 6%.

Value addition entails transforming raw agricultural products into a more valuable form through processing, packaging, cooling, drying, extraction or any other processes that cause differentiation from the original state.

Market access is the ability of a farm to sell its products and services in a local or international market. Agricultural marketing covers the services involved in moving an agricultural product from the farm to the consumer.

This policy brief analyses the key constraints that farmers face in adding value and accessing domestic markets for their produce in Uganda. Analysis is based on primary data from the Budget Monitoring and Accountability Unit (BMAU) for a five-year period (FY 2017/18 – FY 2021/22), and secondary data from Ugandan Bureau of Statistics (UBOS) and the Economic Policy Research Centre (EPRC).

Key Issues

The key constraints are:

- Inadequate prioritisation of public financing for value addition and market access.
- Indiscriminate distribution of planting and stocking materials; resulting in inadequate production of raw materials for processing industries.
- Poor farmer organisation.
- Inadequate extension/technical advice for agribusiness.
- Regional restrictions and border closure.
- Lack of complementary infrastructure.

Introduction

Enhancing value addition and market access for agricultural commodities is among the core interventions in the Agro-Industrialisation Programme that the Government of Uganda (GoU) is pursuing to enhance commercialisation, exports and the sector growth rate.

According to EPRC (2018), Uganda has placed little emphasis on developing the domestic markets. Some of the binding constraints to enhancing market access for agricultural products include uncoordinated and unorganised domestic markets and, inefficient production.

Key constraints to value addition and market access

1. **Inadequate prioritisation of public financing for value addition and market access interventions**

By 30th June 2022, the bulk of funding for the Agro-Industrialisation Programme was allocated to enhancing agricultural production and productivity at the farm level **(Table 1)**. There was inadequate prioritization for the promotion of value addition (13.07%) and market access (8.73%) in the budget resulting in less support for interventions at this level.

Table 1: Budget Allocations of the Agro-Industrialisation Programme in FY 2021/22

Sub-programme	Budget	% Budget
Agricultural Financing	550,820,084,441	26.57
Agricultural Market Access and Competitiveness	181,059,434,557	8.73
Agricultural Production and Productivity	713,627,364,048	34.42
Institutional Strengthening and Coordination	356,692,000,000	17.21
Storage, Agro-Processing and Value addition	270,934,021,789	13.07
Grand Total	**2,073,132,904,835**	**100.00**

Source: Approved Estimates of Revenue and Expenditure Vol.1 and II, FY2021/22, IFMS Data, and MDA Reports

2. Indiscriminate distribution of planting and stocking materials

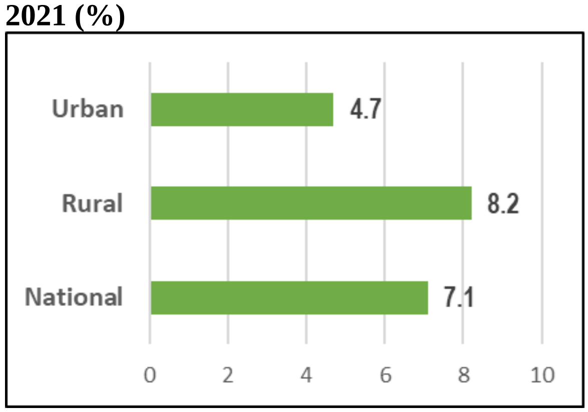
Through various interventions such as the National Agricultural Advisory Services/Operation Wealth Creation (NAADS/OWC), Agricultural Cluster Development Project and Local Government (LG) Extension Services, the GoU has indiscriminately provided planting and breeding materials of assorted commodities to all districts. These include onions, beans, maize, passion fruit, citrus, cashew nuts, coffee, tea, bananas, vegetables, cassava, goats, cows, pigs, fish fingerlings, cocoa, rice, irish potatoes, sunflower and apple; but not matched to the recommended agro-ecological zones. A resultant problem is a failure by given areas or clusters of farmers to produce enough volumes of any commodity with consistent quality that would attract the private sector to invest significantly in value addition facilities, bulking and marketing services.

3. Poor farmer organisation

Despite the numerous interventions undertaken by the Government to promote group formation by smallholder farmers to add value and sell produce in bulk, such as through NAADS/OWC, extension services and cooperative interventions by the Ministry of Trade, Industry and Cooperatives (MoTIC), farmer organization remains poor in the country.

By 2021, only 7.1 percent of household members in Uganda aged 18 and above belonged to any farmer group **(Figure 1)**. This has led to limited access to market information and technical skills necessary for farmers to add value to agricultural produce.

Figure 1: Membership to farmer groups in 2021 (%)



Source: MoPS and UBOS, 2021

4. **Inadequate extension/technical advice on value addition and agribusiness**

Smallholder farmers are unable to significantly add value and sell their produce in competitive markets due to limited access to extension services and technical advice on agri-business to improve their business skills. Based on the Annual Agricultural Survey 2019 Report, only 5.4% of household members in Uganda had received training in agriculture[1]. The National Service Delivery Survey 2021[2], shows that 43% of farming households accessed an extension worker at least once in a season.

The BMAU findings show that the main area covered by extension workers when training smallholder farmers is good agronomic practices. Rarely is training focused on value addition and enhancing market access except for medium to large-scale farmers handling cash commodities such as coffee, cotton, tea and oil crops. A key constraint highlighted by the Local Government staff was the lack of extension workers qualified in agribusiness and marketing of crops.

Under the Agricultural Credit Facility (ACF) for example, farmers expressed challenges of lack of extension advice on how to conduct value-addition interventions and where to source the most appropriate agro-processing equipment and spare parts. Many relied on the advice of banking staff in commercial banks to source agro-processing equipment either locally or internationally.

5. **Regional restrictions and border closures**

Since 2019/20, market access for Uganda's maize, poultry and milk products to the regional markets has been low due to: restrictions on exports to Kenya on account of Uganda's products being contaminated with mycotoxins. On the other hand, the closure of the Rwanda-Uganda border as a consequence of political disagreements between the two countries. Some factories dealing in milk value addition and marketing such as Sanatos Foods Limited and Excel Dairies 2014 Limited closed down due to a lack of a market for their produce. By 30th June 2020, the utilized processing capacity in seven milk factories was 417,500 litres (21.16%) per day against a total installed capacity of 1,973,000 litres per day (BMAU, 2020).

6. **COVID-19 pandemic restrictions**

During FY 2019/20 and FY 2020/21, market access and value addition stalled in many firms/farms due to delayed importation and installation of value addition equipment. For example, the dairy processing equipment was delivered a year late at the Dairy Development Authority (DDA) Entebbe Dairy Training School (EDTS). This led to delayed training of dairy stakeholders on small-scale cottages and other value-addition techniques. Some key equipment such as the butter, ghee and milk parking machine was not procured due to inadequate funding, a result of budget suppression during the COVID-19 period.

7. **Inadequate raw materials**

In many parts of Uganda, agro-processing facilities were operating below capacity or were closed down and there were no products for marketing due to inadequate raw materials from farms. For example, by December 2021, the Kigezi Highland Tea Limited Factory in Kabale District, supported by Uganda Development Corporation (UDC), was operating under capacity due to inadequate tea produced by farmers. The factory which could operate 24 hours per day was operating at 8 to 12 hours per day. It received on average 25,000kg (62.50%) of green leaf per day against a target of 40,000kg per day (BMAU, 2022).

[1] UBOS, 2020.
[2] MOPS and UBOS, 2022.

Similarly, Bukona Agro-Processors Limited in Nwoya District, supported by UDC to add value to dry cassava chips and produce ethanol, was operating below capacity due to an inadequate supply of cassava chips by farmers; the limited market for ethanol and lack of electricity connection.

Low production at the farm level was associated with limited use of improved inputs by farming households as reported in the recent Agricultural Survey 2019. Only 20% used improved seed; 28.45% used fertilizers and 22.65% used pesticides to control pests and diseases. Non-use of improved agricultural inputs was due to several reasons advanced by farming households in 2021: not useful (40%), too expensive (25%), no knowledge (22%) and not available in proximal areas (12%)[3].

Lack of complementary infrastructure

Value addition and market access for agricultural commodities were often constrained by a lack of complementary services such as roads and electricity. For example, 182 farmer organizations were supported by the Agriculture Cluster Development Project (ACDP) matching grants for establishing post-harvest handling, storage and value-addition facilities since FY 2017/18. By 30th June 2022, a total of 86 (48%) of those installed were however not operational mainly because of a lack of energy to power the machinery. Other reasons for not operating included lack of water supply especially in the districts of Nebbi, Pakwach, Yumbe, Madi Okollo, and Maracha.

Recommendations

i) The Ministry of Finance, Planning and Economic Development (MFPED) and Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and agencies should prioritize financing for promoting value addition and market access to agricultural commodities.

ii) The MAAIF should implement the agro-zoning policy where districts are clustered and commodity value chains are developed for specific commodities and areas.

iii) The MAAIF and LGs should recruit/re-tool extension workers in agribusiness, value addition and marketing skills.

References

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[3] MoPS and UBOS, 2022.