UGANDA TRADE AND POVERTY PROJECT (UTPP)

TRADE POLICIES, PERFORMANCE AND POVERTY IN UGANDA

by

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Uganda has probably been the most successful African example of economic liberalisation in the 1990s, attaining macroeconomic stability and one of the most liberal trade regimes of any African country. Growth performance has been impressive. Export growth made a significant contribution. The evidence of successive household surveys is that poverty is being reduced. Liberalisation of trade and agriculture has been associated with poverty reducing growth. This study aims to review the evidence to identify which types of households have, and which have not, benefited from trade under Uganda's more liberal economic regime, and to suggest what can be done to spread the benefits more widely. The focus is primarily economic, and specifically on how trade has affected poverty. Trade may affect poverty by contributing to increased or decreased incomes or opportunities, or by altering the prices the poor face for the main commodities they consume. The Report has five sections.

Section 1 provides a review of the major reforms and of trade performance in the 1990s, considering diversification of exports and trends in imports of consumption goods.

Section 2 reviews evidence on trends in poverty over the period 1992 to 1999, distinguishing effects on various groups, such as cash-crop producers and food-crop

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producers. The section also addresses chronic poverty – that significant segment of households that appear rooted in poverty.

Section 3 relates trade performance to poverty trends, including results from Computable General Equilibrium (CGE) modeling exercises, evidence on the performance of the agriculture sector and evidence on prices of traded consumption goods.

Section 4 contains a livelihood analysis of poor Ugandans engaged in the production of important tradable goods (fish, tea and tobacco as exports, rice and sugar production as importables).

Section 5 provides an overall assessment of the effects of trade on households.

Trade Performance

- Significant trade liberalisation during the 1990s.
- Major changes in export composition during the 1990s, especially in recent years.
- Revenue from traditional exports, notably coffee, has declined since the late 1990s after significant growth in the mid-1990s.
- Significant growth in revenue from non-traditional exports, especially of fish, in recent years.
- The composition and level (relative to GDP) of Uganda's imports has not changed markedly.

Poverty Trends

- Poverty fell nationally from 56% in 1992 to 35% in 2000.
- Poverty fell more in urban than rural areas.
- West and Central (coffee growing) regions gained the most.
- Northern region saw few improvements.
- Both cash crop and food crop producers experienced increases in income.
- Almost 20% of households are in chronic poverty (poor in 1992 and 1999).
- 30% of households moved out of poverty between 1992 and 1999.
- But 10% who were non-poor in 1992 had moved into poverty by 1999.

Trade and Poverty Linkages

The trade-poverty link is not simple. Trade policy is only one influence on trade performance, while trade performance is only one of many factors influencing poverty outcomes. Export growth is the principal way in which trade contributed to growth and poverty reduction in Uganda in the 1990s. Coffee exports, when the world price was high and marketing had been liberalised, provided the impetus in the mid-90s while non-traditional exports provided growth in recent years. The increased incomes in agriculture and provided a dynamic gain as demand for food and services spread the benefits more widely. Exports contributed to growth and poverty reduction. Further agricultural policy reform is required to increase production incentives and remove constraints (access to inputs, credit and technology). Improvements in transport infrastructure and marketing are central to enhanced export performance.

Reductions of tariffs in the 1990s were significant but do not appear to have been associated with significant losses in tax revenue (increases in sales taxes compensated for reductions in tariff revenue) nor with a surge in imports (the ratio of imports to GDP has remained quite stable). Further tariff reductions will pose a challenge for import-competing sectors, and in some sectors wages and/or employment may decline. Although the overall effect of trade liberalisation on Uganda has been positive and probably pro-poor (as major gains are in agriculture), the benefits are not shared evenly. To estimate the pattern of effects we provide some modelling results:

- in a relatively inflexible and constrained economy such as Uganda, increases in world prices of exports *alone* (unless they are very large) or import liberalisation *alone* will not provide a benefit on the aggregate.
- trade liberalisation is more likely to provide aggregate benefits if there are also efficiency gains and factors are mobile (this captures the ability of the economy to respond and adjust).
- there are significant distribution effects of trade liberalisation. In general, the largest proportional gains are to the urban self-employed, but there are also significant gains in agriculture.

The major effects during 1990s were on the agriculture sector, and we review trends in performance. Relative price changes matter: farmers substituted into more profitable crops (such as coffee and maize) and out of less profitable ones (such as cotton and millet). Rural poverty fell due to earnings from *marketed* agricultural produce (both cash and food crops). Trade has only had a slight effect on the prices paid by poor households for the major goods they consume. Trade is more important to the poor in terms of income opportunities.

Food prices are among the most important factors affecting the real income of the poor, but are influenced by domestic production more than imports, especially in the case of the rural poor. While trade has been important in influencing opportunities to earn incomes, it has had only a slight effect on the prices paid by poor households for the major goods they consume.

Livelihood Analysis

This part of the study examines the livelihoods of poor people engaged in the production of important tradable products, drawing on the recently completed Participatory Poverty Assessments. Three export commodities - fish, tea and tobacco (equivalent to 25 percent of export revenue in early 2000s) - and two import competing products - rice and sugar - were considered. Tangible benefits to the poor people involved in the production of these tradable products are limited.

The most important explanatory factors for why the poorest did not benefit are the absence of effective organisation of producers (especially if they have little or no choice in who to sell to) and exploitative employment practices (especially where there is only one employer). Unequal gender relations often mean that although household income may increase, this is under the control of males and women derive limited benefit.

If the government is to try and ensure effective 'trickle-down' complementary policies are required in areas such as promoting competition, labour market legislation, encouraging farmer's organisations and supporting female education. In broad terms, social legislation can help distribute the gains from growth more evenly.

Conclusion

The summaries below show that the gains from trade (export growth) were widespread, although concentrated in households (producers or providers of services) and regions where cash and food crop agriculture predominated. Households engaged in non-traditional exports, especially fish, will also have gained. The growth in exports benefited not only the households engaged in export sectors but also provided a dynamic gain. The increase in incomes increased general demand for food and services and spread the benefits more widely throughout the economy.

Who gained from trade?

Household types	*Principal factors*
Coffee farmers	Increased farm-gate prices
Food crop farmers	Increased demand associated with growth in the economy, leading to higher prices
Self-employed	Increased demand for the services they provide (e.g. trading, processing)
Rural wage labour	Increased demand for labour given growth of agriculture production
Central region	Coffee and food crop production
Western region	Coffee and food crop production
Eastern region	Food crop and tea production

Who did not gain from trade?

Household types	*Principal factors*
Non-working households	Lower incomes but faced higher food prices
Wage earners (urban)	Increasing food prices relative to wages, and import competition reduced wages and/or employment.
Northern region	Poor performance of cotton and insecurity

The households that did benefit from trade, or that derived limited benefits, comprise three distinct types. A recovery in world prices for cotton, improved transport and marketing infrastructure would benefit the Northern region. Policies to address employment and industrial development are central to increasing the incomes of urban workers. Investment is needed to increase efficiency, and education (general and vocational) can increase productivity. The final group of ‘non-working households’ is better thought of as the chronic poor. These are households that lack assets and factors, and are therefore the least able to avail of any expansion in employment opportunities as the economy grows. Reducing poverty in such households will required targeted interventions. Trade can provide widespread benefits and contribute to reducing poverty, but it will not benefit every sector of the population.