

Terms of Reference for policy-supporting research

Private Sector Development opportunities targeting Smallholder farmers' cooperatives/ Micro and Small enterprises (MSEs) in rural areas in Uganda

1. CONTEXT

Agriculture in the Ugandan economy

The agriculture sector in Uganda employs over 80% of the rural population, accounts for 24% of the Gross Domestic Product (GDP) and contributes over 54% of total exports. Despite the importance of the agricultural sector for the Ugandan economy, the growth over the past year has been stagnating and is below the 3,5% population growth.

In 2006-2013, smallholder farmers accounted for 79% of poverty reduction. The smallholder farmers constitute around 85% of the total number of farmers. Smallholder farmers play a critical role in ensuring food and nutrition security of the country as well as economic growth. However, the same smallholder farmers have limited access to markets and credit, constraining their productivity and income.

The agriculture sector is underperforming, and some of the factors attributed to this include the substantial gender inequalities, where rural women have limited access to critical productive resources, inputs, services (including agricultural credit) and infrastructure they need to contribute more meaningfully to the sector. According to the World Bank (2015), female-managed plots of agricultural land perform 13 percent less than male-managed plots, yet women provide the majority of the labor in subsistence agriculture. Women have been relegated to the subsistence sector which is characterized by heavy unpaid care burden, low productivity and financial loss (UNWOMEN, 2015) which tends to drive women into intergenerational poverty cycle (UNDP, 2016).

Climate change is compounding the above-mentioned issues and challenges making rain fed agriculture even more riskier than previously. Commercial banks and micro-financing institutions are becoming aware of this growing risk and unable to mitigate the risk consider pulling out of agri-finance (ref.). Climate proofing the small holder farmer will be essential to ensure food security in the country. Most importantly, women should be trained in climate smart agricultural practices.

Private Sector Development programs in Uganda

Two recent reports show how private sector programs from international donors in Uganda target only the upper part of the market – 75% reaches large domestic and international businesses in urban areas, in sectors that are easily accessed, like economic and hard infrastructure. Whereas 90% of the Ugandan enterprises are micro and small agri-businesses in rural areas - employing less than 5 employees - they are left out of programs and studies mapping the private sector¹. The alarming conclusion of a recent PSE-

¹ A recent PSD study by MME for BIO covers the Private Sector Development in Uganda – but leaves out 96% of the businesses of its scope (i.e. Micro enterprises and the Agricultural sector in rural areas).

UNDP report² is that only 12% of the private sector development projects (2000-2018) have reached rural areas, and less than 1.5% targeted women.

Whereas interest rates for money borrowing on the world market circle around 0%, loans for SMEs in Uganda have interest rates with double digits per year (10-30%). Investments in small farms rely on family members and VSLA-groups, whose loans still account for 90% of the financing of MSME's.

Conclusion: Existing and new initiatives promoting private sector development don't reach the vast majority of agri-businesses in the country, and don't comply with the needs of smallholder farmers.

The work of the BNGA's in Uganda

The Belgian NGOs have been working in Uganda for several decades. Their common objective is improving livelihoods and food security for the poor - with special attention to the environment, gender and youth. They collaborate with Ugandan partners, NGOs, local governments and agri-business partners. Aiming to support the sustainable development of smallholder farming, engagement with Private Sector actors like cooperatives, input suppliers, marketing associations, productive agriculture and small value addition companies has been an integral part of the programs from the design phase onwards.

There is broad experience working with private sector in areas that are not easily reached and often overlooked by PSE programs: small agribusinesses, cooperatives and in/output companies. The programs aim at a sustainable development of smallholder farmers and rural communities, thereby focusing on the evolution from self-subsistence farming to a more productive model of farming using agro-ecological and sustainable methodologies. There are different paths to reach a more equal and integrated development.

There is a dynamic (and organic) agri-business private sector that supports farm production and connects smallholder farmers to the national and international markets in which BNGAs play a facilitating role. Together with Ugandan partners, government representatives, banks and businesses, the BNGA's have mapped opportunities and challenges of the sector³. Both agribusinesses and government representatives highlighted the continuous importance of donors and NGOs in their role as production stimulator, market facilitator and builder of capacity.

The BNGAs see important opportunities to extend working with this socially responsible private sector in those areas where the needs are felt the most. Those initiatives are aligned with the vision of the Belgian development cooperation on Private Sector Development, as described in the strategic note PS 2014⁴.

² From the [PSE UNDP report](https://effectivecooperation.org/wp-content/uploads/2019/03/PSE-Case-Study-Uganda.pdf): (from 271 PSE donor projects studied since 2000) Only 33 projects (12.2%) explicitly target rural, remote or under-served locations. Ten projects (3.69%) noted explicit targeting of poor or vulnerable people, or people with low incomes while four projects (1.48%) targeted women. <https://effectivecooperation.org/wp-content/uploads/2019/03/PSE-Case-Study-Uganda.pdf>

³ Link to report?

⁴ 2014 Strategienota Private Sector- "De Wet van 19 maart 20133 betreffende de Ontwikkelingssamenwerking bepaalt namelijk dat de Belgische Ontwikkelingssamenwerking **duurzame menselijke ontwikkeling als algemene doelstelling** heeft. Daartoe bevordert ze acties die bijdragen tot inclusieve⁴, eerlijke en duurzame economische groei, waarbij voor-rang wordt gegeven aan **het lokale ondernemerschap, de sociale economie** (...)."

⁵ 2020 policy supporting research "The SDGs as a compass for the Belgian Development Cooperation" KU leuven/IOB.

targeting MSMEs that constitute 90% of the Ugandan businesses, focusing on fair-trade and the development of the local MSMEs.

As mentioned in the PSR_SDG report⁵, that was realized for the Belgian development cooperation in 2019, specific tools and approaches for PSD and PS4D need to be identified and should be SDG-proof – mapping ‘Who is left behind’. This research can help to define focus in PSD policies and formulate more precise intervention areas like specific value chains aligned with the PSD priorities in the Belgian cooperation. Based on this research, we would like to investigate opportunities for the Belgian development cooperation to support Private Sector Development that complements the approaches of the BNGAs, and the Ugandan government.

2. DEFINING THE PROBLEM AND IDENTIFYING FIELDS OF ACTIVITY

The Belgium government is very dedicated to achieve the Sustainable Development Goals (SDG’s) together with its 14 partner countries. In Uganda, a more targeted and coordinated action towards the agricultural sector could cover a wide set of the SDGs, this particular sector having a significant impact on the country as a whole, and on the lives of many vulnerable and poor people in particular.

If the focus of this study is on sustainable, agro-ecological farming practices and the development of sustainable local food systems the new PSD program will directly contribute to the following SDGs: 1 (no poverty), 2 (zero hunger), 3 (good health and well-being), 4 (quality education), 5 (gender equity), 6 (clean water and sanitation), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure), 10 (reduced inequalities), 11 (sustainable cities and communities), 12 (responsible consumption and production), 13 (climate action), 15 (life on land), 17 (partnerships for goals) .

Gender equality and the empowerment of women and girls lies at the center of the 2030 agenda for Sustainable Development (SDGs) and it is central to the African Union (AU) agenda 2010 to 2020 as stipulated in the AU gender policy.

Since the previous study on PSE already focused on Medium and Large enterprises, this study should assess Private Sector Development opportunities targeting Micro and Small Enterprises (MSEs)/ Smallholder farmers’ cooperatives, associations, including women’s groups and organizations in rural areas. The geographical focus should be in those rural areas where Belgian actors and development partners who received funding from the Belgium government such as FAO, are already working to promote complementing the strategies of the BNGAs and the Ugandan government.

Agriculture is the foundation of Uganda’s economy. It contributes to 25% of the GDP and one-half of foreign exchange earnings. Incorporating its forward and backward linkages in the economy, agriculture accounts for more than 50% of GDP. It provides the main source of income for all rural households, particularly for the poorest 40% of households.

Furthermore, it is the source of raw materials for the agricultural-based industrial sector in Uganda. Within agriculture, crop income dominates, with maize, beans, and bananas accounting for half of the total value

of crop sales nationally. Uganda is the largest regional supplier of grains, contributing more than 70% of intra-East African Community trade. Grain exports include maize, sorghum, millet, and pulses.⁵

Despite being an exporter of grains, food insecurity and malnutrition is rampant in Uganda. Almost one-third of children under 5 years in Uganda are stunted. Stunting increases with age, peaking at 37 percent among children 18-35 months. Stunting is greater among children in rural areas (30 percent) than urban areas (24 percent) with some regional variations. Almost 25% of woman aged 19-49 is overweight or obese.⁶

More than 70% of the Ugandans gain their livelihood in the agriculture sector. The majority are smallholder farmers, feeding the country despite having limited livestock count, small plots of lands that are not easily industrialized, and lacking access to extension services, finance, quality seeds and sustainable agri-vet inputs. In 2012, approximately 24% of households used fertilizer, 12% used pesticide, and 28% used improved seeds.⁷ There are thus enormous opportunities for intensification of organic farming and development of the organic sector.

Evidence indicates that women are more likely than men to adopt improved agricultural technologies such as profit oriented production and adaptation options (FAO Country Gender Assessment, 2015). However, due to limited knowledge of improved farming practices and environmental conservation, women continue to perpetrate environmentally unsustainable practices that lack a climate change perspective such as lack of climate smart agriculture skills. They are mostly engaged in time and labour intensive activities and in household care activities, limiting them from engaging in economic and income generating activities or value additions. Typical for Uganda, man often seize the income from cash crops, despite the fact that women did most of the labour producing the cash crops.

Climate change and ecological degradation form the biggest risk for a viable future. It is essential that private sector development programs support agricultural practices that are truly sustainable and environmentally friendly. The low use of synthetic inputs allows for a rapid development of organic value chains that can provide safe and healthy food to local communities and rapidly growing urban populations alike.

Rapid urbanization, population growth and a growing middle class, underline the importance of the development of a sustainable local food market. Value addition of agricultural goods is one of the main sectors that needs to be developed – as it gives opportunities for groups that focus on product transformation- like women and youth. Apart from agro-processing, there should be a focus on food safety and nutritional value of foodstuffs. Making healthy and varied food more widely available will help fighting the malnutrition that affects large parts of the population.

⁵ https://cg-281711fb-71ea-422c-b02c-ef79f539e9d2.s3.us-gov-west-1.amazonaws.com/uploads/2018/11/Uganda_GFSS_Country_Plan_Public_Version_Final.pdf

⁶ <https://www.usaid.gov/sites/default/files/documents/1864/Uganda-Nutrition-Profile-Apr2018-508.pdf>

⁷ (Hill & Mejia-Mantilla, 2017. With a Little Help: Shocks, Agricultural Income, and Welfare in Uganda. World Bank Policy Research Working Paper 7935.

Therefore, this study should investigate opportunities focusing on a safe, inclusive and ecologically sustainable agricultural sector supplying local markets and advancing the development of the organic sector. As sustainability, decent work, gender and environment are crosscutting priorities of the Belgian development policies, the study should focus on rural areas and small holder farmers, targeting youth and women in a value chain and value addition approach, facilitating the development of a sustainable and organic agri-In/Output market and promoting access to credit for small sustainable MSME's.⁸

Activities:

- Mapping the different actors in rural areas working with MSEs/smallholder farmers/Farmers Groups, Farmers Associations and Farmers Cooperatives in different agro ecological zones in different regions of the country.
 - Focus: which are organic/agro-ecological?; which groups have been producing and marketing organic agricultural products in different regions of the country;
- Mapping key gender responsive needs, constraints, needs and opportunities of smallholder farmer organizations such as cooperatives, District Farmers Associations, Farmers Groups, for business development for those value chains development.
- Study current (Ugandan) government policies and strategies related to agriculture, value chain, gender and climate change especially new Agriculture Sector Plan
- Analysis of the most important gaps and opportunities in gender responsive and climate resilient value chains / value addition sectors in rural areas
 - Show how investing in private sector development in different stages of value chains will improve both the households' incomes including women's incomes, decision making at household level, food security and state revenues. The study will underline the limits and bottlenecks, and opportunities especially in different stages of value chains of the selected crops (production, processing, marketing ect)
 - Take into account upscalability within districts and across districts in different regions
- Quick analysis (SWOT) on current loan opportunities and conditions for MSEs and Cooperatives/Farmers Groups, Women's groups in rural areas.
- List opportunities for synergies with existing programs targeting MSMEs, Cooperatives, Farmers Groups, – especially social enterprises, implemented by development partners in the country. . Map current large donor and UN programs active in the sectors of agriculture, value chains, gender and climate change, and/or nutrition.
- What could be the added value of Belgian bilateral cooperation to the work of BNGAs and other development partners that have received funding from the Belgium Government? Which roles?

⁸ Christiaensen L, Demery L, Kuhl J (2011) The (evolving) role of agriculture in poverty reduction—An empirical perspective. *J Dev Econ* 96:239–254. International research found that it is up to 3.2 times more effective to invest in the agriculture sector for poverty reduction in poor countries than any other sector.

3. EXPECTED RESULTS FOR BELGIAN DEVELOPMENT COOPERATION

Outputs:

- List of most important funding opportunities for promotion of smallholder cooperatives and SMEs to develop and scale up sustainable business opportunities;
- Insight in major funding opportunities for businesses relating to specific value chains and advice on opportunities for value addition initiatives in the targeted rural areas which are gender responsive and climate resilient;
- Advice on areas of possible support promoting alternative ways of financing SMEs and opportunities to facilitate low interest financial loans for SMEs;
- Advice on complementary strategies and roles of the Belgian cooperation, the BNGA's and development partners who have accessed Belgian funding;
- Develop a last mile delivery model targeting women at village level for climate smart extension services, inputs, and micro-loans;
- Develop digital tools to distribute and upscale climate smart farming practices;
- Identify innovative multi-crops value chains which supply the domestic and international market and ensure food security.