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Value chains for staple food crops in Uganda: Impediments and options for improvement

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The market for food staples remains central to many agricultural-based economies because staple foods constitute such a major share of household food expenditures. Uganda is no different in this regard. Recognizing the importance of staple food markets both for general economic growth and broad poverty reduction and given the centrality of access to staple food for household welfare, the government of Uganda has targeted value addition for staple food crops as a priority area for agricultural development. In order to properly invest in value addition, one needs to look at the value chain for a staple food commodity as a whole and identify and alleviate constraints that hinder the development of a sustainable and growing market for it.

A value chain is composed of activities and services that bring a product from conception to end use in a particular industry. For example, as shown in Figure 1, the value chain for maize begins with inputs like seeds and fertilizer and moves to the production of grain. The farmer may sell the grain directly to consumers or institutions that will, in turn, process it into maize flour for consumption or for further value addition in creating other products. Alternatively, wholesale traders will purchase the grain and take it for sale in urban or regional consumer markets. This commodity production, marketing, and consumption chain is called a value chain because value is being added to the commodity at each step.

For staple foods in Uganda, this process of adding value to the commodity is often fraught with difficulty. This brief examines the various impediments to creating efficient and profitable staple food value chains and articulates options for improvements to them that can allow Uganda to exploit its full food market potential. These constraints can be loosely categorized under poor infrastructure, ineffective services, and inefficient institutions.

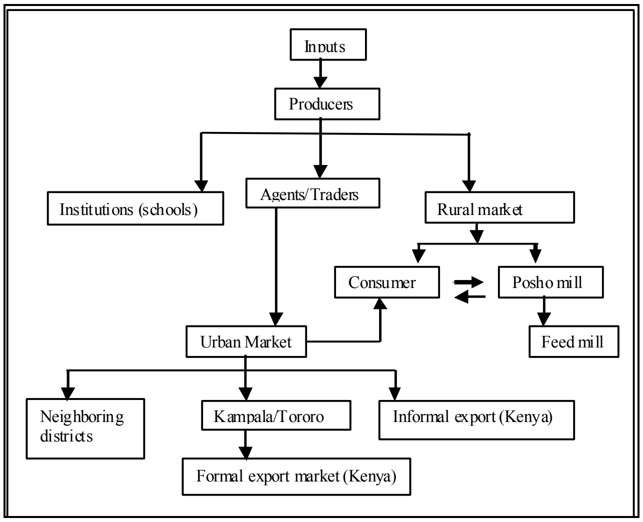
Poor infrastructure

The infrastructure needed for value addition includes energy, transport, communications, and physical marketing facilities. Many Ugandan households lack altogether or are inadequately served by such facilities. For example, Ugandan power generation in recent years has not been meeting demand due both to sharp increases in demand and to hydropower shortages due to lower seasonal rainfall. These power shortages have made agro-processing and value addition difficult. Despite significant increases in the number of Ugandans with cellular telephones, communication costs in the rural areas remain high, constraining the flow of market information from areas where staple foods are in demand to areas of supply. Rural market facilities in Uganda are mostly comprised of open air or semi-permanent buildings, which, together with a lack of storage and processing facilities, lead to high post-harvest losses for many agricultural commodities. Poor roads increase transportation costs for all commodities, resulting in lower returns to producers and higher prices for consumers. For example, transport costs constitute up to one-third of the wholesale price in Kampala for cassava produced in and shipped from Kapchorwa. Poor regional transport infrastructure has also hindered Uganda's trade in food with its neighbors and to the global market through the Kenyan port of Mombasa.

Ineffective services

Market information keeps farmers and traders attuned to the demands and changing preferences of consumers; guiding their farming, marketing, and investment decisions. However, the market information system in Uganda is poor and is characterized by absent, slow or infrequent information dissemination that adversely affects these crucial decisions. Farmers often lack market information regarding the worth of their produce and how much more they can earn in the terminal market. Having to engage in price negotiations with buyers

Figure 1: Maize value chain in Uganda



with insufficient information on the state of the market for the commodity they are offering to sell results in their receiving low farm gate prices. In addition, market information establishes the grades and standards that farmers must meet for their produce if they are to find a market or receive a premium price for high quality produce. However, farmers lack adequate knowledge on quality standards and regulations. Similarly, Uganda's rural finance systems are underdeveloped, with low formal credit demand, even lower credit supply, and high lending rates. It is reported that less than 5 percent of farming households rely on formal credit sources to finance their use of agricultural inputs.

Inefficient institutions

Uganda's institutions, especially farmers' and traders' associations and government institutions, require substantial expansion and development to function effectively. Farmers' associations can be important in disseminating market information, providing extension services and credit, and providing economies of scales both for input supply and the marketing of produce, enhancing the bargaining power of farmers in commodity markets. However, such associations are nonexistent or inadequate in many areas of rural Uganda. Traders' associations would help stabilize markets for farmers and provide a united voice for their demands, but they are virtually nonexistent. Government institutions that have been formulated to regulate markets are weak and, as a consequence, generally lack resources and credibility. They have very limited abilities to regulate and assess the quality of commodities to enforce market grades and standards. More significantly, contract enforcement to ensure that markets function efficiently is not guaranteed due to the weakness of the government legal institutions regulating rural commerce.

Prospects of improving staple food value chain competitiveness

Market efficiency was improved with the market liberalization reforms that took place in Uganda in the 1980s and 1990s. However, additional market efficiency gains require public sector support to deliver necessary public goods, foster institutional innovation, and secure competitiveness.

Adequate infrastructure is essential. Public investment is needed to expand access to roads, physical markets, storage facilities, telecommunication, and electricity; all areas critical to reducing farmers' transaction costs and physical losses. Uganda needs to enter an investment phase by prioritizing carefully selected infrastructure investments, especially in electricity and roads. In particular, investment in community access feeder roads should be prioritized since they have a larger impact on agricultural production and rural trade than investments in high grade roads. Transport infrastructure is not only a Ugandan problem, but also a regional one, and must be addressed through collaboration between members of the East African Community to improve the regional transport infrastructure network. Similarly, the efforts of the Ugandan government at rural electrification should be expanded. With the provision of access to affordable electricity in rural communities, investment in staple food processing facilities will follow. Physical markets and storage facilities in Uganda also need to be improved to preserve the quality of produce for marketing and processing.

Investments must be made to improve the density and effectiveness of market services in rural Uganda. Uganda must develop a mechanism to address market information asymmetry at the national level so that farmers find it profitable to engage in commercial agriculture. A full-featured market information system that provides timely and accurate prices, buyer contacts, distributional channels, post-harvest handling advice, buyer-producer trends, specifications on grades and standards, and storage and transport recommendations would be the ideal. This likely could be made available most efficiently through a public-private partnership arrangement. However, this ideal could be achieved in a sequence of steps over time, starting with the provision of agricultural extension and marketing advice, adding timely price information, and then, finally, brokering services. In the same vein, Uganda's rural finance woes should be addressed through advances in financial institutions and mechanisms that permit the provision of credit with limited or with innovative forms of collateral. Such improvements could place smallholders on a ladder of ascending financial market access, while managing the lending risks that undercut the supply of finance to rural producers and processors.

In seeking to build more efficient market institutions, government and other stakeholders should support the creation of farmer controlled enterprises. Such cooperative associations help in bulk marketing, strengthening linkages with traders, enforcement of quality and standards, accessing extension services, and credit and market information. However, given the past failures of Uganda farmers' cooperatives, particularly with the monopoly powers that they exercised in domestic agricultural marketing, in designing new associations attention should be paid to ensuring that the benefits derived from the associations are widely shared rather than concentrated into the hands of the association leadership or government agencies. Government institutions are important in cultivating an environment in which markets function effectively. The challenge is to establish credible national institutions that can enforce regulations and guard against opportunistic and uncompetitive behavior like corruption. Moreover, institutional linkages and coordination at the regional level should be established to enable Uganda food producers and processors to be active participants in markets beyond Uganda's borders.

Conclusion

Inadequate infrastructure, market services, and institutions are the main constraints preventing Ugandan farmers and rural processors from engaging in staple food marketing for improved welfare and rural economic growth. In some areas of investment, the Ugandan government must unilaterally provide the public goods needed for the effective functioning of Uganda's staple food markets and the expansion of trade in food commodities in the region. For other investments in staple food marketing, public-private partnerships may be established to provide services like market information systems and rural finance.

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This brief is intended to promote discussion; it has not been formally peer reviewed but has been reviewed by at least one internal and/or external reviewer.

The Uganda Strategy Support Program of the International Food Policy Research Institute (IFPRI) works closely with the government of Uganda, represented by the Secretariat for the Plan for the Modernisation of Agriculture (PMA), and other development partners to provide information relevant for the design and implementation of Uganda's agricultural and rural development strategies. For more information, see www.ifpri.org/themes/ussp/ussp.htm or www.pma.go.ug.

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