TRUTH EVERY DAY
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National

Oil Vs agriculture: Walking a tight rope ahead

A man takes a picture of the oil well in Hoima District recently. Photo by Rachel Mabala

In Summary

Uganda, a country dependent on agriculture, is about to start producing oil — 2018, ceteris paribus. **Isaac Imaka** looks at why and how Uganda should balance the two sectors.

In the 1960s, Nigeria was largely self-sufficient when it came to matters of food. When oil was discovered, the country became too dependent on this resource as the economic driver of growth, export income and development because oil brought in enough foreign exchange—easily.

The story of oil producing countries, especially in Africa, is such that when petrodollars start flowing in, governments ignore sectors that were hitherto the backbone of their economies and instead put their hope and dependency on petroleum. It is popularly known as the Dutch disease.

The result is what Dr Akinwumi Adesina says, in an article, Why Agriculture is Nigeria's New Oil, happened in Nigeria.

Dr Akinwumi is Nigeria's minister for Agriculture and Rural Development. In the article, published by Forbes Magazine last year, he explains that after the discovery of oil, the government of Nigeria abandoned its farmers and yields stagnated.

In the 1960s, before it turned to oil, Nigeria was one of the most promising agricultural producers in the world. Between 1962 and 1968, export crops were the country's main foreign exchange earner. It was number one globally in palm oil exports, well ahead of Malaysia and Indonesia, and exported 47 per cent of all groundnuts, putting it ahead of the US and Argentina.

This status however was sent into a steep decline the moment oil came in. Investments in infrastructure, Dr Akinwumi said, were redirected and rural communities slid into poverty.

"We became a food-importing country, spending an average $11 billion (about Shs29 trillion) a year on wheat, rice, sugar and fish imports alone," he said.
Akinwumi's statements are food for thought considering Uganda's current status. Agriculture is the backbone of the economy. According to the 2009 World Bank figures, Uganda's arable land is at 69.88 million hectares.

The Uganda Census of Agriculture (UCA) 2008/09 estimates the number of agricultural households at 3.95 million with the western region having the highest percentage (28.5 per cent) which translates into 1.1 million households, while the central region had the least (20.5 per cent) equivalent to 0.81 million households.

According to the Ministry of Agriculture, Animal Industry and Fisheries statistical abstract 2011, the sector employed 66 per cent (8.8 million) of the working population in 2009/10 in agriculture. The ministry of finance's national economy profile shows the sector contributed 24.2 per cent to the national GDP.

The dark side is that with such potential for agricultural growth, Uganda, even without oil production, suffers seasonal food insecurity. Also, malnutrition is widely reported in some districts.

In their paper, "OPEC: An analysis of Future Economies and Aid", Rick Yang and Prof Bruce Lusignan note that oil producing countries, especially OPEC ones, are food-deficit countries and rely on importing agricultural goods in order to meet their needs.

The Uganda oil and gas policy, too, further notes that experience from most oil producing countries shows that oil and gas producing regions may attract labour and threaten other sources of productivity thus leading to the abandonment and collapse of other sectors of the economy.

Consider Gabon which produces about 300,000 barrels of oil a day.
It is covered with tropical rainforest, but as John Ghazvinian notes in his book Untapped: The Scramble for Africa's Oil, it is hard to find bananas that are grown there.

“They are mostly imported from Cameroon. At one point, Gabon was the world’s largest per-capita importer of champagne,” he writes.

How to avoid the problem
As the clock ticks towards first oil, how can Uganda avoid hitting the self-destruction button of following in the footsteps of countries that, when petrodollars flowed in, forgot to care about their important sectors and instead fell prey to the Dutch disease?

Adjunct Professor of International and Public Affairs at Columbia University Jenik Radon, says in order to prevent the Dutch disease, Uganda needs to, among other things, keep the earned money in sovereign fund in dollars or other internationally accepted convertible currency and not into local currency.
This is mainly to prevent inflation and making locally priced goods, including agriculture products, too expensive.

Prof Radon further calls for fiscal discipline and the use of earnings from extractives in a managed way so that it also does not cause inflation.
“If the above can be done, then agriculture commodities produced locally will still be saleable and food produced outside of Uganda will not be cheaper than that produced locally,” he says.

The trouble is that oil brings a lot of revenue and money overnight. And money, political economy researcher, Dr Frederick Kisekka-Ntale says, breeds an incomprehensible consumption pattern because it boosts old money that in turn boosts our purchasing power in the international market. This means that previously, commodities that were expensive on the international market become obviously cheap.

As a result of that, he adds, it becomes more attractive to import than to boost our own production at home.

“You will see that it becomes very meaningful for us to import Irish potatoes than make it possible for our farmers to increase acreage. In other words, because of the money that comes in and because of the prices shaped with it, it seemingly becomes cheaper for us to import than to boost production,” Dr Kisekka-Ntale says.

The availability of such oil money reduces the incentive for policy makers to invest in processes that are seemingly long term and because Uganda already has that habit, with the oil money coming in the disease will most likely be propagated more.

The agriculture sector remains among the lowest ranked sectors in the national budget. The sector has not received more than five per cent share of the national budget since 2009/10. The total budget allocation for the agriculture sector for FY 2012/13 was Shs379.04 billion—3.5 per cent of the total national budget.

That was Shs180.6 billion less of the Shs559.6 billion projected in the development strategy and investment plan. In the last financial year, the funding increased to Shs403 billion but was still not five per cent of the total budget of Shs8.4 trillion.

Dr Kisekka-Ntale predicts that because of the money that comes in and the increase in income, oil is likely to have a negative impact on agriculture because money currently being spent on agriculture is likely to be withdrawn and replaced by importation.

"There is likely to be a withdrawal of money from the agricultural sector to sectors that are [perceived] to be related to oil, and infrastructure is one of them. That is when we will see the revival of an airline. We are likely to mess up by investing in industries that are not productive," he says.

However, state minister for agriculture in charge of crop resources, Prof Zerubabel Mijumbi Nyiira, says the long-term planning will be the major focus for government and agriculture will by far continue being the country's backbone.

Oil, he says, will not deter government's attention because policy makers are aware that oil is for national income and agriculture is for household income.
"While oil and gas will be implemented in our national economy, the common man will benefit from agriculture to improve their household income and to ensure we increase their income," he says.

To pull itself from the agricultural death trap, Nigeria's first decision was to stop looking at agriculture as a government-run, charitable development programme across rural Nigeria.

"We now treat agriculture as a business. Government's role is simple: to create the enabling environment, policies and incentives for a private sector-led transformation to flourish," Dr Akinwumi says.

However, Prof Johnny Mugisha, the dean School of agricultural sciences at Makerere University, says government forgetting the agricultural sector when oil starts flowing should not cause alarm.

"Agriculture has been largely boosted by the private sector. Many individuals are now moving into the agriculture sector with or without government funding
"So even if the government concentrates more on oil because it requires a lot of government support being a new industry, the private sector is still moving into agriculture and will invest in it," he says.

Dr Kisekka-Ntale dismisses that argument. "You cannot do any meaningful agriculture without government financial backing. How many Nigeria tycoons who have benefited from oil have invested in agriculture?"
As a very important policy measure, Kisekka-Ntale says, farming should be depoliticised.

"We should look at the comparative advantage we have in agriculture. The support should be targeted and state centred. Private sector would only boost agriculture if the state has put a great proportion of investment and the rate of risk has been reduced by removing the bottlenecks that would have caused a fall in profits," he says.

Dr Kisekka-Ntale warns that agriculture is a very painful sector and it takes a lot of patience to get returns.

"For the first time in 10 years, government wants to tax agricultural implements, so the thinking that oil money will lead to a ripple of so much money going to the agricultural sector is hollow because investors will put their money where there are maximum profits," he says.

As Morrison Rwakakamba and Daniel Lukwago argue in their research paper "Farmers in Uganda's Oil Economy: Deal or no Deal!" Uganda is now at a cross roads; if it takes a wrong route, there is no need to guess where it will end up. The future depends on what steps policy makers make to secure it.

Prof Nyira says everything is under control. "We will prepare our people," he adds. "We are going to give the people the knowledge they require to ensure that they keep playing in the agricultural sector," he says.

The minister is optimistic of the future. But in a continent where many oil-producing governments have demonstrated poor handling of the agricultural sector, one can only hope for the best. A better future for Uganda, the moment oil sets in, lies in the rigid application of appropriate policies and proper management of expectations.

Less than that and Uganda will join the list of countries whose economies have broken because they got too excited and did not plan well.

Oil companies have a role to play too

In what can be interpreted as a move to help local farmers in the Albertine Graben tap into the oil and gas sectors, the three Joint Venture (JV) Partners enlisted the help of Traidlinks, an Irish business led, not-for-profit company.

Total E&P's communications coordinator, Anita Kayongo, says Total understands that oil is only an enabler for the development of other sectors of the Ugandan economy.

"That is why in parallel, oil companies through their National Content strategy are also engaging in agricultural projects within their respective areas of operations to be able to contribute to the development of sector," she says.
One of such projects is Traidlinks, though it is directly connected to Tullow, it also does work with the other Joint Venture partners.

In promoting agriculture, Traidlinks' task is to, among other things; take the lead in mentoring Graben farmers into enterprising agriculturalists who can meet the demands of the oil and gas sector.

What the farmers say
Mr Robert Rutebemberwa is a large-scale farmer in Ibanda District, western Uganda. He plants

matooke, beans and maize. He says he has not thought of preparing for the oil sector largely because of lack of information and there has not been any cause for urgency yet.

"But it's something I would love to target," he says. However, he says, it is very important that government increases funding for agriculture if it wants farmers to increase production and fully tap into the oil sector.
"Such projects would require too much funding," he said. "There will be need for fertilisers and other farming implements to help us fully participate in the sector."

Fellow farmer, Bettina Tumuhaise, says it would be an act of lack of foresight if the government forgets the agriculture sector when petro dollars start pouring in.

"Life is not entirely about money. It is about food. You can survive without money but you cannot survive without food," she said.

Ms Tumuhaise, a businessperson in Kampala, juggles her business with farming. She grows passion fruits and matooke. She says the government should put in place good policies that will attract people into agriculture during the oil boom.

"If there is oil money, we can be able to hike prices for our products and that is how we will tap into the petro-dollars," she said adding that she, unlike Rutebemberwa, is preparing for the oil boom.

"The problem is that when people get money, they abandon their usual lifestyles and start eating canned foods instead of their indigenous foods but we will give them the best," she said.

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