Fostering a **Sustainable** Agro-industrialisation (AGI) Agenda in Uganda

National Budget Conference FY 2019/20 and Economic Growth Forum *September 13th, 2018*
Why Uganda should prioritise agro-industry?

Quest for inclusive growth

- Promote rural Growth
- Closing regional income disparities

Ready market for raw materials & agro-industrial products

- Population growth rate, growing middle income class & urbanisation (national, regional and continental)
- A significant number of SME’s are sourcing raw materials locally & operating under capacity

Forward & backward linkages with multiplier effects

- Agriculture supplies industry & industry supplies agriculture

Upgrading export value chains from low to high value agro-products
What has been done!
Gov’t initiatives to support Agro-industry Development

**SUPPORT TO PRODUCTION**
- OWC / NAADS (subsidised inputs distribution)
- Irrigation & piloting agriculture insurance
- R&D
  - NARO
  - NAGRIC & DB
  - Academia

**AGRO-MANUFACTURING :**
- BIDCO (Palm oil-Kalangala)
- Banana Industrial Dev’t (PIBID) -Bushenyi,
- Soroti Fruit Factory (UDC Project)
- Nakaseke Tomato processing plant
- Kisoro Potato Processing Industries (KPPIL)
- Meat processing factory (Luwero)
- Dairy industry
- Agricultural Credit Facility
- Gazetting regional industrial parks
- R&D
  - Uganda Industrial Research Institute

**SUPPORT MARKETING**
- Infrastructure
- Warehouse receipt system
- EAC integration
- Bilateral trade agreements
- Trade facilitation (one-stop border post)
Uganda’s agro-industrial policy in context

Uganda’s agro-industrialisation policy not clear:

- Follows a generic approach
- Lacks prioritisation within many priority commodities
- Ad hoc, uncoordinated, unsustainable agro-industry initiatives
- Export biased

Countries where agro-industrialisation has worked (e.g. Chile, Malaysia):

- Have adopted a specific model
- Prioritised fewer commodities
- Protected the selected agro-industries especially at infant stage

Priority/strategic Commodities (9/15):

<table>
<thead>
<tr>
<th>High impact export potential:</th>
<th>Coffee, Tea, Fisheries</th>
</tr>
</thead>
<tbody>
<tr>
<td>High potential for import replacement:</td>
<td>Cotton, Veg oil, beef (by-products)</td>
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<tr>
<td>Food/nutrition security &amp; exports:</td>
<td>Maize, Dairy, Cassava</td>
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</table>
What are the Key Challenges to AGI?
Institutional Challenges

Institutional structures are a major driver for the AGI agenda:

Weak capacity & poor coordination of institutions:

Complicates programs to consolidate institutional efforts towards a common AGI goal resulting into;

Limited translation of meager resources into services/goods
Current Budget Outlook

- Budget plays more of a subsidy function to the cost of farming (free inputs, tax incentives, etc.)
- Less of productivity function (use of improved inputs i.e. superior varieties/breeds, technology, knowledge transfer in extension);

Commercial financing (by both the private and public sector):

- Is skewed more towards less risky agro-processing & agro-marketing
- Less supportive to production critical to address raw material quality & volume gaps constraining agro-industrialization

Projects account for a large share of the sectors budget:

- The pace of actual investment in the agriculture led by project is too slow (under performing):
  - (i) rate of return on that investment, and (ii) the high cost of doing business in the sector.

Weak Raw Material Production Base (Investment perspective)
Limited Transformative Agro-manufacturing
(Limited Product Space)
Cotton Textile Industry VC (import replacement)

- 95% of lint is exported
- 95% of lint is exported by Uganda Ginners & Cotton Exporters Association (UGCED)
- Limited investment in high-end value added products (yarn, fabrics)
- Public investment is needed to stimulate domestic demand for cotton
- Investment is needed to improve productivity
**Coffee (Export Promotion)**

**International Market rewards for High Grade Coffee**

Robusta Coffee Unit Prices (US$) per grade & Volumes Exported, FY 2016/17 (UCDA 2017)

<table>
<thead>
<tr>
<th>Quantity (60Kg Million bags)</th>
<th>Unit Value (US$/Kg)</th>
</tr>
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<tbody>
<tr>
<td>Other</td>
<td>0.2</td>
</tr>
<tr>
<td>BHP 1199</td>
<td>0.2</td>
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<tr>
<td>Screen 12</td>
<td>0.7</td>
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<tr>
<td>Screen 15</td>
<td>1.6</td>
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<tr>
<td>Screen 17</td>
<td>1.9</td>
</tr>
<tr>
<td>Screen 18</td>
<td>2.1</td>
</tr>
<tr>
<td>Washed Robusta*</td>
<td>2.4</td>
</tr>
<tr>
<td>Organic Robusta*</td>
<td>2.4</td>
</tr>
<tr>
<td>Robusta Utz*</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: UCDA (2017)

Budget should focus on improving both Volumes & Quality.
Near Success Story (Dairy Industry)

### Expanded Product Space (Exports)
- **Total**
- **SKIMMED-Milk & Cream**
- **Whey**
- **Butter & other fats**
- **WHOLE-Milk & Cream**
- **Cheese & curd**
- **Yogurt**
- **Buttermilk & cream, kephir**

### Trade Balance (million USD) in Dairy Industry
- **Export**
- **Imports**

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Imports</th>
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<tbody>
<tr>
<td>2006</td>
<td>2006</td>
<td>2006</td>
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<td>2007</td>
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<td>2016</td>
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### Raw Milk Production (Million Litres)
- **2012**: 1,460
- **2013**: 1,504
- **2014**: 1,549
- **2015**: 1,596
- **2016**: 1,634

### Number of Firms

<table>
<thead>
<tr>
<th>Category</th>
<th>Installed Capacity</th>
<th>Utilized capacity</th>
<th>Utilized capacity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>9 Large Scale</strong></td>
<td>288,557</td>
<td>163,888.9</td>
<td>56.8</td>
</tr>
<tr>
<td><strong>13 Medium Scale</strong></td>
<td>6,900.0</td>
<td>3,580.8</td>
<td>51.9</td>
</tr>
<tr>
<td><strong>45 Small-scale</strong></td>
<td>804.9</td>
<td>545.0</td>
<td>67.7</td>
</tr>
<tr>
<td><strong>33 Cottages</strong></td>
<td>96.2</td>
<td>83.9</td>
<td>87.2</td>
</tr>
<tr>
<td><strong>100 Overall</strong></td>
<td>100</td>
<td>65.9</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Trademap, 2018

**Source:** Dairy Development Authority (2018)
Market Access
Domestic & External
Positive Trade Balance Agro-products, USD 420 million in 2017

Imports USD 1.07 bn
Exports USD 1.5 bn

Untapped opportunities to improve trade balance further through:

- **Import replacement** – edible oil, footwear & textiles; paper products,
  - Growing urbanisation, growing middle class, growing population
- **Export expansion** – Coffee, Tea, Fisheries
- Use bilateral trade agreements to promote structured demand
- Target regional market using success in domestic market as a platform

Source: UNSTATS.UN.ORG (2017)
Proposals for sustainable agro-industrialisation
Proposed Integrated model for a sustainable agro-industry

Farms

Agro-Manufacturing industries (Game Changers)

Markets (Domestic & External)

Government (Allies to work with; and detractors to persuade)
Program approach to Agro-industrialisation

Following an integrated planning & budgeting approach

• *Focusing on nine (9) fundable priorities*
Five (5) Key Strategic Result Areas to drive agro-industry over the medium term

1) IMPROVED FUNCTIONALITY OF DOMESTIC RAW MATERIAL SUPPLY CHAINS:
• Invest to strengthen the production & supply of quality raw materials needed by industries.
  • Requires an institutional framework (cooperatives) to enhance backward & forward linkages between farmers and agro-industrialists;

2) QUALITY & STANDARDS:
• Invest focusing on ensuring quality & standards of the raw materials as well as agro-industrial products.
• The key ingredients are:
  • A stronger, effective and adaptive regulatory system backed by policies,
  • Right infrastructure (such as regional hubs, industry commodity specific traceability platforms).
3) DYNAMIC, ADAPTIVE & FLEXIBLE AGRO-MANUFACTURING SECTOR:
• Requires agro-manufacturing industries to be innovative & responsive to needs of domestic and external markets.
  • *This calls for enhanced capacity to widen & deepen product space by agro-manufacturers guided by market dynamics.*

4) MARKET PENETRATION:
• Requires the promotion of demand for local products through import replacement; and deeper integration into global value chains.
  • *This calls for capacity to incentivize and enforce compliance with international standards and best practices.*

5) FINANCING:
• Requires long-term financing to foster and sustain the Agro-Industry (AGI) agenda, achievable through:
  • *re-organisation of the scattered public resources*
  • *adjusting the available funding mechanisms such as Agriculture Credit Facility to target AGI;*
    • *Recapitalisation of UDB and UDC; and promotion of equity financing.*
Thank You