

POLICIES FOR AGRICULTURAL REHABILITATION

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Pricing Policy

Erroneous product pricing can be identified as the one single major cause of the problems confronting the new Government in the agricultural sector. Serious damage to the national economy has occurred in three major crops: (i) the widespread practice of coffee smuggling, probably running at 25-35% of the total crop; (ii) the decline in tea production by over half the peak production and probably 40% below the normal price per unit because of poor quality; (iii) the decline in cotton production to less than one-seventh of the peak level achieved in 1970 - i.e. the 'normal' year we have chosen as a baseline for this report. Due primarily to a shift in the structure of relative prices, productive resources have been switched into increasing the output of uncontrolled food crops, into brewing and distilling activities of the informal sector type, and into labour-intensive magendo trading and smuggling activities. Careful and detailed attention, therefore, must be paid to this policy area in planning for the two-year reconstruction period.

2. The main concerns of agricultural pricing policy are with (i) the administered producer prices for the three major export crops - coffee, cotton and tea; and (ii) the relationships between these prices on the one hand and their international export values, the prices of other, large uncontrolled crops, the wage rate and the cost of the basket of consumer goods purchased by cash-crop producers on the other hand. Three national policy objectives are identified which relate to this policy area:

- To internalise and move into official marketing channels all primary produce currently being smuggled across Uganda's borders i.e. coffee primarily but also cotton and cattle;
- To provide relative price incentives for: the rehabilitation of socially productive agricultural assets currently abandoned i.e. tea (11,000 ha), sugar (25,000 ha) and coffee (a large but unknown area);
the movement of underutilised low cost resources into crop production;
the adoption of socially profitable innovations in export crop production e.g. coffee - new varieties and fertiliser application;
- To achieve a significant improvement in production incentives for all major rural communities in order not to exacerbate inter-regional tensions arising from different levels of development.

3. There are, potentially, a large number of policy instruments which can be applied singly or in combination to achieve one or more of the policy objectives. These are:

- a) Improving official producer prices i.e. de facto minimum prices;
- b) Reducing export taxes on export crops (coffee only);
- c) Reducing marketing costs, increasing efficiency and reducing losses in the statutory boards and other marketing bodies;
- d) Direct subsidy of the producer price;
- e) Devaluation of the domestic currency;
- f) Subsidies for key production inputs;
- g) Increasing the supply of consumer goods by accelerating domestic industrial production;
- h) Increasing the supply of consumer goods by accelerated direct importation;

- i) Reducing/waiving import duties on selected imports.
- j) Other changes in fiscal policy which improve agricultural producers' terms of trade, such as reducing sales tax on mass consumption items.

4. To the extent that instruments (f) and (g) reduce the ruling price of consumer goods, the producers' terms of trade are improved, hired labour costs fall and the border smuggling incentives reduced. But measures (b) to (e) will raise the internal money supply and thereby increase inflationary pressures. Measure (e) also raises the Uganda shilling price of imports for measures (g) and (h) unless it can be offset by (i).

5. This suggests the need for phasing in the set of adjusted prices in two or three stages. Coffee and tea prices can be altered at least twice a year without major problems. The cotton price should be changed only once, before the planting season begins (it should be announced by the end of March at the very latest). The cotton producers' purchasing power is not increased until 10-12 months after a price increase is announced, whereas tea and coffee producers' incomes are increased immediately.

6. Measure (d) can realistically be financed only by inter-product transfer payments i.e. by coffee revenue subsidising tea and cotton prices. This would help achieve objective (c), but it would cause such a visible inter-regional flow of funds that it would probably create more social tension than it would alleviate, and in any case would provide the regionalist element in the country with a large bone to chew on. It is therefore not recommended as a suitable measure.

7. We now turn to a more detailed analysis of the issues relevant to price determination for each crop.

(a) Coffee

The Kenya border has the strongest incentives for smuggling because of the following factors:

- the availability and low price of consumer goods;
- the high prices paid to Kenya coffee producers;
- the transport cost advantage compared to coffee sales to Tanzania, Rwanda or Zaire;
- a large part of the frontier is open i.e. over the top of Mt. Elgen and numerous tracks and paths between Malaba and Busia;
- Bugisu arabica coffee is very similar to the coffee grown in Bungoma and Trans-Nzoia districts of Kenya;
- the illicit coffee trade in Kenya is well-organised, financed and had influential support at high levels.

8. In 1978 Kenya producers were receiving around K.Shs. 12 per kg. green beans or nearly K.Shs. 10 per kg. parchment. The border currency exchange rate appears to have risen recently from U.Shs.100: K.Shs.10 to between U.Shs.100: K.Shs.20. Taking the better rate, this suggests a price 'in Kenya trade' of U.Shs.50 per kg. parchment. Guessing at the Kenya/Uganda split of the 'illicit' margin and allowing for some further improvement in the exchange rate, the farm gate price in Bugisu might be somewhere in the U.Shs. 15-20 range i.e. 2-2½ times the official 1978/79 Grade I parchment price of U.Shs. 7.70 per kg.

9. For the moment a similar increase is assumed to be desirable for the robusta prices, with stronger expectations about the increases in output to be obtained from bringing back abandoned areas of coffee. Measure (g) may also be useful in this respect, especially subsidised supplies of dalapon for couch grass eradication in the early phases of reconstruction.

10. Adjusting the robusta price from U.Shs. 3.50 kg. Kiboko by 2-2½ times suggests a range of U.Shs. 7 - 8.75. Using a 1979/80 price estimate of US\$1.70 per lb. clean

coffee f.o.b. Mombasa (which is clearly a cautious estimate)¹, this converts to U.Shs. 15.71 per kg. kiboko at the current exchange rate.² This would reduce the export tax yield to Shs. 6.81 and still leave a sufficient margin for union and board processing and transport costs (estimated at 12% or Shs. 1.90 per kg. clean coffee). One may conclude that a significant increase in the coffee producer price is possible i.e. of the order of 100% or more as necessary to control smuggling, whilst still leaving a significant proportion of the international price in the hands of the Treasury as export duty.

(b) Cotton

11. The current Uganda price is Shs. 5.00 per kg. clean seed cotton ('safi'). The corresponding price in Kenya is K.Shs. 3.45 per kg. although they pay a higher price for stained seed cotton ('fifi') - K.Shs. 1.70 as against U.Shs. 1.00. The current Uganda price is expected to require a subsidy of Shs. 82.5m on a 1979/80 crop estimated at 70,000 bales.³ This is a subsidy of over Shs. 6 per kg. of lint (around Shs. 2.10 per kg. of seed cotton). As is pointed out in Paper 4, the lower Kenya price remains more attractive to Uganda growers given the current (and expected 1979) disparities in currency purchasing power. Nevertheless, one would expect that the smuggling radius of cotton, given its bulky nature, is less than for coffee, so that foreign exchange losses to the Ugandan economy in 1979 will be lessened by the small size of the crop in the border areas and its relatively low price compared with coffee.

12. The cotton export tax has been waived since 1977. The problem is that the maintenance of the current producer price already required a direct subsidy; clearly any further increase in price by this means will face strongly rising opportunity costs and vested interest opposition from elsewhere in the public sector.

(c) Tea

13. No smuggling of tea has been reported. Some 11,000 ha. out of 21,000 ha. of tea bushes, however - most of them planted within the last 12 years - have been abandoned since 1975. Over half the tea area has been planted by small-holders who receive a price for their green-leaf from the factory where it is processed; 80% of this small-holder area is reported to be abandoned. In 1978, Uganda was averaging U.Shs. 7.47 per kg. of made tea in the Nairobi auctions, compared with K.Shs. 13.44 per kg. received by Kenya teas. This quality differential reflected problems of labour shortage and management in Ugandan tea areas. In normal circumstances, Ugandan teas fetch only a small margin below Kenyan teas. At present, the small-holder is paid a green leaf price of Shs.1.35 per kg.⁴ This is equivalent to Shs. \$.75 per kg. of made tea. Given large additional costs of processing, transport, loan repayment and heavy overhead administrative costs, amounting to some U.Shs. 6.50 per kg. of made tea, the green leaf price had to be subsidised by Shs. 15m. in 1978⁵. As with cotton, therefore, subsidies are already required to maintain the producer price.

14. We now need to identify the desirable relationship between the three product prices. Currently, tea is not profitable for a large part of the industry, while cotton requires a subsidy to maintain the current price. Coffee, on the other hand, receives a low official price relative to that obtainable via illicit sales to neighbouring countries. Market prospects for coffee appear strong over the next few years.

¹ If the world price rises significantly above this level it will be necessary to raise the producer price by a larger amount, as the price paid to Kenya producers will rise also i.e. the objective is to keep Uganda prices within sufficient distance of Kenya prices to discourage large-scale smuggling.

² Clean coffee out-turn from kiboko averages around 56%.

³ This Ministry of Cooperatives and Marketing estimate is more optimistic than 50,000 bales of the LMB.

⁴ Raised from Shs. 0.88 per kg. in 1976, a price which had remained constant since 1967.

⁵ This was equivalent to approximately Shs.1.25 per kg. green leaf. In addition, loan repayments were not made.

The short-run price policy objectives can be defined as follows:

- to find the minimum price sufficient to return most if not all the tea assets to profitable employment;
- to find the minimum price necessary to bring most, if not all, of Uganda's coffee back into official marketing channels;
- to maintain tea and cotton profitability without recourse to direct subsidies of the producer price;
- to dampen the transmission of those extremes of international commodity price movements which would cause unacceptably strong differences in regional income levels.

15. The solutions to these objectives can best be found by a process of successive approximation. Data are too inadequate in several areas - supply responses, market price trends, etc. - to allow the employment of any kind of optimising model. The quantified scenarios which follow here and in Paper 25, where national level financial policy is discussed, are intended primarily to illustrate a planning approach, although the values chosen are intended to be as realistic as present information allows.

16. Table 3.1 sets out to arrive at approximate price levels which would satisfy the planning objectives. The methodology used is to identify, with the help of representative farm production input-output data, the price relativities between coffee on the one hand and tea and cotton on the other which will permit a spread of comparable farm cash incomes - or at least the opportunity to earn such incomes - across the major part of the rural population.

17. The effect of variation in costs of purchased inputs is not expected to differ very widely between the three enterprises at the level of management assumed. Minimal levels of fertiliser application and insecticide (for cotton and coffee only) are necessary to achieve the assumed yields.

18. To summarise the results, the coffee price has been set exogenously at the minimum level judged necessary to minimise smuggling activities i.e. Shs. 7.00 per kg. kiboko or twice the current level, with a similar proportional increase for arabica parchment. Relative income considerations then suggest target prices of at least Shs. 6.00 per kg. of clean seed cotton ('safi') and Shs. 2.00 per kg. of green leaf for tea out-growers, and higher prices proportionally if it is necessary to further raise the coffee price to counter smuggling.

19. The next step in the analysis is to explore the impact of the policy instruments available for achieving the desired price relativities, especially various levels of external devaluation. Discussion of these issues is found in Paper 25.

Marketing Policies

20. We have emphasised the importance of the fact that the great majority of Ugandan farmers are very responsive to the relative prices prevailing in the rural areas. These are dependent upon a range of factors including world market prices and government policies with respect to exchange rates, subsidies and export taxes. They are also dependent upon the efficiency of the agricultural marketing organisations of Uganda. Both the marketing boards and the cooperative movement play a crucial role in marketing. The entire cotton crop is processed and marketed through cooperatives and they also handle the major part of the coffee crop. They deal too with smaller proportions of many other crops. The marketing boards have statutory monopoly rights over the sale of the major export crops. The structure of marketing for agricultural products in Uganda is summarised in Table 3.2.

21. It is clear from this table that although there is a long history of intervention by successive governments in the arrangements for agricultural marketing, no uniform structure has been imposed. The arrangements for each commodity may be viewed as the outcome of the specific array of private interest groups, technical factors and the policy preferences of government agencies at the material time when decisions were being made. In general, and in contrast to most neighbouring countries, the role of producers in the policy-determining fora of statutory bodies is insignificantly developed. The more urgent cases where structural reform appears desirable are discussed in the context of the individual commodities elsewhere in this report.

Table 3.1

Producer Prices and Incomes for Family Farm Enterprises with Average Management :
Coffee, Cotton and Tea

	'Average Management' Yields		Man-days/Acre	Average Family Workload (acres) (Additional to Food Crops)		Total Man-days Per Annum
(a) Basic Farm Management Data	Coffee	500 lbs. Kiboko/ac.	60	3½ ¹		210
	Cotton	500 lbs. seed cotton/ac.	120	1½		225
	Tea	1000 kgs. made tea/ha.	200	1½		250
(b) Target Prices and Incomes		Yield/ha (kgs)	Farm Output (kgs)	Target Prices		Gross Revenue (Shs)
	Coffee	312	1092	7/00		7644
	Cotton	445	813	6/00		4878
	Tea	5000	2500	2/00		5000
(c) Current Prices and Incomes		Yield/ha (kgs)	Farm Output (kgs)	Current Prices		Gross Revenue (Shs)
	Coffee	312	1092	(3/50) ²		(3822) ²
	Cotton	445	813	5/00		4065
	Tea	5000	2500	1/35		3375

¹For many farmers in the coffee areas, land will become limiting before this limit is reached.

²The official price has been paid on only two-thirds of the crop in recent years; higher prices were paid for the remainder which has been smuggled.

Source: Commonwealth Team

22. The basic unit of organisation of the cooperatives is the primary society. This may be formed by any group of ten or more persons with a common purpose, economic or social. Primary societies join together to form unions and it is at this level that the ginning of cotton and the processing of coffee usually takes place. The unions have also combined to form six national unions to provide specialised services. These include the supply of coffee factory and ginnery spares, publicity and transport. The Uganda Cooperative Bank and the Uganda Cooperative Credit and Savings Union are also national unions of this kind.

Table 3.2
Marketing Structures for the Major Agricultural
Sector Products: Uganda 1979

Product (1)	Sub-sector (2)	Market Structure (3)	Production/ Marketing Chain (4)	Marketing Parastatal or Board (5)	Responsible Ministry (6)
1. Coffee	Private Sector	Free market under CMB buying price	Estate factories Estate pulperies	CMB	MCM
	Cooperative sector	Administered processing formula and min. producer price	Societies→ Union factories	CMB	MCM
2. Cotton	Cooperative monopoly	Administered processing formula and fixed producer price	Societies→ Union ginneries	LMB	MCM
3. Tea	Small scale	State administered green leaf price	(Cooperatives) UTGC	UTA/BUL	MA
	Large scale	Free market	AEL UTGC UTA Private firms	UTA/BUL	MA
4. Sugar	Small scale	(Cane prices negotiated with factories)			MCI
	Large scale	(Statutory retail prices)	NSW KSW USF (SBE)	-	MCI
5. Jaggery	Licensed producers	Free market	Producers→ traders/spirit processors	-	MCI
6. Tobacco	Cooperative monopolies	(Statutory retail prices) producer price formula & quotas	Barns→ Societies→ Unions	NTC	MCI
7. Other crops	All producers	Free market (with statutory minimum producer prices)	Producers→ traders→ retail	(PMB)	MCM
8. Beef	All producers	Free market (with statutory maximum retail prices)	Private, co-operatives, state, parastatal herds	-	MAR

Product (1)	Sub-sector (2)	Market Structure (3)	Production/ Marketing Chain (4)	Marketing Parastatal or Board (5)	Responsible Ministry (6)
9. Milk	Rural supplies	Free market (with stat- utory maxi- mum retail prices)	Producer/ retailers or traders	-	MAR
	Urban supplies	(Statutory monopoly)	Producers→	(DC)	MAR

Abbreviations:

Column 4 : UTGC - Uganda Tea Growers Corporation
 AEL - Agricultural Enterprises Limited
 UTA - Uganda Tea Authority
 NSW - National Sugar Works (Kinyala)
 USF - Uganda Sugar Factory (Lugazi)
 KSW - Kakira Sugar Works
 SBE - Sango Bay Estates

Column 5 : CMB - Coffee Marketing Board
 LMB - Lint Marketing Board
 UTA - Uganda Tea Authority
 BUL - Blenders Uganda Limited
 NTC - National Tobacco Corporation
 PMB - Produce Marketing Board
 DC - Dairy Corporation

Column 6 : MA - Ministry of Agriculture
 MCI - Ministry of Commerce and Industry
 MCM - Ministry of Cooperatives and Marketing
 MAR - Ministry of Animal Resources

Note: Brackets indicate that the organisation or structural component was not operationally effective as at June 1979.

Source: Commonwealth Team

23. The cooperatives movement was able to expand throughout the period from 1972 to 1978, by which time there was 3,054 primary societies and 41 unions with a total membership of 1.1m. In that year they operated 54 ginneries and 51 coffee factories. However, despite its expansion, the movement operated under considerable difficulties. Sales of all crops through the cooperatives fell and the overhead costs of operating ginneries and coffee factories rose. Spare parts for these and for vehicles, became difficult, and often impossible, to obtain, and agricultural inputs became scarce. The cooperatives were required by law to purchase, at official prices, all coffee and cotton offered to them; these they sold to the Coffee and Lint Marketing Boards. In the case of cotton the prices received by the unions were lower than their ginning costs. As a result the cotton unions sank deeper into debt. By the end of 1978 bank overdrafts to unions had increased to the region of Shs. 200m. In addition to this the unions usually require an annual advance of a similar amount for crop purchases.

24. It would, however, be incorrect to give the impression that their poor current financial situation is entirely due to past government policies. Many unions have been subject to poor management which appears to have often been more concerned for the welfare of the cooperatives' employees than for that of its producer members. In particular there has been a tendency to diversify activities into areas which can bring only peripheral benefits, if any, to the members. Thus, producer unions are now found to be operating, amongst other activities, ranches, pineapple plantations, various seedmills, bookshops, hotels, rented properties, primary and commercial schools, consumer goods stores, engineering works, petrol stations and dispensaries.

25. The financial position of the cotton unions has also been adversely affected by the Amin Government's ginnery rehabilitation scheme which involved total expenditure in excess of Shs. 100m. The scheme commenced at the beginning of 1978 even though at that time cotton production was falling and the capacity of the existing ginneries was more than adequate for the crop. The ginneries did not need total rehabilitation so much as the provision of spare parts. As it is, all the machinery has been purchased but none of the rehabilitated ginneries is fully operational. Delays in construction have been due to building material shortages at a national level, but even so eventually the cost of these delays will have to be borne by the unions owning the ginneries.

26. The precarious financial position of the unions has been worsened as a result of the liberation war. In some cases factories and ginneries were totally destroyed, vehicles stolen and stores looted. Details of these as they apply to particular crop processing and marketing facilities are provided in Paper 4.

27. The restoration of the cooperatives structure to efficient operation and financial solvency requires, firstly, that their throughput of agricultural produce be considerably increased. We have proposed elsewhere policies which we believe will achieve this aim. In addition, adequate crop finance must be allocated to the unions so that farmers can be paid cash on delivery of their produce. The unions' road transport capacity must also be restored so that produce can be quickly removed from the primary societies to the processing plants and thence to the respective marketing board's plant or godowns. To ensure that these operations are carried out, in many cases it will be necessary to lift at least part of the heavy burden of union indebtedness. This is discussed in Paper 26. Effective measures will also be required to overcome much of the physical damage suffered by the cooperatives as a result of the liberation war.

28. Many cooperatives are diversified into areas which are unprofitable and not in the best interests of their producer members. These assets should be disposed of.

29. It has not been possible to obtain an accurate estimate of the total funding requirements of the cooperative movement but Table 3.3 summarises our best estimates of these needs. We recommend that the total needs - say Shs. 1100m. - be drawn to the attention of the international cooperative movement.

Table 3.3
Funding Requirements of the Uganda Cooperative Unions

		Shs. m
1.	<u>Crop Finance</u>	
	Cotton)	
	Coffee)	500.0
2.	<u>War Damage</u>	
	Robusta coffee	140.8
	Arabica coffee	1.8
	Cotton	80.0
3.	<u>Indebtedness</u>	
	Bank overdrafts	200.0
	Ginnery rehabilitation	120.0
4.	<u>Committed expenditure</u>	
	Completion of ginnery rehabilitation	80.0
	TOTAL	1,122.6

30. The operations of the marketing boards, no doubt, could be more efficiently undertaken. Paper 4 makes special reference to the inadequate accounting practices of the Coffee Marketing Board. In Paper 6 we have suggested that the Produce Marketing Board could well be wound up. In general, it is important that producers' interests be more adequately represented at board of directors level in all the marketing boards. We recommend that steps be taken to reconstitute the board membership, and where necessary reform the constitution of the statutory marketing boards themselves, in order to remove the risks and burdens which the recent system of bureaucratic management and political intervention has imposed upon the primary producers.