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LOCAL GOVERNANCE BRIEFER

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Prioritising Regional And Organised Local Markets Critical For The Success Of The Parish Development Model

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Introduction

Poverty remains a big challenge in Uganda with the proportion of poor persons being 20.3%. The absolute number of persons living in poverty in rural areas is 7 million compared 1.3 million persons in urban areas. Subsistence economy remains dominant with 39% of households in Uganda being in the subsistence economy constituting 3.5 million households of which 56% are in purely subsistence farming[2]. Poverty prevalence is exacerbated by the unprecedented occurrence of the COVID-19 pandemic, with proportions of persons falling below the poverty line during COVID-19 being 21.9% from 18.7% before the COVID-19 pandemic.

Uganda's long term development strategy (Vision 2040) aims to transform the country's society from a peasant to a modern and prosperous one. To drive this goal, the government undertakes medium term development strategic plans and thus the current NDP III (2020/21 – 2024/25) aims to increase household incomes and improve the quality of life of Ugandans. This is expected to be achieved through resource-led industrialisation. Successful resource-led sustainable industrialization seeks to enable value addition in key growth opportunities such as agriculture, Information and Communication Technology (ICT) and minerals. This is expected to trigger the much-needed structural change and the eventual movement of labour from low-paid agriculture to relatively better paid industrial employment.

The Parish Development Model (PDM)

The parish is the optimum size administrative unit through which government can reach every household and ultimately every individual. The parish development model will thus be an instrument for the improvement of income and welfare at household level[3]. This development model is considered as a timely programme to effectively execute the agenda of Vision 2040 through transforming Uganda's society from typical peasant to a more modern one.

In its meeting of 15th March 2021, Cabinet approved the implementation of the Parish Development Model (PDM) as the delivery mechanism for transitioning households out of the subsistence economy, with effect from 1st July 2021. The goal of the PDM is socioeconomic transformation based on improved productivity of households and enterprises at the parish level. The parish plan will focus on income generating activities, sustainable food production and nutrition, improving health and education outcomes etc.

Pillar one of the PDM focuses on enhancing Production, Processing and Marketing (Value Chain Development). The participation of parish residents in the Production, Processing and Marketing pillar of the PDM will be through production and processing of one or more of the 18 priority commodities. Production will be by individual households or by registered member-owned agro-enterprises located within the parish.

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2 Uganda Bureau of Statistics (2021). National Household Survey 2019/20. https://www.ubos.org/wp-content/uploads/publications/06_2021UNHS2019-20_presentation.pdf
3 Ministry of Local Government (2021). Implementation Guidelines for Parish Development Model

With over Ushs 343.5 billion being allocated in FY2021/22 to support production, processing and marketing at the parish level, increased production and productivity is anticipated in the economy especially in the agricultural sector.

The PDM is intended to accelerate the implementation of Area-Based Commodity Development (ABCD) planning which is vital for realizing the quantity and quality of agricultural production required for agro - industrialization and export development. This will thus require expanded markets for the products and thus a focus on organized local markets, regional and international markets is of paramount importance. Whereas the model proposes introducing area commodity-based approach for job creation, incomes and exports through establishing relevant post-harvest handling infrastructure, the current barriers to Uganda's both internal and external commodity markets poses a threat to the success of the PDM.

The State of Uganda's Commodity Markets: Local, Regional and International Markets

The market for Uganda's products is gradually improving both locally and internationally. This provides avenues for the most promising prospects in terms of both inclusive and equitable economic growth and an expansion in job opportunities. The development of small and medium-scale agro-industrial enterprises with potential to supply the growing markets within Uganda and the region has been a strong driver. Regional and global demands are increasing and the country is well integrated into regional trade for both East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA). Domestically, demand is being driven by the high overall population growth rate which constitutes 3.2% per annum as well as rapid urbanisation which constitutes 5.4% annual urban population growth[4].

The current shifts in the dietary tendencies among Ugandans are giving rise to an increased demand for higher-value and more processed foods which are both more convenient to use and of higher quality[5]. Therefore, the demand for processed products is tending to rise[6]. Pillar one of the PDM therefore will respond well to the improvements in the local market with value addition being at the forefront. With the current inadequacies in Uganda's local markets to provide the desired rigorous agro-industrialization for economic transformation, a wider supplementary export base of Uganda's products is very necessary.

Over the years, the government of Uganda has implemented significant economic reforms, including committing itself to streamline and liberalize its trade regime to spur economic growth. However; insufficient infrastructure, coupled with Uganda's landlocked status, has impaired the growth of its exports and its economic progress. Non-tariff barriers in Uganda's main export markets and other challenges exacerbated by COVID-19 have also negatively affected Uganda's economy. Uganda views foreign trade as an important stimulus to economic growth, and its trade policies aim to contribute to poverty reduction, promotion of employment, and diversification and promotion of exports, particularly of non-traditional products. These policy objectives have been pursued through continuing liberalization, deregulation, privatization, and participation in regional agreements, particularly the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC).

Uganda is an original Member of the World Trade Organisation (WTO), and grants at least Most Favored Nation (MFN) treatment to all her trading partners. The country has thus benefited from regular WTO technical assistance, under the Joint Integrated Technical Assistance Programme as well as the Integrated Framework. However; as with most other developing countries, Uganda is keen to harness exports for higher economic growth. With now the PDM, trade integration will increase market access for Ugandan firms, allowing them to develop economies of scale and forcing them to upgrade the quality of their products through competing at local, regional and international markets.

What needs to be improved to extract maximum benefits from the Parish Development Model?

Whereas Ugandan exports are mostly still dominated by primary products such as grains, coffee, fruits and others, this dominance has been gradually reducing over time. Primary products which previously accounted for roughly 90% of total merchandise exports as of 1995, now are accounting for roughly 50%. It is important to make strategies that will enhance Uganda to utilize the available market both within the region

4 Gollin et al (2016). Agricultural Transformation and Urbanisation in Uganda. A Policy Note, November 2016. https://www.theigc.org/wp-content/uploads/2016/10/Gollin-et-al-2016.pdf

5 Fowler M., & Rauschendorfer J. (2019). Agro-industrialisation in Uganda: Current Status, Future Prospects and Possible Solutions to the pressing Challenges. F-IH-UGA-006-1

6 World Bank, 2015. "Ugandan Economic Update", 5th Edition, Feb 2015.

and continent. For instance, under the Africa Continental Free Trade Area, a single market of 1.20 billion people, with a combined GDP of US$ 3.00 trillion[7] can easily be exploited through the reduction or abolition of both import duties and non-tariff barriers[8].

Challenges to Uganda's market access are far-fetched and thus a need for strategies for easy penetration. There is lack of real time data and information on production which makes it impractical to make informed estimates of how much agriculture-based manufacturing output is consumed domestically and how much is produced for export. With almost all of Uganda's agriculture-based manufacturing exports being shipped duty-free to other EAC member states under the East African Community's Customs Union, it is of great importance that the government maintains the EAC as well as the institution of the Common External Tariff for continued export success in the region now that we anticipate increased production and productivity due to PDM.

However, recent developments such as deviations from the agreed Common External Tariff (CET) through tariff surges on a number of commodities in the 2019/20 financial year could impose possible retaliatory measures. Similarly, the fact that there are delays in the review of the common tariff schedule poses a possibility for undermining the normal functioning of the Customs Union. Another challenge that needs to be addressed concerns the fact that Ugandan exporters usually face a number of Non-Tariff Measures (NTMs) which are likely to affect export performance and thus affecting the entry of new agro-processing which would have been motivated to spur Pillar one of the parish Development Model and reap into the export activities. These Non-Tariff Measures may include levies on exports, overly stringent rules of origin and quality standards, and the requirement that exports should be accompanied by huge numbers of documentation such as licenses, certificates of origin and many more[9].

A study conducted by ACORD (2010) revealed that some of the problems related to or associated with marketing as identified by farmers included; low prices for their produce, high taxes especially for traders who transport produce to Kampala, high costs of transport, variations in price depending on seasonality, poor road networks, poor quality products, internal competition among farmers and middle men who take half of the profits and leave the farmer with very low prices. The small-scale farmers were negatively impacted by the import and export policies resulting from trade liberalization. They are mindful about the high taxes levied on imports like farm implements which make them expensive and unaffordable. They are also affected by the high-quality standards imposed by the importing countries (ACORD, 2010).

With such challenges, farmers and agricultural producers need to be assured of the ready markets if they are to benefit from the Parish Development Model. The challenges posed by the middlemen in the agricultural market which tend to inflate the agricultural prices and leaving actual farmers in losses.

Conclusion

Since the majority of the Ugandans are in the Agriculture sector either on full or part time employment, massive investments through the parish Development Model are likely improve production (Agricultural output) and productivity (output per worker or output per acre) is likely to rise. This would require expanding markets both locally, regionally and internationally.

Since local markets are not sufficient for such bumper harvests and processes agricultural products, harnessing regional, continental and international markets is of paramount importance. The government has not taken on the leadership to purchase agricultural products in form of buffer where there excess supply to help stabilize the prices against fluctuations. Post-harvest handling is also of great importance with focus on modern storage facilities. The government needs to revise its trade relations with its neighbours since the fallout with Rwanda has significantly affected the trade prospects. The current security issues against Ugandans in South Sudan need to be worked on, as many Ugandan traders would start abandoning practicing trade with South Sudan. The previous trade war between Uganda and Kenya on a number of Agricultural products also is a signal that much more needs to be done. Therefore; all these observations undermine the relevance of the EAC customs market to ensure free trade among the partner states.

Recommendations

To reap big from the PDM and boost the agro-industrialisation and perform on to pillar 1 of the

7 Deloitte. 2019. Africa from the inside: spotlight on Africa's trade. July. Mimeo
8 Mold, A. 2019. Value addition: an enabler for inclusive growth and sustainable economic growth? PPT presentation of 25th July given at the NDP III Breakfast Policy Series meeting (II) held in Kampala on "Enhancing value addition for inclusive growth in Uganda". Kigali: UNECA.
9 International Trade Centre (ITC). 2018. Uganda: company perspectives. ITC Series on Non-Tariff Measures. Geneva: ITC

model, the following recommendations should be addressed by relevant Ministries Departments and Agencies.

i. Move away from exporting low-value raw commodities. There is need for the National Agricultural Research Organisation, and Ministry of Agriculture, Animal Industry and Fisheries and its partners to stimulate improved agricultural productivity through increased access to productivity-enhancing inputs (e.g., credit, fertilizers, and improved seeds). Importantly, accomplishing this goal will involve reducing gender bias in access to, control over, and ownership of productive resources as well as invest in climate smart technology.

ii. Further, diversify the export basket both in terms of composition and destination markets.

iii. Harness foreign demand for processed agricultural goods to facilitate increased employment transition away from subsistence farming to more commercialised and productive activities. The ministries of Trade and of East African Affairs need to combine efforts and mandate to ensure that they harmonise trade within the EAC.

iv. The MAAIF and Ministry of Trade should support farmer groups in collective marketing, which has benefits such as increased volume of produce by bulking, taking the advantage of economies of scale, increased bargaining power for better prices and group synergies. This will help scale their trade frontiers both locally and internationally and, in the end, will create a spiral of improved production and quality output.

v. Government institutions such as National Agricultural Research Organisation, Makerere University and Ministry of Agriculture, Animal Industry and Fisheries should ensure there is a mechanism that can inform research and development managers about emerging demands, information that is essential for priotising activities related to the small farmers and their transition to a more commercially oriented agriculture including areas such as minimizing costs, optimising profitability and meeting quality requirements.

vi. National Agricultural Research Organisation, and Ministry of Agriculture, Animal Industry and Fisheries and Local Governments and its partners should encourage and facilitate the use of Agricultural technologies to enhance the quality and quantity of agricultural produce. This will attract demand at regional and international level due to high quality products with high levels of standardization.

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