CSO Agro Industrialization Program

Position Paper

on the

National Budget Framework Paper (NBFP)

FY 2022/2023

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1.0 Back ground:

The preparation of this agriculture sector position paper on the National Budget Framework Paper (NBFP) for the Financial Year (FY) 2022/23 has been realized through the collective contributions of Civil Society Organizations (CSOs) including), Caritas Uganda, Community Integrated Development Initiatives (CIDI), Participatory Ecological Land Use Management(PELUM), Eastern and Southern Africa Small Scale Farmers' Forum (ESSAF), World Vision Uganda(WVU) 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 program's National Budget Framework Paper (NBFP) (FY) 2022/23National Development Plan III, the Program Implementation Action Plan and experiences of the above organizations in the Agriculture, Animal Industry and Fisheries sector. These have further been orchestrated by the continuous engagements they have under taken in a bid to improve program performance.

We commend the Government of Uganda for adhearing to the provisions of the Section 9 (3) of the Public Finance Management Act, 2015 (Amended) and Section 9 (5) and the Constitution of Uganda. We further appreciate 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.

2.0 Introduction

We uphold the centrality agriculture has to the growth of Ugandan economy. Vision 2040 indicates that the sector has the potential to transform the country to middle income status within 30 years. The FY 2022/23 National Budget Framework paper (NBFP) highlights the sector's significance through its effect on Uganda's growth and livelihood of Ugandans.

Agriculture grew at a rate of 3.8 percent contributing 23.18 percent of national GDP in the FY 2020/21. The real size of the agriculture increased to over UGX 35,212 billion in the FY 2020/21 from the 33426 billion in the FY 2019/20.
Agriculture also, accounted for 44 percent of the total exports thus its contribution towards propelling Uganda's reduction of negative trade balance, through adding value to agricultural raw materials in order to promote export expansion of high value products, while promoting import substitution of agro-industrial products.

The AGI program is driven by eight strategic objectives which include; Increasing agricultural production and productivity; Improving post-harvest handling and storage of agricultural products; Increasing agro-processing and value addition; Increasing market access and competitiveness of agricultural products in domestic and international markets; Increasing the mobilisation, access and utilisation of agricultural finance; Strengthening agriculture sector institutional capacities for agro-industrialisation. Implementation of the above objectives in the agro-industrialisation programme will entail an all-inclusive approach that provides support to both the public and private sectors to spur growth across identified agricultural commodity value.

The National Development Plan (NDP) III (2020/21 – 2025/26) seeks consolidate and build on the investment in production and productivity, through promoting Agro- industrialisation as one of the major programmes for implementation in the next five years. The goal of the programme is to increase household incomes from agro industry, mainly through increasing commercialization and competitiveness of agricultural production and agro processing. The Agro-Industrialisation BFP therefore leverages upon interventions of the NDP III.

3.0 AGRO INDUSTRIALIZATION NBFP PROPOSED ALLOCATIONS FY 2022/23:

Overview of Programme Expenditure and Medium Term Allocations (USh Billion)

Billion UGX	2022/23 PROPOSED BUDGET	MTEF BUDGET PROJECTIONS			
		2023/24	2024/25	2025/26	2026/27
Re current wage	152.670	152.670	152.670	152.670	152.670
Nonwage	403.237	403.237	403.237	403.237	403.237
Dev't Gov't	477.445	477.445	477.445	477.445	477.445
ExtFin	764.827	847.454	720.004	415.060	0.000
GOU TOTAL	1,033.353	1,033.353	1,033.353	1,033.353	1,033.353
Total GoU+Ext Fin (MTEF)	1,798.180	1,880.807	1,753.357	1,448.413	1,033.353
A.I.A	0.000	0.000	0.000	0.000	0.000
Grand Total	1,798.180	1,880.807	1,753.357	1,448.413	1,033.353

Source: NBFP FY 2022/23

Recalling that for the financial year 2021/22, the approved budget was 1,465.714 Trillion, we **commend** the government for a proposed increase as reflected in the financial year 2022/23 towards agro industrialization program. The expected percentage increase stands at 22.69%. This therefore confirms that agro industrialization program is key towards bringing the country's economy from the effects of Covid 19 and other related occurrences that immensely affected it.

That notwithstanding, Agro industrialization program still faces a number of issues hence need to address them during the NBFP financial year 2022/23 is significantly paramount.

4.0 ISSUES AND RECOMMENDATIONS

4.1Inadequate Provision of Extension and Advisory Services:

Agricultural Extension Services are key in facilitating access of value chain actors to knowledge, information, and technologies[1]. The Government of Uganda (GoU) reformed the extension services in FY2014/15 and introduced the Single Spine Extension System. It aims at enhancing agricultural production and productivity, value addition, food security, household incomes and export. In addition, building the capacity of individual farmers and farmer institutions to have greater access to and control over structures and processes that transform their resources and assets into the outcomes that they desire to achieve their goals - coordination between Ministry of Water and Agriculture; find out from Ministry of Agriculture.

We commend government efforts to recruit over 3,820 extension workers and enhancing their capacity during FY 2020/21. We are however concerned that FY 2020/21, the recruitment levels stagnated at 3,854 (77%) of the targeted 5,000 numbers, with a ratio standing at 1: 1,800 extensions to farmers against the recommended 1:500 (ie 13 officers at district level and 3 extension staff at sub-county level).

The 5,000-extension staff were for 116 districts in FY2015/16, but districts have since increased. Currently, staffing levels at DLGs are at 68% and 39% at Central Government, of which 8.3% are substantive and the rest in acting positions. Further, the transport means for the extension staff in the district and sub-counties

[1] The National Agricultural Extension Policy October 2016

are still not enough to enable staff mobility[2]. In FY 2019/20, MAAIF planned to procure and distribute 4,000 motorcycles to DLGs, but only 1,061 motorcycles were handed over in March 2020.

On the adoption of technologies and best practices: Only 15% of technologies generated by research institutions reach the farming communities. The optimal utilization of these technologies is estimated at 28% indicating low uptake and utilization of improved technologies[3]. As a result, 68% of the agricultural households are trapped in subsistence production and are outside the money economy.

Recommendations

1) Government should expedite the formulation of Agricultural Extension Bill 2017 and designing of the agricultural extension strategy 2021/22-2025/2026.
2) In view of the PDM, gov't should recruit Technical extension workers at the sub country level like the fisheries, agriculture, veterinary officer to guide the Parish Chiefs in implementing the PDM.
3) MAAIF and its partners need to stimulate improved agricultural productivity by subsidizing agricultural inputs and banning harmful and counterfeit agro-chemicals on the market.
4) MAAIF through the extension directorate should harmonize and standardize the various extension service information for different agricultural extension service providers (public, private sector and CSOs).
5) Retooling of extension workers; The Directorate of Agricultural Extension Services (DAES) in MAAIF should integrate standards, guidelines, operating procedures and codes into their extension packages and ensure compliance. Train and equip the recruited extension workers on these regulations, standards and certification process. These extension workers should be well facilitated to enable them carry out their duties effectively.

4.2 Water for Agricultural Production Sub Program:

We recognize and commend Government for prioritizing the constriction of 300 individual and community multipurpose bulk water supply and storage systems at parish level, 50 solar powered small-scale irrigation coffee irrigation schemes, 3 mini irrigation schemes in Namulonge and Namalere, 9 small scale irrigation systems in Kwania, Gulu, Maracha and Koboko, Kapelebyong, Manafwa, Tororo, Katakwi, Pallisa and Bugiri, 5 parish level valley tanks in Yumbe, Madi-okollo, Oyam, Amolatar and Amuria, and rehabilitation of 4 communal valley tanks in Karamoja sub region and 6 in western Uganda among other interventions.

We further commend government for purposing to increase the percentage of water for production facilities that are functional by 1.5%; from 87.2 as per the 2018 baseline to 88.7% in the financial year 2022/23. Additionally, Government intends to increase area under formal irrigation by 808 ha during the current financial year, increasing from 19392 ha as per the 2018 baseline to 20200 ha for the financial year 2022/23.

Issue: Delayed finalization of the National Irrigation Master Plan

[2] BMAU Annual Budget Monitoring Reports FY 2015/16 -FY 2019/20
[3] Department of Agricultural Extension and Skills Management Semi-Annual Progress Report FY 2019/20.

We are concerned that the country is transiting into intensive need for Water for Production without an approved National Irrigation Master Plan to support the assessment of water for production needs. In the new Program budget planning, the Master Plan as an overall guiding framework for Water for Production interventions is required for conscience investment in water for production, sustainable management and optimum utilization of water resources.

The delay of the Master Plan development process exhibits the lack of clear leadership despite the roles played by the two implementing Ministries of Water and Agriculture. Since 2020, the process has not been finalized despite being derailed by COVID 19 restrictions.

The NRECCLWM programme performance report 2021 indicates that the process of procuring a consultant to undertake the assignment is still ongoing. This might be overtaken by other development priorities and might negatively affect the implementation process more so the realization of the intended outcomes.

Recommendations:

1. We recommend that government through the two implementing Ministries (MAAIF and MWE) to fast track the finalization of the National Irrigation Master Plan in the first half of the Financial Year.

2. Government should establish easily accessible, affordable and adequate water for agricultural production facilities to utilize the excessive rainwater and floods and provide simple irrigation technologies for users within the production systems especially in water stressed areas. There is need to rehabilitate the available irrigation agriculture production infrastructure for increased access by small holder farmers.

3. Support MAAIF to procure innovative irrigation technologies agricultural production facilities to utilize the excessive rainwater and floods and provide simple irrigation technologies for users within the production systems especially in water stressed areas.

4.3 Access of agricultural finance by small holder farmers

Access to credit due to supply and demand side constraints has remained one of the biggest limitations of enhancing the competitiveness of the agricultural sector to contribute to agro industrialization and addressing the balance of payment. For instance, in May 2020, private sector credit to agriculture was only 14.2% compared to that of trade, building mortgages and real estate both at 25.1% followed by manufacturing at 20.9% (MoFPED, 2020).

We commend government for the intention to increase the mobilization, access and utilization of agricultural finance. This notwithstanding, a closer look at the agro-industrialisation Programme Implementation Action Plan (PIAP), shows that government allocated USh 234.65 billion during FY2020/2021. However, farmers' access to finance remains a major constraint. Only 12.2% of overall credit goes to the agricultural sector (BoU 2018), with only one-third of this amount going toward primary production (BoU 2017). Expansion of credit is limited by rural populations' lack of access to financial services. According to Financial Sector Deepening Uganda (2018), 58% of farmers are formally financially included, but the uptake of formal credit remains at 11%.

The agriculture credit facility, created in 2009 to increase access to credit in the agriculture sector has does not directly targeted small holder farmers benefiting large scale actors in value chain and less at the

production level. A study done by Caritas Uganda and Partners in 2017 found that smallholder farmers had not adequately benefited from the scheme.

This is largely due to limited awareness of the scheme by most farmers, especially smallholder farmers. The responsibility of marketing the scheme is largely placed in the hands of the participating financial institutions, however, most of them are not doing it, and they instead market their own loan products. In addition, majority of smallholder farmers cannot meet the prerequisite of obtaining such loans for example, writing of business proposals, high valued collateral security.

Recommendation:

- Fast truck the finalization of the agriculture finance policy.
- Government to Invest heavily on sensitization of farmers on credit facilities
- Revitalize farmer cooperative to ease access to agricultural financing by small holder farmers.

4.4 Agro-processing, Marketing

4.4.1Poor Agro-processing technologies

Agro processing is critical in improving competitiveness and increasing shelf life of agricultural produce in domestic, regional and international markets and subsequently increasing returns to agriculture value chain actors. However, the current status of agro-processing in Uganda does not render the country's exports competitive. This is largely due to limited efforts in preparing and integrating small holder farmers in the value addition drive hence exportation of raw agricultural products. There are locally made food processing machines but they are of low quality and led to poor quality products and hence not meeting the market required standards.

The high cost of food-grade machinery and lack of access to viable finance to afford good quality food grading machines; and limited investment by government in food grading machines to facilitate value addition and agro-processing while complying to standards. For instance, according to the rapid market survey, a substandard maize mill costs a minimum of Ugx27.000.000 while a standard stainless maize mill costs about a minimum of Ugx50.000.000 a cost unaffordable by majority of the value addition actors. All these factors have resulted into limited levels of value addition, leading to raw commodity exports of about 80% to regional markets. The quality agro-processing technologies if prioritized by government would ensure food safety, and reduce food waste by stimulating value addition and enhance export and competitiveness in markets at regional and global level.

Recommendations

1. Government should subsidize on the cost of food-grade machinery and packaging materials such as glass, plastic bottles and boxes to enable agro-processers meet quality both at processing and post-processing stages hence improving their access to markets and competitiveness.

Linking farmers to agro-processers

Almost all agro-processing industries are operating at a lower rate and not full capacity due to de-link between farmers and agro-industries. A more recent review of the cotton sub-sector (Munu, 2019[4]) showed that the two textile factories in the country are operating at less than two-thirds of their capacity and that the country's ginneries[5] are running at less than 40% (EPRC, 2018). Therefore, productivity needs to be increased significantly to enable these agro-industries produce in full capacity to boost the exports of Uganda.

[4] Munu, M. 2019. Financing Uganda's integration in the global value chains; the case of cotton and textile industry, in EPRC. 2019. Agricultural Finance Year Book 2019. Kampala: Economic Policy Research Centre.

[5] Those that are operating – only 21 ginneries out of the national total of 39 are operating

We are concerned that the placement and establishment of some of the agro-industries is not aligned with the major production areas, since they are in areas where there is not sustainable production of raw materials like the Tomato Processing Plant which was established in Nakaseke leading to supply constraints hence production below capacity at high production costs.

Recommendations

1. Government through the different line programme sectors to build capacity of farmers and SMEs on the different required commodity quality and standards.
2. Government should invest and support the establishment of Agro-industries in different Agro ecological zones to enable easy access to raw materials and easy access to markets for farmer for agro-industry to operate at full capacity. This will provide ready market for farmers in that locality.

4.4.2 Marketing

Uganda stands to be a large beneficiary of the African Continental Free Trade Area (AfCFTA) in Eastern Africa, with exports to the rest of Africa increasing by USD 199 million. AfCFTA is the lead market for a majority of agro-industry products including; tea, fisheries, vegetable oil, beef byproducts, maize, dairy and cassava. China is also a crucial market because it is very big and growing. It is suitable for the export of poultry, beef, dairy, fish and its products, hides and skins (wet blue), cow horns, processed coffee, semi-processed cotton, sesame (simsim), and cocoa. European Union is a traditional market where contacts exist and products are known. It is a good market for the export of fish, coffee, cocoa, and flowers. It is also a stable high-income market. Uganda products have been offered access concessions through World Trade Organization (WTO) and the Economic Partnership Agreement (EPA). The Middle East is a stable and dependable market for the export of livestock and its products (beef, goat, dairy and poultry); as well as fruits and vegetables (pineapples, apple bananas, and avocadoes). Uganda's marketing potential is good on exports. However, ensuring sanitary and phytosanitary (SPA) standards, are among the impediments to our exports. Thus, the continued rejection of Uganda's products on national and regional markets such as dairy products, maize, rice, sesame, peanut butter among others due to aflatoxins.

Further still, several studies conducted in Uganda, have established the vulnerability of Uganda's maize to aflatoxins contamination, many of which are conducted at household and market levels. For instance, a study by African Union together with the school of food science and technology, nutrition and bio systems engineering-Makerere University established that, 20% of maize samples collected from major maize growing regions in Uganda had aflatoxins, above the recommended limit of 10 parts per billion(ppb).

Recommendations

a) Government through the different agro-industrialization subsectors should harmonize national standards with regional and global standards to facilitate access of Ugandan products in regional and global markets
b) Government through MAAIF, MTI, UEPB, and NITAU should invest and prioritise digitalisation of agricultural market information commodities to inform production and investment along the value chain.
c) Government through UWRSA should invest and prioritize the warehouse receipt system to serve all farmers including small holder farmers through introducing receipt/card system at community storage level for smallholder farmers to sell their produce at stable and predictable prices.

General recommendations for the Agro Industrialization program

1. MAAIF should operationalize and strengthen the program working groups. These working groups should comprise of all lead actors in the program. OPM and NPA needs to clarity on mandates of

various MDAs under the agro-industrialization programme to void conflict and duplications on interventions.

2. Government should harmonize and integrate Agroecology approaches within the Agro Industrialisation program in order to address the mounting natural resource sustainability challenges.

3. MAAIF in collaboration with the ministry of local government should replicate the program working group approach at local government level.

4. We need program based planning to inform the budget processes including the Budget Framework papers and the Ministerial Policy statements

5. The OPM should ensure that the PBAP is streamlined and operationalised with the required legal instruments for the ministries agencies and departments to comply.

Participating Partners