

Louis Kasekende: Modernising agriculture – a difficult challenge facing Uganda

Remarks by Dr Louis Kasekende, Deputy Governor of the Bank of Uganda, at the Launch of the 2015 Agricultural Finance Yearbook, Kampala, 1 December 2015.

* * *

Hon Members of Parliament,
The Executive Director, Economic Policy Research Centre,
The Leadership team of the Uganda Agribusiness Alliance
Representatives of GIZ and other development partners,
Representatives of Ministries, Departments and Agencies of GOU,
All distinguished participants,
Good evening,

Let me begin by commending everyone who worked on the 2015 Agricultural Finance Yearbook for their contributions to this project. Before we launch the Yearbook, I would like to comment on two of the issues addressed in it which I believe are especially pertinent for agricultural policy: first, the appropriate role of the budget and second, characteristics of the support needed by smallholder farmers.

The modernisation of agriculture requires support from the Government budget for the supply of public goods and services needed by farmers. However, budgetary resources are scarce and hence it is essential that they are allocated only to areas of expenditure which can generate the highest social rates of return.

As is demonstrated in chapter 1.4 of the Yearbook, on fiscal issues, the provision of tax exemptions for agriculture and agricultural lending, of various kinds, has delivered few, if any, tangible benefits for farmers in this country. Any benefits accruing from these tax exemptions were mostly captured by non-farm sectors, such as importers and banks, and not passed on to farmers. This finding is consistent with what is generally known about tax exemptions in countries all over the world; they are rarely effective and very difficult to target accurately and they entail substantial losses of public revenues. The scope of some of these tax exemptions was curtailed in the 2014/15 budget, which is a step in the right direction. Given these findings, the remaining tax exemptions should be abolished quickly so that public resources can be focussed on areas which can really deliver benefits for farmers.

Public expenditure can contribute to agricultural development, but to maximise the benefits from a highly constrained budget resource envelope, spending must be allocated efficiently. The priority for public spending on agriculture should be goods and services which clearly have the characteristics of public goods, in that they cannot be supplied by the market in an optimal manner. In addition, these goods should benefit the smallholder farmers who constitute the vast majority of farmers in Uganda. Examples of these goods and services are agricultural extension services and research and development.

The modernisation of agriculture requires comprehensive, country wide, agricultural extension services. Such a service will have to be funded predominantly with public resources. In addition, budget resources are needed to ensure that the rural infrastructure, such as rural feeder roads, is adequate to support commercial agriculture throughout the country. Scarce budget resources should not be misallocated to the provision and subsidy of marketable inputs, especially those which benefit mainly larger farmers.

The second issue I want to highlight is how we can develop a feasible strategy for the transformation of smallholder farming. Chapter 2.2 of the Yearbook presents some interesting

findings on projects run by the One Acre Fund which aim to support smallholders in East Africa; findings which are consistent with those of similar projects and of research in the region.

The support which smallholder farmers need to enable them to increase their yields and raise their incomes is holistic. It includes technical advice and training in the use of improved agricultural techniques, the provision of improved seeds and fertilisers together with credit to purchase these inputs, with repayment of the credit aligned with the sale of farm output, and training and support for post harvest handling and storage. With such a holistic support package, substantial increases in farm output and incomes can be realised. The provision of finance alone will do little to help smallholder farmers overcome the constraints that they face in raising farm yields and marketing more of their output.

Unfortunately, only a small minority of the country's more than 3 million smallholder farm households currently receive the type of holistic support provided by the One Acre Fund and similar projects, which addresses all of the constraints that they face. To modernise agriculture, this approach must be applied much more widely, so that all smallholders can benefit. Both the public sector and non government organisations can contribute to this objective, but it is self evident that substantial public resources will be required to fund it, which emphasises the importance of properly prioritising public spending on agriculture.

Modernising agriculture is one of the most difficult challenges facing Uganda, but given that more than 60 percent of the labour force relies on agriculture as their primary source of income, it is a challenge which is central to socio-economic development and poverty reduction. Despite the country's abundant natural resources, Uganda's agricultural performance has been poor; real output growth has failed to even match population growth rates over the last two decades and labour productivity in the sector is very low.

Modernising agriculture should be integral to Uganda's development plans, but for that objective to be realised, we need well thought out feasible strategies, which focus on supporting smallholder farmers. By highlighting the constraints facing farmers in different sub-sectors in Uganda and initiatives which have helped to alleviate them, the Agricultural Finance Yearbook can contribute to the strengthening of our agricultural policies.

I would now like to formally launch the 2015 Agricultural Finance Yearbook.

Thank you for listening.