CSO Agro Industrialization Program

Position Paper

on the

Ministerial Policy Statement (MPS)

FY 2022/2023

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For more Information Contact:

Food Rights Alliance
Plot 82 Mutesa 1 Rd - Namirembe
P.O. Box 5796, Kampala-Uganda
Tel: +256 - 414 695 518
Email: *fra@frauganda.org*

Civil Society Budget Advocacy Group
Plot 11 Vubya Close - Ntinda, Nakawa Rd, P. O. Box 660, Ntinda
Tel: +256 - 775 202 154
Email: *csbag@csbag.org*

1.0 Back ground

The preparation of this agro industrialization position paper on the Ministerial Policy Statement (MPS) for the Financial Year (FY) 2022/23 has been achieved through an amalgamation of different ideas/knowledge/contributions from Civil Society Organisations (CSOs) including, The Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI-Uganda), Caritas Uganda, Community Integrated Development Initiatives (CIDI), ACSA, Inclusive Green Economy Network-East Africa (IGEN-EA), CEEGAA, THP-U and PELUM Uganda with coordination from Food Rights Alliance (FRA) and technical support from Civil Society Budget Advocacy Group (CSBAG).

The views and opinions expressed in this position paper are a result of an analysis of the sector's Ministerial Policy Statement (MPS) for FY 2022/23, National Development Plan III, the Program Implementation Action Plan and experiences of the above organizations in the Agro industrialization program. These have further been orchstrated by the continous engagements they have under taken in a bid to improve program performance.

We commend Parliament through the Committee of Agriculture for according space to Civil Society to maximumly engage and contribute to the process of developing the National Budget every financial year and for adopting our recommendations in the past years

1.1 Introduction

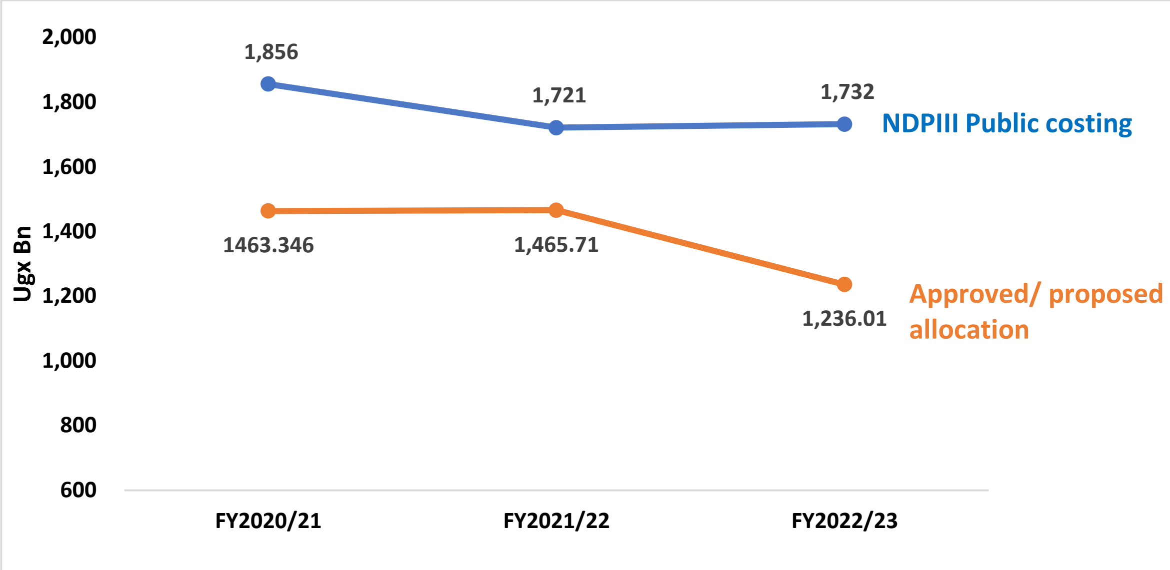
We uphold the significant contribution agriculture has on the wellbeing of the people of Uganda and National development at large. The agro industrialization program is a source of livelihood to majority of Ugandans employing approximately 70% of the country's working population. Further, Agriculture based products accounted for 32.1% of total exports and employed about 64% of all Ugandans during FY 2020/21 (with over 70% of all youths) which highlights its importance to household income growth and consumption.

Furthermore, Agro-processing is the backbone of the manufacturing sector accounting for approximately 60% total outputs. Additionally, with half of its contribution to the country's total exports of approximately 54%, Agro industrialization remains keen to transforming the country to a middle income status.
Ministry of Agriculture, Animal Industries and Fisheries (MAAIF) acknowledges its stewardship of the Agro industrialization program as hinged on the National Development Plan III. FY 2022/23 shall be the third year of implementing the National Development Plan III, therefore, **the performamnce of the program and proposed budget allocation is of significant importance if the country is to achieve the agro industrialization goal of increasing commercialization and competitiveness of agricultural production and agro processing.**

2.0 Compliance to NDP III COSTING

The projected FY2022/23 public financing to the Agro-industrialization program of UGX 1,236.01 Bn is below the NDP III public costing of UGX 1,732 Bn, this has consistently been the case from the start of the NDP III implementation period in FY2020/21 as illustrated in the figure below. This persistent and widening financing deficit will hinder achievement of the program intended objectives and outcomes. Government should consider revising the proposed funding to meet the NDPIII costing.

Figure: FY2020/21-FY2022/23 NDP public costing VS approved/proposed financing

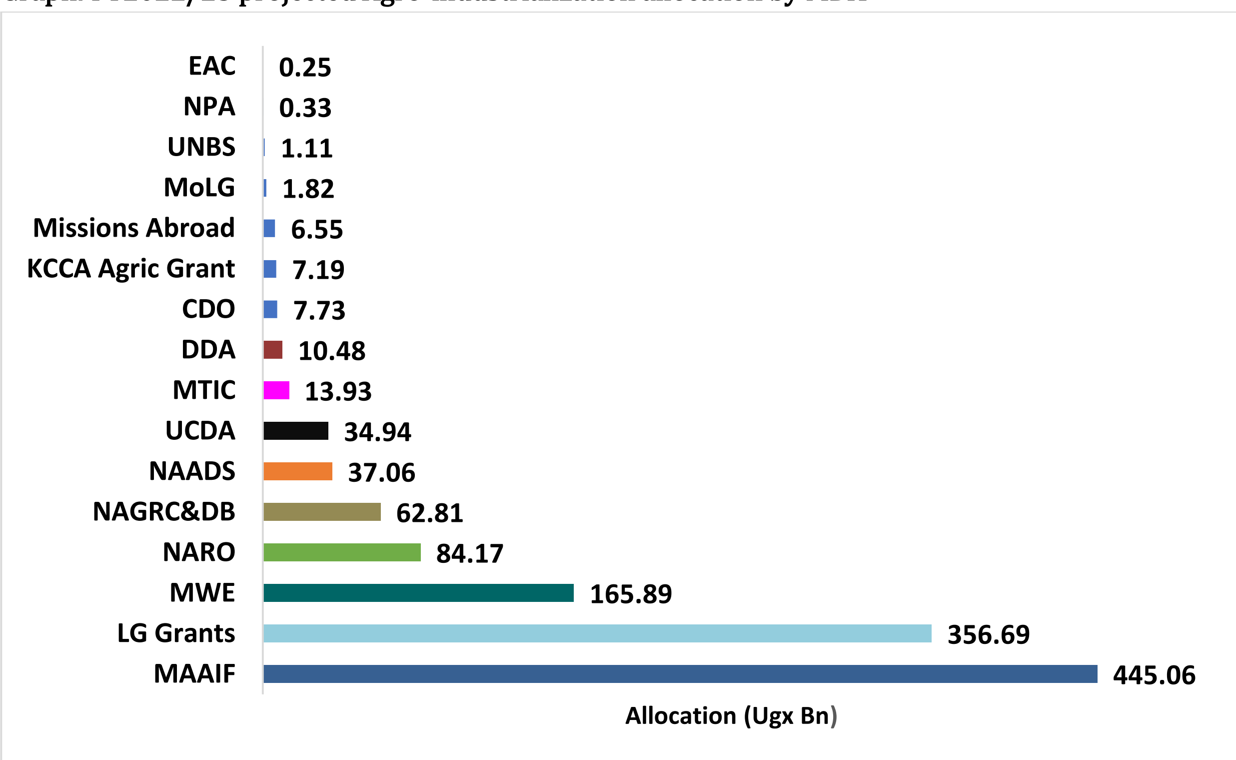


Data source: Programme estimates of revenue and expenditure FY2021/22, NDPIII, Policy statement for the MAAIF FY2022/23

3.0 FY2022/23 projected Agro-Industrialization allocation by MDA

The graph below signifies the proposed allocation to the MDAs under the Agro-Industrialization program. Indicating the tradition votes and the other supporting MDAs.

Graph: FY2022/23 projected Agro-industrialization allocation by MDA



Data Source: Policy statement for the MAAIF FY2022/23

We appreciate that to reinforce Public Private Partnership as a strategy for strengthening Joint resource mobilization for Agro-industrialization 17 Memoranda of Understanding (MoUs) were signed with private sector players or for projects that will use PPP arrangements in FY2020/21[1].

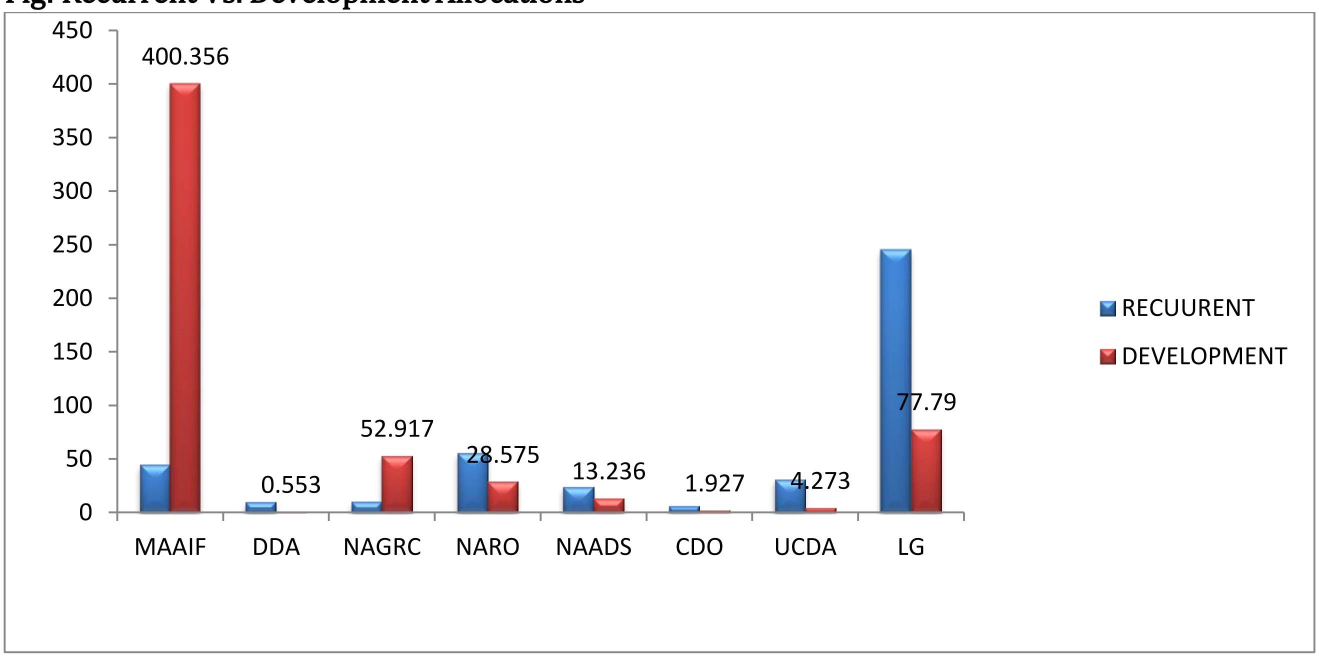
Whereas government plans to increase household income through the implementation of the PDM starting from the parish level, the budget propose for local government grants has been maintain at UGX 356.69 Bn as the case for FY2021/22. **We note** a significant change in the administrative structures where the PDM is to be implemented; 10,594 parishes have been targeted for the implementation of the PDM, the meager proposed allocation undermines the realization of the PDM goal.

3.3 Agriculture Recurrent Vs. Development Allocations

We commend government for its proposed allocation towards MAAIF development budget. This is crucial MAAIF being the lead of the program. **We however note that** of the 400.356Bn proposed for development under MAAIF only 5.88% (23.57Bn) is funded by GOU with the remaining proportion of 94.11% to be obtained from external financing. This undermines the narrative and practice that the sub sector is the backbone of country's economy.

We are however concerned that, in the MPS FY 2022/23 the funds allocated to MDAs (**for example National Planning Authority, East African Community among others**) not directly under the agriculture sector but contribute to the realization of the Agro industrialization agenda are only given as lump sum with no clear detail on what the money will be spent on. **We therefore note that,** this will affect Parliament's oversight role.

Fig: Recurrent Vs. Development Allocations



[1] Agro industrialisation programme annual performance report FY2020/21

4.0 Observations and Concerns Emerging from the MPS FY 2022/23

4.1 Inadequate staffing and instabilities in human resource under the sector

Whereas we welcome government policy on rationalizing agencies on public expenditure, we are concerned that its slow implemation is affecting performance and implemetation of programs and activities especilly under the targetd agencies which include, CDO, UCDA, DDA among others. These agencies support the core priority comodities in the sector that are championng micro and macro transformation and agro industrialisation.

According to the Auditor General's report (FY 2020/21), the affected agencies are having challenges of attracting staff due to the short term contract periods that are limited to 18 months upto June 2023 and the disclaimer clause that the employment can be terminated any time with out recourse among other challenges. Under such conditions, there is no guarantee of retention of work force.

Recommendation

I. We are in support of the Auditor general and we're reiterating to ask Parliament to ask government to fast truck the implementation of this rationalizing process to ensure that it is concluded in the shortest time possible to avoid disruption of program activities.

Limited attention paid to the cotton sub sector

Since colonial times, cotton has remained a priority cash crop and a source of livelihood for Uganda. The National Development Plan III and the agricultural sector strategic plan II maintains cotton as a priority comodity for Agro Industrialization.

In 1994, the cotton development act commenced implementation and CDO was established as an organization to monitor the production, processing and marketing of cotton, ensurng the quality of lint cotton exported and localy sold. Despite this arrangement , the cotton sub sector has received limited attention of government and currently its estblishment and performance is highly dependant on private sector.

According to the auditor general's report 2020/21, the private sector (ginners) under their umbrella body, Uganda Ginners and cotton exporters' association (UGCEA) have been supporting production activites under the cotton production support program for over 11 years. UGCEA using funds pulled voluntarily by its members to form the cotton development fund have been driving investiment in production and productivity through provision of inputs , mobilizng farmers and strenthening their institutions, provision of agricultural extension systems and mechanization.

In the FY 2020/21, UGX 19.649 bn was budgeted to cater for the cotton marketing season out of which UGX 15.154bn was for provision of planting seeds and related production inputs. Government only contributed 44% living the rest for private sector intervention. Eventally, 866MT of planting seed, 374.6 MT of fertilizers, and 2260 spray pumps were never procured despite their strategic projection (GOU, 2020/21).

In the FY 2022/23, cotton development authority in its workplan is planning to provide, process and distribute only 4% of the cotton planting seed and 0.23% to cater for procurement, handling and distribution of inputs. With such a meager proposed allocation, government plans to spend a budget estimate of UGX 126, 500, 000 on monitoring the distribution process.

Further, of 7.33bn budget for the FY 2022/23, 75% is recurrent and only 25% is development. cotton production and productivity in the sector has remained low. Although, there is registered increase of 35% in the FY 2021/22 from 50.709 in the FY 2020/21, to 68.288 in the FY 2021/22; it should be noted that there was an increase in the number of production districts by 2 more districts and the number of production groups by 66 new more groups. Further , there was significant reduction in production 173,457 bales in the FY 2019/2020 to 50,709 bales in the FY 2020/21.

Recommendation

1) As per plan to take CDO back to MAAIF under the rationalization program, extra attention should be paid on how MAAIF is set to strengthen the Public Private Partnership with UGCEA a private agency that has for 11 years been supporting production and productivity interventions in the sub sector.
2) MAAIF should demonstrate to parliament strategies of increasing development financing in the cotton sub sector to boost investment.

4.2 Inadequate funding, response and accountability in the managemnet of foot and mouth disease.

Beef and diary cattle is one of the priority comodities under the National Development Plan III and the Agricultre sector strategic plan II. livestock sub sector holds an enormous potential to transform the actors in its value chain contributing to food and nutrition security, create jobs through processing and value addition and the ntional economy through tax rvenue and foreign exchange eraning. The sub sector is dorminatd by pastrolists and agro pastrolist estimated at 22 percente of the total population sustining about 80% of the total national cattle population kept in the range lands that cover about 44% of Uganda's total land area. The livestock sub sector is currently contributing 1.5 of Ugand'a total export trade value.

The live stock exports are dorminated by diary and eggs(USD 80,0000,000) and meat and meat products(USD 62,000,000).
Although, the consumption of livestock products is projected to more than double by 2050, 44% of the people in Uganda will be living in urban areas leading to an increase in the percapita consumption of livestock products in the country.

Livestock disease and specifically the foot and mouth disease has persistently over the years curtailed the development of the livestock sub sector. consistent quarantine measures due to foot and mouth disease(FMD) has affected production , productivity , livelihoods and well being of livestock keepers. **Whereas**, we welcome quarantine as a measure by government to manage FMD, we're concerned that it is becoming a more more less permanent measure as some pastrol communities such as those in Mawogola have been under quaratine for more than two years with the current relaxing measures of farm loading benefit only large farmers.

We commend government for the interventions especially the procurement and vacination of animals however, the country has experienced an precedented outbreaks of FMD in the cattle corridor. It has been attributed that these outbreaks are as a result of management of the interventions that are over challenged by the timely procurement and delivery of vaccines. During the FY 2019/2020; 700,000 doses of FMD were procured in November 2019 and only 500,000(70%) of the consgment was delivered and late by 4 months. Further, 2, 311,000 were planned to be procured in FY 2019/20 and the supplier failed to deliver despite the emmergency situation diring the year. The supplier later deliver 1.7 million doses(52%) during the financila year 2020/21 and 2021/22. 24% of the remaining balance is still outstanding despite several delivery extensions to the supplier (GoU, Report Of Auditor General To Parliament For The Financial Year Ended 30TH June 2020, 2020).

We commend MAAIF for planning to invest in the supply of vaccines particularly for trade related diseases as a measure of protecting the country animal herd and improving the integrity of Uganda's livestock products in the export market; signing of MoUs/PPP with Private sector on modalities to support the local manufacturing of vaccines and veterinary drugs for cattle diseases including FMD and training Local government staff in pest, vector and disease surveillance, diagnostics and control as measures during theFY 2022/23.

We're however concerned that whereas MAAIF has planned to procure **8,000,000** doses of vaccines for various animal diseases including FMD, the funds available can only procure **3.5** million doses creating a deficit **4.5** m doses.

Recommendations

a) **We recommend that** Parliament tasks MAAIF to recover and account for the remaining 24% of the undelivered doses from the supplier and further demonstrate the measures MAAIF has taken to curb such instances in future as well as steps taken to reprimand the said supplier.
b) Whereas we support the PPP approach to the local manufacturing of vaccines, **we recommend** that funding should be given to NARO as a government agency in agriculture research to engage in research and development of new and responsive lines of vaccines**.**
c) As a matter of emergency and urgency, allocate more funding for the procurement of at least 3m more vaccine doses during the FY2022/23 bringing the total of planned vaccines to be procured to 6.5m.

4.3 Limited investiment in the provision of agricultural extension services;

Adequate extension service delivery is pivotal to increasing agricultural production and productivity. We commend the government for recruiting up to 3,584 extensionists during 2015/16 to boost the extension service delivery[2]; however at the time of this massive recruitment, only 111 districts were targeted; with the increase in the administrative structures, PDM targeting over 146 districts, 312 counties, 2184 sub counties, 10,594 parishes. The current agricultural extension establishment is insufficient to support pillar 1 of the PDM on boosting Market access, production and productivity to guarantee the Agro Industrialization program required quantities and quality acceptable on the domestic and global markets.

We are however Concerned that; actualizing the goal of Parish Development Model needs a robust extension service delivery system, the system currently operates at a ratio of 1:1800 as opposed to global bench mark of 1:500.

Additionally, we are concerned that in the FY 2022/23, Farmer education and extension policy support are categorized as unfunded priorities with a budget deficit of 92% and 89%

[2] https://www.newvision.co.ug/news/1528554/extension-services-boost-ugandan-farmers

respectively. **We are further concerned that** MAAIF as a matter of strategy is shifting farmer education to be conducted through partnerships with Lead farmers and the mass Media. Whereas we appreciate that advent of technology and the outreach of mass media, note should be taken that extension targeting production, productivity, quality, market oriented and industrial focused is technical, systematic and must be conducted with consistence by the recipients and provider.

The use of mass media that is of multiple sources in the country (**258 radio stations, 17 TV stations**) and with barriers associated with infrastructure development leading to poor connectivity and wave stability, mass media farmer education is only beneficial while provided complementary to the structured extension service delivery mechanism.

Although the committee report on the NBFP FY 2022/23 indicates that the Ministry under the single spine structure intended to recruit 1,000 agricultural extension workers and equip them with 25 vehicles and 1000 motorcycles, **we are concerned that** in the FY2022/23 MPS there is no budget and plan for recruitment of more extension workers; **we have however noted** that MAAIF has planned the allocation of UGX **17,003,030m** for monitoring the recruitment process of the Agriculture Extension workers in all Local Governments.

Relatedly, we uphold the committee concern that vehicles and motorcycles used under extension services in different local governments are misused and poorly maintained and further that the agriculture extension staff are not well coordinated and their reporting mechanism and supervision is not clear.

We further note under infrastructure development and management; MAAIF is only planning to train 20 extension workers and 100 farmers in water management and irrigation techniques as a way of enhancing their capacity in managing the established infrastructure. This is way below to match the water and irrigation aspirations of the country especially at such a moment when the country is in high gears of implementing the PDM and the Agro Industrialization Program.

Additionally, MAAIF plans to retrain 120 extension service providers from 20 priority districts for only the beef and dairy enterprise value chains; **we note that** targeting only two enterprise groups is most likely to affect the inclusion principle under the PDM.

We recommend that;

1) **Recruit more Extensionists;** We uphold the committee recommendation that MAAIF be allocated 36bn to enable them recruit at least 1000 more extension workers and implement the planned non funded priorities on farmer education and education policy support. The 1000 more extension workers will beef up the base to adequately support the PDM and other agricultural transformation programs.
2) The directorate of agricultural extension services under MAAIF needs to be strengthened numerically and financially to provide oversight, supervision and technical control of the delivery of extension services in collaboration with local government.
3) **Retool extension workers;** we recommend that retooling the extension workers should target all the key enterprise groups as a way of diversifying and increasing the country's production and productivity levels.

4.4 Limited investment towards Water for agricultural Production

As the government is reinforcing the Agricultural Mechanization Programme through a number of initiatives and decentralization of water for agricultural production services, the Parish Development Model is seen as one of the strategies that can make this a reality especially at local levels.

We commend the government for its prioritization of formal irrigation and surpassing its targeted performance of 19,776 ha under formal irrigation for FY 2020/21 by 14%. **However, we are concerned** about the delay in completing the irrigation master plan coupled with low investment in small scale irrigation schemes, for instance out of the required 23.5bn only UGX3.5bn is available for this function (MAAIF, 2022/23). This under mines the realization of pillar 1 of the PDM.

We are further concerned that of the 146 districts in Uganda only 49 have Senior Agricultural Engineers required for providing technical support in the implementation of all interventions under water for agricultural production and mechanization. This implies a ratio of 1:3 Agricultural Engineers per district. If such a staffing gap is not addressed, the operations and maintenance of the water for agricultural facilities and mechanization equipment will be constrained.

We therefore recommend that;

a) Government through the department of extension services expedites the completion of the irrigation master plan to guide irrigation planning and investment.
b) Parliament tasks MAAIF to prioritize the funding requirement gap of UGX 20Bn for small scale irrigation.
c) MAAIF should consider phased recruitment of more 97 Senior Agricultural Engineers to guide the implementation of water for production interventions.

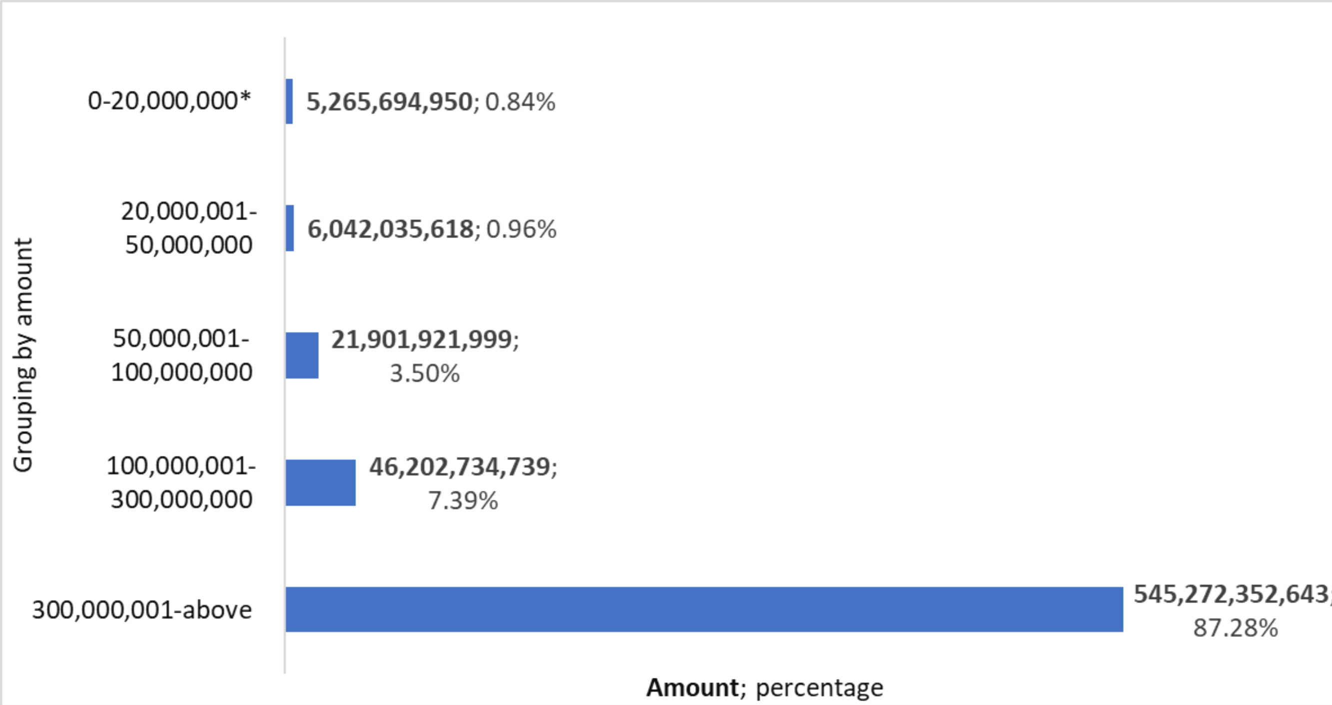
4.5 Limited acess to affordable agricultural finance

Access to affordable credit is essential to promote agriculture transformation from majorly subsistence to agro-business, export trade, and more profitable agricultural enterprises. Access to credit also minimizes post-harvest losses through access to appropriate technology for post-harvest handling which in turn alleviates socio-economic issues such as food insecurity.

For FY2022/23 budget strategy prioritizes Capitalization of Agricultural Credit Facility as one of the key interventions for revitalizing business activity[3]. However, a number of factors continue to constrain access to financing through the agriculture credit facility for instance: limitation of eligible financing for trading in agricultural commodities to only grain, inadequate capitalization of the scheme, limited access for small holder farmers. For instance, of the cumulative lending of UGX.**624.68Bn** since inception (to end of September 30, 2021) only **1.81%** was lent to borrowers borrowing **UGX.50Mn** or less while **87.28%** was to borrowers borrowing **UGX.300Mn** & above as illustrated in the figure below.

[3] Budget Strategy FY2022/2023

Fig: 2009- Sept 2021 ACF loans grouping by amount



Data source: The agricultural credit facility progress report September 30, 2021

Government has also strengthened access to affordable capital through the financial inclusion pillar of the PDM. In FY2022/23, **UGX 465.48** billion is being earmarked for operationalization of this pillar. According to the PDM financial inclusion pillar operational guidelines, disbursement processes and transactions under this Pillar are to be computerized using a dedicated PDM Financial Inclusion Management Information Module (PDM-FIS) to make it easier to track all funds at each point of the transaction in order to Promote transparency and accountability among other functions. However, **we note that,** we are planning for the second year of implementation of the PDM but the status of developments of the PDM-FIS is not clear.

Recommendations

a) The relevant MDAs (MAAIF, MOFPED, BOU, UDB, MTIC) should fast track the NDPIII intervention of revising the Agricultural Credit Facility (ACF) to fund all levels of the agriculture value chains.
b) In FY2022/23 Government should Recapitalize the ACF (and the Grain Trade Facility) by UGX.150Bn as recommended in the Agro-industrialization program Costed Implementation Action Plan Matrix.
c) MoFPED should prioritize development of the PDM-FIS as it is key to management of the financial inclusion pillar funds.

4.6 Limited access to Markets:

A transformative agro-industrialization agenda requires supportive policies and frameworks; **we commend** the government for developing various policy frameworks that promote trade in agro-industrial products. However, there is still lack of critical policies like the National Trade Policy which expired in 2018; Agro-industrialization Strategy; the Competition and Anti-Trust Law, the Trade Remedies Law and the National Export Strategy among others.

There are also key areas which are critical in securing market access that are underfunded for example; trade negotiations, planned and established Common User facilities; commercial attachés that are critical in providing market intelligence; and the cooperatives which are equally critical when it comes to production.

Recommendations

1) Government should prioritize finalization of the critical policies to guide access to markets like the National Trade Policy; Agro-industrialization Strategy; the Competition and Anti-Trust Law, the Trade Remedies Law and the National Export Strategy.
2) The National Coffee Act 2021 supports the production and export of raw coffee. This is not coherent with the industrialization drive. Therefore, government should review this policy and ensure that resources provided capture the entire coffee value chain.
3) There is need to capacitate the Ministry of Trade to negotiate favorable market access in regional and global markets.
4) Uganda Export Promotion Board (UEPB) should be adequately supported to provide private sector with timely market information. UEPB should also be supported to build the capacity of exporters on export readiness.

4.7 High cost of agro-processing

Agro-processing is the backbone of the manufacturing sector accounting for approximately 60% total output, Agriculture also contributes 54% to Uganda's total exports. As such enhancement in value addition of agriculture output through agro-processing will have a multiplier effect on economic growth.

However, currently agro-processing is affected by a number of challenges some of which include; high cost of operation as a result of high cost of utilities like electricity and transport, the delink between aspirations to industrialize and the requisite policies and resources, insufficient supply of inputs leading to industries operating below capacity (Auditor General's Report 2019 highlights that 70% of the established factories in Uganda are performing below capacity). This raises the per unit cost of agro processing.

Recommendations

1) Instead of establishing more agro based industries yet some of the already established government industries are operating below capacity government should rather use the earmarked resources to support the existing factories to run under full capacity so as to deliver on their mandate.
2) Government should consider implementation of agriculture zoning such that agro-processers can benefit from the reduced cost of production due to increased forward and backward linkages between production centers and industries.

4.8 Inadequate financing for Construction and equipping regional milk testing laboratories

Uganda`s diary subsector has a high revenue growth potential for instance from 2018 to 2020, the country`s milk production increased from 2.5 billion litres to 2.8 billion litres, over the same period the foreign revenues earned from diary exports grew from UGX **480Bn** in 2018 to UGX **750** Bn in 2020[4].

To support the diary sub-sector in realizing its potential growth it is crucial to invest in diary product certification for food safety and export promotion, however from the ministerial policy statement we note there is a funding gap of UGX 5.2Bn for Construction and equipping of regional milk testing laboratories.

Recommendation

1) Government should prioritize provision of UGX 5.2Bn required for Construction and equipping of regional milk testing laboratories.

[4] https://www.agriculture.go.ug/2021/07/06/dairy-exports-jump-63-per-cent-in-three-years/

5.0 Conclusion

Whereas, the Agro industrialization program of the NDPIII is set to transform the social, economic dynamics of the country; attention towards offering the program the enabling environment in terms of planning and budget allocation is still inadequate at the most critical moment when the government is setting out to implement the PDM.

Parliament should note that, this being the first year of PDM implementation, need to invest in the program is highly imperative if the objectives of the model are to be realized.

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4. GoU. (2020/21). *Semi Annual Performance Report.*