Uganda is unique in having liberalized its economy to a great extent. The government focuses on providing public goods and creating an enabling environment for economic growth. The private sector exclusively handles all domestic and international trade for all agricultural products. The government does not control prices and therefore all prices are determined by the market. The structure of market incentives for producers and traders is the product of this liberalized policy environment.

Public expenditure to support agriculture and rural development

The percentage of the government budget going to agriculture has been steadily declining since 2006, although it still exceeds the Maputo target.

Total expenditure on agriculture and rural development has exceeded the Maputo Declaration target since 2006. Indeed, spending grew by 34 percent in nominal terms between 2006 and 2010, reaching 1045.3 billion Uganda Shillings in 2010. Growth has been mainly due to spending on rural development while direct support to the agricultural sector has stagnated between 5.2 and 7.0 percent of the national budget. Input subsidies, extension services and agricultural research make up the largest share of agriculture specific expenditure. Rural infrastructure (roads, water, sanitation and energy) and rural health make up the largest share of rural development expenditure.

Are current policies and public spending well aligned?

Liberalization has created an enabling environment for producers and traders, but several challenges remain.

Government policies provide an enabling environment for the private sector thanks to liberalized agricultural markets, and public spending aimed at increasing agricultural output, diversifying and boosting exports, and improving market access.

However, price incentives for producers of most agricultural commodities vary significantly over time. Measures to further increase agricultural output, improve market efficiency, and reduce disincentives for producers could include:

► continuing efforts to improve rural infrastructure and market access for producers;
► ensuring that producers also benefit from export promotion measures, which appear to be biased toward exporters and wholesalers;
► simplifying value chains of commodities which are traded in low volumes to reduce the gap between the price producers receive and the final export price; and
► investing in market information which would help integrate domestic markets with regional and global markets.
**Price incentives**

The level of price incentives for producers varies significantly over time and among commodity groups.

Between 2005 and 2007, producers of all commodities, except for commonly imported commodities, received disincentives. Since 2008, there have effectively been price incentives for all commodity groups due to the response of the domestic markets to higher prices in world markets.

Domestic producers of commonly imported commodities (wheat, sugar and rice) are protected by import tariffs and receive significant incentives. As a result, consumers pay higher prices for these commodities. Although export promotion and liberalization policies were expected to benefit producers of major exported commodities (cotton, tea and coffee), producers’ prices were often lower than expected due to exporters’ high profit margins.

**Figure 2. Average deviation of producers’ prices from world prices by major commodity groups (2005-2010)**

Note. The bars measure the percentage deviation between the price domestic producers received and what producers would have received in world markets (the latter is the reference price). Imports analyzed include rice, wheat and sugar cane; Exports include fish, coffee, cotton and tea; Commodities important for food security include fish, maize, beef and cassava. (Source: MAFAP)

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<table>
<thead>
<tr>
<th>Policy Analysis</th>
<th>Policy Dialogue</th>
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</thead>
<tbody>
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<td>The Ministry of Agriculture, Animal Industry and Fisheries (MAAIF)</td>
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<td>The Economic Policy Research Center (EPRC)</td>
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**MAFAP PRODUCTS for UGANDA**

Nine technical notes on market incentives and disincentives in Uganda for rice, wheat, sugarcane, fish, coffee, cotton, tea, maize, beef and cassava

In-depth analysis of public expenditure to support agriculture and rural development in Uganda

A comprehensive country report

A database with all indicators and supporting information

Capacity development in analyzing market incentives and disincentives, as well as public expenditure

All reports and publications are available at: [www.fao.org/mafap](http://www.fao.org/mafap)

**Our Vision for the Future**

MAFAP analysis is expected to contribute to initiatives such as the Comprehensive Africa Agriculture Development Program (CAADP). MAFAP findings will play a prominent role in future policy initiatives in Uganda as a wide group of stakeholders have expressed interest in the information produced by the project. The MAAIF and NARO will most likely adopt MAFAP’s methodology for analysing market incentives and disincentives. The EPRC is expected to continue the analysis of public expenditure on a regular basis.

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