Client-Oriented Agricultural Research and Dissemination Project

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Potential Agricultural Market Opportunities and Enterprise Development for Teso and Lango Regions

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EXECUTIVE SUMMARY

Justification for the Study

Based on the needs assessment carried out at the beginning, the NARO/DFID Client Oriented Agricultural Research and Dissemination (COARD) project decided to strengthen its market-orientation in the projects it funds and to support new and/or innovative agricultural enterprises or services. To better achieve its resolve to improve the market orientation in its grants, the project commissioned a study of which this report forms one part. The study could not come at a better time, coinciding as it does, with the initiation of "trail-blazing" by Government's National Agricultural Advisory Services (NAADS) in six districts, including Soroti in the Teso region, which is soon to be followed by similar activities in Lira in the Lango region. The NAADS program is currently endeavouring to develop a model for establishing viable farmer organisations; identifying and evaluating innovative market approaches, and establishing market linkages between farmer groups and traders. NARO and the COARD project are supporting this process through the research contained in the present study and by assessing new and innovative market opportunities for the regions. They are also developing Agricultural Technology Funds to support agricultural projects that that strengthen the ability of the rural poor to work together, to raise their income levels, to manage their individual enterprises in a more businesslike way, and to achieve a fair return by collectively marketing their products through representative and democratic producer organisations.

Study Methodology, Rapid Market Appraisals and In-Depth Marketing Studies

The present study has done a thorough, if somewhat, rapid assessment of the market for major crops, activities and services in the two regions. It has been participatory in its approach, involving agencies of central Government, development partners and projects, researchers and scientists, local Government, NGO and CBO staff, and producers (farmers, fishermen and women), service providers, processors, and traders of various types and their associations. A variety of participants at various points in the market chain were interviewed making possible crosschecking of data and confirmation of opportunities and constraints. There is little variation in these crops, activities and services from Sub-County to sub-county, and therefore repetition of similar small-scale studies is not needed and would not be productive. However, validation of the results of the study with community stakeholders is necessary before NAADS and its partners embark on development activities.

Opportunities and Constraints in the Teso and Lango Farming Systems

Food Crops

The Teso and Lango regions have been slow to recover from years of insecurity, massive losses of its livestock, which constituted the principal store of wealth and major source of power, and devastation of the marketing of cotton, the one crop that brought cash into the economy. As peace returned to the area, with the help of Government (including NARO), development partners, and NGOs and CBOs, seeds and planting material were distributed and oxen in small numbers were provided covering part of the need for animal traction, allowing land to be prepared for food crops and to largely meet the food security needs of the population. Having achieved a measure of self-sufficiency in food, rural people struggled to meet their other needs, which could only be satisfied by cash. They groped for new sources of cash income, expanding production of food crops (cassava, sweet potatoes, millet, sorghum, etc.) for sale, leading to the oversupply of the market; these gluts led to dramatic declines in prices particularly at harvest time, with poor farmers suffering the worst from low prices due to their inability to store and hold products awaiting higher prices. An unforeseen maize glut resulting from increased acreage and favourable weather was disposed of on a one-off basis by farmer organisations, TechnoServe, WFP and other emergency food programmes. Prospects for food crops are extremely limited.

Cash Crops

Development of the oilseed milling industry focusing on sunflower production to replace cotton seed as the main source for cooking oil production and offered farmers an opportunity to grow a crop for which the market is assured. Other oilseeds like groundnuts and simsim (sesame) offer some prospects, especially for varieties (including some developed by NARO) finding acceptance in the urban and export markets. Legumes and pulses including beans, green grams (mung beans), cowpeas and pigeonpeas, also offer some hope as cash crops, especially for varieties demanded by the export market. Farmers around lowlands began growing rice profitably on a small-scale for the local market, favoured by high transport costs for imported rice. Government's attempts to revive cotton as a major export have begun to pay off. Despite low international prices, farmers are again interested in cotton as a result of the political will to promote the crop, emergence of trust that it will be bought and paid for, its usefulness in preparing land for subsequent food and other cash crops and the timing of its harvest which comes before Christmas and when school fees must be paid. The acreage planted to the crop has risen sharply, with 35% more seed distributed in 2002 than the previous year. For Teso and Lango regions at least, the arrival of an international cotton company on the scene has had a strongly positive impact farmer interest in producing cotton. There is some interest in organic cotton, but its market is insecure as promoters often fail to meet their commitments to buy and the organic premium they pay, does not compensate for low yields obtained when no pesticides are used. There is a market for organic simsim, but it is unclear how dependable this market will prove. British American Tobacco Company (BAT) is also expanding its operations in the Lango region, providing an integrated package of technical assistance, high-quality inputs and production finance, proving farmers with an

opportunity to grow this high-value cash crop. Many of these opportunities for growing cash crops raise the income of smallholder farmers. Since they are labour-intensive, they also provide employment and income for the poor who sell part of their labour and for those who have no land of their own.

Perennial Crops

Perennial crops show good prospects for the region. After years of neglect, cashews are again being harvested from trees still remaining from the millions planted in northern Uganda the 1970s; farmer interest is due to purchases by a small processing plant located in Soroti; its production is for the district and Kampala markets. Processors and consumers in Kampala demand citrus fruit and improved varieties of mangos leading to farmer interest in seedlings for these crops. Farmers are also planting coffee in response to Government promotion and provision of free seedlings. Some areas that have agronomic conditions that are favourable can produce bananas to replace those brought in from other regions; banana plants are often used as temporary shade for newly planted coffee trees. Eucalyptus trees are also being planted to meet the demand for construction materials and fuelwood. TechnoServe has found a market for Birdseye chillies and is promoting the crop though farmer groups and linking them to its own trading company; other traders are also buying their chillies. Pineapple production is expanding rapidly to take advantage of demand within the region and to substitute for pineapples currently coming in from other parts of Uganda.

Fisheries and Aquaculture

Capture fisheries is a driving force in the economies of the two regions both directly and from the processing, trading and service activities connected to it. With improvements in road access to landings, prices of Nile perch for export processing and of tilapia for sale fresh have risen substantially in recent months. Fish smoking and trade in smoked fish continues to be an important activity, particularly for women and for supplying the needs for protein in areas and for people without access refrigeration. A new fishery for tiny *mukene* (*R. Argentea*) has been introduced from Kenya within the past decade and provides a new resources and new source of low cost protein for human consumption and animal feed. Community-based lake management is promoting better management of the resource by the DFID-supported Integrated Lake Management (ILM) project, which is already bearing some fruits.

Fish farming of local species is growing rapidly in response to support from Government and development partners and to unmet demand for fresh fish of any kind or size in rural areas located some distance from the lakes. Dry season vegetable production around the ponds complements fish production, increases its profitability and substitute for vegetable imports into the region for other areas.

Milk and Honey

Milk is being produced profitably on a small scale for sale in towns and trading centres; small dairies are operating at low levels due to lack of supply and send

excess production when available to Lira and Mbale. Honey production for the local market is profitable, though efforts at supporting it to date have largely failed through lack of expertise of the CBOs promoting it; as annual and perennial crop production rise in response to profitable opportunities, increased and improved bee-keeping will assure pollenisation of crops and to provide a source of income for the poor from an activity not dependent on access to land.

Non-Farm Enterprises

Opportunities in non-farm enterprises and services to agriculture and fisheries are also emerging. A whole infrastructure has developed around the fish trade (lodgings, food preparation, bicycle and other forms of transport, etc). Bicycle transport (*bodaboda*) has sprung up everywhere as young men abandon farming to earn their living in urban areas, though many still return to their villages at night. Veterinary medicine shops and services of vets, paravets and community animal health workers are in demand. Private hatcheries and nurseries have developed in response to demand for fish fry and to tree and other seedlings on the part of interested farmers and Government (coffee seedlings), making this activity attractive to new promoters. Continued fear of cattle rustling has turned investment focus away from cattle and toward more productive areas such as construction in town and in trading centres of all sizes and even remote rural areas, creating a demand for unskilled labour which is supplied by the poor.

Processing

Oilseed production was first encouraged by AT (Uganda)'s ram presses. As production rose, small oil mills have been established, particularly in Lira town in response to increased production of sunflower by groups of farmers organised by UOSPA. Mukwano industries is also promoting the crop through farmer groups and proposing to establish a 300 MT/day plant in Lira, whose impact on the industry would be significant if it is built. Mills for dry cassava and grain are found everywhere, even in remote rural trading centres, simplifying women's work immensely. Rice mills are increasing in number in response to increased farmer interest and greater production of the crop. Traditional processing of fish by smoking and sun-drying (*mukene*) continues to be important in the region. Processing of Nile perch caught in waters of the two regions is increasingly important to the regional economy, even through the processing plants are located outside the region.

Financial Services

Medium-term investment credit and venture capital is almost totally unavailable within the regions. However, a number of microfinance institutions are providing small loans with very short terms and frequent small payments, geared mostly toward buying and selling activities. Such loans benefit the poor by providing a daily source of income through petty trade. At the same time they create demand for the products of the poor by providing an outlet for the farmer who may only have half a bag of product for sale which can be bought and then retailed by local

women at periodic markets. Investment loans to support business expansion, especially for new and innovative ventures are not found. However, there is some attempt at providing more financing for marketing by major processing companies (cotton and tobacco) and some use made by TechnoServe of USAID's Development Credit Mechanism which provides unpublished loan guarantees for trade finance and market season loans. Market storage loans to allow farmers to benefit from price rises a few months after harvest are also possible.

Interventions

Producer Organisation Formation and Development

The major marketing constraint is not the generally poor state of marketing infrastructure but resides in a system, which minimizes the farmer's share of the final product price paid by consumers. Farmers' ability to connect directly with major private sector traders or agribusinesses directly is almost totally absent at the present time. Agents buying in trading centres or at farmgate serve a useful function in linking farmers to private traders and agribusinesses but in doing so, retain most of the margin from the sale of products for themselves. A major goal of efforts by NAADS/NARO, CBOs, NGOs and development partners has to be the improvement in farmers' share of the income derived from final product sales. In the course of the study, a number of CBOs and NGOs were found which had successful strategies in forming and promoting producer organisations as well as a number of organisations, which were less successful. Some of these groups could form the nucleus of NAADS activities whose chances of success will be increased by working with established groups rather than those formed without serious preparation. However, it should be noted that most existing groups and those supporting them were still focused more on production technology and on facilitating agronomic extension than on maximizing producer income through improved marketing. Some spontaneously formed producer organisations or social welfare groups which concentrate on the financial goals and joint marketing of their members products are also found, some of which have been in continuous operations for many years. Some private companies like British American Tobacco and Clark Cotton and UOSPA were seen to be providing good service to producers, eliminating the agents and dealing directly with farmer groups to bulk products. BAT provides credit as well as technical assistance to its farmers who are also organised in groups for training purposes; it is possible that buyer credit of this type can become more generalised in the future as trust is restored in the marketing system.

Some of the factors deemed crucial to successful PO formation and continued operation, and which it would be useful for NAADS to bear in mind, were the following:

- Primary among the objectives leading to successful POs is the provision of marketing services leading to better prices for producers.

- Consolidation of products for marketing (agricultural crops, fish, etc.) and bulk buying of inputs provides strong motivations for the formation of producer organisations.
- Access to inputs, and/or credit to acquire inputs, is a second major objective of many successful POs.
- POs operational costs should be self-finance based less on membership dues than on a cess on products they market or buy for members (so that larger producers contribute more to the organisation than do the poor).
- Democracy, transparency and accountability are key elements to success.
- POs should focus first on obtaining financial benefits for their members.
- PO development should start in areas better linked to the markets and expand outward as the most easily served areas are served in a cost-effective way.
- High-value or marketable, high-volume crops should come first.
- Where a producer organisation is formed to work with a specific crop (like oilseeds), it should stick to that crop and not diversify excessively during the early years of its development.
- Women need special treatment, either their own organisation, or a sub organisation of a larger producer organisation, or have guaranteed roles and benefits within mixed organisations.
- Once base-level POs are well established, it makes sense to set up second-tier organisations (such as fora) to achieve economies of scale in marketing and to pay for needed services, such as professional managers.
- Formal recognition of POs helps them obtain services from the public and private sectors.
- External support is needed by a new PO during its formation to guide the organisation with training in the principles of democratic and transparent management and empowering the membership, and only later should the focus shift to business training, adding additional services and issues of organizational sustainability.
- PO development is most likely to succeed when there is a combination of support from Government, development partners and NGOs.
- POs must establish their own needs and prioritise them themselves, and implement solutions to those needs having the highest priority for the organisation.
- Members must see themselves as actors achieving their own welfare through sound management and husbandry of their own resources rather than beneficiaries of outside resources from Government, NGOs, etc.

Three case studies give examples of success in formation of producer organisation formation, their democratic management and their profitable operation:

1) TechnoServe's introduction of chillies in northern Uganda;
2) NASFAM's development of small holder farmer organisations in Malawi; and

3) CLUSA's assistance to formation of farmer associations in Mozambique.

NARO/CIAT Approach for Identifying and Assessing Market Opportunities

It would be worthwhile for NARO and NAADS to lead participatory market appraisal exercises of the type recently carried out in Kabale involving an assembly of stakeholders interested in rural market-oriented development. Among the stakeholders who should participate are NARO scientists, CIAT staff, local traders, farmers, NAADS and other extension staff, NGOs/CBOs, local government and other stakeholders. The duration of such an exercise would be around 10-15 days per region (Teso and Lango). The purpose of this work which would be to identify those products, enterprises and activities which are profitable, to corroborate and confirm results of the present market and enterprise development study, and to seek out new niche products or enterprises which may be suitable for individual or groups of sub counties within each region. Such exercises would sensitise stakeholders to the need to focus future work by NARO, NAADS and other participating institutions on those enterprises most likely to contribute to raising income levels in rural areas and in particular in ensuring that the poor benefit from improved links with the market. This change in mind-set and orientation is critical for stakeholders and sets the stage for capacity-building and institutional collaboration as well as broadening private sector participation in programme design and implementation.

In-Depth Marketing Studies for Newly Identified Enterprises

NARO's and NAADS' support for doing in-depth marketing studies could be crucial to promoters ability to carry them out and thus to their ability to introduce new and profitable activities to the region. When new products emerge as candidates for promotion (particularly those oriented toward the export market), in-depth market studies following the marketing chain from start to finish need to be done before substantial resources are invested in their development. No investment in production of any new product should take place until the market for that product is assured.

Market-Oriented Enterprise Development ATFs

In order to support NAADS' trail blazing in enterprise development and marketing, two new Agricultural Technology Funds (ATFs) are proposed. The first is similar to the current ATF except that its focus is specifically on marketing and enterprise development (MED). The purpose of an MED ATF would be to provide a source of funds specifically focused on encouraging enterprise development and supporting needed market studies for initiating or expanding profitable enterprises and thus leading to sustainable improvement in rural income. The second ATF (Trail-Blazing Risk-Sharing Grants fund) is in essence a venture capital fund. Its purpose is to allow established private individual or group enterprises to increase the supply of essential services or public goods to the agricultural sector or to

offer the prospect of significant replication or market stimulation, to test innovative ideas. Criteria and selection procedures for the new funds will be in tune with the level of the grants applied for: smaller grants will require less documentation and face a shorter, simpler selection procedure and, if selected, a simpler reporting and M&E requirement.

Infrastructure in Support of Marketing

Infrastructure to support marketing also must be improved. Central and local governments must improve their support for road rehabilitation and maintenance, which currently seems more related to the electoral cycle rather than to road conditions. In particular, they need to improve maintenance activities, which are grossly inadequate and misdirected (more focused on slashing rather than water-diversion and erosion control). The poor state of the roads inhibits marketing activities. Road conditions were worse in Lira and in Soroti districts at the time the study was being carried out.

Local government needs to dedicate more resources to infrastructure development of the urban and periodic markets, which is inadequate to totally lacking. A larger share of the revenues generated by tendering of markets and fish landing sites must be ploughed back into the infrastructure of the markets or landings themselves.