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MARKETING BOARDS AND POST-WAR ECONOMIC DEVELOPMENT POLICY IN UGANDA 1945-1962

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During the post-war years the Ugandan Government has intervened to a considerable extent in the economic life of the country. It has been concerned with the achievement of more orderly marketing and has pursued this objective in two directions—by the establishment of Marketing Boards and by the encouragement given to the development of marketing co-operative societies. In this article only the former will be considered and the period covered will be restricted to that between 1945 and 1962.

OBJECTIVES AND FUNCTIONS OF MARKETING BOARDS

Statutory Marketing Boards in the former British Colonies had their origin in war-time arrangements for the orderly marketing of produce and the protection of United Kingdom supplies of raw material. They were, therefore, to be found not only in Uganda, but also in most of the former British Colonies for, example, the Cocoa Marketing Boards in Ghana and Nigeria and the Palm Oil and Groundnut Marketing Boards in the latter country. War conditions had, perforce, brought about great changes in the marketing of many products. The demands of the military for food requirements in the United Kingdom and elsewhere, the supply of materials required for carrying on the war, and the shipping position necessitated the intervention of Government on a big scale, and the control of production, transport and marketing together with a large measure of price control.

In the case of Uganda, the Lint and Coffee Marketing Boards[1]—the only two Statutory Marketing Boards then in the country—were set up in 1948. There were four factors which influenced the Government in taking such a step. The first reason was the need to stabilise producer price in the face of fluctuating world prices. Second, during this time the authorities felt seriously concerned with the vulnerability of the Uganda's economy to world market conditions as a result of its over-dependence on the two main cash crops for its export earnings. It was, therefore, decided not only to encourage a measure of diversification, but also to establish Marketing Boards in order to encourage orderly marketing of the crop and promote the expansion of coffee and cotton output. A third point which favoured the creation of statutory commodity marketing boards was that there was need to strengthen the producers' bargaining position vis-a-vis the middleman and where practicable exert countervailing power to provide economic redress. Finally, the control of coffee and cotton, apart from war-time experience, was also encouraged by fears that trade depression on the magnitude experienced in the late 'twenties and early 'thirties could still recur. For these reasons it was considered by the Government that it was in the best interest of the producers to organize marketing of these major crops by the creation of Statutory Commodity Boards.

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1. Later reference to Boards as they relate to Uganda should be interpreted to mean both the Lint Marketing and Coffee Marketing Boards whose operations are very similar in practice. New statutory boards were also created in 1967 for Tea and Dairy Produce and Minor Crops Board is under active consideration by the Government.

The two Boards have an exclusive authority to sell the produce to the world market, and thus they also have complete monopoly in the final marketing of the crops. As their main objective is to stabilise farmers' incomes by regulating producer prices, they are also examples of trading boards, and the operations of the two Marketing Boards are in fact very similar.

The current legislation under which the Coffee Board is constituted is the Coffee Act of 1963 (section 29). The members who are appointed by the Minister of Agriculture, Forestry and Co-operatives serve for a period of two years and are constituted as follows. The chairman and deputy chairman who are full time paid members of the Board are responsible for the day-to-day control of its operations. Seven other members are appointed who are qualified by their experience and background to assist in the formulation of the Boards' marketing policy and to exercise general supervision over the Board's administrative organization and expenditure.

The Cotton Board differs only in one respect in that the act which still governs the constitution of the Board is section 3 of the Lint Marketing Board Ordinance (No. 16) of 1959. This prescribes membership of the Board to chairman, deputy chairman and not more than 7 members, 4 of whom represent the growers of cotton throughout Uganda, 2 representing co-operative interests and one experienced person. These appointments are to run for 2 years although members can be re-appointed.

PRICE POLICY AND PRICE STABILISATION MEASURES

These boards are responsible for the final sale of cotton and coffee in the world market after initial processing by the co-operative movement in the former crop and predominantly private enterprise in the latter case. In the operation of their price policy, the Boards estimate what they regard as a 'fair' price ruling in the international market taking into account recent price trends and the likely supply and demand situation for the commodities under review. In the event of world prices exceeding this 'guaranteed' level, the growers may either receive the guaranteed price or a price above this. If the world price falls below this minimum price, the producers receive the guaranteed price. This has been made possible because of the existence of a Price Stabilisation Fund from which any difference in the world price (after deducting marketing costs, duties and so on) and the guaranteed price level are adjusted. During the early post-war period when world prices for primary products were particularly favourable, growers were paid prices that were below these world prices (even after allowing for marketing costs and so on) as a deliberate policy objective aimed at, *inter alia*, containing inflationary tendencies in the Ugandan economy during periods of shortages in supply, notably of consumer goods as a direct consequence of the hostilities. Considerable surplus were, therefore, accumulated in this way.

Table I shows the manner in which surplus funds have accumulated as a result of such price policy pursued by the Lint and Coffee Marketing Boards during the period under review.

As will be evident from the table, the Fund comprises of surpluses resulting from the sale of cotton and secondly, also for coffee. These two are in fact treated separately from each although the governing principle behind their operations are similar. The total figures have been obtained to illustrate the extent to which the growers' incomes have been withheld as a result of this price policy. For comparative purposes, the proportion of the total accruals devoted to cotton (the rest being for coffee) is calculated in the last column. As has already been noted above, the price stabilisation fund grew very rapidly since 1942 when it was started, following favourable post-war prices. Between 1948 and 1954, it rose from £3,959,000 to £36,945,000. Thereafter, it declined as world prices for primary products began to drop. By 1962, the Fund stood at £22,413,000, a fall of 40 per cent from the 1954 figure.

TABLE I—UGANDA PRICE STABILISATION FUNDS: 1948-1962

('000 £)

Year ending	Coffee	Cotton	Total	% of fund allocation to cotton
31st December :				
1948	502	3,457	3,959	87
1949	1,129	5,583	6,712	83
1950	4,509	8,576	13,085	65
1951	9,139	21,404	30,543	70
1952	12,708	22,367	35,075	64
1953	14,806	20,308	35,114	58
30th June :				
1954	15,181	21,764	36,945	59
1955	11,903	18,827	30,730	61
31st December :				
1956	10,296	19,361*	29,657	65
1957	10,708	20,363*	31,071	66
1958	12,045	18,091*	30,136	60
1959	11,632	16,286*	27,918	58
30th June :				
1960	11,183	16,364*	27,547	59
1961	6,637	17,663*	24,320	73
1962	5,061	17,352*	22,413	77
Total	137,459	247,766	385,225	64

* Balance in custody of the Treasury as at 30th June plus funds of the Lint Marketing Board as at 31st October.

Source : The Public Accounts of the Government of Uganda, Annual Reports, The Government Printer, Entebbe, 1948-1962.

Table I also shows that between 1948 and 1962, the Funds for cotton were consistently greater than that for coffee. In fact, the lowest allocation for cotton was 58 per cent in 1959 and the highest 87 per cent in 1948. Throughout the period, the percentage of the total Price Stabilisation Fund allocated to cotton was on an average 64 per cent.

At first sight this basis of allocation would seem unreasonable especially since coffee has assumed a more dominant role since 1955.[2] It should, however, be remembered that the purpose of the Funds is to stabilise producer prices. Of the total coffee crop produced in Uganda, 90 per cent is produced in Buganda alone (with a population in 1959 of 1,834,100).[3] In the case of cotton, production is more widely spread throughout all the parts of the country, although the Eastern and Northern Regions are the major areas of production. A higher proportion of the Fund is therefore devoted to cotton growers who are numerically the greater.[4]

The Price Stabilisation Funds have been reinforced by the imposition of a sliding scale of export duties on cotton and coffee. These are designed to bring in large sums of money when prices are high, and small sums or none at all when prices are low. There was also a large cash surplus on the government budget[5] which was accumulated when export prices were high, and there have been deficits in more recent years. The order of magnitude of the stabilisation measures is given in Table II. The table shows the total domestic income, on the one hand, and stabilisation measures on the other, that is additions to the funds or withdrawals as the case may be, in order that the growers may be paid in total what is considered to be a 'fair' price. Taxes which are levied on the exports of cotton and coffee are also included under this head.

Table II also indicates the fluctuations in the world value of coffee and cotton, *i.e.*, in the variation of the 'ex-farm proceeds' of these two crops; this is the world or export value less transport, processing and merchanting costs. Variations in these proceeds are reflected in, though not statistically correlated to, total domestic income. For example, total domestic income rose from £71.6 million in 1950 to £107.7 million in 1952 and dropped to £99.2 million in 1953, to rise again to £122.2 million in 1957, whence it declined to £120.2 million in 1960. Similarly, ex-farm proceeds varied from £22.4 million in 1950 and reached a peak in the following year when the two crops realized £39.1 million. In 1953, the proceeds were back to the 1950 level (£22.4 million) rising abruptly in the following year to about £30 million. Such is the violence of fluctuation in the price of primary commodities which are at the mercy of world market conditions.

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2. Cotton has until 1955 been the major export crop in Uganda. However, coffee production expanded most rapidly during the post-war era. By 1954, the export value of coffee was worth £13,478,000 against £20,877,000 for cotton. In 1955, for the first time, coffee exceeded cotton as the major export crop valued at £20,134,000 against £16,877,000 for cotton. Since then coffee has maintained this dominating position.

3. The Economic Development of Uganda, International Bank for Reconstruction and Development, Hopkins Press, Baltimore, 1962, Appendix 439, Table 33.

4. In 1959, the total population of Uganda was 6,449,500, see The Economic Development of Uganda, *op. cit.*

5. That is, revenue was greater than expenditure on both capital and current account.

However, due to the government price policy described earlier, it is variations in the actual payments to the growers, and not ex-farm proceeds, which affect private money income and thus the expenditure of producers. It will be seen from Table II (last column) that the farmers' receipts showed a continuing rising trend apart from the abnormal conditions of 1953. They rose steadily from £9.5 million in 1950 to the record figure of £27.8 million in 1955 since when the level was maintained at just over £20 million.

Changes in the difference between ex-farm proceeds and growers' incomes from cotton and coffee indicate the extent to which the general level of purchasing power has been insulated from export fluctuations by changes in Marketing Boards and in export taxes. From Table II the large differences betweeen the early 1950's and late 'fifties are very clear. During the three years from 1950 to 1952, no less than £60 million was withheld from the growers—amounting to some 60 per cent of ex-farm proceeds. On the other hand, in the three years from 1958-1960, £6.8 million was withheld, less than 10 per cent of the proceeds. The stabilising effects of these measures can be seen by comparing growers' incomes with ex-farm

TABLE II—UGANDA, DOMESTIC INCOME AND STABILISATION: 1950-60

(in million £)

Item	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Total domestic income	71.6	96.4	107.7	99.2	110.4	118.0	117.1	122.2	120.2	121.3	120.2
Stabilisation measures*	12.9	25.2	21.9	6.2	7.9	2.7	6.2	8.2	3.9	1.6	1.3
**	(+) 2.7	(+) 3.5	(+) 0.5	(—) 3.1	(—) 2.4	(—) 3.8	(—) 2.6	(—) 4.9	(—) 3.0	(—) 5.2	(—) 6.1
Cotton and Coffee											
(i) Ex-farm proceeds ..	22.4	39.1	38.2	22.4	28.8	30.5	28.3	31.9	28.5	27.0	23.2
(ii) Farmers' receipts	9.5	13.9	16.3	16.2	20.9	27.8	22.1	23.7	24.6	25.4	21.9

* (*a*) Export taxes + change in Marketing Board Funds.

** (*b*) Budget surplus (+), deficit (—).

Source : Compiled from Reports on the Accounts of Uganda Government, Entebbe and Coffee and Lint Marketing Board, Kampala.

proceeds. It will be apparent that the measures and policy on stabilisation have, on the whole, been quite effective. Moreover, the measures have not only affected growers' incomes. Changes in the growers' incomes and expenditures have secondary effects on other sectors of the economy. Thus if they had not been stabilised, then other sectors would have been affected to a greater extent than they have been by the great fluctuations in export proceeds.

Another major factor influencing the level of economic activity is the budgeting position. If government expenditure exceeds the sums currently collected within the economy, then the effect is to generate additional income by the operation of the multiplier process. It will be seen from the table that in the period up to 1953 current collections of revenue exceeded total expenditure, but since then expenditure has increasingly been financed by drawing on assets accumulated in that period or from the marketing board surpluses. This is further evidence of the useful role which these boards have played in the economic development of the country.

AN ASSESSMENT OF MARKETING POLICY IN UGANDA

Despite some benefits, described above, whereby producer prices have been established during the post-war decades, the price policy pursued by the Ugandan Government has been the subject of a great deal of controversy among professional economists, sometimes on specific grounds and, in some cases, in a more general way.

The advocates of Statutory Commodity Boards and their price policy employ some or all of the following eight points. First that they play a useful role in stabilising producer prices and incomes by the operation of Price Assistance Funds. The World Bank Report of Uganda,[6] for example, endorses this viewpoint. It states *inter alia*.... "The (Price Assistance) Funds have been used to support the domestic prices paid to coffee and cotton producers and.... to help maintain the level of income in Uganda. The mission agrees that these funds must be used for the benefit of farmers......" G. Houston[7] in support of Marketing Boards in the United Kingdom has also argued that by securing stability through the elimination of unnecessary short run price fluctuations, the Boards provide a much more favourable climate for a farmer to adopt cheaper methods of production as risks will be reduced and so on.

Second, it is claimed that the Boards in Uganda have played an important part in mobilizing savings for economic development. It is unlikely, for instance, that the peasant farmers by themselves would have accumulated capital for general development and the Stabilisation Funds offered the most convenient way to raise this much needed capital. The Funds have been used to finance investment, both social and capital, which must have contributed to an increase in income. The World Bank Report,[8] for example, in supporting such a view, has noted that "it is good economic policy to use part of the Funds in investment that will result in additional output and additional income for the farmers."

G. H. Helleiner[9] has also noted that in Nigeria Marketing Boards have been, and continue to be, an extremely effective (though, of course, far from the only) instrument for the mobilization of savings for government sponsored economic development.

6. See The Economic Development of Uganda, *op. cit.*, p. 48, para 2.
7. G. Houston, "Marketing Boards, General Appraisal," *Agriculture*, Vol. 70, No. 8, November, 1963.
8. The Economic Development of Uganda, *op. cit.*, p. 48, para 2.
9. G. H. Helleiner, "The Fiscal Role of the Marketing Boards in Nigerian Economic Development 1947-1961," *The Economic Journal*, Vol. LXXIV, No. 295, September, 1964.

The third point that may be suggested in defence of the price policy of the Boards in Uganda is that they succeeded in containing inflation during the early post-war periods of high commodity prices. Because of the inelasticites of food supply and shipping space for the transport of imports soon after the war it is likely that, in the absence of the Boards, rising producer prices would have led to price inflation.

Fourth, it is possible that the higher prices received by peasant farmers have resulted in a reduction in output and a higher preference for leisure and, in consequence, the level of consumption may have raised. There is no statistical evidence to support such a contention.

Fifth, the advocates of controlled marketing also assert that the reduction in the number of middlemen has in some cases enabled the producer to obtain a better price than he would otherwise have received.

Sixth, it is claimed that one effect of control has been to greatly improve standards of quality.

It should, however, be noted that improvement in quality has not been exclusively the result of the Boards' activities. The agricoles played a very important part together with administrative officers in improving the quality of Ugandan cotton or the Kenyan coffee where a high standard has been attained.

Seventh, it is argued that the Boards and export taxes provide a more convenient avenue for a policy of general taxation. Reference has already been made to the fact that, in addition to creaming off part of the export proceeds through the Price Assistance Funds, the government also levies an export tax for coffee and cotton. For instance, from 1948 to 1958 the proportion of the taxes collected varied between 15 and 20 per cent of the total cotton and coffee export proceeds.[10] By 1959, the proportion had dropped to 13 per cent while in 1960 it was below 12 per cent.

The basic justification appears to be that the high early post-war prices for these crops and their importance in the export sector of the economy made this both necessary and inevitable.

In reply the critics of the policy of controlled marketing have put forward forceful arguments of which the following are the more important.

The first and perhaps the most widely discussed point is that which relates to the level of taxation and its effect on efficiency. It is said that producers of raw materials are subjected, through price control policy and export taxes, to a high rate of discriminatory taxation, the justification of which has never been demonstrated.[11] Commenting on the incidence of taxation in Nigeria, Bauer and Paish have stated that "This is a level of taxation incurred in this country (U.K.) only by those who earn incomes of well over £5,000 a year. (And yet) in recent years

10. The Economic Development of Uganda, *op. cit.*, p. 18, para 3.
11. For this viewpoint see Lord Hailey: An African Survey, O. U. D., 1957, p. 1350, para 2.

(early 1950's) the average annual cash income of Nigerian groundnut producers was perhaps of the order of £5."[12]

Bauer and Paish have remarked in this context that: "In the long run this underpayment of producers cannot fail adversely to affect the incentive to produce and to maintain and extend capacity. The implications of the damping of incentives inherent in these price policies are particularly serious because producers in other countries have for years been receiving far higher prices and have therefore been under a correspondingly greater inducement to plant, replant, extend and improve their holdings. Thus the policy which in the short period depresses the standard of living of the producers, in the long run also tends to undermine their competitive position."[13]

At the same time the need for revenue to finance the government's development effort must be recognized. In an economic world where capital is scarce, this is obviously a crucial problem facing the developing countries. The question is, "Are Marketing Boards the optimal means of obtaining them?" In the first place, objection can be raised on the ground that Marketing Boards in Uganda were originally established for the benefit of the producers and that their activities have infringed upon the general development-promoting responsibilities of the government. Preston, for instance, holds such view when he notes, "one cannot have it both ways; if an organisation is to have taxation rights, it should be integrated with the government .... if not it must not act so as to be a permanent instrument of the producer groups it is supposed to represent."[14]

At the same time the lack of institutional facilities for mobilizing domestic capital gives rise to the view that until these institutions are increased Marketing Boards are playing a useful role in their place.

Second, the critics of the controlled Marketing Boards see no reason why prices should fall to a level so low as to seriously dislocate an expanding economy. If incomes at the disposal of the population were increased, then according to Keynesian analysis, expenditure on both consumption and investment would extend into a wider field and create a wider range of economic opportunities. They hold that this process of broadening the domestic economy would most effectively enable it to meet depressions in world prices. This might be true in a full employment economy, but evidence is not available to show that it would apply in an underdeveloped country like Uganda. Here because of the existence of "surplus capacity" especially of land and labour, depressions do not make themselves felt because of the 'traditional' peasant sector which continues to provide for its livelihood by bringing into production factors which have been idle or under-utilized. Any such unemployed labour resource would find outlets in the rural sector which would provide them with the means of livehood. What seems true is, however, the disincentive effect of export taxation. Bauer and Paish have noted that "very probably a major factor influencing the price policies of these Boards (West African Marketing Boards) was possibly

12. P. T. Bauer and F. W. Paish, "The Reduction of Fluctuations in the Incomes of Primary Producers," *The Economic Journal*, Vol. LXII, No. 284, December, 1952, p. 759.

13. Bauer and Paish, *op. cit.*, p. 759, para 5.

14. A. F. Preston: Public Finance in Underdeveloped Countries, London, 1962, p. 71.

unconscious inclination to place the interests of the organizations above that of their constituents. It is a familiar tendency of administrators of large scale organizations to be more concerned with the strength, growth and progress of their organizations, than with the interests of the members they supposedly represent. After a period, the administrators may even come to regard their constituents or members as being opposed to themselves or to the organization and they consider their funds paid out to their constituents are lost or dissipated. . . . ."[15] These disadvantages, however, are outweighed by the benefits which these Boards have rendered to the development effort.

Thus, to conclude, the following observations may be made. The surpluses of Marketing Boards are sufficiently large to make them important elements in any governmental stabilisation or mobilization policies. Originally created for the purpose of stabilising producer price in anticipation of future declines in world prices, they were ultimately used for public development expenditures. However, against their undeniable achievement as revenue collectors in an environment where revenues are hard to come by must be set the doubtful suitability of these institutions for such a role, the inequities of export taxation and the probable distortions in the production structure which such taxation introduces.

POLICY IMPLICATIONS

It would, therefore, seem that Marketing Boards have been beneficial to the economic development of the country. This being so, there are clear policy implications. Marketing Boards, the principal objects of which are to mobilize savings (tax revenues) should not be unduly concerned about stabilising producer prices or incomes although this is a useful role. Nor should they seek to maximize export earnings as many others have argued. They should, rather, be exerting all their monopolistic power to the full so as to maximize their own trading profits.

A few policy recommendations also derive from the above discussion. In the first place it seems reasonable that, as long as heavy reliance must be placed upon export taxation, the Marketing Board trading surpluses should be converted into export duties and treated identically with other government revenues. In this way, the development responsibilities of the government will be clearly separated from those other functions now being performed by the Marketing Boards, such as intra-season price stabilisation, orderly marketing and so forth, which can more reasonably be considered to reflect the farmers' interests. Secondly, as the opportunities for direct taxation of other sources of income appear, one would hope for a gradual shift to a more equitable (and less distorting) tax structure. This may, unfortunately, take a long time to materialise. Last but not least, greater attention should be devoted to the economic rationality of the allocation of government expenditure. The mechanism of export taxation through the earning of Marketing Board trading surpluses has worked well during the period under review but there remain opportunities for some improvement.[16]

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15. Bauer and Paish, *op. cit.*, p. 762, para 2.

16. Refer also to J. J. Oloya : An Economic Appraisal of Agricultural Problems and Polices in Uganda, unpublished Ph. D. thesis, University of Wales, 1966.